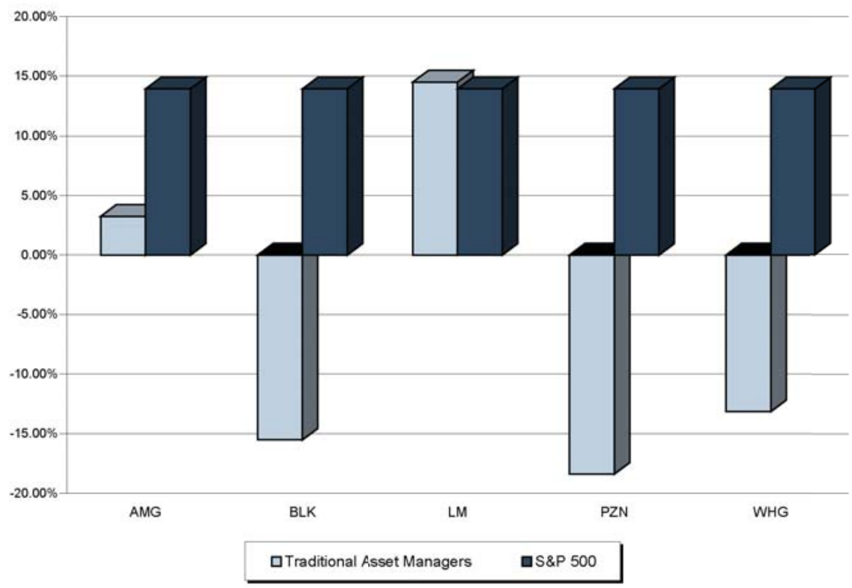
Asset Management Industry

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: Traditional Asset Managers

TRADITIONAL ASSET MANAGER TOTAL RETURNS FOR 12 MONTHS ENDED 06/30/2010



Shedding just over 8% of its value for the twelve months ended June 30, 2010, our index of traditional asset managers (sector components included in graph to the right) has significantly lagged the broader market averages, which gained over 10% during the same period. Much of this underperformance came in the most recent quarter as market declines were compounded by combined cash outflows of $57 billion from the sector's largest components – Legg Mason and BlackRock.

Despite similar regressions in AUM, Legg Mason has bested BlackRock in terms of recent share price performance, gaining 14% over the last year and outperforming the market as BlackRock lost 17% of its value during the same period. This divergence is partially attributed to asset flows within the two businesses and not necessarily net cash outflows and corresponding declines in AUM.

Even with the market correction and erosion of investor confidence in the last quarter, Legg Mason was able to attract $700 million into equity mutual funds that earn higher fees than their fixed income and money market counterparts while BlackRock recently reported asset flows out of more profitable stock and bond funds and into passively managed products like ETFs, further dampening the market's pricing of its $3.3 trillion asset base (0.43% total capital to AUM at quarter-end). LM's share price has also benefited from a $1 billion stock buyback and substantial cost-cutting plans announced in May.

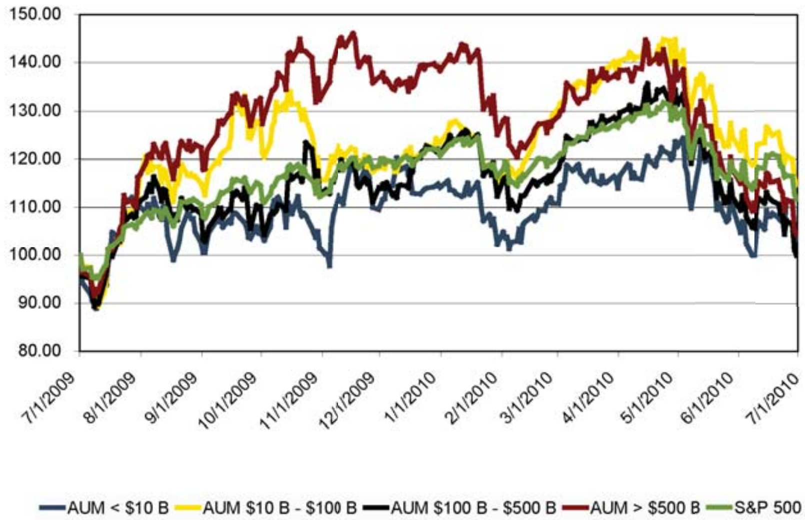
Still, most traditional asset managers have not shared in LM's recent success as market volatility and bearish sentiment have precluded a full recovery from the '08/'09 financial crisis for most of these businesses. Any potential return to more prosperous times will ultimately be predicated on favorable market conditions, successful client retention efforts, and the attraction of new assets to manage, none of which is ever guaranteed. Nevertheless, current reductions in operating expenses coupled with the recent exit of several asset managers from the industry and continued client withdrawals from the major brokerage houses mean that these businesses are poised to benefit from any further advances in the securities markets or investors' overall inclination to let these embattled advisors manage their funds.

