

# VALUE FOCUS

## Asset Management Industry



### SEGMENT FOCUS

## Alternative Asset Managers

## 2014

Overview	1
Market Review	2
M&A Review	3
Asset Manager	
Multiples by Sector	4
About Mercer Capital	5

Q1: Mutual Funds  
Q2: Traditional Asset Managers  
Q3: Alternative Asset Managers  
Q4: Trust Banks

# Value Focus

## Asset Management Industry

### Segment Focus

#### Alternative Asset Managers

As shown on the graph to the right, asset flows for publicly traded alternative asset managers were mixed to slightly positive during a predominantly flat quarter for the major indices.

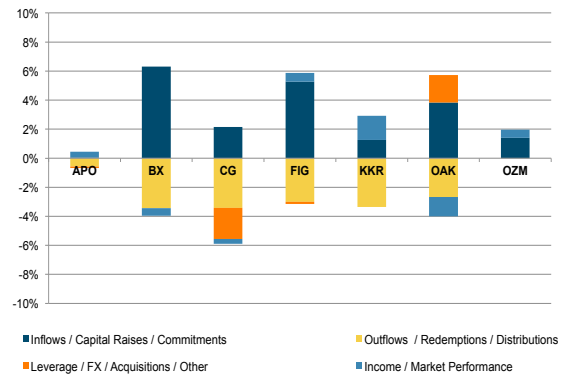
Still, these results do not reflect the 9% decline in market capitalization for the group, which saw all its member components lose value over the quarter. Declining share values amidst positive asset flows is likely indicative of mounting concerns over the cost and complexity that alternative assets managers pose relative to more traditional RIAs. On September 15th, the largest US-based public pension fund, California Public Employees' Retirement System (CalPERS), announced that it intends to divest its \$4 billion Absolute Return Strategies (ARS) program that invested principally in hedge funds and fund-of-funds. The \$135 million CalPERS paid to hedge funds in its most recent year was hardly justified by a 7.1% ARS return when the overall portfolio earned over 18%.

The poor liquidity, capacity constraints, and lack of transparency typically characteristic of most alt managers have also plagued the sector in recent years, though rising regulatory pressure and heightened competition should mitigate some of these risks moving forward. Regardless, CalPERS recent move could be the tip of the iceberg if other institutional investors follow suit or decide to take a closer look at similar asset classes managed by alternative managers such as private equity and real estate.

At a very basic level, if hedge fund returns don't justify their heightened fee structure and risk profile, they will ultimately be replaced with cheaper, more liquid alternatives. Since 2009, stock market returns

AUM Flows

Q3 2014



Source: Company 10-Qs accessed via SEC.gov

have outperformed most hedge funds, raising serious questions about the sustainability of the “2 and 20” fee model offered by many alternative asset managers. Given the abnormal market appreciation over this time, that may not be a fair benchmark. It's also generally true that chasing returns is rarely a viable investment strategy in the long run, so abandoning alt asset classes altogether at this juncture probably doesn't make sense either. Still, in the wake of CalPERS's divestiture and weak investment returns, it is reasonable to assume that alternative asset manager fees will have to come down if key relationships with top institutional investors are to be maintained in future periods.

# Market Review

## Third Quarter 2014

Only traditional asset managers and trust banks outperformed the S&P in the third quarter as heightened volatility adversely affected asset flows and investment performance for many of the alternative managers and mutual funds. Trust banks in particular saw strong advances in a flight-to-quality environment with steady flows into fixed income products, excluding the one-time drain in active bond funds from Mr. Gross's departure from PIMCO in late September.

