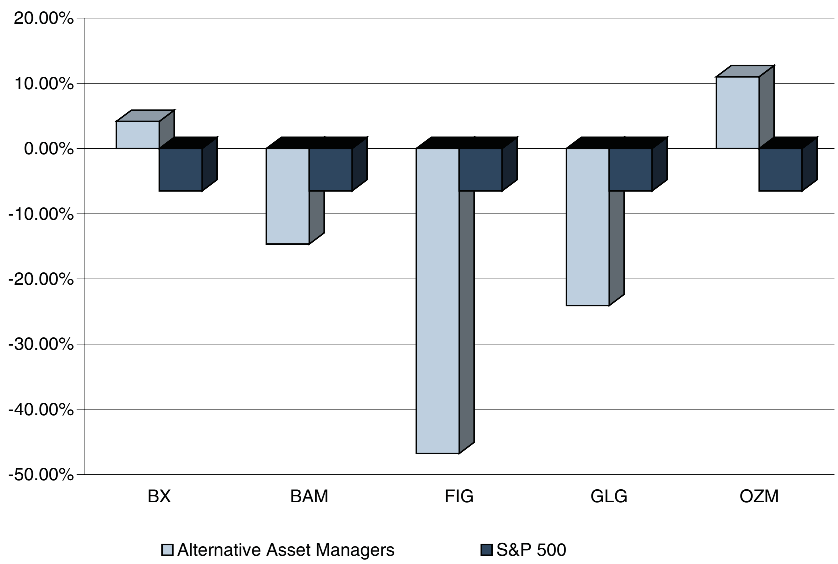
Asset Management Industry

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: Alternative Asset Managers

It is no surprise that companies employing massive amounts of leverage to make risky bets on perceived mispricings and underperforming businesses have seen their own share prices fluctuate wildly over the last 12 months. Most notably, Fortress Investment Group lost nearly 90% of its market cap in the fourth quarter of 2008, which preceded a seven-fold increase in the months to follow. Most other publicly traded hedge funds and private equity managers have experienced similar volatility, as our index of alternative asset managers dropped roughly half its value in the fourth quarter last year and is up almost 60% year-to-date. Investor anxiety, credit disruptions, market deterioration and subsequent recovery, coupled with a gradual thawing of the credit markets and a few quarters of earnings surprises, are largely to blame for these variations.



Political events may have also contributed to the volatility of these investments. Many analysts have suggested that compensation limits at Wall Street firms that owe money to the government will unintentionally benefit hedge funds and other alternative asset managers, who may be able to recruit some of the Street's top brass that are seeking refuge from potential pay caps. Still, political and regulatory forces in the wake of a financial crisis and a $50 billion Ponzi scheme generally don't favor the industry. According to *The Washington Post*, the SEC is planning to introduce new restrictions on short selling that would require traders to pay a small premium to bet against a company's shares. Hedge fund managers might also be adversely affected by the SEC's recent proposed amendments that would require that all registered investment advisors to engage an independent public accountant for the purpose of conducting a surprise examination of client assets to verify their existence on an annual basis.

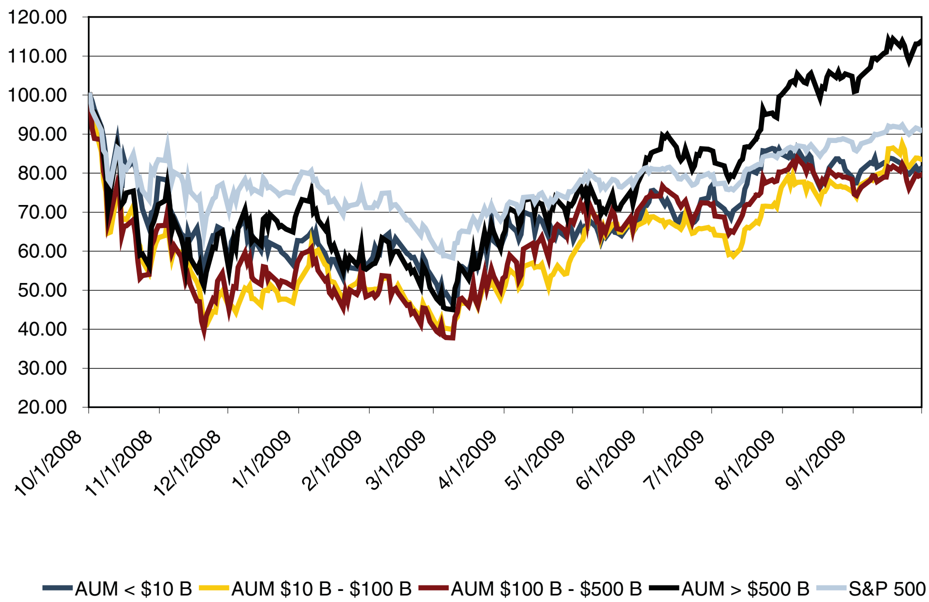
Recent allegations surrounding hedge fund giant Galleon Group and its co-founder Raj Rajaratnam concerning the potentially largest-ever insider trading scheme could revitalize investor scrutiny and induce even tighter regulation of alternative asset managers, whose reputation and AUM are still badly bruised from the catastrophic second half of last year. Perhaps most alarming is the Fed's use of wiretaps, which are typically reserved for mobsters and terrorists, on certain Galleon traders to make their case against the hedge fund giant. This case and the drastic measures employed by the federal authorities are symbolic of the current evolution we are seeing in the hedge fund industry, which once basked in its secretive operations and exemption from regulatory oversight.

