Value Focus

Asset Management Industry

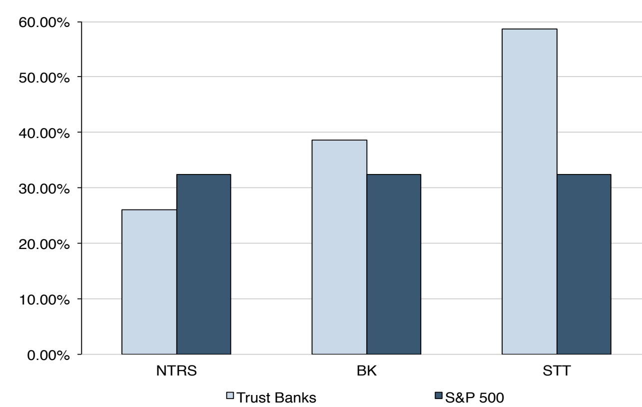
Segment Focus

Trust Banks

All three components of our trust bank index posted solid gains for shareholders in 2013, continuing their upward trajectory from the prior year but still lagging the broader indices since the financial crisis of 2008 and 2009. Placing this recent comeback in its historical context reveals the headwinds these banks have been facing in a low interest rate environment that has significantly compressed their money market fees and yields on fixed income investments. Their recent success may therefore be more indicative of a reversion to mean valuation levels following years of depressed performance rather than a sudden surge of investor optimism regarding their future prospects.

Total Returns

for 12 Months Ended 12/31/2013



Still, most trust bank stocks have outperformed the S&P 500 in 2013 as taper threats and a gradual steepening of the yield curve could portend a rise in short term rates that would rehabilitate their money market revenue and reinvestment income. Meanwhile, market appreciation and asset inflows have augmented their core client servicing and asset management businesses.

Although trust bank stocks are all up in 2013, performance has varied. State Street has benefited the most from the stock market rally with higher equity allocations in client portfolios while NTRS margins remain subdued with increasing regulatory costs. In addition, both BNY Mellon and State Street have recently shortened the duration of their fixed income holdings in anticipation of higher rates, which appears to be well received by market participants. Recent settlements in cases where BK and STT were accused of overcharging on certain foreign exchange transactions are additional tailwinds though both banks continue to face scrutiny over these alleged practices. State Street has also recently teamed with MFS Investments to offer three new actively traded equity ETFs to combine MFS's security selection expertise with the relative cost advantages of ETFs over mutual funds.

Moving forward, continued market appreciation and yield curve steepening should bode well for trust bank revenue and NIM spreads. A reversal of these trends, on the other hand, could send these stocks into correction territory given their recent gains and expectations for higher earnings in 2014. Still, the future appears more optimistic than recent history, and continued share repurchases suggests management feels the same way about the sector's prospects.

Market Review
Fourth Quarter 2013

Most publicly traded asset managers continued riding the bull this quarter with many share prices and valuations hovering near all-time highs. The continued overhang of Fed tapering and a steep market rally hastened asset flows out of bonds into equities on the back half of the year, compounding the growth in AUM and revenue as stock funds tend to charge higher management fees relative to fixed income products. Revenue gains continued to outpace rising operating expenses, leading to further advances in profitability for most RIAs. Finally, modest multiple expansion on higher ongoing earning power fueled a 15% to 20% increase (depending on the index used) in asset manager valuations for the quarter.

