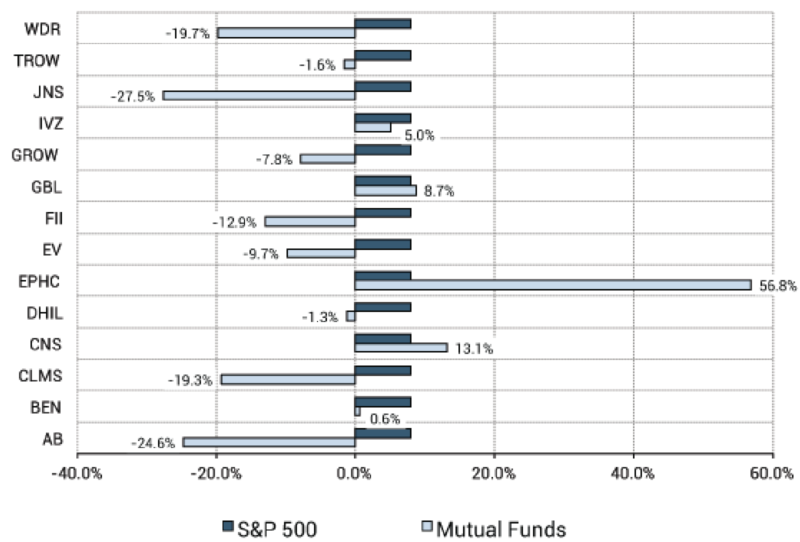
ASSET MANAGEMENT INDUSTRY

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 FUND COMPANIES

Shares of publicly traded mutual fund providers lagged the broader U.S. indices and lost over 5% of their value for the year ended March 31, 2012, while the S&P gained 8% on a weighted-average, total return basis. Still, our performance chart of component companies indicates a fairly sizeable disparity of returns, particularly for businesses that are so highly correlated to market conditions. Most notably on the upside, and for the second consecutive year, Epoch Holdings outperformed its peers by a considerable margin as the value manager's emphasis on free cash flow and quality management teams has allowed its funds to consistently generate alpha for its investors over the last several years.

TOTAL RETURNS FOR 12 MONTHS ENDED 3/31/12



Also keeping with prior years are the sector's chronic laggards – Alliance Bernstein and Janus Capital Group. Personnel turnover and subpar investment returns at AB have precluded its recovery from the financial crisis that most businesses have enjoyed over the last few years. Lackluster results also negatively impacted JCG's stock price as net fund outflows and performance fee losses have continued to stymie its full restoration despite gaining 40% in the first quarter of 2012. Nevertheless, both businesses are on the recovery track this year, although Janus appears to have gotten a head start.

Despite the mixed, and in some cases, lagging performance of mutual fund providers in recent years, the segment breathed a collective sigh of relief on June 13, 2011 when the U.S. Supreme Court dismissed a case against Janus that would have allowed shareholders to sue mutual fund providers for helping produce allegedly misleading prospectuses on fund characteristics. Instead the ruling declared that the funds are separate legal entities in themselves, thereby absolving the sponsor company for the content of its prospectus.

Still, the sector continues to suffer from an unrelenting wave of client redemptions as U.S. large-cap stock funds saw their eleventh straight quarter of net outflows, a trend that is especially distressing for these businesses that typically charge higher fees on equity investments compared to their fixed income counterparts. A positive takeaway from this trend is that retail investors are notorious for chasing returns, so continued rallies in the equities market could eventually entice those investors still snake bit from the financial crisis to participate in the stock market's recovery. Otherwise, look for continued sluggishness in the share prices of mutual fund providers absent further strength in the stock market and investor willingness to participate in its rehabilitation.

