MERCER CAPITAL

VALUE FOCUS
Asset Management Industry

SEGMENT FOCUS
Mutual Funds

2017

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Segment Focus
Mutual Funds

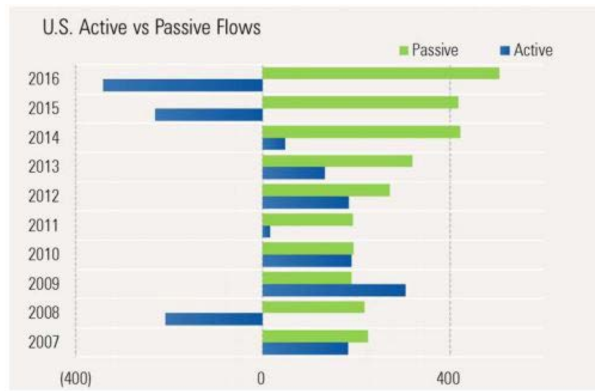
Actively managed mutual funds (in aggregate) have not been competitive with passive strategies in terms of fee pricing or investment performance for quite some time. As a result of this trend and the proliferation of ETFs in recent years, passive investing has dominated the battle for investor capital over the last decade despite a decent start for active managers in 2017.

These dynamics are problematic for many mutual fund companies that rely on active equity products with higher fee schedules and profit margins. Accordingly, most publicly exchanged mutual fund companies are down while the market is up about 15% over the last year.

Another potential headwind is the GOP's current proposal to treat all 401(k) deferrals as after-tax contributions, which could disincentivize employers from offering defined contribution plans that often invest in mutual funds and other active managers. Republican lawmakers still have a lot of work to do in getting this passed, but it is being seriously considered as one way to help finance the new administration's proposed tax cuts.

So we don't foresee a huge shift back to active management any time soon but realize that we are probably overdue for some mean reversion. It is conceivable that the current market environment could be more conducive to stock picking, but we'll need more time to judge whether this is truly the case. Regardless, it is hard to imagine that passive investing will completely replace active management. Such a scenario could lead to significant mispricing in the securities markets, which would be fertile ground for enterprising investors and mutual funds.

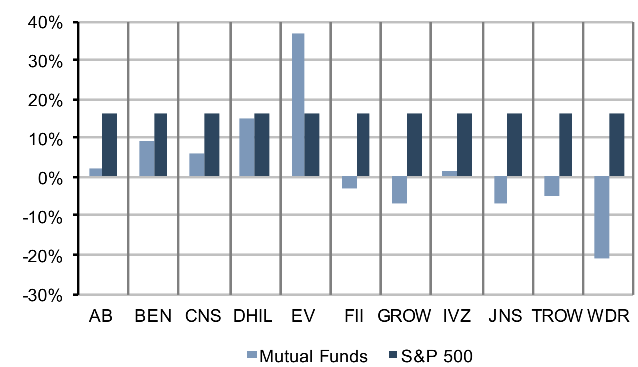
U.S. Active vs. Passive Flows



Source: Morningstar Direct

Total Returns

Twelve Months Ended March 31, 2017



Source: S&P Global Market Intelligence

Market Overview
Asset Manager Performance by Size and Type

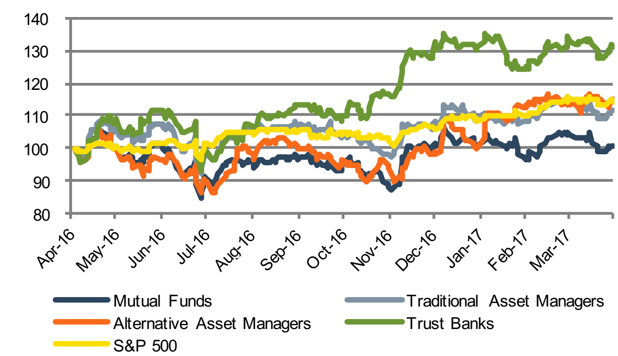
There has been a wide disparity of performance among certain classes of asset managers over the last year. The stagnant returns of mutual fund businesses in a rising market are likely attributable to fund outflows in the face of heightened competition from ETF products as discussed in the previous section. Trust banks, on the other hand, have been buoyed by a steepening yield curve and the prospect of higher reinvestment income with rising interest rates.

