MERCER CAPITAL

VALUE FOCUS

Asset Management Industry

SEGMENT FOCUS

Traditional Asset Managers

2015

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

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Value Focus

Asset Management Industry

Segment Focus

Traditional Asset Managers

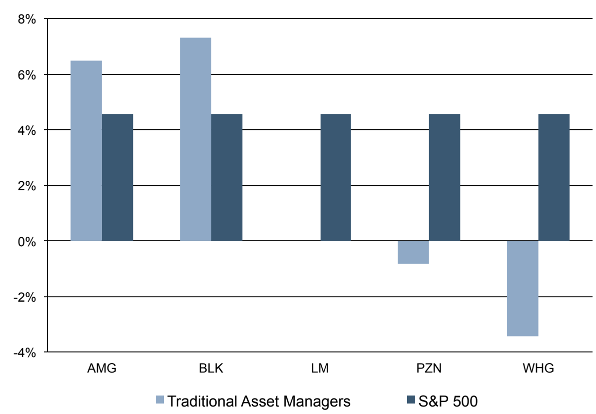
Technology firms are increasingly attracted to the asset manager space with the rising popularity of robo-advisors. The low cost option afforded by these online asset allocators is a serious threat to financial planners offering wealth management advice to price-conscious consumers. The expanding cost of regulation and weak organic growth prospects are additional headwinds for the sector. While most traditional asset managers have enjoyed significant increases in EPS over the last three years with the stock market rally, organic AUM growth has only been 1% over this period, bringing the group's P/E ratio to an all-time low versus the S&P 500, according to Goldman Sachs analyst Alexander Blostein. Increasing competition from robo-advisors and the rising popularity of passive investment alternatives are the likely culprits for much of the recent decline in asset flows.

Capitalizing on the trend towards indexing strategies, BlackRock has outperformed other traditional asset managers that offer little or no passive investment products. In addition, BlackRock has seen solid asset flows in fixed income since the second quarter of 2014, and as of the first quarter of this year, 96% of its quantitative equity funds and 91% of its taxable bond funds were outperforming their respective benchmarks.

AMG continues to benefit from selective acquisitions of asset managers that have grown with market conditions despite the sector's aforementioned headwinds. Levered bets on high margin businesses have reaped significant gains for AMG shareholders with the stock up over 600% since the financial crisis of 2009.

Share Price

For the Twelve Months Ended June 30, 2015



Source: SNL Financial

In contrast, Pzena Investment Management has underperformed its peers over the last year. In an earnings call this quarter, the company's CEO Rich Pzena blamed the firm's lackluster investment returns on the sluggish economic recovery and extremely low interest rates that have caused investors to seek more expensive securities often shunned by value managers. The trend towards ETFs and other passive strategies is an additional headwind for PZN, but Mr. Pzena maintains that investors will switch back from passive to active management in the long term because ultimately fundamental research is beneficial to investors and having a "true value" component to a portfolio is the safer option. We're not convinced this debate will be settled any time soon.

Market Overview
Second Quarter 2015

With the exception of BlackRock and a few others, larger managers continued to underperform their more diminutive counterparts over the last year. Still, it's important to remember that 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 likely more attributable to DHIL's (~90% of the market-weighted index) outsized gain in market value rather than any indication of investor preference towards smaller RIAs.

In terms of asset manager types, mutual funds continue to underperform as ETFs remain in vogue with lower fee structures. Publicly traded trust banks, on the other hand, have benefited from the recent rise in interest rates as their NIM spreads and reinvestment income have risen accordingly. Other sector returns are generally in line with market performance.

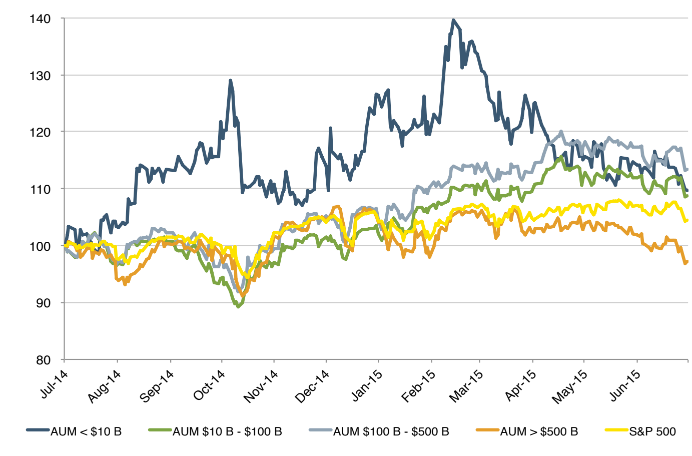
According to a recent article in *The Wall Street Journal*, pension bellwether Calpers (California Public Employees' Retirement System) intends to dramatically reduce the number of relationships it has with private equity, real estate, and other alternative asset funds from 212 to 100. Because it is the largest US public pension fund with $305 billion in AUM, this move will likely have broad ramifications beyond Calpers' own portfolio, as other US pensions follow suit and scale back their reliance on alternative asset managers. This push will not change the percentage of assets managed in-house versus externally for the Sacramento-based pension fund, just the number of unique firms that oversee its funds. The hope is to cut back on management fees, which amounted to $1.6 billion in 2014, and increase Calpers' ability to ensure that all the funds share the same objectives and are performing well. The largest cuts are expected to occur in the private equity portion of its portfolio.