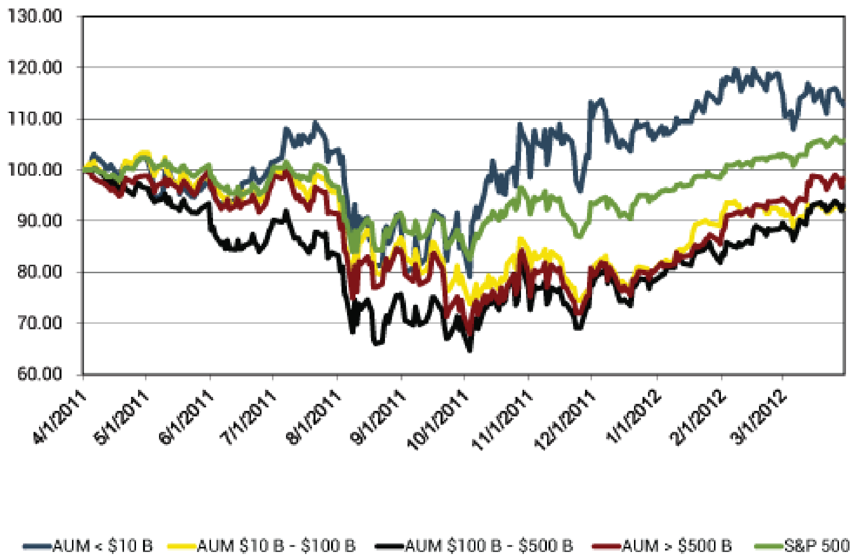
Market Overview: 2012 Q1

Despite gaining 18% in the most recent quarter, publicly traded asset managers as a whole have significantly underperformed the broader U.S. indices since 2010. Interestingly, it is unusual for these high beta businesses to underperform the market during equity rallies given their exposure to market conditions and predominantly fixed cost structure, but several factors are to blame for this phenomenon:

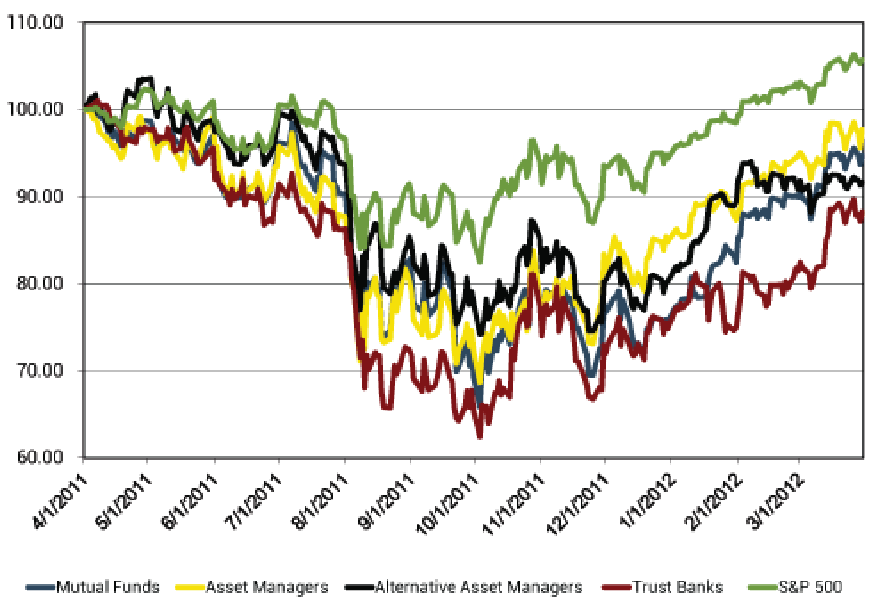
1. Since the financial crisis there has been a mass exodus of retail investors' pulling cash out of the larger brokerage houses and asset managers and reinvesting the funds in smaller RIAs with more emphasis on client service and investor demands (see size chart to the right);
2. The heightened volatility of the equity markets in recent years has chased many retail investors out of stocks and into bonds, where asset managers typically charge lower fees on AUM;
3. The extended period of baseline interest rates has been especially problematic for trust banks which have seen their money market revenues plummet with each round of quantitative easing from the Fed.

Despite these headwinds, asset managers are up 40% over the last two quarters as concerns over continued weakness in the U.S. economy and Eurozone debt issues have largely subsided, and RIAs have been quick to lever the resultant advances in the equity markets. Still, the lack of meaningful inflows to equity funds from retail investors thus far in 2012 could be a bearish sign for the sector that typically benefits from contributions made in the beginning of the year, particularly during a bull market.