Breaking down the same group (excluding trust banks) by size suggests that smaller RIAs have significantly underperformed their larger peers over the last twelve months. The reality is that this segment is the least diversified (only two components, both of which are thinly traded) and certainly not a good representation of how RIAs with under $10 billion in AUM are performing. Most of our clients fall under this category, and we can definitively say that these businesses (in aggregate) haven't lost half their value since August as suggested by this graph. Other publicly traded asset managers have performed reasonably in line with the market over this period.

The outlook for these businesses is similarly market driven – though it does vary a bit by sector. Trust banks are more susceptible to changes in interest rates and yield curve positioning. Alternative asset managers tend to be more idiosyncratic but still influenced by investor sentiment regarding their hard-to-value assets. Mutual funds and traditional asset managers are more vulnerable to trends in active and passive investing. All are off to a rocky start in 2017 after a strong end to 2016 as the market weighs the impact of the new administration on the sector's regulatory environment.

Asset Manager Performance by Sector

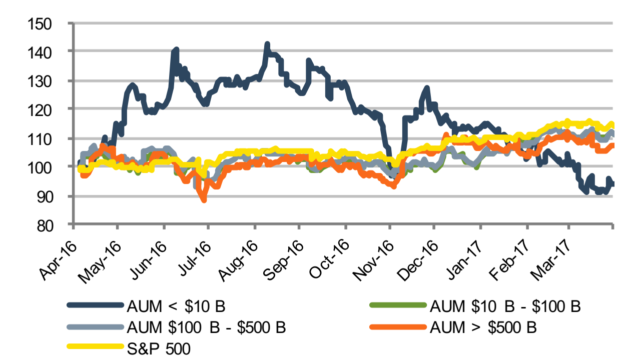
Twelve Months Ended March 31, 2017



Source: S&P Global Market Intelligence

Asset Manager Performance by Size

Twelve Months Ended March 31, 2017



Source: S&P Global Market Intelligence

M&A Review

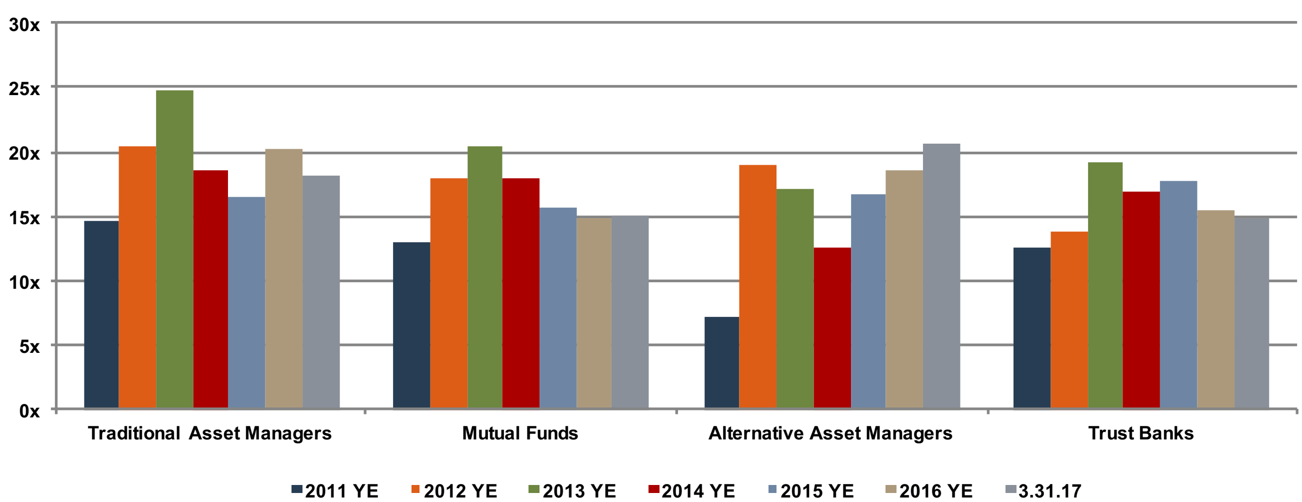
Fund outflows and poor performance may actually have positive implications for RIA deal-making this year. The maturation of the mutual fund industry and active managers will likely spur consolidation and buying opportunities for those looking to add scale. With valuations and market caps down over the last eighteen months or so, the affordability index has gotten a lot better for many of these businesses. Standard Life was clearly taking notice when it purchased Aberdeen Asset Management for $4.6 billion last month amidst shareholder pressure to right the ship after years of significant underperformance from both firms.

