Asset Management Industry

Mercer Capital provides asset managers, trust companies, and investment consultants with corporate valuation, financial reporting valuation, transaction advisory, portfolio valuation, and related services. Call Matt Crow, Kristin Beckman, or Brooks Hamner at 901.685.2120 to discuss your needs in confidence.

Segment Focus: Alternative Asset Managers

Although the unfavorable market conditions observed throughout 2008 have negatively impacted the vast majority of asset managers, the alternative manager segment of the industry has been hit the hardest. Four of the five companies included in the Alternative Asset Manager subset went public since December 2006, and all four of these managers have experienced price declines of at least 40% from their IPO levels.

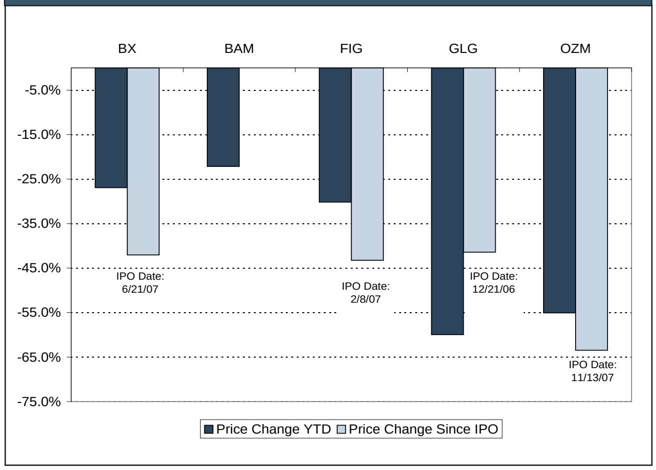
» All four of the newly public companies have experienced substantial losses in the value of many investment funds as the assets held have become harder to value in an illiquid market. Some of the funds, particularly those at Fortress, may include clawback provisions, which could require the companies to reimburse fund investors for performance fees paid when returns were positive. The potentially substantial nature of these reimbursements could further jeopardize the value of shareholders' stake in the firms.

» The expensive fee structures of alternative investment vehicles and continued deteriorating performance will result in larger institutional investors reevaluating these managers and likely lead to additional asset outflows.

» Blackstone's performance continued to suffer in the third quarter, despite its continued efforts to find and complete transactions in its core private equity operations. The size of the deals being completed by BX is markedly smaller than in prior periods, as the ongoing liquidity issues in the credit markets have hindered the firm's ability to secure financing.

» Brookfield Asset Management, by far the largest company in the alternative segment, maintained a relatively stable performance in the first half of 2008 as its unique investment products related to infrastructure and utilities tend to perform well in less favorable market conditions. However, in the third quarter of 2008, BAM's price levels rapidly declined due to market perceptions of several factors, including: the company's holdings of commercial real estate (believed by some to be the next real estate market to falter); exposure to residential real estate; underperformance of timber holdings due to the weakened housing market; and strong competition in the investment fund manager industry.

Alternative Asset Manager Index
Stock Price Performance for 12 Months as of 09/30/08



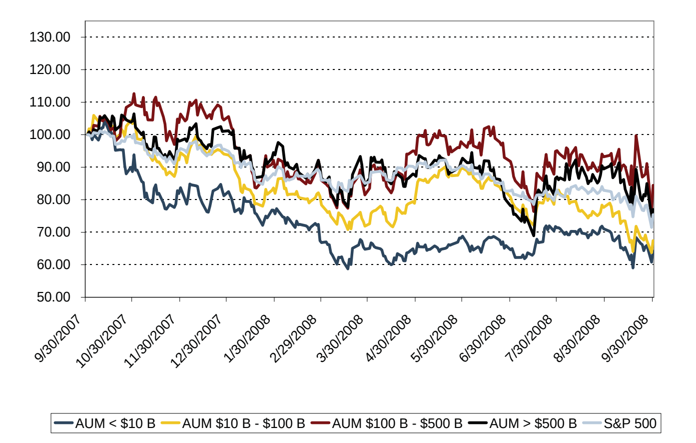
Market Overview: 2008 Q3

» The failures, closures, and takeovers of many of the largest banks, brokerage firms, and investment banks created additional hesitation and concern among investors in the financial sector. As market conditions took a significant turn for the worse late in the third quarter, many asset managers felt their share of the impact, in terms of both financial and stock market performance. As market losses mounted and returns became highly volatile, asset outflows at these companies became inevitable as investors not only withdrew from underperforming funds but also sought safer investments. Continued asset attrition will require most of these companies to cut expenses.

