MERCER CAPITAL

# Value Focus

## Asset Management Industry

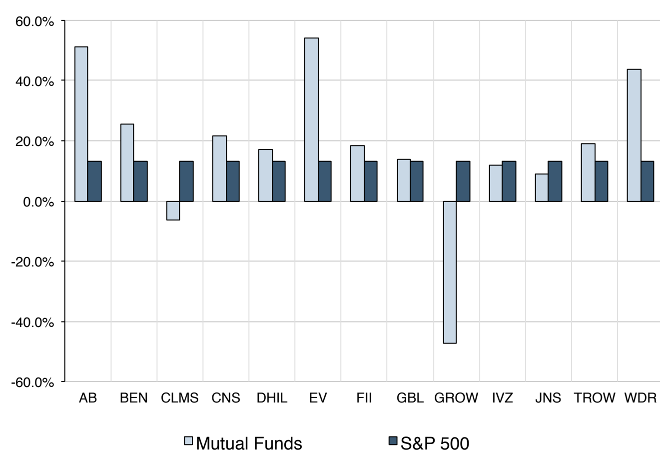
## Segment Focus

### Mutual Fund Companies

Despite varied results, most publicly traded mutual funds outperformed the broader indices over the last year in a favorable market environment and long-awaited return of asset flows into equity products. According to *Morningstar*, open-end US stock funds brought in $12 billion in the first three months of 2013, marking the first positive quarter for domestic equity funds since the beginning of 2011 and the best quarter overall since 2004. In spite of this trend reversal, taxable bonds led all other asset classes in fund inflows for the 19th consecutive month at the expense of money market funds, which tallied a $93 billion outflow for the quarter. These dynamics suggest that retail investors are willing to stomach some credit risk for higher yields and are more comfortable committing cash to equity funds as market conditions continue to improve.

**Total Returns**

for 12 Months Ended 3/31/2013




Most notably on the upside, Alliance Bernstein and Eaton Vance each gained over 50% in the last year as AB regained its profitability following a $540 million loss in the fourth quarter of 2011 while EV continued its share buy-back program amidst surging AUM balances. Still, not all publicly traded mutual fund providers fared so well – US Global investors lost nearly half its market capitalization over this period on client redemptions and analyst downgrades sighting debilitated margins relative to its peers.

As always, the outlook for these businesses hinges on market performance and asset flows. Any continuation of the recent momentum on both these fronts would certainly be a boon for mutual fund providers who are just now starting to regain favor with retail investors. Another market downturn, on the other hand, would likely precipitate asset flows out of equities and into fixed income or money market funds with lower fees to their sponsors. Independent of market conditions, ETFs continue to pose both a threat and an opportunity to mutual fund providers while the Financial Stability Oversight Council's recent proposal on MMF reform offers additional challenges for these businesses moving forward.

# Market Review
## First Quarter 2013

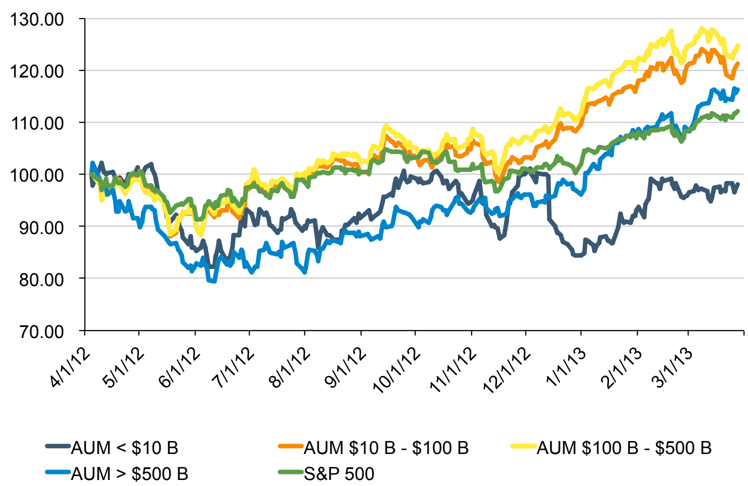
Following a relatively lackluster back half of 2012, most publicly traded asset managers significantly outperformed the broader indices in the first quarter of 2013. Constrained by market volatility and fiscal cliff concerns at the end of 2012, these businesses gladly welcomed the return of investor confidence in 2013, and with it the cash flows into equities and other risky asset classes that RIAs typically charge higher fees to manage. Such re-risking trends have seemingly trumped the fiscal cliff resolution of higher taxes on capital gains and dividends as publicly traded asset managers, PE firms, and hedge funds have generally seen the most price appreciation this year.

