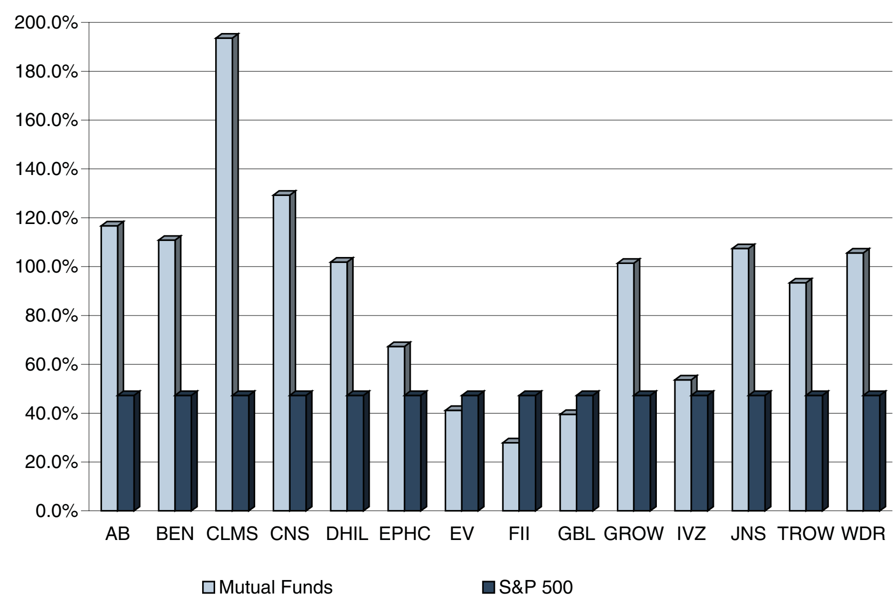
Asset Management Industry

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

MUTUAL FUND FOCUS: TOTAL RETURNS FOR 12 MONTHS ENDED 03/31/2010



Shares of publicly traded mutual fund companies soared higher than most of their underlying investments, as our market-weighted index of mutual fund businesses climbed just over 80% for the 12 months ended March 31, 2010. Much of the sector's recent success is attributable to Franklin Resources (BEN), which represents 38% of the index and returned 110% to investors over the period. For the second consecutive year, *Barron's* rated it the top firm for fund performance over a 10-year horizon.

In addition to BEN, 11 out of the 14 component companies outperformed the S&P's 47% return over the period, with all of these businesses returning at least 27% to shareholders, primarily the result of a bull market that started in March of 2009 and asset flows from previously sidelined investors finally returning to mutual funds. The sector was also boosted by a March 31, 2010 Supreme Court ruling that upheld the Gertenburg standard that allows for mutual fund fees to be determined by "arm's-length bargaining" between a fund's advisor and its board members, potentially quashing a wave of fee-related litigation suits for the larger fund companies.

Still, the index is off 26% from the market's peak in October of 2007, and many analysts see continued momentum in the space as equity mutual funds have lagged their fixed income counterparts in attracting new client assets since the bull market's inception last March. In fact, according to the *Los Angeles Times*, investors were net sellers (redemptions > purchases) of domestic equity funds from August of 2009 through February of 2010. With the stock market rallying and retail investors beginning to feel left out (net cash inflow for domestic equity funds was $1.94 billion for the week ended April 7, 2010, according to the Investment Company Institute), equity fund providers appear poised to benefit from continued strength in the global indices and the gradual return of investor optimism.

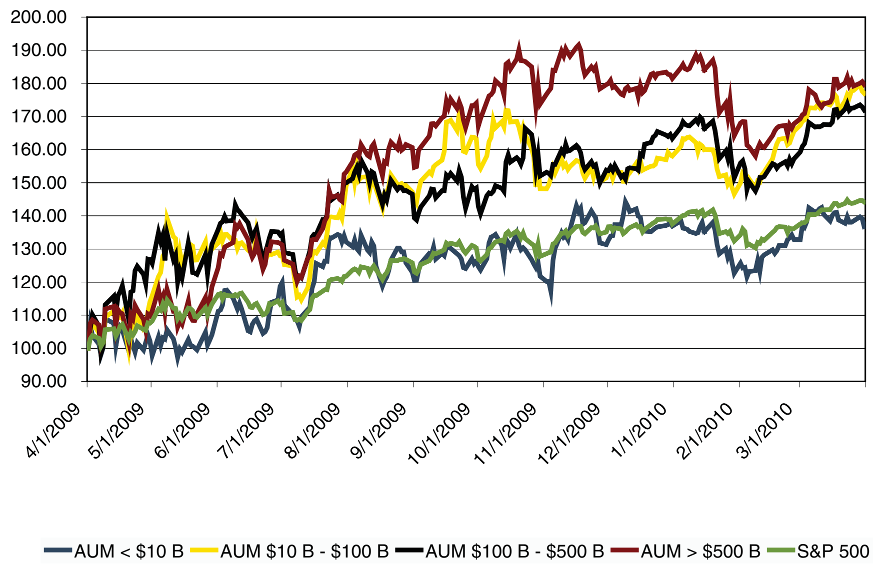
Even PIMCO, the world's largest bond manager, is anticipating a shift in investor sentiment as it recently filed with U.S. regulators to start a stock mutual fund (the PIMCO Global Opportunities Fund) that can also invest in bank loans, junk bonds, and distressed securities, according to *Bloomberg*. The company hired Neel Kashkari, the former head of the Treasury's bank rescue program, as well as two of BEN's top equity managers to augment PIMCO's product offering. Michael Lipper, head of Lipper Advisory Services notes, "PIMCO is a bond shop, but I feel they have a view that bonds will underperform stocks on a pretty regular basis in the future. Now they are hedging."

