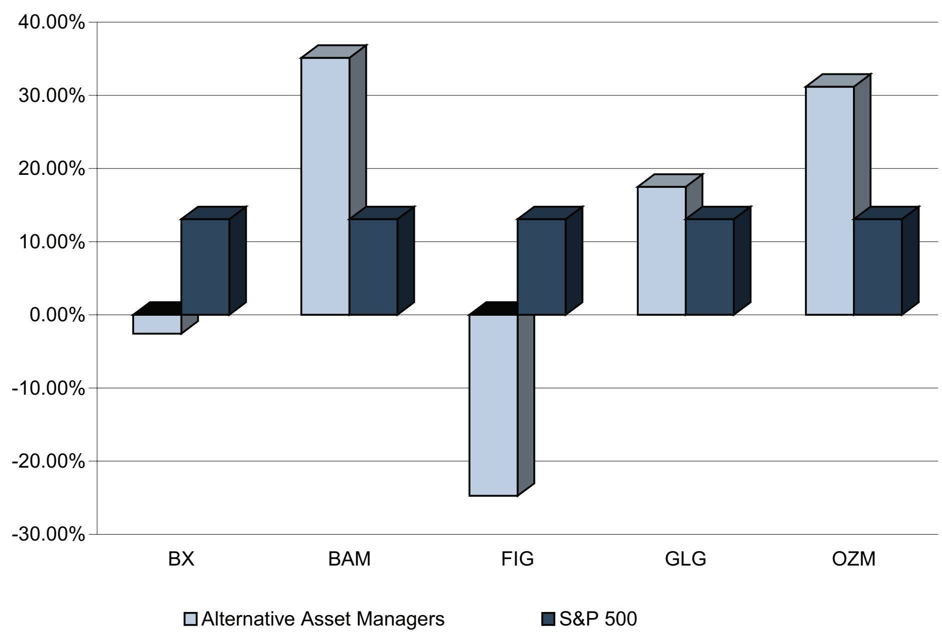
Asset Management Industry

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

With Och-Ziff and Brookfield leading the way, our index of alternative asset managers significantly outperformed the broader indices, returning over 25% for the twelve months ended September 30, 2010 compared to 13% for the S&P and negative 1.32% for publicly traded advisors listed domestically. Given the group's strong correlation to market movements (median beta statistic of 2.03) and propensity for trading risky assets, this comeback comes as no surprise but needs context – even after the run up of the last twelve months, publicly traded hedge funds and private equity firms have still lost almost half (45%) their value since the Dow peaked three years ago, while the S&P has forfeited 27% of its market cap over this period.

Alternative Asset Manager
Total Returns for 12 Months Ended 09/30/10



Still, the "best-in-class" alternative asset mangers who have survived the last couple of years are poised to benefit from their competitors' demise and sudden surge in the market's risk tolerance. Coming off their best month since May of 2009, hedge funds continue to outperform the broader indices year-to-date, and see growing optimism regarding the equity markets in the short term, according to Charles Gradante of the Hennessee Group, a leading advisor to investors in hedge funds.

Not all alternative asset managers are bouncing back in 2010. The inability of many funds of funds to properly scrutinize Madoff and other rogue money managers has rendered these advisors incompetent and potentially dangerous in the eyes of many investors. To make matter worse, the SEC is vowing to step up its oversight of asset managers, especially those that channel money to hedge funds.

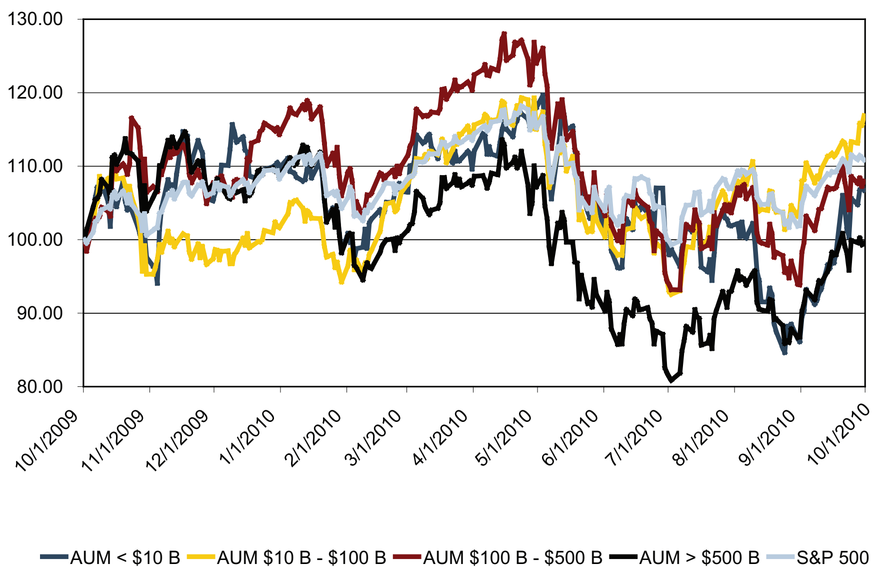
"Hedge fund managers, including funds of funds, can expect the agency to take a greater interest in their policies, practices, and their relationships with investors and other fund managers," according to Jay Gould, former SEC attorney and current partner at Pillsbury Winthrop Shaw and Pittman, LLP. Still, the SEC was no better watchdog than Madoff's feeder funds over the past decade and faces its own reputational challenges as a result.

