MERCER CAPITAL

VALUE FOCUS

Asset Management Industry

SEGMENT FOCUS

Mutual Funds

2015

Q1: Mutual Funds
Q2: Traditional Asset Managers
Q3: Alternative Asset Managers
Q4: Trust Banks

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Value Focus
Asset Management Industry

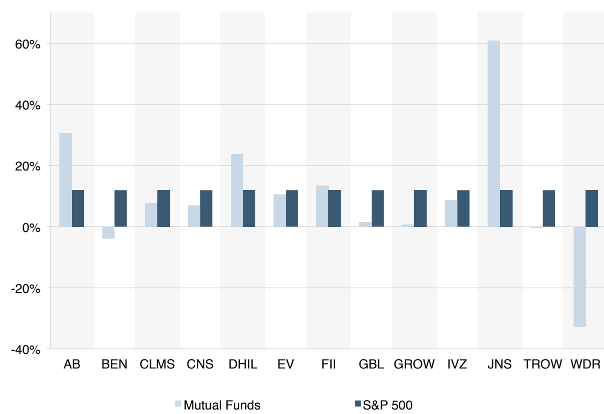
Segment Focus
Mutual Funds

Despite modest appreciation over the last year, most publicly traded mutual fund providers underperformed the S&P 500 in an upward trending market. According to Morningstar, active US equity funds endured $138 billion in net outflows over this period while their passive counterparts gained $178 billion in client assets. These dynamics are problematic for many mutual fund companies that rely on active equity products with higher revenue yields and are part of a decade-long trend that has seen active funds lose ground to ETFs and other indexing strategies.

Still, some active managers have been able to buck this trend in recent quarters. Most notably, Janus Capital gained nearly a billion dollars in market capitalization on its gamble to hire famed bond investor Bill Gross and become a more prominent player in the fixed income arena. JNS seemingly hedged this bet by acquiring ETF and exchange-traded note provider Velocity Shares the following month. Whatever the rationale, the dual wagers appeared to have paid off with Janus's stock up almost 60% over the last year.

Such bold moves may be what it takes for mutual funds moving forward with multiple headwinds across the sector. The rising tide of ETFs and relative underperformance could precipitate asset flows out of mutual funds until alpha returns or fees are cut. Still, the mutual fund providers that have been effective in maintaining client assets, like Hennessy and Diamond Hill, have benefited greatly from the current bull market and resulting margin expansion.

Stock Price Performance for the Twelve Months Ended March 31, 2015



Source: SNL Financial

So, as always, the outlook for these businesses hinges on market performance and asset flows. Any continuation of the recent market momentum would certainly be a boon for mutual fund providers whose net-of-fee performances are competitive with comparable ETF products. Another market downturn, on the other hand, would likely hasten asset flows out of equities and into fixed income or money market funds with lower fees to their sponsors.

Market Overview
First Quarter 2015

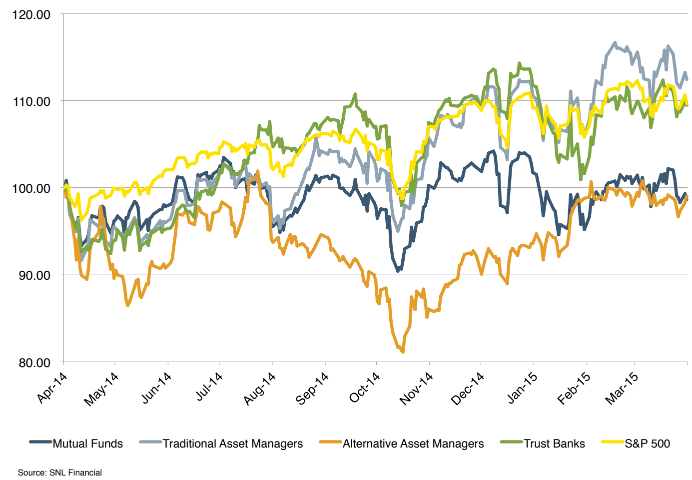
Although the first quarter is typically the strongest of the year due to retirement contributions, asset flows for Q1 of 2015 was underwhelming in comparison to the final quarters of 2014, particularly for active domestic equity funds, according to Sandler O'Neill analyst Michael Kim and data from Morningstar. Goldman Sachs analyst Marc Irizarry notes that the median active manager fell short of its benchmark by 1.3% in 2014, marking the worst relative performance in 25 years, which could explain part of the basis for the outflows.

