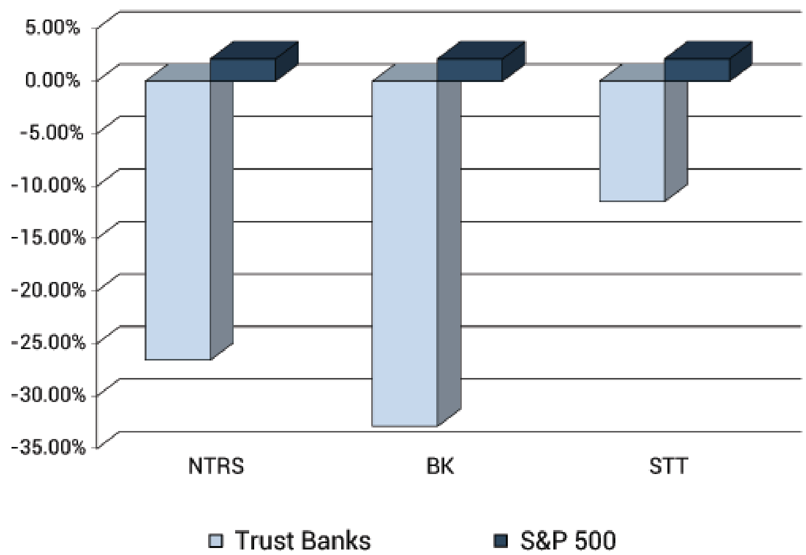
ASSET MANAGEMENT INDUSTRY

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: TRUST BANKS

Trust banks continued their woeful performance in 2011 as BNY Mellon, State Street, and Northern Trust combined to squander nearly $20 billion in market capitalization while most of the major US indices were flat to slightly positive for the year. BNY Mellon led the downward charge in the Year of the Rabbit, losing over a third of its value and finishing a hare worse than NTRS which stumbled nearly 30% in 2011. State Street managed to slip just 13%, anchored by higher assets under custody, cost cutting initiatives, and a share repurchase program that allowed it to boost 2011 EPS in an otherwise challenging environment for trust banks.

TOTAL RETURNS FOR 12 MONTHS ENDED 12/31/11



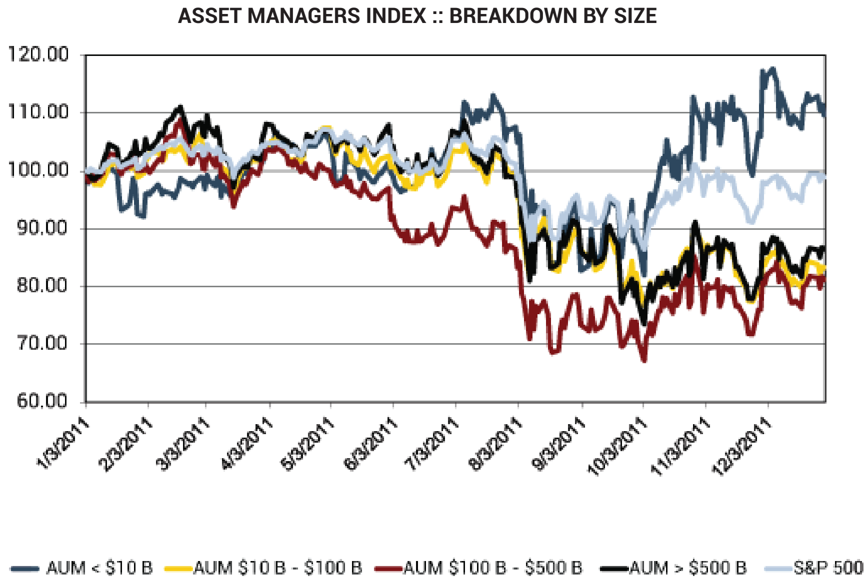
Interest rates near 0% continue to be a formidable headwind for these custody banks, which have had to waive their money market fees and forfeit much of their revenue from fixed income investments and lending activities. In an effort to fill the void left by years of quantitative easing, BNY Mellon and State Street have spent over $4.4 billion in acquisitions since 2010, according to *Bloomberg Businessweek*. Such investments have allowed these banks to reach record levels in client assets and grow AUM with a higher revenue yield than the custodial funds they typically administer for fractions of a penny on the dollar.