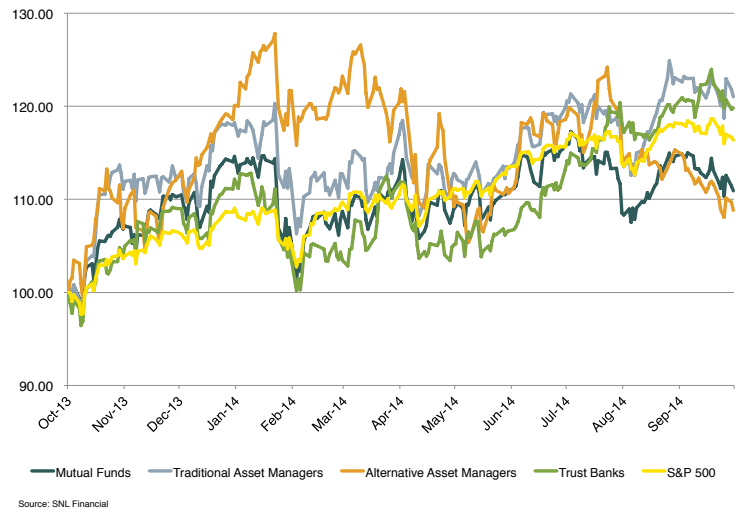
In addition, SNL Financial recently reported that banks with significant trust operations, such as State Street and BNY Mellon, showed the largest increase in year-over-year deposits. This trend, combined with fee income exposure and the light capital requirements characteristic of most asset managers and trust companies, has made them all the more appealing to some of the larger financial institutions in recent months. Wells Fargo, for example, just announced its intention of doubling the size of its asset management unit to \$1 trillion over the next decade to broaden its existing product offering.

Also of note, smaller asset managers continue to outperform their larger counterparts over the last year, but this is likely more attributable to HNNA's (roughly two-thirds of the market-weighted index) outsized gain in market value rather than any indication of investor preference towards smaller advisory firms.

With AUM balances close to peak levels for most asset managers, valuations are near all-time highs. Barring any sort of market correction or prolonged period of volatility, the sector's future appears bright, and buyers are starting to take notice.

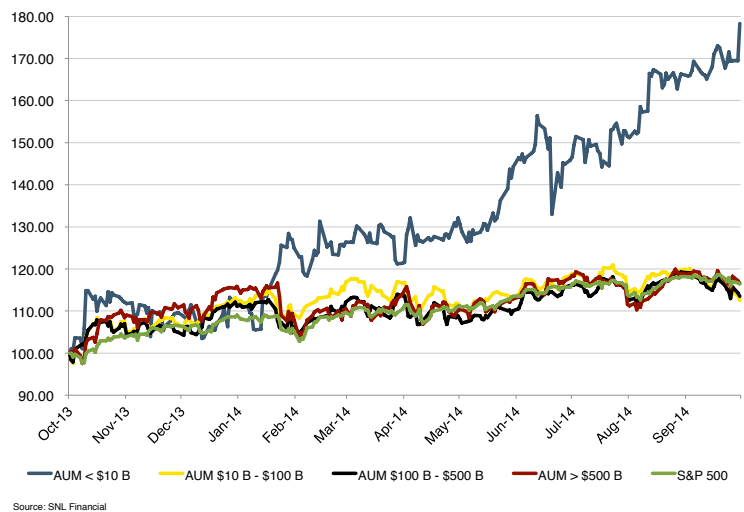
Asset Managers Index

Breakdown by Type



Asset Managers Index

Breakdown by Size



## M&A Review

### Third Quarter 2014

Some recent notable deals in the asset manager space include:

- British alternative investment management firm acquired hedge fund-of-funds manager Pine Grove Asset Management (\$1 billion AUM) on August 4th to bolster its presence in the US and FOF space.
- UK-based Henderson Group (holding company of Henderson Global Investors) bought US growth equity manager Geneva Capital Management on October 1, 2014, for initial consideration of \$130 million or 2.4% of its \$5.4 billion in AUM with deferred consideration and potential earn-out payments totaling another \$70 million if certain performance targets are met.
- Affiliated Managers Group (ticker: AMG) completed its acquisition of \$17 billion manager Veritas Asset Management on October 31, 2014. AMG has been the most active acquirer of asset managers in recent months, having already purchased majority interests in SouthernSun and River Road earlier in the year. Collectively, AMG has acquired asset managers with over \$100 billion in AUM in aggregate since the financial crisis of 2008 and 2009.
- Legg Mason purchased international equity specialist Martin Currie Limited (\$10.1 billion in AUM) also on October 1st after

buying NY based QS investors earlier in the year. LM has also been an active acquirer in the space, having also added Fauchier Partners in early 2013.