Moving forward, many analysts anticipate a continuation of this trend if active managers (mutual funds and alternative asset managers) don't justify their higher fees with better returns, and the market seems to agree with them of late. Still, Gabelli analyst Macrae Sykes notes that active managers tend to flourish in choppier times and stumble during stability, so this trend may just be a bi-product of recent market conditions.

Conversely, the persistence of demand for lower cost, passively managed funds is good news for ETF providers like BlackRock and WisdomTree Investments. BlackRock has secured the #1 share of industry ETF flows in the world, according to CEO Larry Fink, and individual investors have begun to follow the larger institutions in their pursuit of lower cost strategies. Other more traditional asset managers are starting to take notice. Legg Mason recently added a team to head its strategy ETF products, and companies such as Janus Capital Group have made acquisitions in order to capitalize on the rising demand for ETFs. There is also vast room for growth in active ETF strategies, which hold a mere $14 billion in assets in comparison to the 1.8 trillion ETF market as a whole, though there is considerable difficulty in charging higher fees for what is traditionally viewed as a low-fee product.

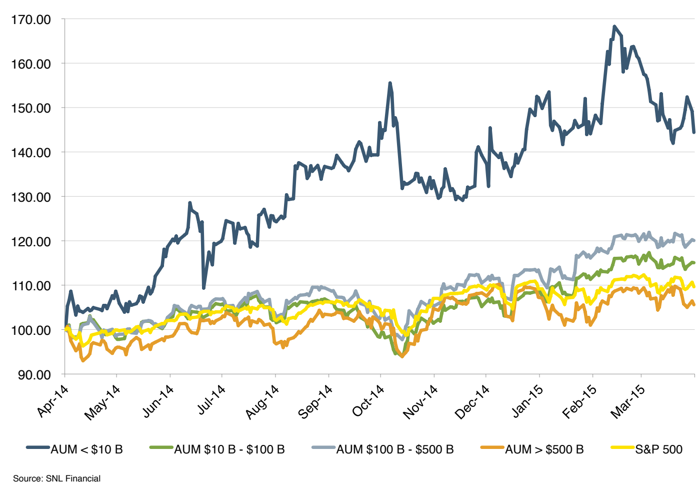
Asset Managers Index

Breakdown by Type



Asset Managers Index

Breakdown by Size



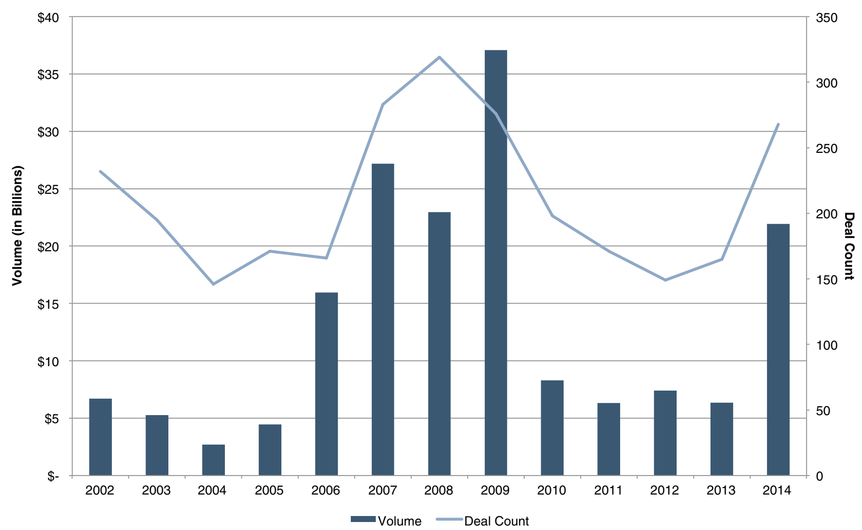
M&A Review
First Quarter 2015

Asset manager M&A highlights from the first quarter include:

- **Fiera Capital** intends to acquire $7.6 billion fixed income manager **Samson Capital Advisors** for $33.5 million or 0.44% of AUM.
- On February 23, 2015, **Stifel Financial** entered into a merger agreement to acquire **Sterne Agee Group** for $150 million or 0.6% of SA's $26 billion in client assets.
- On March 25, 2015, **Genstar Capital** agreed to acquire a majority interest in $6 billion manager **Mercer Advisors from Lovell Minnick Partners**.
- **Simmons First National Corporation** (ticker: SFNC) intends to acquire **Ozark Trust and Investment Company** for $20.7 million or 10.2x LTM EBITDA and 1.9% of AUM (just over $1 billion). Please see the **next section** for more detail on this transaction.
- **Raymond James** announced it will acquire **Cougar Global Investments Ltd.**, a Toronto-based ETF strategist with over $1 billion in AUM.

Community banks are increasingly looking to RIAs for growth, according to Saabira Chaudhuri of *The Wall Street Journal*. The number of community banks who expect asset management to be among the biggest drivers of revenue growth more than doubled over the past year, as these banks turn away from revenue streams purely driven by net interest margins. The same report also showed an increase in the number of community banks that believe they are likely to be involved in an M&A as a buyer. The **next section** of this newsletter discusses a recent example of this trend.

Asset Manager M&A Since 2002



Source: Bloomberg

According to a PWC report titled *Asset Management M&A Insights*, deal activity in 2015 is expected to increase, particularly in transactions involving alternative managers and ETFs. According to PWC, the sellers are expected to be independent managers and banks that are divesting their asset management businesses in light of pending regulations, while US buyers are likely to be asset managers seeking to take advantage of the convergence trend. Several key themes are driving asset management activity in early 2015, including the stabilization of valuations, increased use of earn-outs, and the attractiveness of minority investments. Still, concerns about a potential bubble in equity markets and varying opinions regarding future growth rates could derail the recent momentum.

What We're Reading

Asset Management M&A insights: In Pursuit of Growth
PWC
http://mer.cr/1MS2F5t

2015 Mutual Fund Outlook
Deloitte
http://mer.cr/1SQH7Kk

Community Banks Increasingly Look to Wealth Management for Growth
The Wall Street Journal's Money Beat: Saabira Chaudhuri
http://mer.cr/1Bpli01

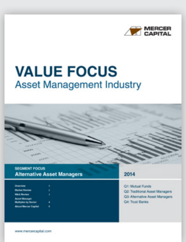
Asset Managers Could Feel Pinch as Investors Dial Back on Risk in Q1
SNL: Zaeem Shoaib
http://mer.cr/1TSI9Z1
(subscription required)

Poor Active Manager Performance Pushing investors Toward ETFs, Passive Strategies
SNL: Matt Blumenfeld
http://mer.cr/1Gy94Pq
(subscription required)

MERCER CAPITAL'S

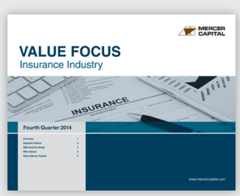
Financial Institutions Industry Newsletters

Mercer Capital's Financial Institutions industry publications are featured below. Having built a substantial client base in various industries, we have formalized our research efforts to provide a regular, detailed overview of pertinent issues and relevant current events in each covered industry. These industry newsletters also offer a regular perspective on valuation issues pertinent to various industry groups and sectors.