Despite some momentum in client assets and significant cost reductions for 2011 and beyond, trust banks remain vulnerable to steeper declines in share prices. Continued volatility in the equity markets and generally bearish investor sentiment could further debilitate the banks' already depressed trading and lending activities. In addition, separate lawsuits have been filed against BNY Mellon and State Street, alleging that the banks systematically overcharge their clients hundreds of millions of dollars on foreign exchange trades each year. Bank of New York Mellon has already agreed to stop telling customers that they were getting "best execution prices" but recently initiated a charge to institutional clients for unusually high deposits, which is not likely to ease tensions with this investor group moving forward.

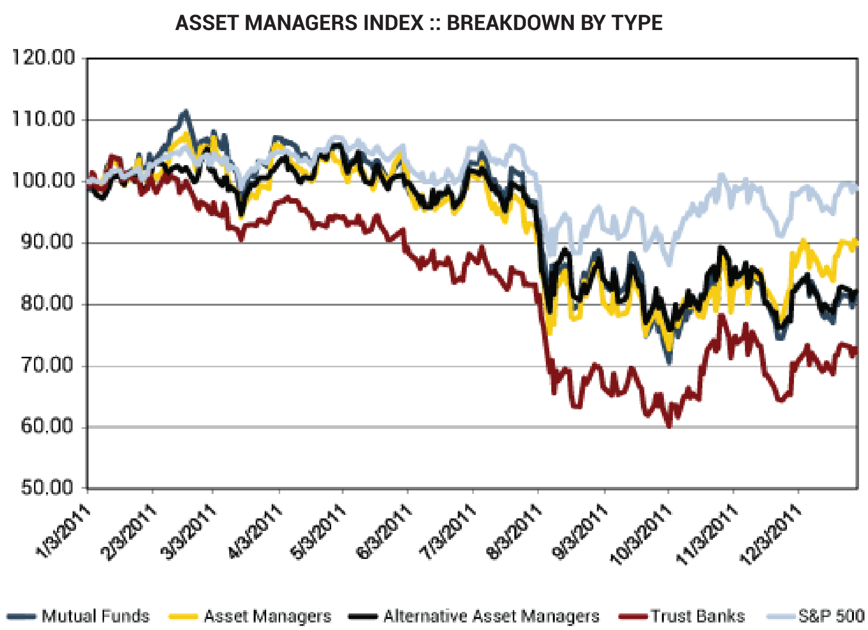
Nevertheless, trust banks are relatively well positioned for steep market declines as *Reuters* recently reported that these businesses were able to profit from Europe's recent and ongoing financial crisis, thanks to surging demand for its securities lending business from traders looking to short certain bank stocks on the verge of collapse. With these hedging mechanisms in place and valuations hovering at reasonably attractive levels, trust banks could be poised for a roaring comeback in the Year of the Dragon.

Market Overview: 2011 Q4

Our index of publicly traded US asset managers appreciated 17% in the fourth quarter of 2011 but still fell 20% for the year while most of the broader domestic indices were largely unchanged. One of the primary contributors to such a dismal performance in 2011 was client outflows, particularly for US equity funds. In a report titled "Bonds Rule, Stocks Drool," *Morningstar* noted that domestic stock funds shed $84.7 billion in client assets for 2011, marking the sixth consecutive year of client outflows, which totaled $351 billion during that stretch. Interestingly, international stock funds were flat in terms of client outflows, despite significantly underperforming the US indices, which is somewhat surprising given that retail investors typically chase performance and may indicate a pending reversal of this trend.



Sandler O'Neal analyst Michael Kim, who covers the sector, believes otherwise: "Looking ahead, a culture of risk aversion has seemingly permeated the landscape following a decade of stepped up equity market volatility and ultimately disappointing returns, suggesting flow patterns will remain largely unchanged for the foreseeable future." Still, as shown in the graph to the right, publicly traded asset managers with less than $10 billion under management significantly outperformed their larger counterparts in 2011, suggesting that the smaller investment advisors may be able to pick up some of the client outflows shed by portlier competitors.



The long-term outlook for asset managers doesn't appear as bleak as their recent performance would indicate. Excessive market volatility and cheap valuations should prove advantageous for the opportunistic hedge fund or active equity manager. In addition, many (including Larry Fink, CEO and founder of BlackRock) believe that money managers are poised to play a larger role in financial markets as Wall Street's influence and reputation continues to deteriorate, according to *Bloomberg News*. Mr. Fink recently predicted that "we're going into the decade where the money holders are to have a significant responsibility, more than we've ever had in our lifetimes."

