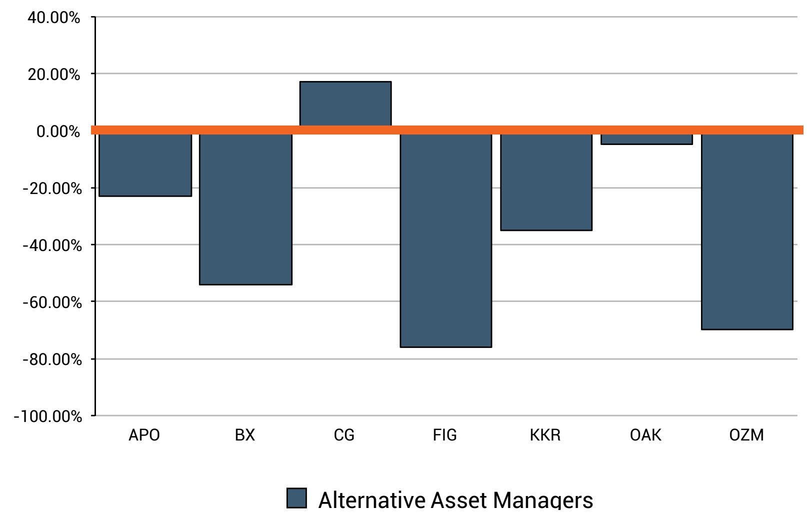
ASSET MANAGEMENT INDUSTRY

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

The recent wave of alternative manager IPOs has introduced some new players to our index of publicly traded hedge funds and PE firms. Carlyle and Oaktree both went public this Spring with varied performance records since inception, but the discrepancy in returns may be more a function of deal incentives and strategic pricing than underlying fundamentals. In the wake of uninspiring track records from OAK and other publicly traded alternative asset managers, Carlyle deliberately priced its IPO conservatively and locked up some of its larger shareholders to offer its prospective investors more upside potential. IPO to date, Carlyle is up 17% while (in chronological order) KKR, Fortress, Blackstone, Och-Ziff, Apollo, and Oaktree are down 35%, 76%, 54%, 70%, 23%, and 5%, respectively.

IPO-TO-DATE SHARE PRICE PERFORMANCE



The subpar shareholder returns for most publicly traded PE firms may be the result of a looming deadline facing many private equity funds that have remained sidelined since the last financial crisis. In a recent *New York Times* article titled "More Money Than They Know What to Do With," Andrew Ross Sorkin notes that PE firms are sitting on $1 trillion in cash that if they don't spend soon, they may have to return the funds back to their investors – "Nearly $200 million from funds raised in 2007 and 2008 alone needs to be spent in the next 12 months or it must be given back," writes Sorkin.

As a result, many private equity firms are feeling the pressure to deploy client assets in the near future lest they return the cash back to investors, thereby foregoing the corresponding management fees and performance incentives. Nobody believes they would do such a thing, which "will likely result in too much capital chasing too few deals throughout 2012," notes Hugh MacArthur, head of Bain & Company's private equity practice. Mr. Sorkin concludes that as a result, "we could see a series of bad deals with even worse returns." According to Richard Peterson, an analyst for S&P Capital IQ's Global Markets Intelligence group, PE firms are paying EBITDA multiples of 10.6 this year while many of the most successful deals have transacted at 6x to 8x.

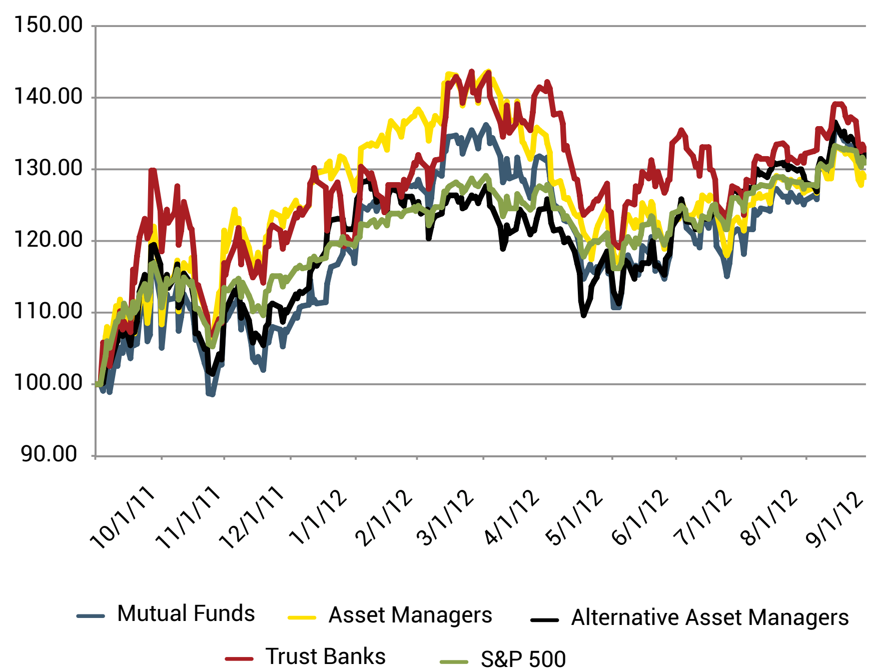
The market may not agree with this position as Carlyle has completed the most deals this year, and its stock is up 17% since going public in May. Still, Mr. Sorkin warns that since Apollo, KKR, Blackstone, and Carlyle are all publicly traded now, it's possible that the interests of the public shareholders could diverge from the interests of the investors in the buyout funds. The performance of CG's and other PE firms' recent round of acquisitions should answer this question.