Moving forward, Sebastian Mallaby, author of *More Money then God: Hedge Funds and the Making of a New Elite*, believes remaining alternative asset managers will grow "massively" as institutional investors like pension funds and college endowments increase their allocation to this nebulous asset class because of its perceived lower correlation to other investments and potential for risk reduction within a larger portfolio. Given the performance of most hedge funds and private equity firms in 2008, this might be a tough sell for the astute investor.

Market Overview: 2010 Q3

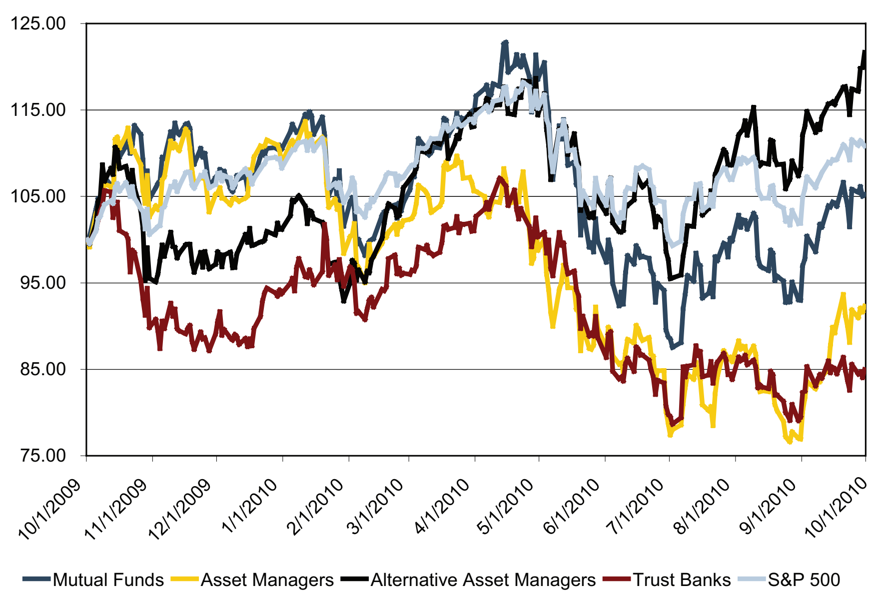
A recent Reuters poll showed that top investment houses around the world raised their equity holdings in September for the first time in seven months while reducing their exposure to fixed income and cash instruments. The persistence of such a trend could be extremely bullish for equity managers that have seen their AUM and share price fail to make a full recovery from the financial crisis and subsequent recession. Indeed, shares of publicly traded asset managers outperformed the S&P for the month and quarter but lag the broader indices by a considerable margin since the market peaked in October of 2007.

Asset Managers Index :: Breakdown by Size



The respective prospects for inflation and deflation will likely drive asset allocation decisions moving forward, which could have huge implications for most asset managers looking to raise their equity holdings that typically earn higher fees than their fixed income and cash counterparts. Bond managers will undoubtedly look for signs of deflation to entice investors seeking fixed returns and safety in a weak economy with falling interest rates. Equity advisors, on the other hand, will point to chronically loose monetary policy and continued quantitative easing measures as precursors for future inflation and justification for a healthier exposure to stocks that should outperform bonds and cash in an inflationary environment.

Asset Managers Index :: Breakdown by Type



So, who's right? Obviously only time will tell. According to a recent survey by Russell Investments, 57% of professional money managers believe the market is undervalued, which is the highest level since March 2009 or the very bottom of the last bear market. These investment advisors are also relatively bullish on future economic conditions. "It is interesting that only a small percentage of investment managers responding to the survey believe the economy will not grow at all, which is a bit at odds with the broad speculation around a looming double-dip recession," say Mark Eibel, director of client investment services at Russell. Although most money managers are incentivized to convince their current and prospective clients to be more optimistic about future market and economic conditions, it is somewhat comforting that this is perhaps the most sanguine they have been since a time when the major indices have nearly doubled in value.