ASSET MANAGERS INDEX :: BREAKDOWN BY SIZE



ASSET MANAGERS INDEX :: BREAKDOWN BY TYPE



Mergers & Acquisitions Review: 2012 Q1

Coming off the worst in year on record in terms of asset manager deal volumes and valuations, the first quarter of 2012 has seen some positive developments in this space that could buck the trend started in early 2011. Potential buyers scared off by the market downturn and volatility boon in the third quarter of 2011 are starting to show signs of interest now that the dust has settled. Indeed, this quarter has seen 17 RIA transactions compared to 13 in the first three months of 2011 with nearly 4x the amount of AUM acquired. According to RIABiz.com, nine of these deals involved advisors looking to go independent and seeking a buyer in the form of a consolidator that would handle the back-office aspects of the business that most money managers don't want to deal with.

Asset manager IPOs also appear to be making a recovery as Carlyle Group, Oaktree Capital, and Napier & Manning have either already gone public or announced their intent to do so in the near future. Oaktree, the world's largest manager of distressed debt funds, intends to raise just over $400 million in their offering while private equity firm Carlyle Group is set to go public this year after weighing this option since 2007. Napier & Manning, the Fairport, New York asset manager with just over $40 billion under management, went public in November of last year, ultimately valued at roughly 2.5% of AUM and 30x trailing earnings, suggesting a steep recovery in deal pricing for these businesses.

MARKET MULTIPLES AS OF 3/31/12

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	35.95	12.99	2.12%	10.43
BlackRock, Inc.	BLK	16.22	13.61	1.17%	11.95
Legg Mason, Inc.	LM	19.40	13.56	0.88%	11.46
Pzena Investment Management, Inc.	PZN	22.50	13.00	2.57%	10.26
Westwood Holdings Group, Inc.	WHG	18.71	nm	2.24%	12.76
Group Median		19.40	13.28	2.12%	11.46
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	nm	12.90	nm	nm
Calamos Asset Management, Inc.	CLMS	17.03	13.24	1.09%	2.11
Cohen & Steers, Inc.	CNS	23.63	15.64	3.07%	13.68
GAMCO Investors, Inc.	GBL	19.01	14.51	4.64%	12.53
Epoch Holding Corporation	EPHC	28.77	17.82	2.90%	15.68
INVESCO Ltd.	IVZ	16.46	11.80	2.78%	14.67
Franklin Resources, Inc.	BEN	14.44	12.40	4.30%	9.97
Diamond Hill Investment Group, Inc.	DHIL	15.15	nm	2.54%	9.46
Eaton Vance Corp.	EV	15.45	13.87	2.24%	9.16
T. Rowe Price Group, Inc.	TROW	22.14	16.79	3.00%	12.55
U.S. Global Investors, Inc.	GROW	20.14	nm	5.92%	13.11
Waddell & Reed Financial, Inc.	WDR	15.81	12.71	3.56%	9.54
Federated Investors, Inc.	FII	15.46	12.45	0.73%	9.66
Janus Capital Group Inc.	JNS	12.91	11.72	1.34%	7.47
Group Median		16.46	13.07	2.90%	9.97
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	6.63	39.5%	nm
Brookfield Asset Management, Inc.	BAM	10.92	20.63	nm	8.05
Blackstone Group L.P.	BX	nm	7.97	4.1%	nm
Fortress Investment Group LLC	FIG	nm	5.48	4.0%	nm
Group Median		10.92	7.30	4.1%	8.05
TRUST BANKS					
Northern Trust Corporation	NTRS	18.90	13.71	nm	nm
Bank of New York Mellon Corporation	BK	11.71	9.69	nm	nm
State Street Corporation	STT	12.26	10.07	nm	nm
Group Median		12.26	10.07	nm	nm
OVERALL MEDIAN		16.74	12.99	2.78%	10.43

Although there has been some improvement in asset manager valuations in recent months, the multiples table to the right indicates a wide disparity in pricing with median cap factors still slightly below historic norms. In a publication titled *Asset Management Insights – The Way Forward*, analysts at Price Waterhouse expect modest recovery in overall deal activity in 2012, led by European bank divestitures and further consolidation for alternative asset managers and mutual funds looking to build AUM and bolster profitability in the wake of declining performance fees. Still, any adverse developments in Europe or reversion to the market volatility observed in the third quarter of last year could stymie or delay the recovery for several years to come.

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Mutual Fund Companies

First Quarter 2012 Market Overview

First Quarter 2012 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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