Market Overview: 2012 Q3

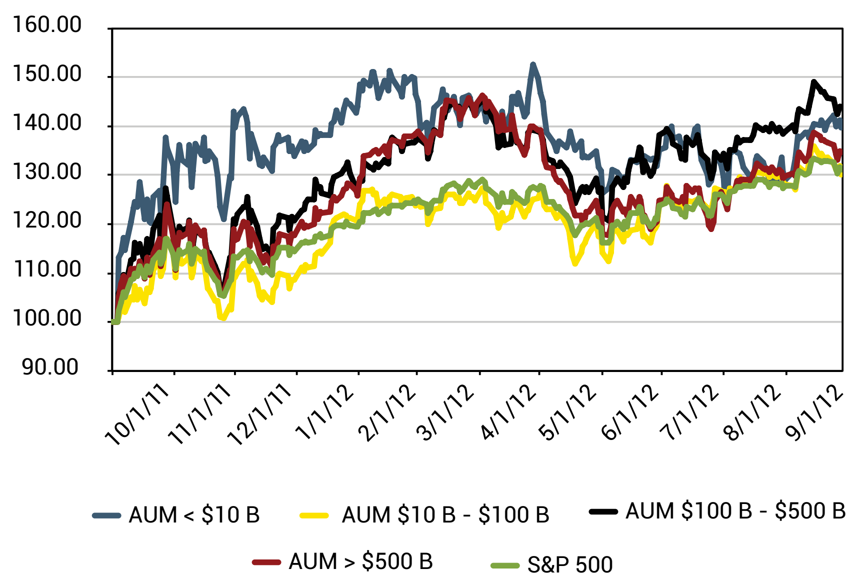
As a whole, publicly traded asset managers gained roughly 30% for the twelve months ended September 30, 2012, in line with most of the major indices. Surprisingly though, our index of money managers underperformed the S&P 500 in the most recent quarter, gaining just under 4% versus the S&P's 6%. Asset managers typically outperform the major indices in upward trending markets because of their inherent operating leverage and correlation to market conditions. One possible explanation for this underperformance is the steady drain of funds out of equity and into fixed income products. *Morningstar* recently reported that investors added $29.9 billion into taxable bonds while redeeming $16.8 billion from U.S. stock funds in September, marking the 17th consecutive month of outflows for domestic equities. Despite the net gain in asset flows, this is a troubling trend for most RIAs that charge higher fees to manage equity funds.

On the other hand, asset managers may be poised for a rally of their own given the propensity of retail investors to chase returns and the stock market's 30% gain over the last year. With bond yields at historic lows and equities still at reasonable valuations, this would seem inevitable unless we're truly witnessing the "new normal" for retail investors' participation in the stock market. One positive trend for equity funds is the year-to-date attraction of $17.3 billion in assets for dividend-focused funds. Investors seem fixated on current income at the moment and may start to look to other asset classes as Treasury bond yields approach nil.

ASSET MANAGERS INDEX :: BREAKDOWN BY TYPE



ASSET MANAGERS INDEX :: BREAKDOWN BY SIZE



Mergers & Acquisitions Review: 2012 Q3

According to RIABiz, year-to-date AUM transacted among domestic managers with over $50 million in assets reached $42.3 billion with only $6.1 billion transacted in the most recent quarter. "The slowdown of transactions is disconcerting in regards to the needs of the industry," says David DeVoe, CEO of San Francisco-based RIA M&A firm DeVoe & Co. "Given the demographics of owners in the industry, literally hundreds of firms need to be sold over the next several years – just to solve for succession. The longer firms wait to create a succession plan, the fewer options they have."

RIABiz notes that most of these recent deals have been executed by roll-ups and other consolidators looking to build assets. DeVoe offers an explanation for this phenomenon as well – "Consolidators are able to win new deals, partially due to their methodical approach to M&A, which eclipses the potential 'distraction factor.' Although many advisors see the strategic value of M&A, only a portion of them have created a well-thought-out plan to execute the transactions, which is ultimately required to keep the deals on track."