Expectations for slower growth (reflected in lower multiples) could be another driver of M&A activity, as RIAs look to other asset managers to build or replace AUM depleted by outflows and market movements. If organic growth opportunities are truly stalling, acquisitions are a viable means to offset falling management fees and collect market share for those that can afford to do so. Rising cap rates should also help, as the embedded return on investment improves with lower multiples.

It is difficult to say if this kind of deal is an anomaly or sign of things to come for the struggling sector. The trend may have started in November with Henderson Group's purchase of Janus Capital and may be a viable way to improve earnings following years of client outflows.

We believe the backlog of available deals remains fairly robust given the four year pause in transactions from 2009 to 2013 and the aging demographics of many investment management firms. Still, we acknowledge that the decline in transaction activity following the financial crisis of 2008 and 2009 could be indicative of what another bear market could do to M&A trends when the dust settles and AUM has cratered.

Historical Median Price / LTM EPS by Sector



Asset Manager Multiples by Sector

				Pricing as of March 31, 2017			
	Ticker	3/31/2017 Stock Price	% of 52 Week High	Price / Trailing EPS	Price / Forward EPS	Enterprise Value / AUM (%)	Enterprise Value / EBITDA
TRADITIONAL ASSET MANAGERS							
Affiliated Managers Group, Inc.	AMG	163.94	91.27%	10.11	11.72	1.79	14.30
BlackRock, Inc.	BLK	383.51	96.61%	20.10	17.94	1.23	12.56
Legg Mason, Inc.	LM	36.11	93.17%	15.53	16.38	0.74	12.01
Pzena Investment Management, Inc.	PZN	9.84	85.34%	23.78	16.97	2.26	nm
Westwood Holdings Group, Inc.	WHG	53.41	84.41%	18.24	nm	2.06	11.83
Group Median			**91.27%**	**18.24**	**16.67**	**1.79**	**12.29**
MUTUAL FUNDS							
AllianceBerstein Investments, Inc.	AB	22.85	93.48%	10.11	11.72	0.46	6.41
Calamos Asset Management, Inc.	CLMS	8.28	93.08%	43.10	55.20	0.30	3.09
Cohen & Steers, Inc.	CNS	39.97	94.48%	20.34	18.51	2.94	11.23
GAMCO Investors, Inc.	GBL	9.08	68.80%	46.29	37.68	2.57	19.05
INVESCO Ltd.	IVZ	30.63	91.54%	14.65	12.72	2.21	12.93
Franklin Resources, Inc.	BEN	42.14	95.47%	14.51	15.71	2.34	6.98
Diamond Hill Investment Group, Inc.	DHIL	194.55	90.66%	16.84	nm	3.30	8.20
Eaton Vance Corp.	EV	44.96	94.00%	22.63	18.13	nm	11.96
Hennessy Advisors, Inc,	HNNA	16.81	64.46%	8.93	nm	2.38	6.41
Manning & Napier, Inc.	MN	5.70	58.30%	9.34	10.44	nm	nm
T. Rowe Price Group, Inc.	TROW	68.15	87.63%	14.67	14.09	1.96	8.29
U.S. Global Investors, Inc.	GROW	1.56	67.85%	81.43	nm	2.71	12.01
Waddell & Reed Financial, Inc.	WDR	17.00	77.09%	8.53	10.63	1.19	3.76
Federated Investors, Inc.	FII	26.34	84.32%	13.27	13.45	0.75	7.71
Virtus Investment Partners, Inc.	VRTS	105.90	83.01%	16.36	10.75	1.98	11.97
Janus Capital Group Inc.	JNS	13.20	80.85%	15.34	14.47	1.22	6.63
Group Median			**85.97%**	**15.01**	**14.09**	**2.10**	**8.20**
ALTERNATIVE ASSET MANAGERS							
Apollo Global Management, LLC	APO	24.32	99.27%	10.64	10.58	3.18	5.71
Brookfield Asset Management, Inc.	BAM.A	36.46	97.54%	20.43	35.06	3.18	15.77
Blackstone Group L.P.	BX	29.70	94.80%	20.87	10.32	11.96	16.23
Carlye Group, L.P,	CG	15.95	92.04%	205.28	9.48	3.51	11.70
Fortress Investment Group LLC	FIG	7.95	99.62%	28.76	7.50	4.07	10.56
Kohlberg Kravis Roberts & Co.	KKR	18.23	98.43%	33.76	8.93	19.37	nm
Oaktree Capital Group, LLC	OAK	45.30	96.37%	14.65	14.86	10.52	14.18
Och-Ziff Capital Mgmt Group LLC	OZM	2.26	47.44%	10.10	6.06	3.30	nm
Group Median			**96.96%**	**20.65**	**9.90**	**3.79**	**12.94**
TRUST BANKS							
Northern Trust Corporation	NTRS	86.58	95.41%	20.20	18.44	nm	nm
Bank of New York Mellon Corporation	BK	47.23	95.74%	14.92	13.65	0.39	nm
State Street Corporation	STT	79.61	95.81%	14.74	13.78	nm	nm
Group Median			**95.74%**	**14.92**	**13.78**	**nm**	**nm**
OVERALL MEDIAN			**92.56%**	**15.95**	**13.71**	**2.30**	**11.70**

