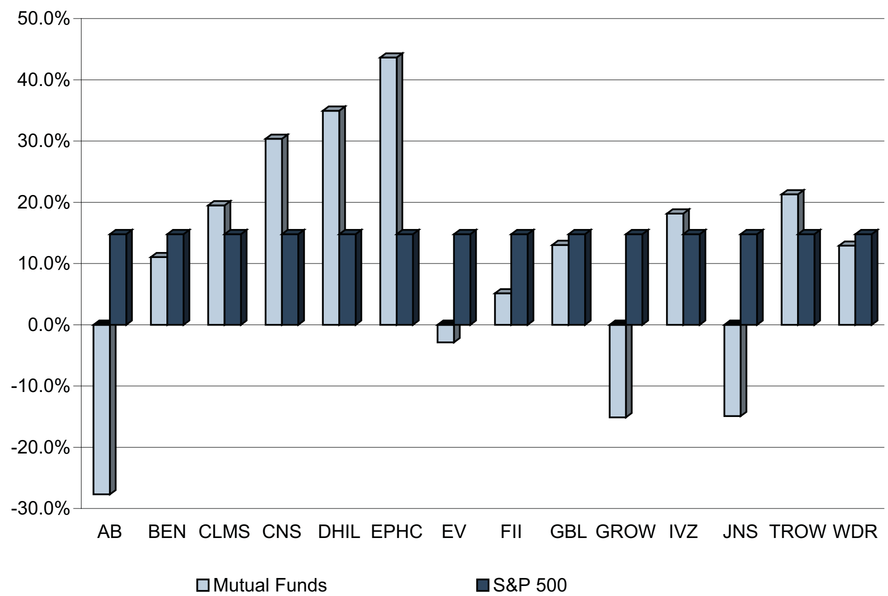
ASSET MANAGEMENT INDUSTRY

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

Publicly traded mutual fund providers returned 12.9% to investors over the twelve months ended March 31, 2011, lagging the S&P index as a whole by about 4.5%. Still, our performance chart of component companies indicates a fairly sizeable disparity of returns, particularly for businesses that are so highly correlated to market movements. Most notably on the upside, Epoch Holdings returned roughly 50% as nearly all the value manager's investment strategies have outperformed their respective benchmarks in recent periods, which, combined with significant gains in AUM and a dividend hike, has contributed to the stock's advancement over the last year. On the opposite end of the spectrum lies Alliance Bernstein that reported a $90 million real estate charge in the third quarter of last year and continues to struggle with fund performance and client redemptions.

TOTAL RETURNS FOR 12 MONTHS ENDED 03/31/11



Despite the mixed, and in some cases, lagging performance of mutual fund providers in recent quarters, the segment is poised to benefit from some positive developments and unique opportunities in the coming months. One such development is the recent regulatory approval for asset managers and mutual fund providers to offer actively traded ETFs. These funds trade on exchanges like stocks and and are capable of generating alpha unlike their more traditional counterparts. *The Wall Street Journal* reports that these advantages will typically cost investors 0.35% to 1.85% of assets a year, a considerable premium to the 0.1% to 1.0% range charged by most index ETFs. This trend is significant in light of Greenwich Associate's recent survey finding that a growing number of institutional investors intend to augment their utilization of ETFs for a variety of purposes moving forward.

Another bullish sign for the sector is the increasing willingness of developing countries to open their borders to foreign investment. *WSJ* recently reported that the Indian government is considering allowing foreign investors to invest in local mutual funds, effectively widening the sector's investment base and potentially creating a benchmark for other emerging economies with capital needs.

Some are even calling for mutual funds to replace Fannie Mae and Freddie Mac in the wake of the mortgage giants' role in the most recent financial crisis. Advocates of this proposal like Boston university economics professor Laurence Kotlikoff suggest that mutual fund providers would issue equities (i.e. sell mutual fund shares) to raise money to buy the mortgages previously held by the federal agencies. If mutual fund providers could obtain just a piece of the $11 trillion mortgage market, it would greatly enhance sector revenues but potentially leave their underlying investors exposed to a precarious housing market that many analysts believe could fall another 20% before bottoming out.