Market Overview: 2010 Q2

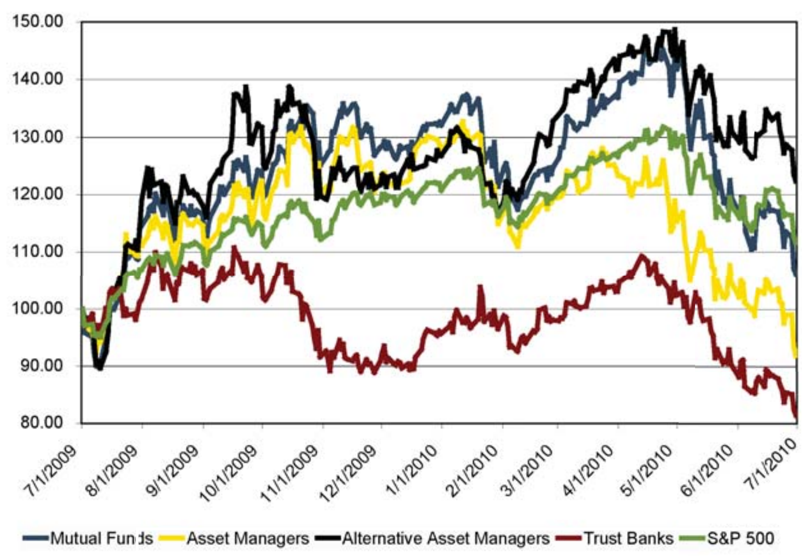
After five consecutive quarters of positive returns and market outperformance, publicly traded asset managers (excluding trust banks) lost some of their recent momentum, conceding just over 22% of their total market capitalization in the second quarter. Given their reliance on market conditions and investor sentiment, it is rare that these businesses generate positive returns in market downturns. The combination of a market correction, heightened risk aversion, and potential default of several European governments resulted in a bearish quarter for many asset managers.

It is interesting to note that alternative asset managers, including private equity firms and hedge funds that many believed would be most adversely affected by the passage of FinReg, outperformed all other categories of asset managers in the quarter, even as the financial reform bill worked its way through Congress and was ultimately signed into law on July 21st. In an interview on CNBC's Squawk Box, Paul Roth, a partner at Schulte, Roth & Zabel, which represents 50 of the top 100 hedge funds, noted that the enhanced transparency mandated by the bill could be good for hedge funds in the long run. Roth added that most of the larger funds already have significant compliance mechanisms in place, minimizing their exposure to incremental regulatory costs arising from the bill's enactment. Roth did acknowledge that smaller funds and managers that lacked the requisite compliance measures could see an escalation in their regulatory costs. Indeed, our index of asset managers with under $10 billion in AUM has underperformed its peers in the last few months.

Asset Managers Index :: Breakdown by Size



Asset Managers Index :: Breakdown by Type



Finance author Jack Ingram identifies the following trends in asset management for 2010 – weak global banking encouraging private credit, growth opportunities in developing countries attracting additional asset flows from investors, inflationary/deflationary expectations governing investors' decision-making, dynamic asset allocation trumping its strategic counterpart, and hedge funds responding to demands from clients and regulators for greater transparency. While some of these calls may have been a bit premature, the ability of asset managers to take advantage of these dynamics could certainly expedite their recovery.

