Asset Management Industry

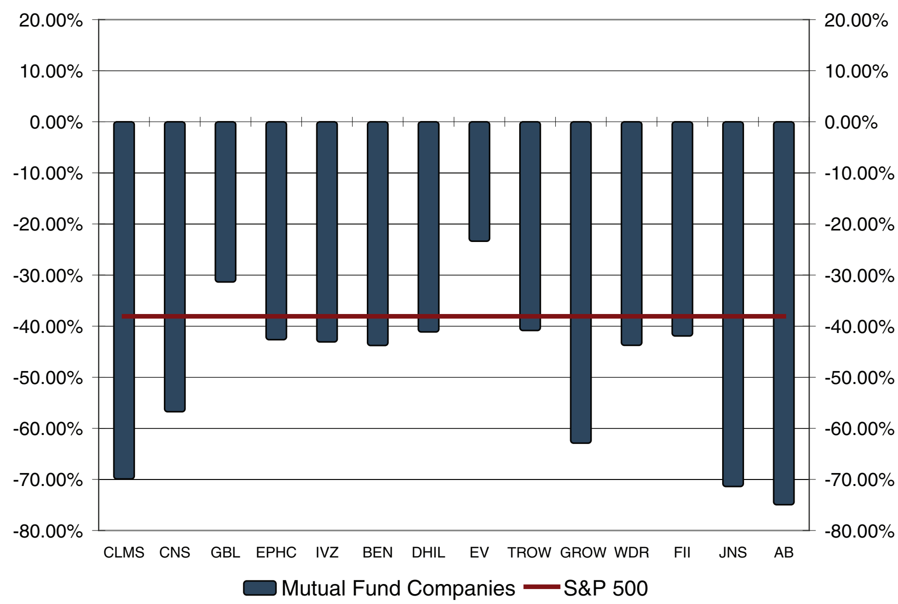
Mercer Capital provides asset managers, trust companies, and investment consultants with corporate valuation, financial reporting valuation, transaction advisory, portfolio valuation, and related services. Call Matt Crow or Brooks Hamner at 901.685.2120 to discuss your needs in confidence.

Segment Focus: Mutual Funds

The capitulation of the equity markets over the last few quarters has yielded one potentially positive side effect for mutual fund investors – many of the funds that had previously closed to new investors are reopening to offset heavy redemptions and take advantage of equity fire sales. According to *The Wall Street Journal*, nearly 100 hitherto closed funds have lowered the velvet rope since the start of last year, and analysts at Morningstar estimate that this is the highest number of fund reopenings ever witnessed over this duration.

Still, the recent reopening of these once highly reputable funds should not necessarily be interpreted as an obvious buying opportunity for previously sidelined investors. *The Wall Street Journal* contends that reopened funds should pass two crucial checkpoints – whether the fund maintained its superior performance in the years it was closed and whether the management team responsible for the fund's reputation is still around. Regardless, meeting these criteria is no guarantee of future results as some of the best historical performers with a consistent management and investment approach sustained brutal losses in 2008 after reopening for investors.

Mutual Fund Focus » Total Return for 12 Months Ended 03/31/09



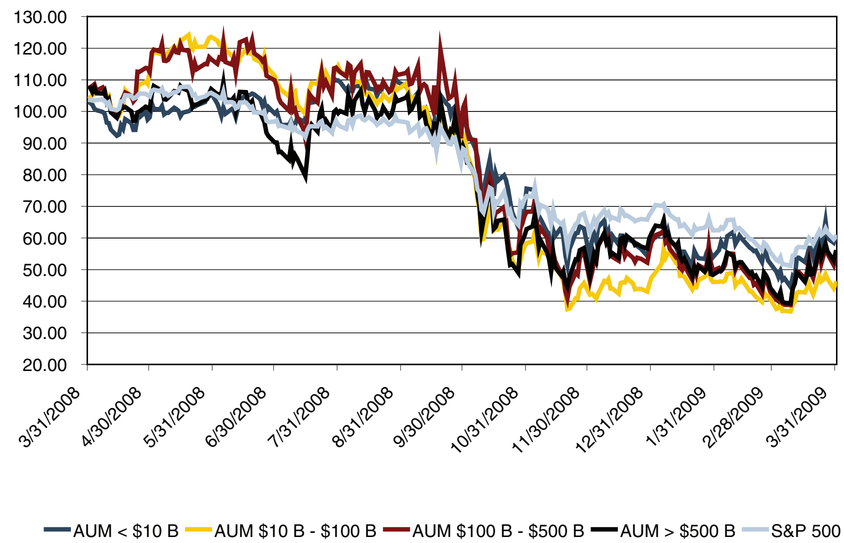
Meanwhile shares of most publicly traded mutual fund producers have fared no better than their underlying investments. Our index of mutual fund companies underperformed the S&P 500 by almost 8%, losing 46% of its market cap for the twelve months ended March 31, 2009. This lackluster performance is not surprising given the susceptibility that these companies have to market movements and investor anxiety. Nervous investors can be particularly problematic for fund managers and sponsors as client redemptions not only aggravate the fund's underlying investments but also reduce the asset base from which fees are charged.