Still, after a strong Q1 for equity asset flows and most RIAs, flows to actively managed domestic equity products were actually negative in April, according to *Morningstar*. It is difficult to gauge whether this is mere rebalancing to target allocations after a stock market rally, or if Q1 was merely the result of investors taking profits at the end of 2012 at a lower capital gains rate before replacing those positions in early 2013 - effectively a one-time event. Regardless, if the market continues its ascension, it's hard to imagine a scenario where such a rally wouldn't entice broader participation from the investing public that is in large part still rattled from the financial crisis and Great Recession of a few years back.

Another interesting trend among active equity managers in 2013 is the triumph of value funds over their growth counterparts. *Morningstar's* Shannon Zimmerman attributes this to the market being fully valued and the recent quest for yield in a low rate environment making high dividend-paying stocks found in most value funds relatively more attractive in the recent rally.

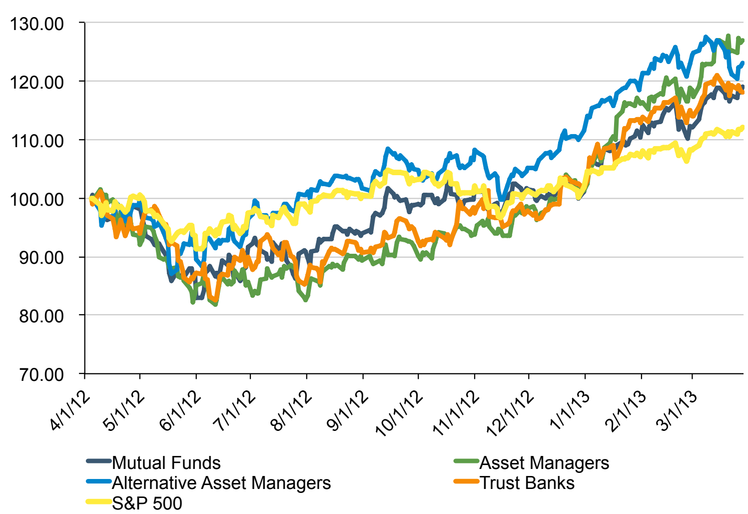
**Asset Managers Index**

Breakdown by Size




**Asset Managers Index**

Breakdown by Type



# M&A Review
## First Quarter 2013

Analysts at Sandler O'Neill note that $671 billion in AUM transacted in the first quarter of this year compared to $327 billion in the prior quarter. Much of this increase is attributable to Rabobank's divestiture of its $244 billion asset management unit, Robeco Groep, to Ortix Corporation as deal volume is actually down over the prior quarter primarily due to accelerated transactions in the face of pending tax hikes beginning in 2013. Still, year-over-year, volume is up, as sellers appear to be more inclined to transact with higher AUM balances, and buyers attempt to capitalize on investors' growing appetite for equity funds.

Sandler's asset management investment banking division also pointed out that a majority of the deals (51%), represented divestitures as financial institutions look to exit non-core RIAs businesses and maximize proceeds with many equity markets trading at an all-time high. Alternative asset managers and private wealth RIAs remain popular targets for strategic acquirers seeking fee income in a relatively high margin business. Sandler identifies the following transactions in the first quarter of 2013, ranked by AUM:

- Rabobank's sale Robeco Group to Orix Corporation;
- Investec PLC's sale of a 15% shareholding in Invest Asset Management ($103 billion in AUM) to company management;
- Artisan Partners' ($80 billion in AUM) IPO;
- AXA's sale of a majority stake in AXA Private Equity ($31 billion in AUM) to management and external shareholders; and
- The co-operative banking group's sale of its life insurance and asset management businesses ($30 billion in AUM) to Royal London Group.