- The following day Boston Private Financial Holdings completed its acquisition of \$4.5B manager Banyan Partners for a total up front payment of \$65 million with additional earn-out consideration of \$15 to \$20 million based on achieving certain profitability measures. Please see last quarter's newsletter for a more thorough discussion of deal pricing and terms. <http://mer.cr/1yqzi5s>

The outlook for asset manager M&A remains 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. A recent *Investment News* article, "Adviser M&A Activity Suggests Sellers Firmly at the Helm," stresses "it's definitely a robust market for sellers. About 28% of advisers said they have sought to buy a firm in the past two years compared with 4% who have tried to sell, according to the 2014 Investment News Financial Performance Study of Advisory Firms. Looking forward the market may even be more lopsided... [as] the merger and acquisition market for advisory firms has been impacted in the last two or three years by the emergence of banks financing the deals."

## What We're Reading

### **Adviser M&A Activity Suggests Sellers Firmly at the Helm – Multiples Paid for Practices Continue to Grow as Bank Financing Expands**

*Investment News: Liz Skinner*

<http://mer.cr/1zoRBpU>

### **Brokerages Face Exodus as Advisers Get Better Deal in Indie Firms**

*Reuters: Elizabeth Dilts*

<http://mer.cr/1FT7AQS>

### **Wells Fargo Seeks to Boost Asset-Management Business – Bank Aims to Double Unit to \$1 Trillion through Deals, Aggressive Sales**

*Wall Street Journal: Krsten Grind and Emily Glazer*

<http://mer.cr/1yqw7e3>

(subscription required)