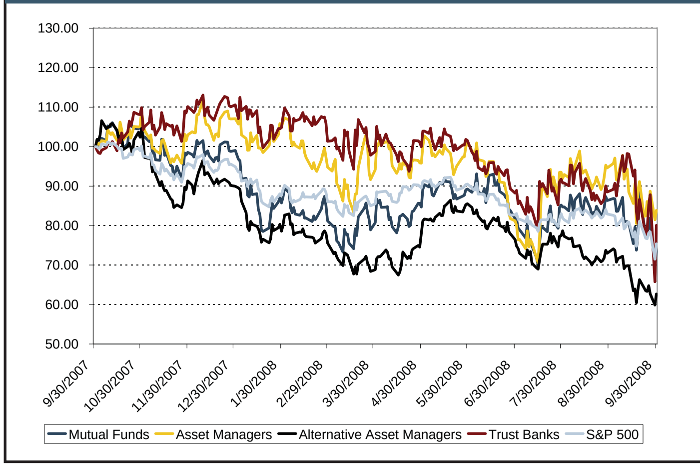
» Alternative asset managers and mutual funds both underperformed the market (as measured by the S&P 500). The performance of the alternative managers is further discussed in our "Segment Focus" above. The majority of companies in the Mutual Fund segment of our index experienced a sharp decline in stock price performance in late September, coinciding with the substantial downturn in the overall market following the failure of Lehmen Brothers, the acquisition of Merrill Lynch, and AIG's need for government funding.

Market Overview: 2008 Q3

Asset Managers Index » Breakdown by Size



Asset Managers Index » Breakdown by Segment



» Trust Banks exhibited the second most favorable performance in the twelve months ended September 30, 2008 and outperformed the S&P 500. Bank of New York Mellon, the largest company in the trust bank segment, announced on September 18th that an institutional money fund which it managed fell to less than $1 per share due to exposure to Lehman Brothers. State Street, the second largest company in the subset, held several troubled financial stocks, which worried investors in the third quarter. However, STT acts as a custodian for its clients and index funds and does not own the majority of the stocks in question. State Street attempted to calm investor fears by issuing a statement assuring that money market funds had not dropped below $1 in NAV. Both BK and STT participated in the government's bank bailout subsequent to the end of the third quarter.

» The traditional asset manager subset continued to outperform the rest of the group for the trailing twelve months, primarily reflecting the relative stability of Blackrock for much of the third quarter. However, BLK's price levels were somewhat depressed late in the second quarter and in the third quarter due to speculation regarding Merrill Lynch's sale of its stake in the company to generate liquidity. Legg Mason's performance continued to lag throughout the third quarter. Late in the quarter, LM contributed $630 million to support a weakening money market fund.

Mergers & Acquisitions Review: 2008 Q3

» Despite asset manager M&A activity for the first half of 2008 declining by almost 10% from the same period last year, "the aggregate deal value and assets under management changing hands is expected to rise," over the next twelve months, according to a Jefferies Putnam Lovell report titled *Nowhere to Hide*. The increase in deal activity is largely attributable to battered financial institutions facing pressure to part with their asset manager subsidiaries in an effort to raise capital, as well as failed investment banks being forced to liquidate these divisions. The most recent noteworthy example of the latter is Lehman Brothers's sale of its investment management business, Neuberger Berman, to Bain Capital and Hellman & Friedman for $2.15 billion (1.7% of AUM). Jefferies expects aggregate valuation multiples to soften as buyers become more discerning, and sellers are forced to liquidate.

» Of the deals that did occur in the first half of 2008, 43% took place entirely within the United States, according to the Jefferies report, as a weakening dollar made the acquisition of foreign funds more expensive, forcing American fund managers to shop within their borders. Foreign funds are still attractive to many domestic asset managers since most of the growth in the industry is expected to occur in Asia and the Middle East. American-based Guggenheim Partners and Principal Financial, for example, recently bought or launched funds in India and Malaysia, respectively, to capitalize on this growth potential.

» As economic trends weaken worldwide, many money managers are looking to acquire funds involving asset classes with a low correlation to the slumping equity markets in order to generate some sort of return for their investors. Federated Investors, for example, recently agreed to purchase David W. Tice and

Mergers & Acquisitions Review: 2008 Q3

Associates' Prudent Bear Fund and Global Income Fund to achieve this objective and complement their existing investment product offerings.