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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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Mercer Capital is a business valuation and financial advisory firm serving a global client base. Business valuation services are provided for a wide variety of needs, including but not limited to corporate valuation services, tax compliance, litigation support, financial statement reporting compliance, and employee stock ownership plans. Our clients range from public to private, from smaller companies to large multi-nationals in a broad range of industries, as well as numerous governmental agencies. In addition, Mercer Capital provides investment banking and corporate advisory services including sell-side and buy-side merger & acquisition representation, fairness opinions, solvency opinions, business interest and securities valuation, among others.

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2017

Q1: Mutual Funds

Q2: Traditional Asset Managers

Q3: Alternative Asset Managers

Q4: Trust Banks

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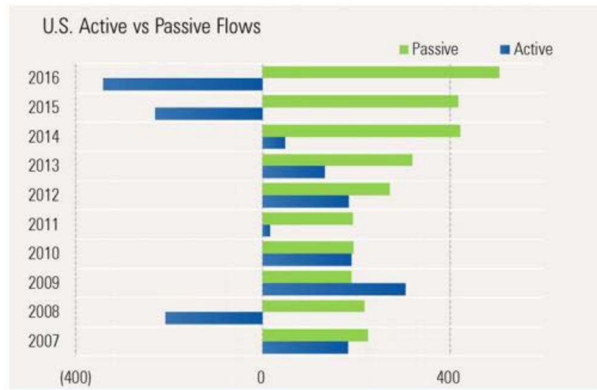
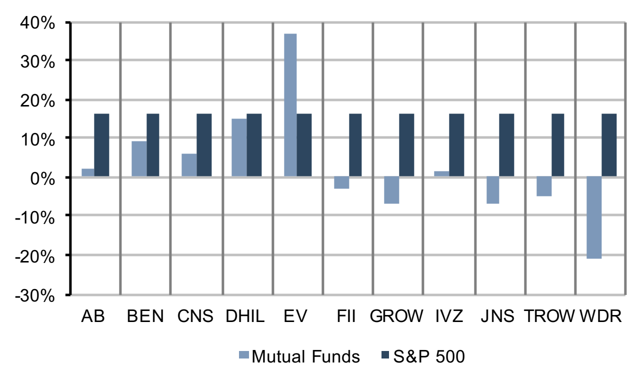