Perhaps the most dramatic recent example of underperformance in share prices and underlying fund returns falls to AllianceBernstein. AB's high exposure to financial securities precipitated a 53.63% decline in its Global Growth fund in 2008, according to sector research firm Lipper. Reuters reported that investors withdrew a net $44 billion, contributing to a 50% reduction in the firm's fourth quarter revenue. The culmination of these events resulted in the erosion of roughly 75% of Alliance Bernstein's market cap for the twelve months ended March 31, 2009.

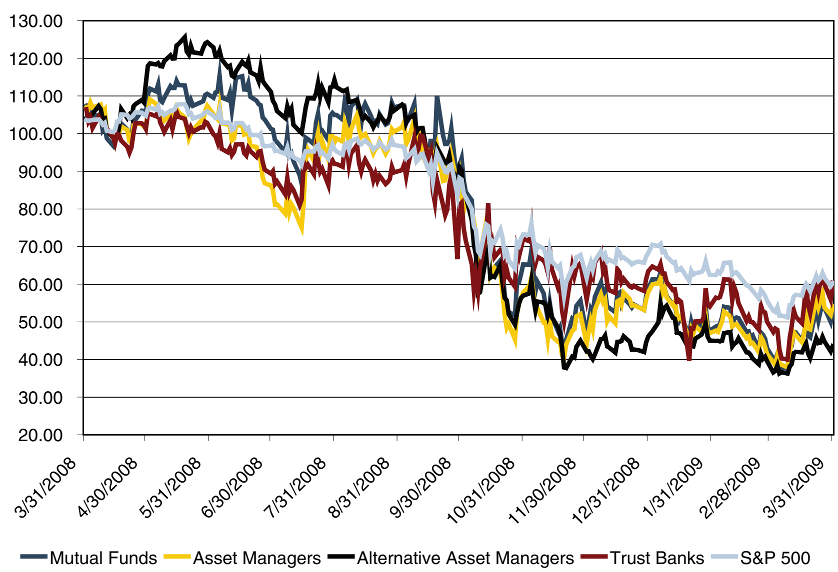
Another threat to mutual fund providers is the steady emergence of Exchange Traded Funds, or ETFs, as viable investment alternatives to investors seeking the instant diversification traditionally only offered by mutual funds. Today, ETFs track almost every conceivable index or industry sector, have a distinct cost advantage over most mutual funds, and are generally more tax efficient than their mutual counterparts. Still, by design, ETFs cannot outperform the index they track, making actively managed mutual funds more conducive to alpha hunters seeking abnormal returns.

Market Overview: 2009 Q1

Asset Managers Index » Breakdown by Size



Asset Managers Index » Breakdown by Type



Despite losing just over 9% of its market capitalization in the first quarter of 2009, our index of asset managers outperformed the S&P 500 by 5% over this period and has enjoyed a remarkable comeback from the quarter low that took place on March 9th. The index as a whole is up nearly 44% from this most recent bottom while the S&P has gained just 18% over this period.

The Treasury Department can be blamed and credited for some of the industry's abatement and subsequent recovery over the first quarter. Shares of publicly traded asset managers lost over 8% of their value on February 10th when Treasury Secretary Geithner omitted critical details on his plan to purchase troubled assets from the major banks. When Geithner finally announced these details on March 23rd, asset managers surged 16.24%. Geithner's Public-Private Investment Program calls for the Treasury to select up to five asset managers to receive federal funds matching the amount these managers are able to raise from their private investors to buy legacy assets from the major banks. Many of industry's key players stand to benefit from this Legacy Securities Program:

» BlackRock, Legg Mason, and Pimco are all expected to participate in the program. BlackRock and Pimco intend to start closed-end funds to buy the toxic assets from the banks. Closed-end funds are generally regarded as the more appropriate investment vehicle for the purchase of illiquid assets, as these kinds of funds require a longer holding period and have less onerous restrictions on leverage than their open-ended counterparts. BlackRock was especially receptive of the plan as it had recently posted an 84% decline in fourth quarter earnings.