- Funds seeking equity capital in the current economic environment are required to settle for unconventional deal structures to entice potential investors. For instance, Cymbia Corporation is raising capital by issuing a closed-end fund that allows investment in the underlying fund as well as the acquisition of a minority stake in the company. KKR has elected to acquire an affiliated fund listed in Amsterdam, which will then delist from Euronext and relist on the New York Stock Exchange with investors obtaining a 21% stake in the NYSE-listed entity.
- Debt financing is more difficult to acquire as credit markets continue to deteriorate, which is especially disconcerting for private equity firms that generate high returns for their investors via leveraged buyouts (LBOs). As a result, many private equity firms are considering the use of PIPEs (private investment in public entities) to deploy the capital provided to them from their limited partners. Private equity firms invested $4 billion in PIPEs in the first half of 2008, nearly three times the amount in the previous year, according to Reuters.
- Still, the steady cash flow and high operating margins characteristic of the asset manager industry have made it easier for this sector to raise capital when credit is tight. Affiliated Managers Group, for example, recently sold $460 million of convertible senior notes to raise enough capital to finance its acquisition of other money managers. However, it is still the larger private equity firms that have the capital required for the major transactions as manifested by the previously noted transaction between two private equity firms and Neuberger Berman.

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Market Multiples as of 09/30/08

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	18.87	12.99	1.95%	7.35
BlackRock, Inc.	BLK	23.60	19.16	1.81%	13.21
Legg Mason, Inc.	LM	nm	11.03	1.01%	28.25
Pzena Investment Management, Inc.	PZN	nm	24.95	3.59%	nm
W.P. Stewart & Co., Ltd.	WPL	nm	nm	2.85%	nm
Westwood Holdings Group, Inc.	WHG	34.60	nm	4.27%	24.56
Group Median		*23.60*	*16.07*	*2.40%*	*18.89*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	9.14	14.98	0.45%	8.26
Calamos Asset Management, Inc.	CLMS	21.08	21.08	2.12%	3.97
Cohen & Steers, Inc.	CNS	19.67	24.63	4.37%	11.34
GAMCO Investors, Inc.	GBL	25.13	29.21	6.40%	15.21
Epoch Holding Corporation	EPHC	25.73	nm	3.38%	21.70
INVESCO Ltd.	IVZ	14.57	13.99	2.23%	7.46
Franklin Resources, Inc.	BEN	12.36	15.77	3.63%	8.07
Diamond Hill Investment Group, Inc.	DHIL	22.94	nm	3.94%	15.12
Eaton Vance Corp.	EV	20.02	21.35	2.94%	10.93
T. Rowe Price Group, Inc.	TROW	21.83	23.45	3.60%	12.07
U.S. Global Investors, Inc.	GROW	14.15	nm	2.66%	9.09
Waddell & Reed Financial, Inc.	WDR	15.87	14.73	3.33%	10.08
Federated Investors, Inc.	FII	13.17	12.44	0.89%	7.56
Janus Capital Group Inc.	JNS	19.74	23.57	2.62%	11.25
Group Median		*19.71*	*21.08*	*3.14%*	*10.51*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	8.66	14.6%	nm
Brookfield Asset Management, Inc.	BAM	23.45	27.72	54.6%	12.48
GLG Partners, Inc.	GLG	nm	8.34	7.3%	nm
Blackstone Group L.P.	BX	nm	13.46	3.4%	nm
Fortress Investment Group LLC	FIG	nm	11.17	12.2%	nm
Group Median		*23.45*	*11.17*	*12.2%*	*nm*
TRUST BANKS					
Wilmington Trust Corporation	WL	21.84	12.59	5.23%	nm
Northern Trust Corporation	NTRS	17.40	15.53	2.12%	nm
Bank of New York Mellon Corporation	BK	18.30	10.02	3.36%	nm
State Street Corporation	STT	13.05	11.49	1.44%	nm
Group Median		*17.85*	*12.04*	*2.74%*	*nm*
OVERALL MEDIAN		**19.71**	**14.86**	**3.36%**	**11.25**

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Alternative Asset Managers

Third Quarter 2008 Market Overview

Third Quarter 2008 M&A Review

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. Having built a substantial client base in the money management industry, we have decided to formalize our equity research efforts to provide a regular, detailed overview of pertinent issues and relevant current events. Each issue will highlight a market segment: 1st quarter: Mutual Fund Companies, 2nd quarter: Traditional Asset Managers, 3rd quarter: Alternative Asset Managers, and 4th quarter: Independent Trust Companies. To see past issues of the "Value Focus," visit www.mercercapital.com under the Knowledge Center section of our website.

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 investment banking 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.