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, Kristin Beckman, or Brooks Hamner at 901.685.2120 to discuss your needs in confidence.

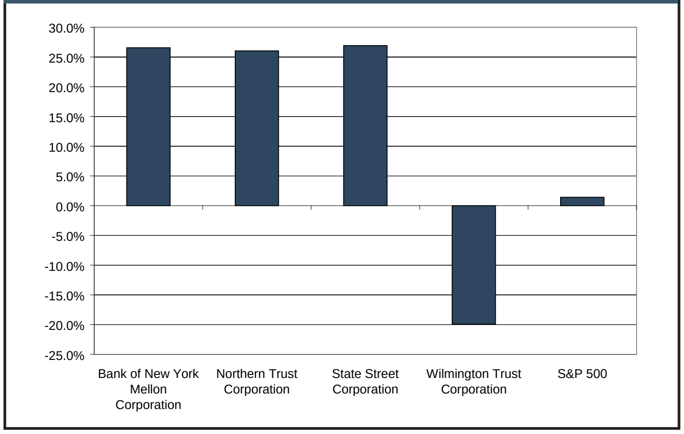
Segment Focus: Trust Banks

» Of the four trust banks covered, only Wilmington's performance was below that of the S&P, reflecting the company's revenue distribution, which is more evenly split between fee-based earnings and spread income. Wilmington's relatively larger lending operations negatively impacted the stock performance, as non-performing assets expanded in the third quarter. Given investors concerns regarding credit quality for the banking industry, the underperformance of Wilmington relative to the other trust banks appears to be consistent with that of traditional bank stocks.

» State Street, Northern Trust, and Bank of New York Mellon Corporation performed favorably throughout the year, as investors migrated away from credit-sensitive stocks (such as commercial banks) and looked favorably upon the fee-income dependent revenue bases of the larger trust institutions. Additionally, the global foreign exchange operations at Northern Trust and Bank of New York Mellon benefited the overall performance of these companies, as foreign exchange business tends to thrive during times of volatility in capital markets.

» State Street announced on January 3 that it would establish a legal reserve of $618 million to defend itself from possible lawsuits from investors who were sold safe products and ended up with riskier ones. The respective charge to fourth quarter earnings totaled $279 million ($0.71 per share); however, STT's stock price did not appear to be negatively impacted by the announcement, and earnings were expected to remain strong, despite the one-time charge.

Trust Bank Focus » Total Return for 2007



Market Overview: 2007 Q4

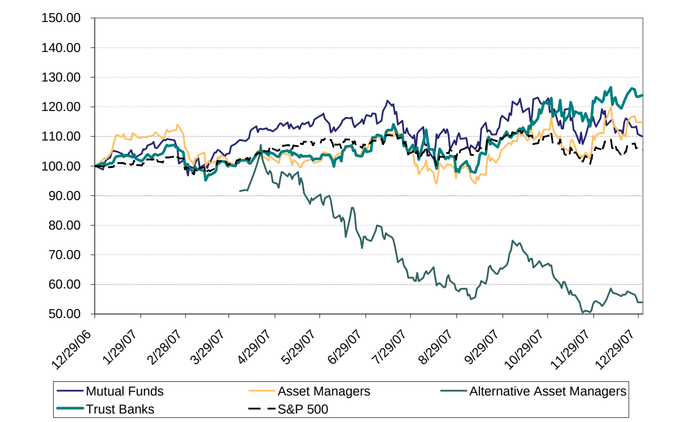
» Generally, asset manager stocks performed favorably relative to the overall market in 2007, with the exception of alternative asset management companies, all of which saw deteriorating market performance following their IPOs this year. The weaker performance of these managers can be partially attributable to the continued effects of the credit crunch, as their investments in illiquid assets have, in many cases, proven difficult to value. Additionally, the delay of many private equity transactions due to the reduced market for leveraged buyout deals deterred investors during the latter half of the year.

» Trust banks ended 2007 with the highest relative total return, reflecting the heavy concentration of fee-based revenue inherent in these banks' operations, as well as the perception that these institutions' investment strategies are generally less risky.

