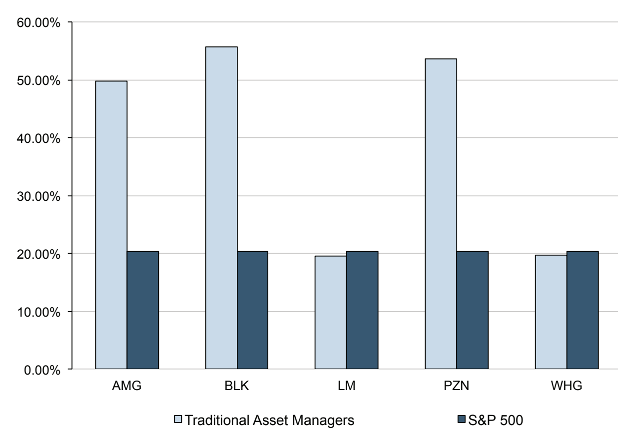
Value Focus
Asset Management Industry

Segment Focus
Traditional Asset Managers

Most publicly traded asset managers outperformed the broader indices as the market trended upward over the last several quarters. In addition to the recent stock rally, many of these businesses benefited from strong asset flows into higher yielding equity products, as well as a general ease in risk aversion across much of the investing population. Of the traditional asset managers, Pzena, BlackRock, and Affiliated Managers Group capitalized the most from these industry trends, as each are trading near their 52-week highs as this publication goes to print with BLK and AMG close to their all-time peak market caps.

Total Returns

for 12 Months Ended 6/30/2013



Despite some appreciation in value, Legg Mason has continued to underperform its peers over the last few quarters. This trend is nothing new, as the stock has lost nearly 80% of its value since 2006 while most other asset managers have recovered their AUM and share values that cratered during the financial crisis. Market participants blame fixed income outflows, subpar investment performance, and integration issues with its affiliates as the main contributors to its attrition over the last few years. Still, significant restructuring pressures from activist investors could precipitate a turnaround opportunity for one of the longest tenured asset managers that has seen its share of struggles in recent years.

Westwood Holdings Group has also underperformed its peers in recent months as several insiders, in addition to its largest institutional shareholder (GAMCO), have scaled back their ownership over the last two quarters. Recent improvements in year-over-year revenues and profitability for Q2 suggest that such sales may have been premature as the company may also be on the path to recovery.

Moving forward, the trend towards riskier asset classes and higher-yielding funds should remain a steady tailwind for most traditional (equity) money managers that have already benefited from a healthy ascent in AUM over the last year or so. Still, market conditions often dictate asset flows and overhanging geopolitical risks could reverse some of these recent trends, so cautious optimism for the sector's prospects is likely warranted here.

Market Review
Second Quarter 2013

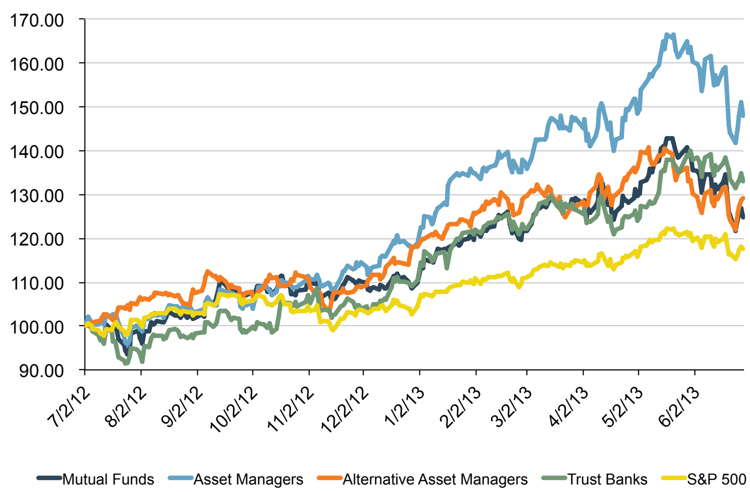
Following a relatively lackluster back half of 2012, most publicly traded asset managers significantly outperformed the broader indices in the first two quarters of this year. Constrained by market volatility and fiscal cliff concerns at the end of 2012, these businesses gladly welcomed the return of 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 all four component sectors have outpaced the S&P in a bull market.