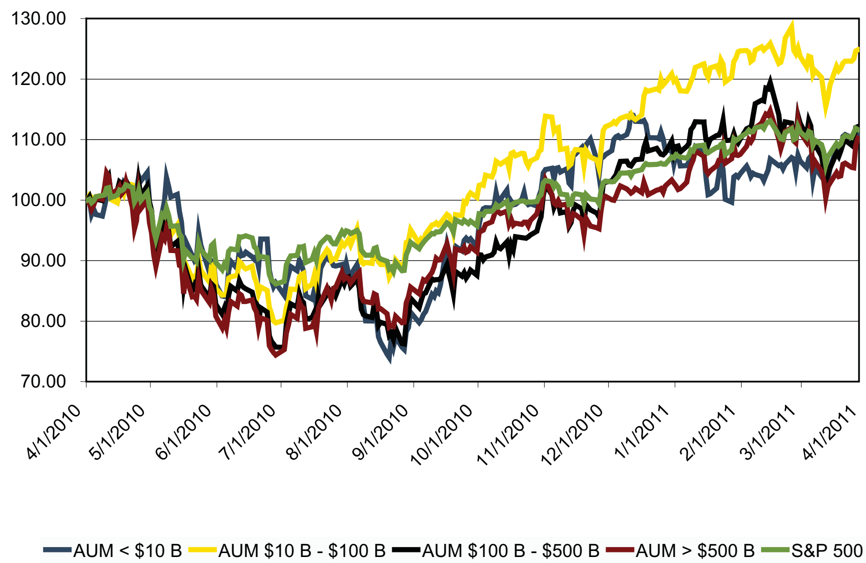
Market Overview:
2011 Q1

Shares of publicly traded asset managers rose just 1.1% in the first quarter of 2011 compared to the S&P's 4.2% appreciation over the same period. The entire segment was again brought down by the trust bank sector which continued to underperform to its peers and the broader indices as investors looked to hedge funds and other active advisors to manage their assets. This trend is fairly common in bull markets when absolute return trumps risk aversion and retail investors pour money from trust banks and other custodial safe havens into equities or alternative asset classes. Regardless, all segments of asset managers are down thus far in the second quarter of 2011 as the market takes a breather from the two year run-up in equity prices.

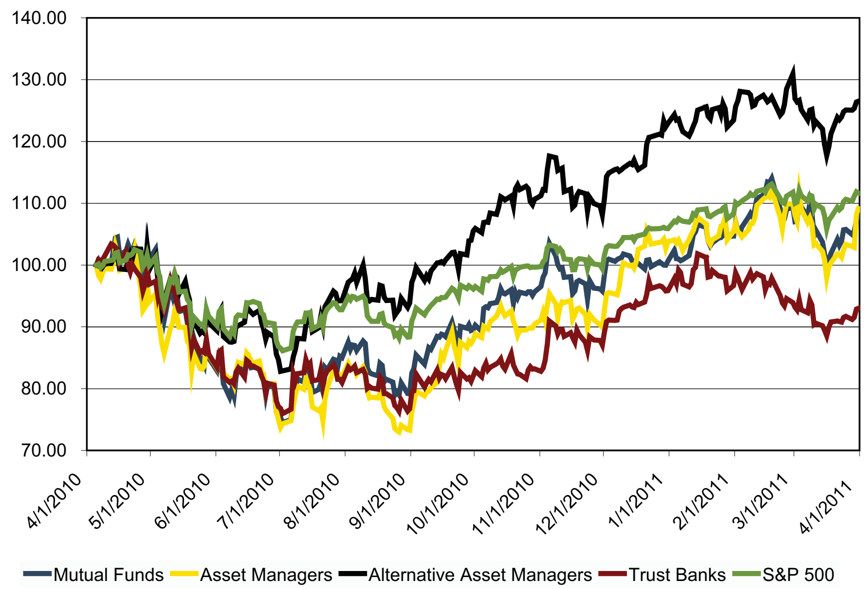
Still, many expect the relative performance of certain asset manager sectors to be less correlated moving forward. In a note to clients, Citigroup's William Katz delineates a bifurcated outlook for alternative asset managers and their more traditional long-only counterparts. Katz contends that the rising popularity of low-cost, passively traded ETFs and increasing appeal of highly diversified alternative funds are effectively squeezing out the more traditional active asset managers that lack the sophistication of hedge funds and competitive fee structure of index ETFs. As a result the more traditional classes of asset managers can't charge the same fees that alternative funds are collecting for their more exotic investment strategies and techniques, nor can they elevate their fee structure much higher than the baseline levels currently offered by passively managed ETFs.

Facing these headwinds in a "new normal" environment of high unemployment, depressed housing prices, and potentially diminished asset class returns may prove especially challenging for investment advisors lacking an established track record or reputation for superior customer service. Still, in a relationship business built on client loyalty, those advisors most responsive to their investors' needs and objectives should be able to weather any economic storm and investment climate.