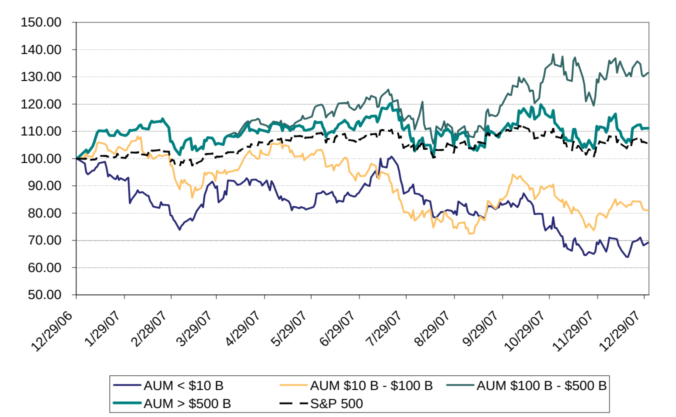
» Both mutual funds and asset managers fared better than the market overall. Blackrock, the largest company included in the Asset Manager segment and generally viewed as a less risky investment, benefited from its experience in fixed-income strategies and risk management. Legg Mason, the second largest firm in the group, was hindered by investments in commercial paper issued by structured investment vehicles, a portion of which was downgraded by ratings agencies in the fourth quarter.

» Consistent with historical trends, the larger institutions outperformed the S&P during 2007, reflecting the economies of scale inherent in an asset manager's operations. Typically, as the managed asset base expands, asset managers achieve greater operating leverage and, as a result, enhanced margin performance.

Asset Managers Index » Breakdown by Segment



Asset Managers Index » Breakdown by Size



Market Multiples as of 12/31/07

	Price / Trailing EPS	Price / Forward EPS	Total Capital/ AUM	Total Capital / EBITDA
ASSET MANAGERS				
Affiliated Managers Group, Inc.	27.64	14.91	1.3%	7.29
BlackRock, Inc.	28.79	19.71	1.8%	nm
Legg Mason, Inc.	14.78	13.83	1.0%	7.89
Pzena Investment Management, Inc.	nm	15.83	2.5%	nm
W.P. Stewart & Co., Ltd.	nm	nm	4.9%	5.06
Westwood Holdings Group, Inc.	38.37	nm	3.3%	26.95
Group Median	*28.21*	*15.37*	*2.2%*	*7.59*
MUTUAL FUNDS				
AllianceBerstein Investments, Inc.	16.57	14.75	0.8%	15.08
Calamos Asset Management, Inc.	25.24	20.54	1.4%	5.18
Cohen & Steers, Inc.	17.32	16.56	3.4%	9.68
GAMCO Investors, Inc.	24.03	21.83	6.1%	14.13
Epoch Holding Corporation	30.61	26.32	4.7%	nm
Franklin Resources, Inc.	16.28	13.23	4.3%	10.76
Diamond Hill Investment Group, Inc.	15.17	nm	3.7%	nm
Eaton Vance Corp.	42.84	18.84	3.3%	22.75
T. Rowe Price Group, Inc.	27.06	22.14	4.0%	14.99
U.S. Global Investors, Inc.	18.51	nm	4.7%	11.80
Waddell & Reed Financial, Inc.	24.72	19.10	5.1%	15.03
Federated Investors, Inc.	19.42	15.65	1.5%	11.12
Janus Capital Group Inc.	34.95	22.50	2.7%	21.23
Group Median	*24.37*	*19.82*	*3.9%*	*12.96*
ALTERNATIVE ASSET MANAGERS				
Och-Ziff Capital Management Group LLC	nm	10.95	nm	5.13
Blackstone Group L.P.	nm	14.75	5.7%	nm
Fortress Investment Group LLC	nm	11.98	15.9%	nm
Group Median	*na*	*11.98*	*10.8%*	*5.13*
TRUST BANKS				
Wilmington Trust Corporation	13.33	12.35	7.1%	nm
Northern Trust Corporation	23.64	16.83	2.2%	nm
Bank of New York Mellon Corporation	20.49	14.13	5.1%	nm
State Street Corporation	23.54	14.17	1.6%	nm
Group Median	*22.01*	*14.15*	*3.6%*	*na*
OVERALL MEDIAN	**23.64**	**15.74**	**3.4%**	**11.46**

Mergers & Acquisitions Review

» The number of transactions with available pricing and financial data announced during 2007 (13) represented a decline from the levels observed in 2005 (22) and 2006 (22) due in part to disruptions in the credit markets; however, the median size of the acquired companies, as measured by assets managed, significantly expanded due to the acquisitions of two companies with assets under management greater than $100 billion. The median deal value/assets under management multiple expanded to 2.03% in 2007 from 1.26% in 2006 and 1.07% in 2005, partially reflecting the larger size of the acquired companies relative to prior years.