Asset Managers Index

Breakdown by Type

Asset Managers Index

Breakdown by Size



What We're Reading

Portfolio Marks: 2Q15 Outlook
Mercer Capital: Travis Harms
http://mer.cr/1RDI99Z

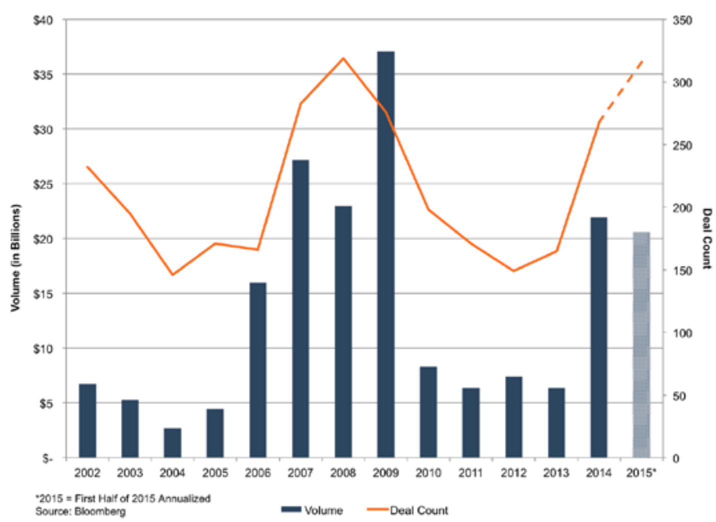
Asset Management M&A: A Look Inside
PwC: Justin Kaufman
http://mer.cr/1P4KTNi

ETFs Go Global
Barron's: Chris Dieterich
http://mer.cr/1N7ZSYs

M&A Review
Second Quarter 2015

According to recent data from Bloomberg, asset manager M&A remains elevated with more year-over-year deals at a lower dollar volume level given the absence of mega-deals like TIAA-CREF's 2014 purchase of Nuveen Investments. Recent consolidation is likely driven by aging sellers' looking to cash out at peak valuations and buyers looking to recurring revenue sources and scalable business models. The current uptick in deal making follows a lull after the active 2006 to 2009 period that culminated in BlackRock's purchase of Barclay's asset manager business.

Asset Manager M&A Since 2002



Some noteworthy transactions from this quarter include:

- On May 11th, **Columbia Pacific Wealth Management** completed its acquisition of **Kibble & Prentice Investment Advisory Group**, another Seattle based firm with AUM of $4.8 billion.

- On May 27th, **Aberdeen Asset Management** announced its agreement to acquire **FLAG Capital Management**, a manager of PE and real asset solutions. As of the end of 2014, FLAG had $6.3 billion in AUM. The transaction is expected to close in the third quarter of this year.

- On June 2nd, **Washington Trust** announced its agreement to acquire **Halsey Associates**, an $850 million investment advisory firm based in New Haven, Connecticut. The transaction is expected to be completed by the end of September.

- On June 8th, **Stifel Financial Corp.** announced its plans to acquire **Barclay's Wealth and Investment Management** franchise in the US with $58 billion in total assets. Total consideration paid by Stifel is dependent on the number of Barclays advisors that decide to join the combined firm and is expected to close in mid-November. On June 5th, Stifel also closed the $150 million acquisition of Sterne Agee Group that was announced in February and mentioned in our last newsletter (**http://mer.cr/1HELi3m**).

- On June 10th, Houston-based **Salient Partners** announced the completion of its acquisition of **Forward Management**, a San Francisco based asset management firm. Forward Management had $5.2 billion AUM as of year-end 2014, and the acquisition is expected to bring the combined firm's AUM to $27 billion. The primary reason cited for this acquisition is the expansion of Salient's alternative investment offerings, such as master limited partnerships and real estate investment trust securities.