Source: Morningstar Direct

Total Returns

Twelve Months Ended March 31, 2017



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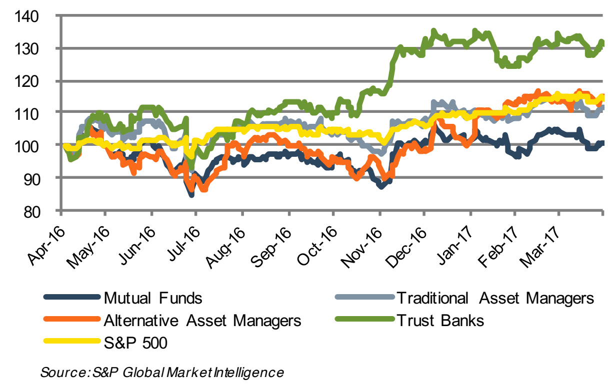
Twelve Months Ended March 31, 2017



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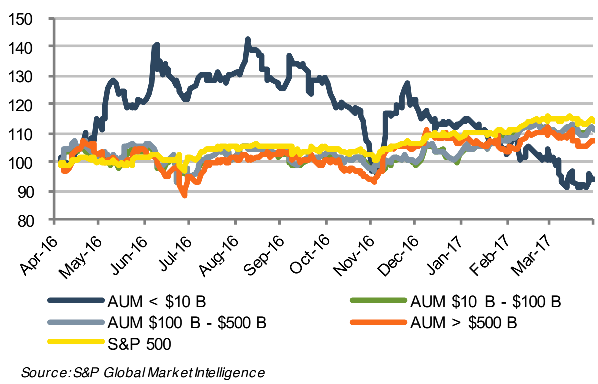

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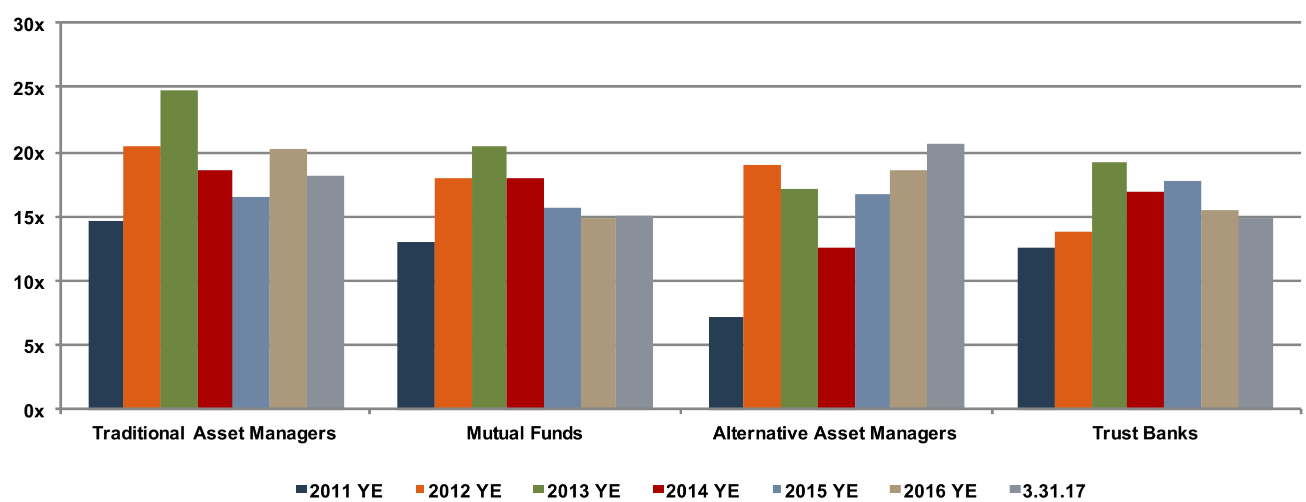

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Data Source: S&P Global Market Intelligence

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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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Mercer Capital is a business valuation and financial advisory firm serving a global client base. Business valuation services are provided for a wide variety of needs, including but not limited to corporate valuation services, tax compliance, litigation support, financial statement reporting compliance, and employee stock ownership plans. Our clients range from public to private, from smaller companies to large multi-nationals in a broad range of industries, as well as numerous governmental agencies. In addition, Mercer Capital provides investment banking and corporate advisory services including sell-side and buy-side merger & acquisition representation, fairness opinions, solvency opinions, business interest and securities valuation, among others.