Mergers & Acquisitions Review: 2011 Q4

For several years, we've witnessed an anemic IPO market for asset managers and businesses across most industries following the collapse of Lehman Brothers. But, there are some noteworthy money manager IPOs on the horizon for 2012, pending a court case and some reprieve to the excessive market volatility endured in the second half of 2011:

» Private equity giant, Carlyle Group, has announced its plans to go public in the first half of 2012, pending a court decision regarding the firm's ability to preclude future shareholders from filing lawsuits against the company. Carlyle hopes to raise $1 billion in the offering and would join Kohlberg Kravis Roberts, Blackstone, and Apollo as publicly traded private equity firms.

» Japan's Nikko Asset Management recently postponed its IPO, originally scheduled for December 15, 2011, promising "to resume its listing plans when market conditions are more stable," according to a statement from the company. This offering would mark the first debut share sale by a major Japanese asset manager in a decade, according to *Bloomberg*.

» Artisan Partners Asset Management withdrew its plans to go public on December 29, 2011, citing unfavorable market conditions, according to *Reuters*. Artisan was looking to raise $250 million in the offering and use part of the proceeds to repay some of its debt obligations.

MARKET MULTIPLES AS OF 12/31/11

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	27.18	13.23	2.00%	8.75
BlackRock, Inc.	BLK	14.06	13.82	1.14%	10.22
Legg Mason, Inc.	LM	14.58	11.40	0.82%	9.62
Pzena Investment Management, Inc.	PZN	12.37	13.97	2.29%	6.85
Westwood Holdings Group, Inc.	WHG	18.84	nm	2.41%	12.42
Group Median		14.58	13.53	2.00%	9.62
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	9.08	10.72	nm	7.73
Calamos Asset Management, Inc.	CLMS	11.91	15.07	1.08%	1.88
Cohen & Steers, Inc.	CNS	24.70	18.06	3.23%	14.72
GAMCO Investors, Inc.	GBL	16.11	13.14	4.53%	10.98
Epoch Holding Corporation	EPHC	22.92	15.44	3.24%	16.04
INVESCO Ltd.	IVZ	13.39	11.29	2.73%	14.88
Franklin Resources, Inc.	BEN	11.14	9.73	3.50%	7.94
Diamond Hill Investment Group, Inc.	DHIL	14.86	nm	2.87%	9.45
Eaton Vance Corp.	EV	13.51	12.00	1.97%	8.09
T. Rowe Price Group, Inc.	TROW	19.57	18.61	3.17%	10.95
U.S. Global Investors, Inc.	GROW	12.56	nm	4.54%	8.08
Waddell & Reed Financial, Inc.	WDR	11.74	11.26	2.98%	7.23
Federated Investors, Inc.	FII	9.77	9.41	0.55%	6.51
Janus Capital Group Inc.	JNS	6.64	10.88	1.26%	4.91
Group Median		12.98	11.64	2.98%	8.08
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	6.42	38.6%	nm
Brookfield Asset Management, Inc.	BAM	7.17	20.98	nm	6.84
Blackstone Group L.P.	BX	nm	8.10	4.3%	nm
Fortress Investment Group LLC	FIG	nm	5.93	3.8%	nm
Group Median		7.17	7.26	4.3%	6.84
TRUST BANKS					
Northern Trust Corporation	NTRS	15.43	13.54	nm	nm
Bank of New York Mellon Corporation	BK	9.18	8.47	nm	nm
State Street Corporation	STT	12.64	10.08	nm	nm
Group Median		12.64	10.08	nm	nm
OVERALL MEDIAN		13.39	11.40	2.87%	8.42

Freeman & Co., an independent advisor to the financial services industry, recently reported that a total of 82 asset management deals had been announced in the first three quarters of 2011, a decrease of 2% over the same period in 2010. According to Freeman, full year activity is expected to fall 10% in 2011 despite a 20% gain in total assets transacted at $682 billion, marking the second consecutive year with sub-trillion dollar AUM transaction volume, far less than the typical $1 trillion to $2.5 trillion range seen under normal market conditions. Eric Weber, Managing Director and COO at Freeman, elaborates, "this year [2011] was driven by a small number of larger AUM strategic deals compared to 2010, when we saw many banks spinning out there alternative products groups. For 2012, we expect a return to 2009 trends when many large managers were sold by banks that needed capital, with particular pressure in Europe."

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Trust Banks

Fourth Quarter 2011 Market Overview

Fourth 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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