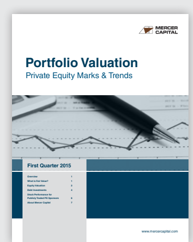
Asset Management

Banks



Insurance

FinTech



Portfolio Valuation

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Simmons First National Corporation Acquisition of Ozark Trust and Investment Corporation

On April 29th, 2015, Pine Bluff-based Simmons First National Corporation (NASDAQ ticker: SFNC), announced it had entered into a definitive agreement and plan of merger with Ozark Trust and Investment Corporation (OTIC) and its wholly owned subsidiary, the Trust Company of the Ozarks (TCO), a Registered Investment Advisor (RIA) headquartered in Springfield, Missouri. The Trust Company of the Ozarks manages over $1 billion in client assets for 1,300 clients and has enjoyed a 16% compound annual growth rate in AUM since 2009. Simmons First National Corporation has agreed to a purchase price of $20.7 million with a combination of cash and stock at closing, expected to take place in the third quarter of this year. Similar to the **Boston Private/Banyan Partners** and **Tri-State/Chartwell** deals last year, the terms of the transaction were disclosed via an investor presentation and outlined below.

Deal Analysis (in $ Mil.)

	SFNC / TCO	Tri-State / Chartwell	BPFH / Banyan
Announcement Date	4/19/15	1/7/14	7/16/14
AUM	$1,100	$7,500	$4,317
Realized Average Fee	0.60%	0.34%	0.58%
Revenue	$5.9	$25.9	$25.0
Operating Expense (Excl. Depr.)	3.9	19.9	18.0
EBITDA	$2.0	$6.0	$7.0
EBITDA Margin	34.5%	23.2%	28.0%
Initial Consideration	$20.7	$45.0	$65.0
Earn-out	-	15.0	20.0
Total Purchase Price	$20.7	$60.0	$85.0
Implied % of AUM (Excl. Earn-out)	1.9%	0.6%	1.5%
Multiple of Revenue (Excl. Earn-out)	3.5x	1.7x	2.6x
Multiple of EBITDA (Excl. Earn-out)	10.2x	7.5x	9.3x

Source: Company Presentation and Previously Disclosed Information

All of these deals involve bank acquisitions of closely held RIAs. In a low interest rate environment coupled with rising capital requirements, many banks are turning their attention to asset managers and trust companies for a multitude of reasons:

- Exposure to fee income that is uncorrelated to interest rates
- Minimal capital requirements to grow AUM and AUA
- Higher margins and ROEs relative to traditional banking activities
- Greater degree of operating leverage – gains in profitability with management fees
- Largely recurring revenue with monthly or quarterly billing cycles

These recent deals are particularly instructive to other industry participants since, of the nearly 11,000 RIAs nationwide, approximately 80 (<1%) transact in a given year, and the terms of these deals are rarely disclosed to the public. Contemporary transactions at these valuations suggest growing interest in businesses with recurring revenue streams and high EBITDA margins.

For more information or if we can assist you in any way, please feel free to contact us.

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Asset Manager Multiples by Sector