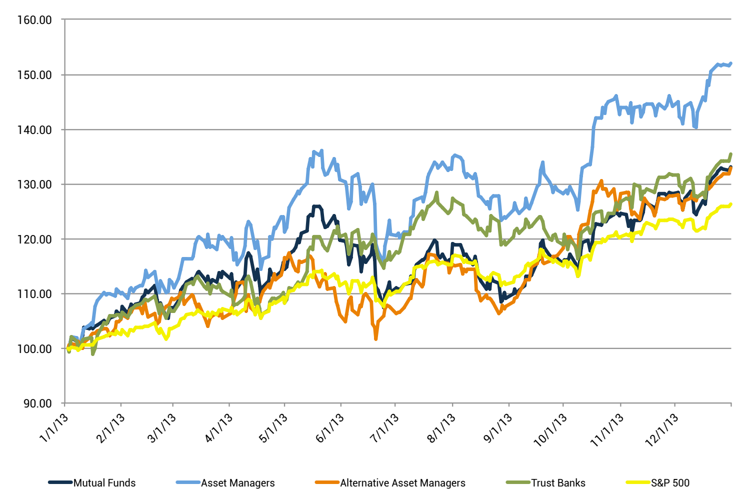
Not surprisingly, asset managers of all shapes and sizes have, as a whole, outperformed the broader indices in a market environment so conducive to building AUM and generating returns for clients. Specifically, SNL's index of US-based asset managers gained just under 50% for the year compared to nearly 30% for the S&P. A steady market tailwind helps client retention and net asset flows for most money managers, and 2013 was no exception.

Still, there was some disparity between the sectors. Increased demand for conventional equity products over alternative assets and mutual funds in a low rate environment allowed the more traditional RIAs to outperform the other sectors. Our smallest sector of asset managers (AUM under $10 billion) is the least diversified and therefore most susceptible to company-specific events. Its strength is more attributable to DHIL's (~80% of the market-weighted index) 75% gain in market value rather than any indication of investor preference towards smaller RIAs.

With AUM balances at or close to peak levels for most equity managers, ongoing management fees and profitability have never been higher, so valuations have risen accordingly. Barring any sort of market correction or shift in asset flows back to fixed income, the sector's future appears bright, and buyers are starting to take notice.

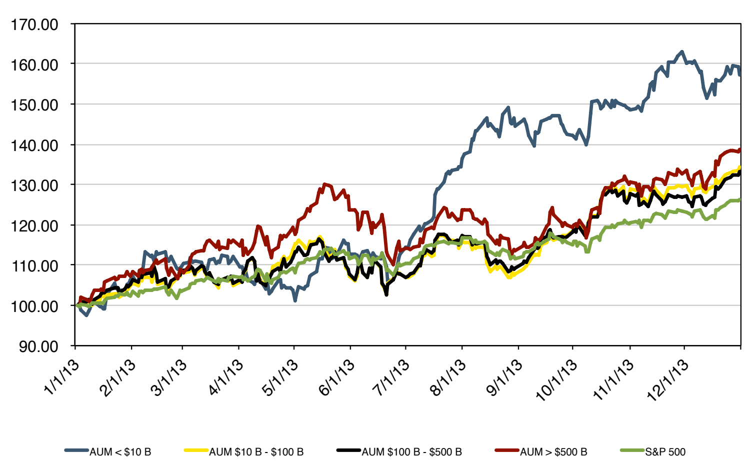
Asset Managers Index

Breakdown by Type



Asset Managers Index

Breakdown by Size



M&A Review
Fourth Quarter 2013

Despite a relatively anemic M&A market for most segments of asset managers since the financial crisis, there are some noteworthy money manager deals in the second half of 2013 and a few more on the horizon for 2014:

- Virtus Investment Partners announced its partnership with $70 billion AUM alternative manager Cliffwater, LLC on October 28, 2013;
- Deutsche Bank's announced sale of its $22 billion AUM Stable Value business to Goldman Sachs, expected to close in the first quarter of 2014;
- Focus Financial Partner's $216 million sale of a minority interest to $62 billion manager Centerbridge Partners;
- Dexia SA's sale of Dexia Asset Management (~$100 billion AUM) to New York Life Investments for $512 million or 0.51% of AUM.
- Alternative investment manager Ares Management sold a 6.25% interest for $250 million to specialty insurer and asset manager Alleghany Corporation, which agreed to invest up to $1 billion in Ares new and existing investment strategies;
- ING's sale of ING Investment Management to Macquarie Group Limited ($22 billion in AUM), which closed on December 2, 2013;
- Tri-State Capital Holding's acquisition of Chartwell Investment Partners ($7.5 billion AUM) for total consideration of $60 million (cash plus earn-out) or 0.80% of AUM or 7x estimated ongoing EBITDA (Initial consideration of $45 million is 7.5x adjusted 2013 EBITDA)
- Northwestern Mutual is reported to be mulling the sale of its 93% interest in Russell Investments, which has approximately $250 billion under management. Such a transaction could mark the sector's largest deal since BlackRock's $13 billion purchase of Barclays Global Investors (~$1.5 trillion in AUM).