- On June 17th, **First Republic Bank** announced it will acquire **Constellation Wealth Advisors** for $115 million or 1.9% of its $6.1 billion AUM base. First Republic expects the deal to close sometime in the third quarter.

What We're Reading

Calpers to Cut External Money Managers by Half
The Wall Street Journal: Timothy W. Martin
http://mer.cr/1IlHsYN
(subscription required)

Asset Managers Dealt with Flat AUM Growth, Depressed Flows in Q2
SNL: Calvin Trice
http://mer.cr/1DL8qT1
(subscription required)

Why You're Paying Too Much in Fees
The Wall Street Journal's Money Beat: Jason Zweig
http://mer.cr/1L4AWlc
(subscription required)

Asset Manager Multiples by Sector

	Ticker	6/30/15 Stock Price	% of 52 Week High	Pricing as of June 30, 2015 Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
TRADITIONAL ASSET MANAGERS							
Affiliated Managers Group, Inc.	AMG	$218.60	95.50%	24.30	13.92	2.17%	10.33
BlackRock, Inc.	BLK	345.98	90.37%	17.48	15.13	1.39%	13.44
Legg Mason, Inc.	LM	51.53	87.40%	17.48	13.13	0.93%	13.44
Pzena Investment Management, Inc.	PZN	11.05	97.70%	21.79	14.44	2.74%	13.67
Westwood Holdings Group, Inc.	WHG	59.57	87.60%	17.33	nm	2.39%	12.05
Group Median			**90.37%**	**17.48**	**14.18**	**2.17%**	**13.44**
MUTUAL FUNDS							
AllianceBerstein Investments, Inc.	AB	$29.53	90.20%	14.94	12.54	nm	13.54
Calamos Asset Management, Inc.	CLMS	12.25	86.27%	20.11	21.16	1.09%	nm
Cohen & Steers, Inc.	CNS	34.08	72.67%	20.27	14.13	2.83%	12.02
GAMCO Investors, Inc.	GBL	68.71	76.13%	16.63	14.94	4.08%	10.94
INVESCO Ltd.	IVZ	37.49	89.30%	15.36	12.33	2.91%	12.95
Franklin Resources, Inc.	BEN	49.03	82.50%	12.81	13.02	3.73%	9.18
Diamond Hill Investment Group, Inc.	DHIL	199.66	95.55%	18.50	nm	4.18%	11.99
Eaton Vance Corp.	EV	39.13	83.70%	18.54	14.02	1.71%	10.85
Hennessy Advisors, Inc,	HNNA	18.85	76.94%	12.61	nm	2.32%	8.72
Manning & Napier, Inc.	MN	9.97	53.20%	nm	9.36	0.31%	nm
T. Rowe Price Group, Inc.	TROW	77.73	87.80%	17.17	14.82	2.64%	9.58
U.S. Global Investors, Inc.	GROW	2.78	72.21%	nm	nm	4.90%	nm
Waddell & Reed Financial, Inc.	WDR	47.31	72.15%	12.55	13.13	3.26%	7.94
Federated Investors, Inc.	FII	33.49	93.68%	23.67	15.85	1.07%	14.72
Virtus Investment Partners, Inc.	VRTS	17.12	91.21%	nm	nm	4.90%	11.00
Janus Capital Group Inc.	JNS	22.15	78.88%	19.35	14.13	1.92%	nm
Group Median			**83.10%**	**17.17**	**14.07**	**2.83%**	**10.97**
ALTERNATIVE ASSET MANAGERS							
Apollo Global Management, LLC	APO	$22.15	78.88%	53.66	10.00	11.91%	29.40
Brookfield Asset Management, Inc.	BAM.A	nm	nm	13.52	28.70	nm	9.01
Blackstone Group L.P.	BX	40.87	92.57%	12.99	10.49	8.03%	nm
Carlye Group, L.P,	CG	28.15	78.22%	20.02	9.75	1.00%	8.17
Fortress Investment Group LLC	FIG	7.30	84.39%	14.37	8.03	3.44%	9.16
Kohlberg Kravis Roberts & Co.	KKR	22.85	89.33%	19.59	8.13	22.21%	nm
Oaktree Capital Group, LLC	OAK	53.18	93.18%	20.45	12.46	15.95%	nm
Och-Ziff Capital Mgmt Group LLC	OZM	12.22	84.57%	16.71	7.44	nm	14.51
Group Median			**84.57%**	**18.15**	**9.87**	**9.97%**	**9.16**
TRUST BANKS							
Northern Trust Corporation	NTRS	$76.46	96.93%	21.98	17.34	nm	nm
Bank of New York Mellon Corporation	BK	41.97	95.17%	18.75	13.45	nm	nm
State Street Corporation	STT	77.00	94.83%	16.57	13.32	nm	nm
Group Median			**95.17%**	**18.75**	**13.45**	**nm**	**nm**
OVERALL MEDIAN			**87.60%**	**17.48**	**13.32**	**2.78%**	**11.50**