Mergers & Acquisitions Review: 2010 Q3

In keeping pace with most other sectors of the economy, domestic M&A among asset mangers picked up rather dramatically in the third quarter, with 18 announced deals compared to the same amount for the six months prior and just nine the year before, according to SNL Financial. Driven by record low interest rates, high corporate cash balances, potential increases in capital gains taxes, and improving confidence and market conditions, corporate dealmaking appears to be making a comeback, and asset managers appear to be on board. Notable transactions in the quarter include Charles Schwab's $150 million acquisition of Windward Investment Management and Sprott Inc's $122 million transaction with Global Companies.

Analysts at State Street see the recent boom in asset manager dealmaking as part of a broader trend expected to take place over the next five years. "At a time when both banks and boutique asset managers are willing sellers, the recent stream of deals is likely to continue. Over the next five years, mergers will lead to the creation of larger firms with logical structures – some with low-cost, scalable business models, and others focused on building stable boutique managers."

Market Multiples as of 9/30/10

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	41.94	11.57	2.14%	12.57
BlackRock, Inc.	BLK	20.59	15.48	1.19%	14.88
Legg Mason, Inc.	LM	23.87	15.31	0.99%	11.78
Pzena Investment Management, Inc.	PZN	22.90	19.08	3.37%	10.90
W.P. Stewart & Co., Ltd.	WPSL	nm	nm	2.29%	nm
Westwood Holdings Group, Inc.	WHG	22.11	21.41	2.62%	15.13
Group Median		*22.90*	*15.48*	*2.21%*	*12.57*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	12.82	13.01	nm	11.79
Calamos Asset Management, Inc.	CLMS	13.86	12.78	1.18%	2.46
Cohen & Steers, Inc.	CNS	23.33	18.24	3.52%	15.79
GAMCO Investors, Inc.	GBL	18.98	14.71	4.67%	11.76
Epoch Holding Corporation	EPHC	24.77	18.67	2.59%	14.84
INVESCO Ltd.	IVZ	26.87	13.35	3.00%	15.80
Franklin Resources, Inc.	BEN	17.08	14.68	4.39%	10.93
Diamond Hill Investment Group, Inc.	DHIL	17.34	22.39	3.13%	11.38
Eaton Vance Corp.	EV	20.89	16.59	2.27%	10.94
T. Rowe Price Group, Inc.	TROW	22.45	18.07	3.29%	12.62
U.S. Global Investors, Inc.	GROW	18.06	20.39	4.04%	11.00
Waddell & Reed Financial, Inc.	WDR	17.10	13.48	3.70%	10.50
Federated Investors, Inc.	FII	11.92	13.01	0.83%	7.72
Janus Capital Group Inc.	JNS	18.56	13.86	1.91%	9.85
Group Median		*18.31*	*14.70*	*3.13%*	*11.19*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	9.43	23.7%	nm
Brookfield Asset Management, Inc.	BAM	41.12	24.25	42.4%	11.10
GLG Partners, Inc.	GLG	nm	16.67	7.2%	nm
Blackstone Group L.P.	BX	nm	8.75	4.1%	nm
Fortress Investment Group LLC	FIG	nm	5.98	4.0%	nm
Group Median		*41.12*	*9.43*	*7.2%*	*11.10*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	21.90	nm	nm
Northern Trust Corporation	NTRS	15.82	13.82	nm	nm
Bank of New York Mellon Corporation	BK	nm	9.86	nm	nm
State Street Corporation	STT	10.70	10.04	nm	nm
Group Median		*13.26*	*11.93*	*nm*	*nm*
OVERALL MEDIAN		**19.78**	**14.70**	**3.21%**	**11.57**

In its August 2010 whitepaper on M&A activity in the asset management sector titled "*Turning Tides*," Jefferies Financial Institutions Group is expecting an acceleration of dealmaking in this space as the backlog created by the dearth in transactions over the last two years plays out over the next twelve months. Such activity, they say, will be largely driven by independent sellers seeking liquidity after standing on the sidelines since the onset of the financial crisis. Indeed, transactions involving money managers did pick up the following month in September 2010 with the steady rise in the equity markets and general improvement in investor sentiment. Jefferies notes that transaction pricing has also finally turned a corner with EBITDA multiples rising to 9.1x for the first half of 2010 (compared to 8.0x for Q4 '09), which could also motivate sellers waiting for valuations to improve. Ultimately though, the fate of M&A in this space is contingent upon buyer confidence and attractive valuations, neither of which is guaranteed in a particularly capricious market environment.

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Alternative Asset Managers

Third Quarter 2010 Market Overview

Third 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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