### **One of the Most Important Investors in the World is Entirely Done with Hedge Funds**

*Business Insider: Linette Lopez*

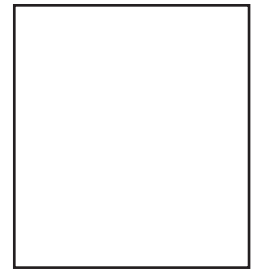
<http://mer.cr/12pD5TF>

## Asset Manager Multiples by Sector

	Ticker	9/30/14 Stock Price	% of 52 Week High	Pricing as of September 30, 2014			
				Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
<b>TRADITIONAL ASSET MANAGERS</b>							
Affiliated Managers Group, Inc.	AMG	\$200.36	92.38%	27.33x	14.39x	1.97%	9.96x
BlackRock, Inc.	BLK	328.32	98.97%	18.05x	15.29x	1.39%	13.26x
Legg Mason, Inc.	LM	51.16	99.03%	18.05x	14.92x	1.08%	13.26x
Pzena Investment Management, Inc.	PZN	9.55	85.57%	18.73x	13.64x	2.30%	10.99x
Westwood Holdings Group, Inc.	WHG	56.69	92.57%	17.61x	nm	2.34%	11.95x
<b>Group Median</b>			<b>92.57%</b>	<b>18.05x</b>	<b>14.65x</b>	<b>1.97%</b>	<b>11.95x</b>
<b>MUTUAL FUNDS</b>							
AllianceBernstein Investments, Inc.	AB	\$26.01	94.03%	14.78x	12.42x	nm	13.44x
Calamos Asset Management, Inc.	CLMS	11.27	82.44%	11.86x	19.63x	1.14%	nm
Cohen & Steers, Inc.	CNS	38.44	87.05%	21.84x	18.35x	3.29%	12.93x
GAMCO Investors, Inc.	GBL	70.74	82.93%	14.74x	12.70x	3.95%	9.65x
INVESCO Ltd.	IVZ	39.48	95.71%	19.07x	13.61x	2.86%	13.69x
Franklin Resources, Inc.	BEN	54.61	94.01%	15.30x	13.46x	3.95%	10.72x
Diamond Hill Investment Group, Inc.	DHIL	123.05	92.09%	16.04x	nm	2.86%	10.25x
Eaton Vance Corp.	EV	37.73	96.20%	16.92x	14.46x	1.82%	9.27x
Hennessy Advisors, Inc.	HNNA	19.88	99.40%	16.99x	nm	2.73%	11.30x
Manning & Napier, Inc.	MN	16.79	90.41%	nm	12.48x	0.43%	nm
T. Rowe Price Group, Inc.	TROW	78.40	92.06%	18.19x	15.40x	2.79%	11.50x
U.S. Global Investors, Inc.	GROW	3.55	93.42%	nm	nm	4.44%	nm
Waddell & Reed Financial, Inc.	WDR	51.69	80.90%	14.44x	12.58x	3.37%	9.23x
Federated Investors, Inc.	FII	29.36	94.01%	20.39x	17.07x	0.95%	12.50x
Virtus Investment Partners, Inc.	VRTS	173.70	77.37%	19.92x	nm	4.44%	10.77x
Janus Capital Group Inc.	JNS	14.54	91.50%	19.92x	14.42x	1.83%	nm
<b>Group Median</b>			<b>92.08%</b>	<b>16.96x</b>	<b>14.02x</b>	<b>2.86%</b>	<b>11.04x</b>
<b>ALTERNATIVE ASSET MANAGERS</b>							
Apollo Global Management, LLC	APO	\$23.84	71.85%	8.80x	9.28x	10.09%	7.20x
Brookfield Asset Management, Inc.	BAM.A	44.96	93.63%	11.69x	28.68x	44.18%	8.54x
Blackstone Group L.P.	BX	31.48	88.75%	12.02x	8.58x	6.64%	nm
Carlye Group, L.P.	CG	30.46	83.89%	16.12x	9.36x	1.01%	6.63x
Fortress Investment Group LLC	FIG	6.88	90.29%	9.30x	6.75x	3.46%	4.23x
Kohlberg Kravis Roberts & Co.	KKR	22.30	90.91%	8.48x	8.58x	20.24%	nm
Oaktree Capital Group, LLC	OAK	51.10	85.42%	10.58x	11.36x	14.07%	2.23x
Och-Ziff Capital Mgmt Group LLC	OZM	10.71	76.55%	7.34x	6.36x	21.60%	7.56x
<b>Group Median</b>			<b>87.09%</b>	<b>9.94x</b>	<b>8.93x</b>	<b>12.08%</b>	<b>6.92x</b>
<b>TRUST BANKS</b>							
Northern Trust Corporation	NTRS	\$68.03	96.73%	22.38x	17.82x	nm	nm
Bank of New York Mellon Corporation	BK	38.73	96.20%	16.77x	14.48x	nm	nm
State Street Corporation	STT	73.61	97.60%	16.07x	13.77x	nm	nm
<b>Group Median</b>			<b>96.73%</b>	<b>16.77x</b>	<b>14.48x</b>	<b>nm</b>	<b>nm</b>
<b>OVERALL MEDIAN</b>			<b>92.08%</b>	<b>16.44x</b>	<b>13.64x</b>	<b>2.86%</b>	<b>10.72x</b>



5100 Poplar Avenue, Suite 2600  
Memphis, Tennessee 38137



## Value Focus Asset Management Industry

---

Segment Focus: Alternative Asset Managers

Third Quarter 2014 Market Overview

Third Quarter 2014 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](http://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](mailto:crowm@mercercapital.com)

### **Brooks Hamner, CFA**

Vice President

901.322.9714

[hamnerb@mercercapital.com](mailto: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.