Next year look for at least one more addition to our index of alternative asset managers, as private equity behemoth Kohlberg Kravis Roberts & Co. recently announced that it will be listed on the Euronext exchange in Amsterdam, with the option to join the NYSE in April. KKR initially wanted to go public in 2007 but bailed just before the global financial crisis. Its intent to go through with the IPO this time around may be indicative of some sort of stabilization in the private equity realm.

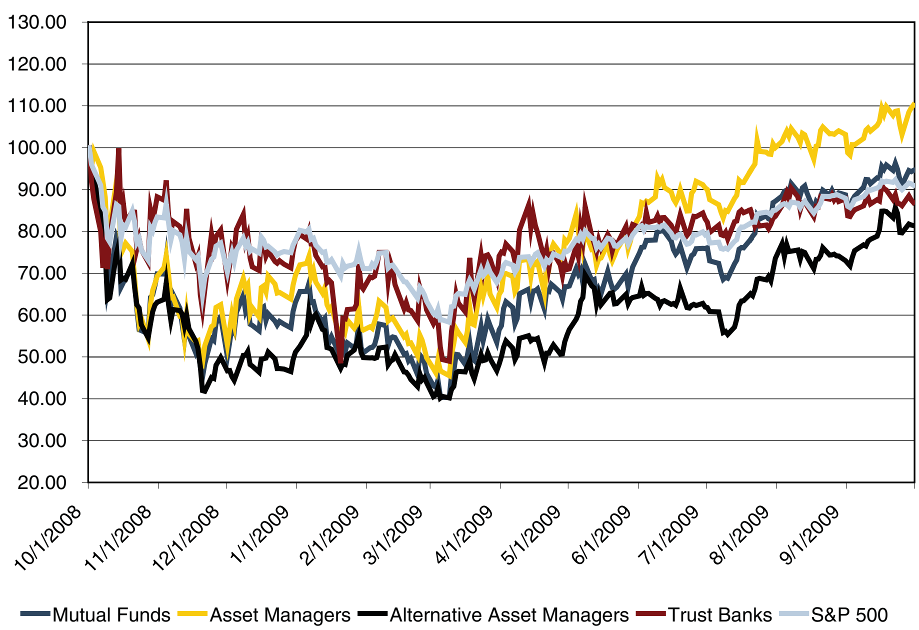
Market Overview: 2009 Q3

Most publicly traded asset managers continued to outperform the S&P 500 for the third consecutive quarter. This follows a year in which the leading 20 firms in the sector lost a combined $5.6 trillion in AUM, according to investment consultant Watson Wyatt. Many on Wall Street are attributing the turnaround to the effervescent market conditions of the last several months that has allowed the industry to attract more asset inflows and repair some of the AUM that was wiped out in 2008. Another contributor is the recent stellar fund performance for many asset managers who fell short of their benchmarks in 2008. A recent study by Robert W. Baird titled "The Truth about Top-Performing Money Managers" found that the top-performing managers periodically (and sometimes significantly) underperform their peers over short-term periods before resuming their superior track records, as many are doing in the current bull market.