The outlook for asset manager M&A seems relatively positive in light of recent market dynamics. With so many AUM and profit levels near all-time highs, sellers may finally be able to recover the value drained by the financial crisis. The sector's recent growth and prospect for continued asset flows into equities may entice prospective acquirers. The lack of an impending tax deadline and subsequent spill-over effect may portend lower year-over-year transaction numbers in the sector, but the long-term outlook remains robust.

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
TRADITIONAL ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	42.53	19.19	2.51%	11.83
BlackRock, Inc.	BLK	19.84	17.76	1.48%	14.23
Legg Mason, Inc.	LM	19.84	16.19	0.99%	14.23
Pzena Investment Management, Inc.	PZN	30.15	21.98	3.40%	18.60
Westwood Holdings Group, Inc.	WHG	29.62	nm	2.96%	19.62
Group Median		**29.62**	**18.48**	**2.51%**	**14.23**
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	15.69	12.40	nm	13.11
Calamos Asset Management, Inc.	CLMS	19.73	21.93	1.18%	nm
Cohen & Steers, Inc.	CNS	25.35	21.60	3.83%	15.72
GAMCO Investors, Inc.	GBL	22.13	18.08	5.48%	13.91
INVESCO Ltd.	IVZ	20.34	14.92	2.89%	15.93
Franklin Resources, Inc.	BEN	17.13	13.75	4.58%	12.23
Diamond Hill Investment Group, Inc.	DHIL	18.72	nm	3.50%	12.15
Eaton Vance Corp.	EV	27.97	15.39	2.27%	13.98
Hennessy Advisors, Inc,	HNNA	14.16	nm	2.14%	9.57
Manning & Napier, Inc.	MN	nm	13.68	0.49%	nm
T. Rowe Price Group, Inc.	TROW	22.58	19.48	3.38%	14.39
U.S. Global Investors, Inc.	GROW	nm	nm	3.30%	nm
Waddell & Reed Financial, Inc.	WDR	24.57	18.40	5.06%	15.09
Federated Investors, Inc.	FII	18.00	17.40	0.90%	10.81
Virtus Investment Partners, Inc.	VRTS	nm	nm	3.30%	10.92
Janus Capital Group Inc.	JNS	21.70	16.90	1.73%	10.92
Group Median		**20.34**	**17.15**	**3.30%**	**13.11**
ALTERNATIVE ASSET MANAGERS					
Apollo Global Management, LLC	APO	7.60	10.10	15.43%	7.19
Brookfield Asset Management, Inc.	BAM.A	14.88	18.86	nm	8.44
Blackstone Group L.P.	BX	27.88	10.94	7.23%	nm
Carlye Group, L.P,	CG	40.48	11.99	0.95%	9.23
Fortress Investment Group LLC	FIG	21.40	10.70	5.38%	6.82
Kohlberg Kravis Roberts & Co.	KKR	13.83	10.10	9.94%	nm
Oaktree Capital Group, LLC	OAK	9.74	12.32	nm	nm
Och-Ziff Capital Mgmt Group LLC	OZM	21.76	10.57	nm	9.09
Group Median		**18.14**	**10.82**	**7.23%**	**8.44**
TRUST BANKS					
Northern Trust Corporation	NTRS	20.77	17.94	nm	nm
Bank of New York Mellon Corporation	BK	19.09	13.98	nm	nm
State Street Corporation	STT	16.72	14.11	nm	nm
Group Median		**19.09**	**14.11**	**nm**	**nm**
OVERALL MEDIAN		**20.34**	**15.39**	**3.30%**	**12.23**

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Value Focus Asset Management Industry

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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Tri-State Capital's Acquisition of Chartwell Investment Partners

A Blueprint for Asset Manager Transactions

On January 7, 2014 Tri-State Capital Holdings, Inc. (NASDAQ ticker: TSC), the holding company of Pittsburgh-based TriState Capital Bank, entered a definitive asset-purchase agreement to acquire Chartwell Investment Partners, L.P., a Registered Investment Advisor (RIA) in the Philadelphia area with approximately $7.5 billion in assets under management (AUM). Unlike most acquisitions of closely held RIAs, the terms of the deal were disclosed via a conference call and investor presentation; the details of which are outlined in Figure 1.