Market Overview: 2010 Q1

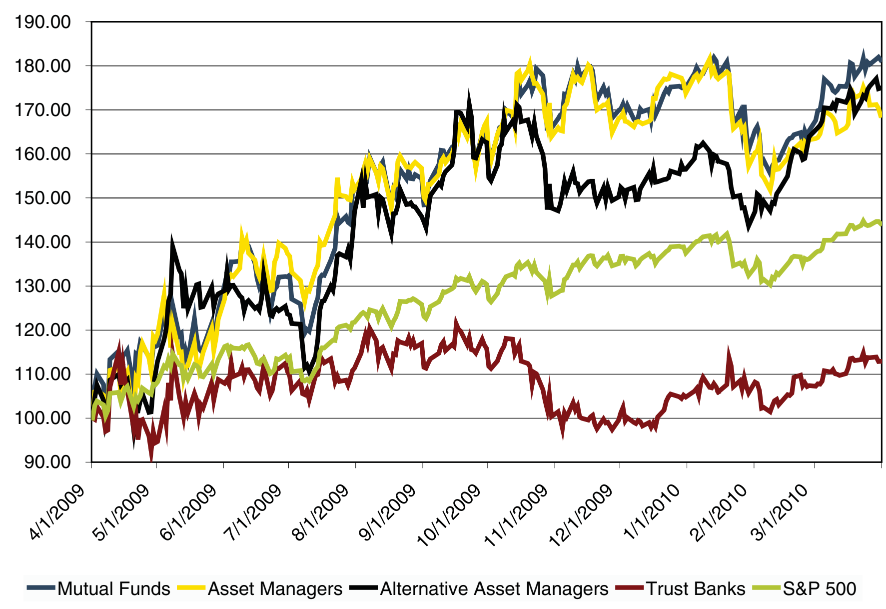
Publicly traded asset managers enjoyed a positive, albeit rocky, start to 2010, returning just over 4% in the first quarter and slightly outperforming most major U.S. indices. After falling nearly 10% with the market correction in late January and early February, these businesses recovered sharply in the following weeks and have continued this momentum into April, beating earnings estimates and alluring analyst upgrades from the major brokerage houses.

Aside from the return of investor optimism and sharp market gains, many money managers are actually poised to benefit from the current political landscape. With a financial regulatory reform bill working its way through Congress that could potentially quash the proprietary trading, hedge fund, and private equity businesses at the major financial institutions, active managers and alternative asset funds would be all too eager to generate the alpha and recruit the Street's top traders and fund managers that may be left behind after this bill passes. Still as this newsletter goes to press, much uncertainty remains about the content and legislative fate of FinReg, and it is still difficult to ascertain what its impact will be on the asset management business moving forward.

Asset Managers Index :: Breakdown by Size



Asset Managers Index :: Breakdown by Type



Despite recent momentum in the sector, *Moody's Investors Services* maintains its negative credit outlook for asset managers in its annual report on the industry released March 24, 2010. According to Douglas Appell of *Pensions & Investments*, the report noted a number of "new headwinds" have recently emerged including a reluctance of volatility-scarred investors to embrace high-margin active equity strategies, rising demand for lower-fee products such as fixed income and ETFS, the growing influence wielded by distribution, and regulatory uncertainties. Still, given the rating agency's AAA assessment of subprime securities in 2007, its negative outlook on money managers might be a bullish sign for the sector.