» Although transaction activity generally slowed during the latter half of 2007, two large transactions closed during the fourth quarter which indicated differing views on the current market for asset management companies.

- Shares of Och-Ziff Capital Management debuted in the public market in November in one of the larger IPOs of 2007. Based in New York, OZM was founded in 1994 by Daniel Och, the former co-head of U.S. equity and trading at Goldman Sachs, and Ziff Brothers Investments, LLC, a publishing and media company. At September 30, 2007, assets managed by OZM increased to $30.1 billion from $29.1 billion in June and less than $7 billion at the end of 2002. The majority of assets are concentrated in the OZ Master Fund, which generated a net annualized return of 13.9% over the past five years as compared to 15.5% for the S&P 500; however, the S&P index has historically been significantly more volatile.

- In early July, OZM filed a registration statement with the SEC for a proposed IPO with a maximum aggregate offering price of $2 billion. In October, this amount was reduced by nearly half to $1.1 billion in light of turbulence in the credit markets which the company believed could weaken demand for the offering. The company expected to sell 36 million class A shares at a price between $30 and

$33 per share. Like Blackstone and Fortress, the shares would be sold under a limited partnership structure, with the class A shares representing class A limited liability company interests, which are intended to provide certain tax benefits to the shareholders.

- Despite the performance of Blackstone and Fortress IPO shares in recent months, the company was not discouraged from its plan to go public. OZM's exposure to private equity investments was lower than that of Blackstone or FIG, and OZM reduced its exposure to credit markets to nearly zero last year after observing tighter credit spreads and weakened underwriting standards of many lenders. However, on December 31, the newly public OZM common stock, initially priced at $32.00 per share, had declined 18% to $26.28 amid ongoing credit and liquidity concerns by public investors.
- Effective November 13, Madison Dearborn Partners announced the completion of its acquisition of Nuveen Investments, Inc. for total cash consideration of $5.8 billion ($65.00 per share, a 20% premium to the closing price prior to the announcement date), reflecting the largest–ever leveraged buyout of an asset manager. Madison Dearborn also agreed to assume Nuveen's existing debt of $550 million. The deal value represented 27.7x trailing twelve month earnings and 3.4% of assets under management, reflecting the company's favorable profit margins on its asset base. Nuveen Investments, based in Chicago, was spun off from St. Paul Travelers Companies in 2005 and is the industry's largest manager of closed-end funds. Management reported that the buyout would fuel Nuveen's strategic development by allowing the company to expand its institutional and mutual fund offerings.

» These transactions highlight outlooks on the asset management industry from different perspectives. First, the alternative asset management sector has perhaps suffered the most from the subprime mortgage crisis, as the value of exotic investments became increasingly uncertain during the credit market collapse. Investors appear wary of investments in alternative asset managers, as demonstrated by the performance of OZM, Blackstone, and Fortress in the public markets during 2007. The performance of the alternative asset manager IPOs may further discourage other firms in the industry from going public until current market conditions stabilize. Several private equity companies and hedge funds considered raising capital or letting partners cash out through an IPO, but most plans have been postponed following the unfavorable events in the credit market.

» Nuveen's going-private transaction may not have been as much of a negative outlook on the public markets as a strategic decision by a specific company and favorable offer by a specific buyer. Nuveen's profitability and closed-end assets (which aren't subject to investor withdrawals and, as a result, are a steady revenue generator) were very attractive to Madison Dearborn, which primarily manages private equity funds. As noted previously, the number of transactions that did occur during 2007 were priced favorably relative to prior years, suggesting that acquirers able to conduct transactions such as Madison Dearborn saw synergistic opportunities in their targets.

» In an effort to enhance the fixed-income and credit markets segments of its alternative investment platform, Blackstone announced plans to acquire GSO Capital Partners, a New-York based alternative asset manager, on January 8th. The transaction price consists of a cash and stock consideration of $620 million, as well as contingent payments totaling up to $310 million over the next five years upon the achievement of certain earnings targets. The total purchase price, including the contingent payments, represented 9.30% of GSO's managed assets of about $10 billion. GSO specializes in leveraged finance markets, including the management of a credit hedge fund, mezzanine fund, senior debt fund, and various CLO vehicles. Blackstone also announced the approval of a $500 million share repurchase program in an effort to offset the dilution from the new shares issued in the GSO acquisition. The transaction is expected to close by March 31.

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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