In its most recent report on mutual fund flows, *Morningstar* noted that international equity funds and value offerings have filled the void left by outflows from taxable bonds and muni debt as investors continue their search for yield via alternatives to fixed income assets. The recent market appreciation of large cap asset managers over their more diminutive counterparts suggests that the bulkier RIAs may have picked up a disproportionate amount of the assets from the bond fund exodus. Still, industry observers should be cautioned that these market-weighted indices can be susceptible to company-specific circumstances before attempting to read the tea leaves with these statistics.

Nevertheless, M&A advisory firm Fiduciary Network offers some perspective on the challenges facing many of the smaller RIAs in the current environment. In a piece titled "Brave New World of Wealth Management," published in April of this year, FN cites aging client demographics, increased competition, and uncertain succession planning as potential headwinds facing wealth managers, many of which coasted through the bull market of the 80s and 90s without having to deal with these potential obstacles.

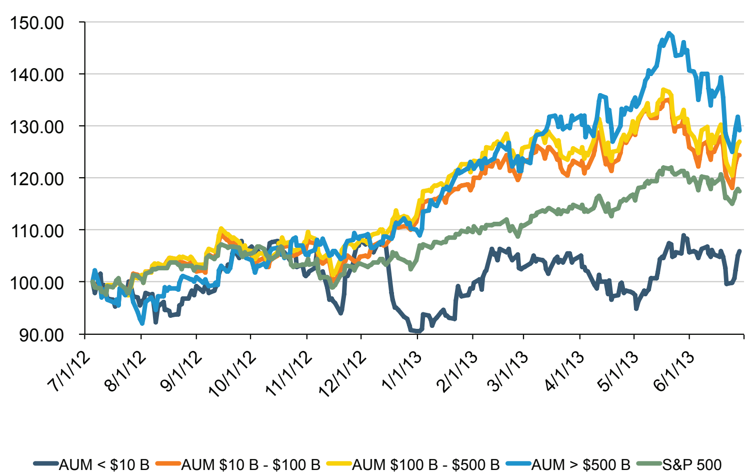
Asset Managers Index

Breakdown by Type



Asset Managers Index

Breakdown by Size



M&A Review
Second Quarter 2013

Transacted AUM for the quarter fell more than 80% from Q1 to $98.8 billion though still up 15% year-over-year, according to *Pension & Investments*. The magnitude of the decline is more likely attributable to the near-record amount of AUM transacted in Q1 (primarily from a couple colossal deals) and Q2 historically being a weak quarter for deal activity in the sector, rather than any indication of ongoing M&A for money managers. The most noteworthy deals for the quarter include:

- Carlyle Group purchased the remaining 40% stake in Dutch PE firm, AlpInvest Partners (approximate AUM of $48 billion) with a combination of cash and stock for total consideration of about $88 million as part of its broader effort to diversify beyond the LBO structure, according to *Bloomberg*.
- Aberdeen paid total consideration of $180 million for publicly traded Artio Global Investors, which has seen its AUM drop from $53 billion at year-end 2010 to $11 billion this Spring. Such pricing (~1.6% of AUM and 1.2x LTM revenue) is illustrative of the value that a distressed, unprofitable asset manager with a scalable product offering and distribution network can have to a strategic buyer with synergistic intentions.

Despite the decline in Q2 and one-time blip associated with tax-motivated transactions at the fiscal cliff deadline, deal activity in the space is expected to be strong for the back half of the year and beyond. Gilbert Dychiao, director of M&A advisory firm Freeman & Co., notes, "A lot of sellers are looking for ways to grow their own business to take advantage of the rise in equity markets in the first half [of the year]. A lot of small and midsize independent firms are looking to grow, and one way is by partnering with larger firms that need their product."

Sam Yildirim, lead partner at PriceWaterhouseCoopers, elaborates, "Market dynamics have improved. AUM and EBITDA are what drives deals, and both have improved. It's tougher to sell when the firm is distressed," making the Artio transaction more the exception than the rule.

In a recent *Pension & Investments* article titled, "Money Manager M&A Expected to Remain Robust," Rick Baert emphasizes the importance of a viable distribution network. "What's driving sellers…is the desire to build, rather than get out of, the money management business as small and midsize boutiques look to sell to larger firms to take advantage of their distribution channels." Mr. Dychaio expounds, "It's quite costly to build distribution. It takes time to cultivate those relationships. A lot of these firms have management capability, but they need to distribute to a wider array [of prospective clients]."