Mergers & Acquisitions Review: 2010 Q1

Transaction volume among asset managers fell sharply in the first quarter of 2010 compared to the first quarter of 2009, according to *Business Wire* and Jefferies & Co.'s Financial Institutions Group. However, transacted assets volume in the first quarter of 2009 was inflated by the $840 billion AUM merger of Societe Generale Asset Management with Credit Agricole Asset Management, and Aaron Dorr of Jefferies anticipates that "the slack tide of the first quarter's M&A activity will begin to flow again as improved markets bring both buyers and sellers back to the negotiating table."

Still, a record level of over 50% of the first quarter's asset management transactions involved acquisitions of alternative asset managers, and exactly half of the total deals in the quarter were cross-boarder deals. Many analysts expect these trends to continue given the scarcity of alternative asset management transactions in 2009 and money managers' continuing to look overseas to build scale and satisfy investors' growing appetite for international assets. Patrick Jensen of Duff & Phelps warns in an *SNL Financial* article by Mindi Westhoff that asset management is "a very high-touch business. Scale gets you access to different products or different regions or different markets, but you have to be careful about scale because this is such a personal business that can't lose touch of who your client is. And the No.1 thing that clients value is the service component of the business."

Market Multiples as of 3/31/10

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	48.80	9.26	1.89%	10.77
BlackRock, Inc.	BLK	38.00	18.07	nm	nm
Legg Mason, Inc.	LM	nm	19.71	1.01%	nm
Pzena Investment Management, Inc.	PZN	29.07	16.96	3.73%	15.99
W.P. Stewart & Co., Ltd.	WPSLF	nm	nm	2.63%	nm
Westwood Holdings Group, Inc.	WHG	30.80	17.47	2.55%	20.67
Group Median		*34.40*	*17.47*	*2.55%*	*15.99*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	17.03	13.39	nm	16.14
Calamos Asset Management, Inc.	CLMS	23.13	12.69	1.24%	3.66
Cohen & Steers, Inc.	CNS	nm	19.81	4.25%	125.73
GAMCO Investors, Inc.	GBL	22.52	17.98	5.48%	14.18
Epoch Holding Corporation	EPHC	35.28	17.37	2.20%	21.28
INVESCO Ltd.	IVZ	28.83	13.87	2.41%	20.41
Franklin Resources, Inc.	BEN	22.59	15.19	4.63%	13.99
Diamond Hill Investment Group, Inc.	DHIL	15.59	10.54	2.92%	10.33
Eaton Vance Corp.	EV	27.05	16.94	2.77%	14.72
T. Rowe Price Group, Inc.	TROW	33.32	18.70	3.63%	18.72
U.S. Global Investors, Inc.	GROW	36.63	20.18	5.69%	23.05
Waddell & Reed Financial, Inc.	WDR	29.30	15.27	4.72%	17.48
Federated Investors, Inc.	FII	13.74	12.44	0.73%	8.01
Janus Capital Group Inc.	JNS	nm	14.43	2.13%	15.70
Group Median		*25.09*	*15.23*	*2.92%*	*15.92*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	10.19	27.8%	nm
Brookfield Asset Management, Inc.	BAM	35.80	31.00	46.5%	13.42
GLG Partners, Inc.	GLG	nm	10.23	5.9%	nm
Blackstone Group L.P.	BX	nm	9.86	4.6%	nm
Fortress Investment Group LLC	FIG	nm	6.76	5.7%	nm
Group Median		*35.80*	*10.19*	*5.9%*	*13.42*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	13.81	nm	nm
Northern Trust Corporation	NTRS	17.49	14.24	nm	nm
Bank of New York Mellon Corporation	BK	nm	11.03	nm	nm
State Street Corporation	STT	13.05	11.37	nm	nm
Group Median		*15.27*	*12.59*	*nm*	*nm*
OVERALL MEDIAN		**28.83**	**14.34**	**3.63%**	**15.85**

Notable in the first quarter of 2010 has been the return of somewhat normal transaction pricing. According to *Reuters*, buyers agreed to spend $10.5 billion to acquire $669.7 billion in assets under management (1.57% of AUM), compared to roughly $11.3 billion paid in the first quarter of 2006 (a relatively normal market environment) for $752.7 billion in managed assets (1.50% of AUM). This is good news for aging asset managers who are seeking to transition ownership of their businesses but have been reluctant to do so at the fire sale transaction prices observed over the past couple of years. Two former Jefferies Putnam Lovell bankers, Keith Mitchell and Roger Hartley, recently formed a M&A firm specifically devoted to the asset management business to take advantage of a potential wave of merger activity in the sector. Hartley contends that "the last couple of years have been difficult for asset managers and wealth managers alike — but now that things are stabilizing we do think that they are returning to thinking about strategically advancing towards their goals, be those business-oriented or financial."

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Mutual Funds

First Quarter 2010 Market Overview

First Quarter 2010 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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