Some are blaming market volatility and the pending election for the dearth in transaction activity. Jon Beatty of Schwab Advisor Services notes, "the uncertainty in the markets and the upcoming presidential election has led to a decline in M&A activity this past quarter. While national acquiring firms remain dominant players, RIAs as acquirers have been sitting on the sidelines waiting for the right opportunity." DeVoe sees other distractions – "the third quarter had fewer M&A transactions than one would expect for an industry of over 10,000 firms and RIA owner demographics. Given that there has been no significant change in the key drivers for M&A during the last year, the slowdown is consequently the result of advisors being distracted by other issues. Anecdotally, I've also seen advisors who are too busy with growth and some who continue to seek higher valuations."

MARKET MULTIPLES AS OF 9/28/12

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
TRADITIONAL ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	52.12	13.63	2.01%	14.26
Artio Global Investors, Inc.	ART	8.28	nm	0.88%	4.00
BlackRock, Inc.	BLK	13.80	11.89	1.05%	10.64
Legg Mason, Inc.	LM	23.28	10.82	0.75%	12.93
Pzena Investment Management, Inc.	PZN	22.65	14.89	2.57%	10.04
Virtus Investment Partners, Inc.	VRTS	4.91	13.46	1.77%	20.12
Westwood Holdings Group, Inc.	WHG	22.55	nm	2.23%	14.72
Group Median		**22.55**	**13.46**	**1.77%**	**12.93**
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	nm	12.68	nm	nm
Calamos Asset Management, Inc.	CLMS	17.91	13.94	0.99%	2.00
Cohen & Steers, Inc.	CNS	21.94	16.01	2.92%	12.87
GAMCO Investors, Inc.	GBL	18.77	14.42	4.47%	12.39
Epoch Holding Corporation	EPHC	22.00	15.61	2.35%	12.26
INVESCO Ltd.	IVZ	15.92	11.96	2.71%	13.24
Franklin Resources, Inc.	BEN	14.68	12.63	4.04%	10.10
Diamond Hill Investment Group, Inc.	DHIL	15.59	9.57	2.64%	9.98
Eaton Vance Corp.	EV	17.34	14.30	2.24%	9.46
Hennessy Advisors, Inc,	HNNA	17.81	nm	2.25%	9.88
Manning & Napier, Inc.	MN	nm	10.60	0.39%	nm
T. Rowe Price Group, Inc.	TROW	21.24	16.72	2.96%	12.11
U.S. Global Investors, Inc.	GROW	61.30	15.72	5.83%	34.08
Waddell & Reed Financial, Inc.	WDR	16.72	13.01	3.37%	10.02
Federated Investors, Inc.	FII	13.52	11.76	0.70%	8.70
Janus Capital Group Inc.	JNS	16.00	14.75	1.52%	8.88
Group Median		**17.58**	**13.94**	**2.64%**	**10.06**
ALTERNATIVE ASSET MANAGERS					
Apollo Global Management, LLC	APO	nm	5.06	13.18%	15.11
Brookfield Asset Management, Inc.	BAM	17.34	23.80	nm	9.69
Blackstone Group L.P.	BX	89.25	7.00	3.63%	nm
Carlye Group, L.P,	CG	nm	8.17	0.71%	21.81
Fortress Investment Group LLC	FIG	nm	7.62	4.77%	nm
Kohlberg Kravis Roberts & Co.	KKR	30.84	6.82	7.67%	nm
Oaktree Capital Group, LLC	OAK	nm	9.32	8.91%	7.72
Och-Ziff Capital Mgmt Group LLC	OZM	nm	7.92	15.20%	nm
Group Median		**30.84**	**7.77**	**7.67%**	**12.40**
TRUST BANKS					
Northern Trust Corporation	NTRS	17.52	13.86	nm	nm
Bank of New York Mellon Corporation	BK	11.66	9.43	nm	nm
State Street Corporation	STT	10.62	9.69	nm	nm
Group Median		**11.66**	**9.69**	**nm**	**nm**
OVERALL MEDIAN		**17.43**	**12.84**	**2.30%**	**11.37**

RBC Capital Markets sees another potential source for RIA acquisitions moving forward. In a recent presentation titled "Banks' Growing Interest in Non-Depository Businesses," Jerry Wiant, Co-Head of RBC's U.S. Financial Institutions Group, notes that the persistently low interest rate environment and corresponding margin challenges, coupled with weak asset growth and declining ROEs, have led many banks to seek non-depository institutions like RIAs with higher yielding assets and growth opportunities. Revenue diversification and deal economies are other obvious motivations. For RIAs, banks can be a good source of capital and cross-selling opportunities. Still, Mr. Wiant acknowledges that tougher regulatory scrutiny, lack of familiarity in new asset classes, and dependence on selling owners to stay on and operate the subsidiary are potential obstacles for getting deals done.

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Alternative Asset Managers

Third Quarter 2012 Market Overview

Third 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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