	Ticker	3/31/15 Stock Price	% of 52 Week High	Pricing as of March 31, 2015 Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
TRADITIONAL ASSET MANAGERS							
Affiliated Managers Group, Inc.	AMG	$214.78	96.98%	26.81x	13.72x	2.20%	10.98x
BlackRock, Inc.	BLK	365.84	95.56%	19.00x	15.77x	1.49%	14.15x
Legg Mason, Inc.	LM	55.20	93.26%	19.00x	16.68x	1.03%	14.15x
Pzena Investment Management, Inc.	PZN	9.17	72.32%	17.30x	12.65x	2.18%	10.58x
Westwood Holdings Group, Inc.	WHG	60.30	26.53%	17.48x	nm	2.47%	11.66x
Group Median			**93.26%**	**19.00x**	**14.74x**	**2.18%**	**11.66x**
MUTUAL FUNDS							
AllianceBerstein Investments, Inc.	AB	$30.87	99.58%	16.60x	13.25x	nm	15.29x
Calamos Asset Management, Inc.	CLMS	13.45	93.14%	18.94x	22.80x	1.22%	nm
Cohen & Steers, Inc.	CNS	40.95	86.83%	24.82x	14.57x	3.45%	14.48x
GAMCO Investors, Inc.	GBL	78.51	86.99%	18.34x	14.30x	4.52%	12.18x
INVESCO Ltd.	IVZ	39.69	94.55%	17.41x	12.97x	3.00%	14.07x
Franklin Resources, Inc.	BEN	51.32	86.35%	13.72x	12.96x	3.87%	9.66x
Diamond Hill Investment Group, Inc.	DHIL	160.00	97.02%	16.55x	nm	3.39%	10.48x
Eaton Vance Corp.	EV	41.64	89.07%	19.64x	14.41x	1.91%	11.32x
Hennessy Advisors, Inc,	HNNA	20.25	81.16%	14.40x	nm	2.49%	9.80x
Manning & Napier, Inc.	MN	13.01	68.95%	nm	11.22x	0.37%	nm
T. Rowe Price Group, Inc.	TROW	80.98	91.36%	17.80x	15.00x	2.83%	10.00x
U.S. Global Investors, Inc.	GROW	3.20	79.88%	nm	nm	5.86%	nm
Waddell & Reed Financial, Inc.	WDR	49.54	64.79%	13.35x	13.41x	3.51%	8.40x
Federated Investors, Inc.	FII	33.89	95.20%	23.87x	15.22x	1.05%	14.63x
Virtus Investment Partners, Inc.	VRTS	130.77	57.53%	21.22x	nm	5.86%	11.49x
Janus Capital Group Inc.	JNS	16.13	85.75%	21.22x	13.50x	1.98%	nm
Group Median			**86.91%**	**18.07x**	**13.90x**	**3.00%**	**11.40x**
ALTERNATIVE ASSET MANAGERS							
Apollo Global Management, LLC	APO	$21.60	66.58%	34.84x	9.54x	11.69%	19.77x
Brookfield Asset Management, Inc.	BAM.A	NA	nm	14.51x	28.98x	48.48%	9.34x
Blackstone Group L.P.	BX	38.89	98.16%	15.07x	9.92x	7.98%	nm
Carlye Group, L.P,	CG	27.10	75.30%	22.03x	9.59x	0.94%	8.27x
Fortress Investment Group LLC	FIG	8.07	96.65%	18.77x	8.73x	3.84%	11.81x
Kohlberg Kravis Roberts & Co.	KKR	22.81	89.17%	19.66x	8.10x	21.01%	nm
Oaktree Capital Group, LLC	OAK	51.66	88.37%	17.39x	11.23x	16.57%	6.45x
Och-Ziff Capital Mgmt Group LLC	OZM	12.64	87.47%	15.80x	7.57x	25.28%	13.88x
Group Median			**88.37%**	**18.08x**	**9.57x**	**14.13%**	**10.57x**
TRUST BANKS							
Northern Trust Corporation	NTRS	$69.65	95.78%	20.98x	15.90x	nm	nm
Bank of New York Mellon Corporation	BK	40.24	96.29%	18.72x	13.06x	nm	nm
State Street Corporation	STT	73.53	90.87%	16.09x	12.48x	nm	nm
Group Median			**95.78%**	**18.72x**	**13.06x**	**nm**	**nm**
OVERALL MEDIAN			**89.07%**	**18.53x**	**13.25x**	**3.20%**	**11.49x**

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In This Issue

About Value Focus Asset Management Industry

Mercer Capital's Value Focus is a quarterly publication providing perspective on valuation issues pertinent to asset managers, trust companies, and investment consultants. Each issue highlights a market segment: 1st quarter: Mutual Fund Companies, 2nd quarter: Traditional Asset Managers, 3rd quarter: Alternative Asset Managers, and 4th quarter: Trust Banks. View past issues at www.mercercapital.com.

About Mercer Capital

As one of the largest valuation firms in the United States, Mercer Capital provides asset managers, trust companies, and investment consultants with corporate valuation, financial reporting valuation, transaction advisory, portfolio valuation, and related services.

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