In domestic terms, TD Bank's $668 million acquisition of Epoch Investment Partners marked the most significant asset manager deal of the quarter. The transaction price represents approximately 2.8% of the value manager's $24 billion AUM base and a 28% premium to its pre-announcement stock price. Such metrics suggest that deal pricing for the larger RIAs continue to strengthen at a time when many AUM balances have never been higher, creating an ideal scenario for those looking to exit the business.

| | Ticker | Price / Trailing EPS | Price / Forward EPS | Total Capital / AUM | Total Capital / EBITDA |
|---|---|---|---|---|---|
| **TRADITIONAL ASSET MANAGERS** | | | | | |
| Affiliated Managers Group, Inc. | AMG | 46.82 | 14.51 | 2.23% | 12.59 |
| Artio Global Investors, Inc. | ART | nm | nm | 1.14% | nm |
| BlackRock, Inc. | BLK | 18.63 | 14.53 | 1.38% | 13.11 |
| Legg Mason, Inc. | LM | nm | 14.82 | 0.85% | nm |
| Pzena Investment Management, Inc. | PZN | 20.31 | 15.29 | 2.46% | 11.50 |
| Virtus Investment Partners, Inc. | VRTS | 39.97 | 18.78 | 3.23% | 20.50 |
| Westwood Holdings Group, Inc. | WHG | 26.93 | nm | 2.52% | 17.12 |
| **Group Median** | | **26.93** | **14.82** | **2.23%** | **13.11** |
| **MUTUAL FUNDS** | | | | | |
| AllianceBerstein Investments, Inc. | AB | 42.94 | 12.91 | nm | 32.52 |
| Calamos Asset Management, Inc. | CLMS | 13.38 | 16.43 | 1.09% | 2.18 |
| Cohen & Steers, Inc. | CNS | 24.21 | 18.36 | 3.45% | 14.37 |
| GAMCO Investors, Inc. | GBL | 18.57 | 14.13 | 4.36% | 11.86 |
| INVESCO Ltd. | IVZ | 19.44 | 12.32 | 2.60% | 15.21 |
| Franklin Resources, Inc. | BEN | 16.45 | 13.42 | 4.41% | 11.68 |
| Diamond Hill Investment Group, Inc. | DHIL | 14.30 | nm | 2.62% | 9.35 |
| Eaton Vance Corp. | EV | 24.61 | 17.07 | 2.40% | 12.30 |
| Hennessy Advisors, Inc, | HNNA | 28.52 | nm | 2.07% | 20.54 |
| Manning & Napier, Inc. | MN | nm | 12.72 | 0.50% | nm |
| T. Rowe Price Group, Inc. | TROW | 22.28 | 17.53 | 3.34% | 12.67 |
| U.S. Global Investors, Inc. | GROW | nm | nm | 3.53% | 42.19 |
| Waddell & Reed Financial, Inc. | WDR | 19.46 | 14.92 | 4.09% | 12.04 |
| Federated Investors, Inc. | FII | 13.22 | 12.08 | 0.73% | 8.29 |
| Janus Capital Group Inc. | JNS | 17.09 | 12.88 | 1.47% | 8.88 |
| **Group Median** | | **19.44** | **13.77** | **2.61%** | **12.17** |
| **ALTERNATIVE ASSET MANAGERS** | | | | | |
| Apollo Global Management, LLC | APO | 10.50 | 7.12 | nm | 4.80 |
| Brookfield Asset Management, Inc. | BAM.A | 18.83 | nm | nm | 10.23 |
| Blackstone Group L.P. | BX | 48.24 | 7.52 | 5.23% | nm |
| Carlye Group, L.P, | CG | nm | 8.64 | 0.77% | 4.76 |
| Fortress Investment Group LLC | FIG | 23.70 | 8.77 | 5.60% | 10.88 |
| Kohlberg Kravis Roberts & Co. | KKR | 8.74 | 8.07 | 7.97% | nm |
| Oaktree Capital Group, LLC | OAK | 13.32 | 10.86 | nm | nm |
| Och-Ziff Capital Mgmt Group LLC | OZM | nm | 6.78 | nm | nm |
| **Group Median** | | **16.08** | **8.07** | **5.42%** | **7.52** |
| **TRUST BANKS** | | | | | |
| Northern Trust Corporation | NTRS | 19.42 | 15.17 | nm | nm |
| Bank of New York Mellon Corporation | BK | 13.79 | 10.83 | nm | nm |
| State Street Corporation | STT | 14.07 | 11.64 | nm | nm |
| **Group Median** | | **14.07** | **11.64** | **nm** | **nm** |
| **OVERALL MEDIAN** | | **19.44** | **13.77** | **2.49%** | **12.04** |

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## **Value Focus** Asset Management Industry

Segment Focus: Mutual Fund Companies

First Quarter 2013 Market Overview

First Quarter 2013 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. View past issues at www.mercercapital.com.

## 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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