ASSET MANAGERS INDEX :: BREAKDOWN BY SIZE



ASSET MANAGERS INDEX :: BREAKDOWN BY TYPE



Mergers & Acquisitions Review: 2011 Q1

After two years of distressed deals and would-be sellers sidelined by low valuations, M&A activity in the asset management sector made a roaring comeback in 2010 with a record 120 US-based transactions last year, according to consulting firm Freeman & Co. Specifically, deal flow among alternative asset managers was particularly robust with 45% of last year's transactions involving targets that fell into this space – hedge funds, private equity, venture capital, and the like. A *WSJ* article by Mary Pilon attributes this phenomenon to mutual funds attempting to emulate hedge funds while the latter intend to broaden their appeal to retail investors.

Still, these deal statistics are somewhat misleading given the significant drop in overall deal volume - $4.7 trillion in total AUM transacted during 2009 to $720 billion last year, according to Freeman. Indeed, *WSJ* notes that sector's largest deal in 2010, Nordea Bank's acquisition of Denmark's Nordea Investment Fund Management would not have even made the previous year's top ten list in terms of total AUM transacted.

It is also worth noting that while the alternative asset manager space enjoyed a boost in transaction activity and AUM balances, not all of its components will call 2010 a success. According to data from Dow Jones LP Source, total fundraising at PE firms declined 16% in 2010 from already depressed levels the year before. Gary Robertson of consultant Callan Associates noted that "good, tenured general partners didn't want to come to market because they didn't think limited partners were ready to invest. Limited partners couldn't find a large volume of experienced GPs to commit to." It seems unlikely that this disconnect would persist much longer if LPs are ready to jump back into the private equity market.

MARKET MULTIPLES AS OF 3/31/11

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	51.83	15.30	2.34%	14.17
BlackRock, Inc.	BLK	22.76	17.54	1.24%	14.76
Legg Mason, Inc.	LM	24.55	17.60	1.07%	12.81
Pzena Investment Management, Inc.	PZN	23.53	19.08	3.17%	11.92
W.P. Stewart & Co., Ltd.	WPSL	nm	nm	2.72%	nm
Westwood Holdings Group, Inc.	WHG	25.80	nm	2.82%	17.41
Group Median		*24.55*	*17.57*	*2.53%*	*14.17*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	14.44	11.60	nm	12.44
Calamos Asset Management, Inc.	CLMS	17.84	17.46	1.40%	2.89
Cohen & Steers, Inc.	CNS	28.27	22.48	4.05%	18.87
GAMCO Investors, Inc.	GBL	20.79	16.10	4.77%	12.58
Epoch Holding Corporation	EPHC	28.18	nm	2.82%	16.44
INVESCO Ltd.	IVZ	29.38	14.95	3.12%	18.23
Franklin Resources, Inc.	BEN	19.76	14.23	4.50%	12.32
Diamond Hill Investment Group, Inc.	DHIL	18.96	nm	3.15%	12.21
Eaton Vance Corp.	EV	23.03	15.00	2.33%	11.22
T. Rowe Price Group, Inc.	TROW	28.03	22.14	3.87%	15.79
U.S. Global Investors, Inc.	GROW	23.85	nm	4.75%	14.80
Waddell & Reed Financial, Inc.	WDR	24.17	18.98	4.81%	14.44
Federated Investors, Inc.	FII	15.11	14.86	0.93%	9.26
Janus Capital Group Inc.	JNS	17.32	14.67	1.92%	10.02
Group Median		*21.91*	*15.00*	*3.15%*	*12.51*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	11.74	nm	nm
Brookfield Asset Management, Inc.	BAM	47.74	31.51	nm	11.84
Blackstone Group L.P.	BX	nm	12.25	5.5%	nm
Fortress Investment Group LLC	FIG	nm	9.16	6.1%	nm
Group Median		*47.74*	*11.99*	*5.8%*	*11.84*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	nm	nm	nm
Northern Trust Corporation	NTRS	17.38	15.57	1.87%	8.72
Bank of New York Mellon Corporation	BK	13.96	11.71	3.25%	9.40
State Street Corporation	STT	11.41	12.11	1.19%	6.87
Group Median		*13.96*	*12.11*	*1.87%*	*8.72*
OVERALL MEDIAN		**23.03**	**15.15**	**2.97%**	**12.44**

Moving forward, Freeman managing director Eric Weber expects ETF shops to be the focal point of future M&A activity as asset management firms have already filed hundreds of requests with the SEC to launch ETFs and are currently debating how best to enter one of the sector's hottest niches. Weber points out that, "essentially you have a triopoly now with State Street, BlackRock, and Vanguard. There are going to be some underlying shifts there."

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Mutual Funds

First Quarter 2011 Market Overview

First Quarter 2011 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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