Mergers & Acquisitions
Review: 2010 Q2

In a recent whitepaper titled "On the Road Again," analysts in Jefferies' Financial Institutions Group note that while 2009 dealmaking activity in the sector was dominated by divestitures from banks and insurance companies, transactions for 2010 and beyond are more likely to involve independently-owned asset managers, encouraged by more stable markets, improved earnings, and anticipated increases in capital gains taxes. While recent market volatility has precluded the materialization of this prediction, any stabilization and positive momentum moving forward could precipitate a surge in dealmaking for the back half of 2010 with sellers looking to exit before potential hikes in capital gains rates.

Adam Verchinski of AllianceBernstein predicts that investment managers looking to expand their product offering will turn to the M&A markets to facilitate this desire and capture new assets to manage without relying upon the capricious whims of the equity markets. In some sense this trend has already begun with Boston hedge fund GRT Capital Partners entering a joint venture with asset manager Denver Investments to form Denver Investment Alternatives.

Both sides contend that the expanded product offering to existing and prospective relationships coupled with the expectation that alternative assets (which earn higher fees) will ultimately assume a greater presence in institutional portfolios makes this venture a mutually beneficial arrangement for the long term. The recent surge in M&A among alternative asset managers and their more traditional counterparts indicates a growing trend for these kinds of transactions.

Still, Mr. Verchinksi insists that in order to execute successful M&A in this space, the interested parties must structure deals such that key portfolio managers are retained, operating leverage is improved, and margins are maintained even in the face of heightened regulatory scrutiny. The success of these deals will also largely depend on external market conditions, making these transactions extremely risky, but potentially very rewarding, if executed properly in a favorable investment climate.

Market Multiples as of 6/30/10

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	37.78	8.25	1.59%	9.16
BlackRock, Inc.	BLK	18.64	12.56	0.43%	6.59
Legg Mason, Inc.	LM	21.23	12.51	0.87%	10.48
Pzena Investment Management, Inc.	PZN	19.91	13.00	2.71%	10.49
W.P. Stewart & Co., Ltd.	WPSL	nm	nm	1.76%	nm
Westwood Holdings Group, Inc.	WHG	24.41	16.58	2.42%	16.85
Group Median		*21.23*	*12.56*	*1.68%*	*10.48*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	11.96	12.36	0.57%	11.24
Calamos Asset Management, Inc.	CLMS	13.45	9.67	0.94%	2.51
Cohen & Steers, Inc.	CNS	40.67	17.28	3.25%	23.14
GAMCO Investors, Inc.	GBL	16.83	14.20	4.33%	10.82
Epoch Holding Corporation	EPHC	26.07	17.90	2.17%	16.50
INVESCO Ltd.	IVZ	19.13	10.93	2.89%	16.08
Franklin Resources, Inc.	BEN	14.41	11.97	3.40%	9.13
Diamond Hill Investment Group, Inc.	DHIL	10.88	12.97	2.28%	7.32
Eaton Vance Corp.	EV	21.08	14.16	2.14%	11.07
T. Rowe Price Group, Inc.	TROW	21.98	14.80	2.75%	12.42
U.S. Global Investors, Inc.	GROW	15.86	13.21	3.21%	10.01
Waddell & Reed Financial, Inc.	WDR	14.88	9.99	2.78%	9.36
Federated Investors, Inc.	FII	10.51	10.90	0.67%	6.40
Janus Capital Group Inc.	JNS	17.08	10.33	1.47%	9.13
Group Median		*16.34*	*12.67*	*2.52%*	*10.41*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	7.58	20.9%	nm
Brookfield Asset Management, Inc.	BAM	27.93	20.38	39.8%	10.93
GLG Partners, Inc.	GLG	nm	24.77	10.4%	nm
Blackstone Group L.P.	BX	nm	6.55	3.1%	nm
Fortress Investment Group LLC	FIG	nm	4.10	4.4%	nm
Group Median		*27.93*	*7.58*	*10.4%*	*10.93*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	11.09	nm	nm
Northern Trust Corporation	NTRS	14.69	12.79	nm	nm
Bank of New York Mellon Corporation	BK	nm	8.98	nm	nm
State Street Corporation	STT	9.83	9.02	nm	nm
Group Median		*12.26*	*10.05*	*nm*	*nm*
OVERALL MEDIAN		**17.86**	**12.44**	**2.71%**	**10.49**

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Mutual Funds

Second Quarter 2010 Market Overview

Second 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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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.