Erickson Partners Merges with Mercer Capital

Mercer Capital, a national business valuation and financial advisory firm specializing in Corporate Valuation, Litigation Support, Financial Reporting Valuation, and Transaction Advisory Consulting, and **Erickson Partners, Inc.**, a Texas-based Valuation and Litigation Support firm, announce their merger effective July 1, 2015.

Mercer Capital, with its strong presence throughout the Southeast and Midwest, and Erickson Partners, with its strong presence in Texas and Oklahoma, are a perfect fit.

Both firms maintain the highest standards of quality for financial analysis and client service and believe deeply in hiring and developing the best professionals.

"The culture of both firms is so similar and that was important to us. The professionals of Erickson Partners are well-known in the valuation profession as some of the best and brightest. Their work product and reputation are stellar. This merger not only allows us to broaden our geographic reach but also our industry expertise," said **Matt Crow**, President of Mercer Capital.

Erickson Partners enhances Mercer Capital's broad base of industry concentrations with their exceptional history working with and knowledge of professional sports franchises and the energy sector.

"Over our 30 plus year history, Mercer Capital has developed several industry concentrations. By adding the knowledge, insight, and expertise of Don Erickson, Bryce Erickson, and the rest of the professionals of Erickson Partners, we now bring deep experience and insight to a broader range of industries than we could as separate firms," said **Chris Mercer**, CEO of Mercer Capital.

"Combining with Mercer Capital, we will now be able to offer new or expanded services that complement our existing services, as well as additional industry expertise," said **Bryce Erickson**, Managing Director of Erickson Partners. "In addition to our sports franchise and energy industry concentrations, we will be able to offer deep industry concentrations in construction and building materials, agribusiness, manufacturing and financial institutions, which includes depository institutions, insurance companies, fintech companies, asset management firms, and PE firms."

"The combined firm will have over 40 valuation professionals positioned in five markets throughout the southwest and southeast. Such a deep bench will provide us with a tremendous opportunity to better serve the expanding needs of our clients," said **Don Erickson**, President of Erickson Partners. "Joining with Mercer Capital gives us national resources that will benefit our clients in Texas and beyond."

About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm offering corporate valuation, litigation support, financial reporting valuation, and transaction advisory consulting services to a national client base. Clients include private and public operating companies, financial institutions, asset holding companies, high-net worth families, and private equity/hedge funds.

About Erickson Partners, Inc.

Erickson Partners is a professional valuation and advisory firm specializing in business valuation, litigation support, financial investigations and strategic corporate advisory services. Founded by Don & Bryce Erickson, Erickson Partners has served large and small clients by providing complex financial and economic analysis, leading to reasonable valuation opinions that withstand scrutiny.

CONTACT US

Z. Christopher Mercer, ASA, CFA, ABAR
901.685.2120
mercerc@mercercapital.com

Matthew R. Crow, CFA, ASA
901.685.2120
crowm@mercercapital.com

Donald Erickson, ASA
214.468.8400
ericksond@mercercapital.com

Bryce Erickson, ASA, MRICS
214.468.8400
ericksonb@mercercapital.com

COMBINING CULTURES OF EXCELLENCE

MERCER CAPITAL

Headquarters
5100 Poplar Avenue, Suite 2600
Memphis, TN 38137
901.685.2120

Dallas
12201 Merit Drive, Suite 480
Dallas, TX 75251
214.468.2120

Nashville
102 Woodmont Blvd., Suite 231
Nashville, TN 37205
615.345.0350

www.mercercapital.com

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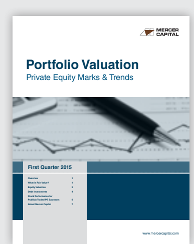

Portfolio Valuation

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

In This Issue

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
Vice President
901.322.9714
hamnerb@mercercapital.com

Madeleine Harrigan
Financial Analyst
901.322.9756
harriganm@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.