Asset Managers Index :: Breakdown by Size



Asset Managers Index :: Breakdown by Type



The consensus outlook for the sectors seems to be one of "cautious optimism," as many analysts see significant earnings improvement in the coming quarters if current market conditions persist and firms continue to benefit from cost-cutting measures and asset inflows from previously sidelined investors. Still, as essentially levered plays on the market, most of these money managers are highly susceptible to any pullback or correction that many market participants have been calling on for months. Regardless, the sector's pre-eminent dealmaker, Martin Gilbert, believes most asset managers can withstand the impact of a potential correction in the equity markets, "While we may see a short-term respite in the rise of equities and other risk assets, next year markets should be supported as investors continue to put sizeable cash amounts, earning nothing on deposit, to work. Consequently, assets under management should increase and, given the significant cost-cutting that has taken place this year, margins are likely to be better," Gilbert said.

Mergers & Acquisitions
Review: 2009 Q3

Following the momentum from last quarter, there have been a few notable deals announced in Q3:

» Macquarie Group Ltd. bought Delaware Investments from Lincoln Financial Group in August for $428 million, or 0.33% of AUM.

» Bridge Partners LP acquired AIG's wealth management business in September for about $500 million, or 0.1% of AUM.

» Ameriprise Financial recently announced its intention to purchase Bank of America's asset management subsidiary for approximately $1 billion, or 0.60% of AUM.

These apparent fire sales are largely the result of highly motivated sellers (banks and insurance companies) trying to raise cash to repair their balance sheets or focus on core operations. Bankers at Jefferies Putnam Lovell expect divestitures to continue to drive deal activity and eventually be supplanted by more traditional strategic motivations. In particular, they note in their recent publication on sector deal activity, aptly titled "Winds of Change," that public asset managers "emboldened by their flush multiples [see table to the right] and with their most pressing issues behind them, will more actively pursue inorganic growth opportunities...which will help lure higher quality sellers to the market," and gradually firm up the recently depressed transaction multiples.

Market Multiples as of 09/30/09

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	nm	12.80	2.03%	18.79
BlackRock, Inc.	BLK	51.38	22.33	0.87%	9.06
Legg Mason, Inc.	LM	nm	21.40	1.13%	nm
Pzena Investment Management, Inc.	PZN	nm	18.57	5.19%	nm
W.P. Stewart & Co., Ltd.	WPSLF	nm	nm	2.67%	nm
Westwood Holdings Group, Inc.	WHG	23.13	22.39	3.03%	15.94
Group Median		*37.26*	*21.40*	*2.35%*	*15.94*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	18.43	16.34	0.52%	15.73
Calamos Asset Management, Inc.	CLMS	nm	16.96	1.41%	nm
Cohen & Steers, Inc.	CNS	nm	32.43	6.20%	20.28
GAMCO Investors, Inc.	GBL	59.35	25.67	6.81%	35.22
Epoch Holding Corporation	EPHC	33.65	22.44	2.46%	21.60
INVESCO Ltd.	IVZ	33.97	19.29	2.70%	30.59
Franklin Resources, Inc.	BEN	28.12	18.73	5.17%	16.42
Diamond Hill Investment Group, Inc.	DHIL	36.23	17.84	3.19%	21.64
Eaton Vance Corp.	EV	28.86	19.04	2.64%	15.59
T. Rowe Price Group, Inc.	TROW	37.46	22.62	3.71%	19.77
U.S. Global Investors, Inc.	GROW	nm	41.10	8.49%	nm
Waddell & Reed Financial, Inc.	WDR	33.87	17.89	4.75%	18.48
Federated Investors, Inc.	FII	13.45	12.86	0.72%	8.22
Janus Capital Group Inc.	JNS	nm	19.97	2.56%	17.17
Group Median		*33.76*	*19.16*	*2.95%*	*19.13*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	11.27	23.2%	nm
Brookfield Asset Management, Inc.	BAM	24.42	28.39	56.8%	13.32
GLG Partners, Inc.	GLG	nm	13.43	8.1%	nm
Blackstone Group L.P.	BX	nm	15.11	4.2%	nm
Fortress Investment Group LLC	FIG	nm	11.82	7.6%	nm
Group Median		*24.42*	*13.43*	*8.1%*	*13.32*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	17.11	3.71%	nm
Northern Trust Corporation	NTRS	24.54	15.43	2.51%	11.46
Bank of New York Mellon Corporation	BK	35.35	11.60	3.77%	9.63
State Street Corporation	STT	15.29	11.69	1.67%	7.72
Group Median		*24.54*	*13.56*	*3.11%*	*9.63*
OVERALL MEDIAN		**31.25**	**18.23**	**3.19%**	**16.42**

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Segment Focus: Alternative Asset Managers

Third Quarter 2009 Market Overview

Third 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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