» Alternative asset managers, most notably hedge funds and private equity firms, intend to leverage their expertise in distressed debt opportunities and profit from the Treasury's program. Shares of Fortress lept 35%, and Blackstone gained about 25% on the announcement.

Regardless of the strong finish to the quarter, asset managers are still coping with a very problematic landscape for attracting capital to replenish the void in AUM precipitated by the global financial crisis. Investors are still cautious, and there's no guarantee that the banks will be willing to sell their distressed securities at a price the asset managers will be willing to take them off their books. The *Financial Times* also reported that asset managers and hedge funds in particular are facing massive premium hikes for their professional insurance costs as a result of the financial crises and reported scandals. Needless to say, a continuation of the recent trend in the equity markets will be well-received by asset managers and their shareholders.

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Mergers & Acquisitions Review: 2009 Q1

The first quarter of 2009 saw a continuation of the dearth in M&A activity among asset managers with only a few notable announcements from across the pond:

- On January 22nd, Henderson Group announced its intention to acquire its troubled rival, New Star Asset Management (deal completed on April 9th) for £115mm. The deal makes HGI the 5th largest UK retail fund manager with just under £60 billion in AUM.
- French banks Credit Agricole and Societe Generale signed a preliminary agreement on January 26th to merge their asset management businesses. The transaction, scheduled to close in the second half of the year, would create the fourth largest asset manager in Europe and the ninth largest in the world with roughly €600 billion in AUM.

Despite the recent trough, the outlook for merger activity in the sector remains fairly robust as ailing banks and insurance companies divest their asset management departments to raise cash and eliminate their non-core businesses. Acquisitive asset managers may stand to benefit from the depressed price tags that the banks must offer to part with these businesses. The only barrier to a wave of merger activity in the sector is a lack of capital and access to cheap financing for many of the battered asset managers.

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Market Multiples As Of 03/31/09

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	73.18	9.23	1.85%	10.57
BlackRock, Inc.	BLK	22.00	18.34	1.40%	13.86
Legg Mason, Inc.	LM	nm	11.20	0.82%	nm
Pzena Investment Management, Inc.	PZN	nm	10.05	1.50%	nm
W.P. Stewart & Co., Ltd.	WPSLF	nm	nm	1.01%	nm
Westwood Holdings Group, Inc.	WHG	23.98	nm	3.79%	16.22
Group Median		*23.98*	*10.62*	*1.45%*	*13.86*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	5.28	10.15	0.31%	4.77
Calamos Asset Management, Inc.	CLMS	nm	10.69	0.91%	nm
Cohen & Steers, Inc.	CNS	18.60	32.82	3.09%	9.34
GAMCO Investors, Inc.	GBL	36.69	21.91	5.32%	23.37
Epoch Holding Corporation	EPHC	19.63	nm	2.83%	14.63
INVESCO Ltd.	IVZ	11.45	14.74	1.98%	9.05
Franklin Resources, Inc.	BEN	10.67	16.27	3.08%	6.66
Diamond Hill Investment Group, Inc.	DHIL	28.91	nm	2.13%	16.86
Eaton Vance Corp.	EV	17.31	18.13	2.60%	9.81
T. Rowe Price Group, Inc.	TROW	15.86	21.54	2.68%	8.58
U.S. Global Investors, Inc.	GROW	30.44	nm	3.75%	17.24
Waddell & Reed Financial, Inc.	WDR	15.71	15.71	3.65%	9.55
Federated Investors, Inc.	FII	10.12	10.40	0.61%	6.43
Janus Capital Group Inc.	JNS	7.73	14.78	1.76%	6.57
Group Median		*15.86*	*15.71*	*2.64%*	*9.34*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	5.84	10.9%	nm
Brookfield Asset Management, Inc.	BAM	13.25	13.78	51.4%	16.01
GLG Partners, Inc.	GLG	nm	8.11	8.4%	nm
Blackstone Group L.P.	BX	nm	10.07	2.1%	nm
Fortress Investment Group LLC	FIG	nm	6.44	3.5%	nm
Group Median		*13.25*	*8.11*	*8.4%*	*nm*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	7.40	13.96%	21.59
Northern Trust Corporation	NTRS	17.24	14.08	2.58%	9.53
Bank of New York Mellon Corporation	BK	23.16	9.74	3.80%	12.36
State Street Corporation	STT	7.16	6.72	1.08%	4.05
Group Median		*17.24*	*8.57*	*3.19%*	*10.95*
OVERALL MEDIAN		**17.27**	**10.94**	**2.60%**	**9.81**

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Mutual Funds

First Quarter 2009 Market Overview

First Quarter 2009 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. 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. To see past issues of **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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