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
TRADITIONAL ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	44.19	15.32	2.18%	11.90
BlackRock, Inc.	BLK	17.99	14.00	1.32%	12.69
Legg Mason, Inc.	LM	nm	12.35	0.79%	nm
Pzena Investment Mgmt, Inc.	PZN	20.38	13.87	2.16%	11.79
Westwood Holdings Group, Inc.	WHG	28.42	nm	2.27%	17.92
Group Median		**24.40**	**13.94**	**2.16%**	**12.29**
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	33.58	11.73	nm	27.09
Calamos Asset Management, Inc.	CLMS	15.00	16.94	1.04%	2.46
Cohen & Steers, Inc.	CNS	23.93	16.66	3.05%	14.31
GAMCO Investors, Inc.	GBL	19.51	13.42	4.11%	12.54
INVESCO Ltd.	IVZ	20.38	12.72	2.73%	15.33
Franklin Resources, Inc.	BEN	14.26	11.69	3.80%	10.15
Diamond Hill Inv. Group, Inc.	DHIL	15.31	nm	2.62%	10.08
Eaton Vance Corp.	EV	21.36	15.04	2.09%	10.98
Hennessy Advisors, Inc,	HNNA	17.09	nm	1.79%	13.03
Manning & Napier, Inc.	MN	nm	13.45	0.50%	3.53
T. Rowe Price Group, Inc.	TROW	20.80	16.88	3.07%	12.50
U.S. Global Investors, Inc.	GROW	nm	nm	2.20%	51.30
Waddell & Reed Financial, Inc.	WDR	18.67	14.36	3.77%	11.55
Federated Investors, Inc.	FII	15.40	14.74	0.84%	9.48
Virtus Investment Partners, Inc.	VRTS	nm	nm	2.20%	51.30
Janus Capital Group Inc.	JNS	14.42	11.58	1.32%	8.19
Group Median		**18.67**	**13.91**	**2.20%**	**12.03**
ALTERNATIVE ASSET MANAGERS					
Apollo Global Mgmt, LLC	APO	8.37	7.79	nm	4.27
Brookfield Asset Mgmt, Inc.	BAM.A	nm	nm	nm	nm
Blackstone Group L.P.	BX	36.31	7.98	5.42%	nm
Carlye Group, L.P.	CG	24.41	7.63	0.63%	6.92
Fortress Investment Group LLC	FIG	50.46	8.81	5.74%	8.76
Kohlberg Kravis Roberts & Co.	KKR	9.27	8.37	8.66%	nm
Oaktree Capital Group, LLC	OAK	10.75	10.78	nm	nm
Och-Ziff Capital Mgmt Group LLC	OZM	nm	7.57	nm	nm
Group Median		**17.58**	**7.98**	**5.58%**	**6.92**
TRUST BANKS					
Northern Trust Corporation	NTRS	20.53	16.04	nm	nm
Bank of New York Mellon Corp.	BK	21.58	11.00	nm	nm
State Street Corporation	STT	15.09	12.54	nm	nm
Group Median		**20.53**	**12.54**	**nm**	**nm**
OVERALL MEDIAN		**20.38**	**13.42**	**2.20%**	**11.79**

MERCER CAPITAL
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137

Value Focus Asset Management Industry

Segment Focus: Traditional Asset Managers

Second Quarter 2013 Market Overview

Second 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.

Matt Crow, ASA, CFA
President
901.322.9728
crowm@mercercapital.com

Brooks Hamner, CFA
Senior Financial Analyst
901.322.9714
hamnerb@mercercapital.com

Mercer Capital is a business valuation and financial advisory firm serving a global client base. Business valuation services are provided for a wide variety of needs, including but not limited to corporate valuation services, tax compliance, litigation support, financial statement reporting compliance, and employee stock ownership plans. Our clients range from public to private, from smaller companies to large multi-nationals in a broad range of industries, as well as numerous governmental agencies. In addition, Mercer Capital provides investment banking and corporate advisory services including sell-side and buy-side merger & acquisition representation, fairness opinions, solvency opinions, business interest and securities valuation, among others.