TriState Capital Holdings Acquisition of Chartwell Investment Partners – Deal Analysis

	Disclosed 2013E	Est. Ongoing	
Average AUM for 2013	$6,310,000,000	na	Approximate; Disclosed
Current AUM	na	$7,500,000,000	Approximate; Disclosed
Realized Average Fee	0.396%	0.400%	Higher fees on Equity AUM
Revenue	$25,000,000	$30,000,000	Revenue grows with AUM
Implied Operating Expense	$19,000,000	$21,375,000	Assumes 12.5% Δ in Ongoing OpX
EBITDA	**$6,000,000**	**$8,625,000**	2013 Disclosed; Implied Ongoing
EBITDA Margin	***24.0%***	***40.4%***	2013 Disclosed; Implied Ongoing
Initial Consideration	$45,000,000	$45,000,000	Disclosed
Earnout	na	15,000,000	Earnout if 2014 EBITDA > $8.5MM
Total Consideration	**$45,000,000**	**$60,000,000**	Earnout likely to be paid
Implied Multiple	***7.5***	***7.0***	Earnout 6x Δ in EBITDA

Figure 1

In the call and presentation, management delineated how Chartwell's attributes met Tri-State's investing criteria (as shown in Figure 2). Many of these features are what makes many asset managers (not just Chartwell) so appealing to both banks and non-banks – growth potential, fee income exposure, high margins, scalability, operating leverage, adhesive clientele base, and minimal capital requirements. Few businesses possess all these characteristics, making many investment advisors like Chartwell the focal point of would-be acquirers with capital to spare.

Of the nearly 11,000 RIAs nationwide, typically less than 100 (<1%) transact in a given year, and the terms of these deals are very rarely disclosed to the public. Perhaps the biggest obstacle to effectively acquiring these businesses is the difficulty and uncertainty involved with ensuring that an asset manager's clients, staff, and operational autonomy will be preserved post transaction. In a business totally dependent upon the investing acumen and long-term client relationships of a few key individuals, executive retention is critical yet often elusive if the firm's independence is compromised by a prospective acquirer.

Because of these circumstances, the transactions that do take place are often complemented with contingencies based on staff and client retention with some part of the consideration structured as an earn-out to ensure financial performance holds up post transaction. Tri-State's acquisition of Chartwell contains all these provisions and relatively favorable pricing, making it a viable prototype for deal structure in asset manager transactions.

Although RIA acquisitions have been relatively scarce in recent years, the outlook is perhaps more optimistic for 2014 as AUM balances and valuations at all-time highs may induce an aging ownership base to exit the business. With so much at stake, prospective buyers and sellers should utilize the Tri-State-Chartwell acquisition blueprint in negotiating a successful transaction for both parties.

For more information or to discuss a transaction or valuation need in confidence, contact Matt Crow (crowm@mercercapital.com) or Brooks Hamner (hamnerb@mercercapital.com) at 901.685.2120.

TriState Capital Criteria	Chartwell Characteristics
Critical mass ($3-$10B AUM)	$7.5B in AUM from $5.2B in 2012 and $4.8B in 2011
Demonstrated history of growth	AUM growth from $4.8B in 2011 to ~$7.5B at closing
Continued growth potential	Ongoing revenue estimated at $30M compared to $25M in 2013
Credible track record of investment performance	Favorable performance against 1, 3, & 5 year benchmarks
Significant fee income contributor	Diversifies Tri-State Capital's revenues, improving its risk profile
Profitable	Adjusted 2013 EBITDA margin of ~24%
Immediately accretive to EPS	Projected first full year accretion ~25%
Attractive internal rate of return	Projected IRR ~25%
Capital light	Minimal capital requirements

Figure 2