



# Asset Management Industry

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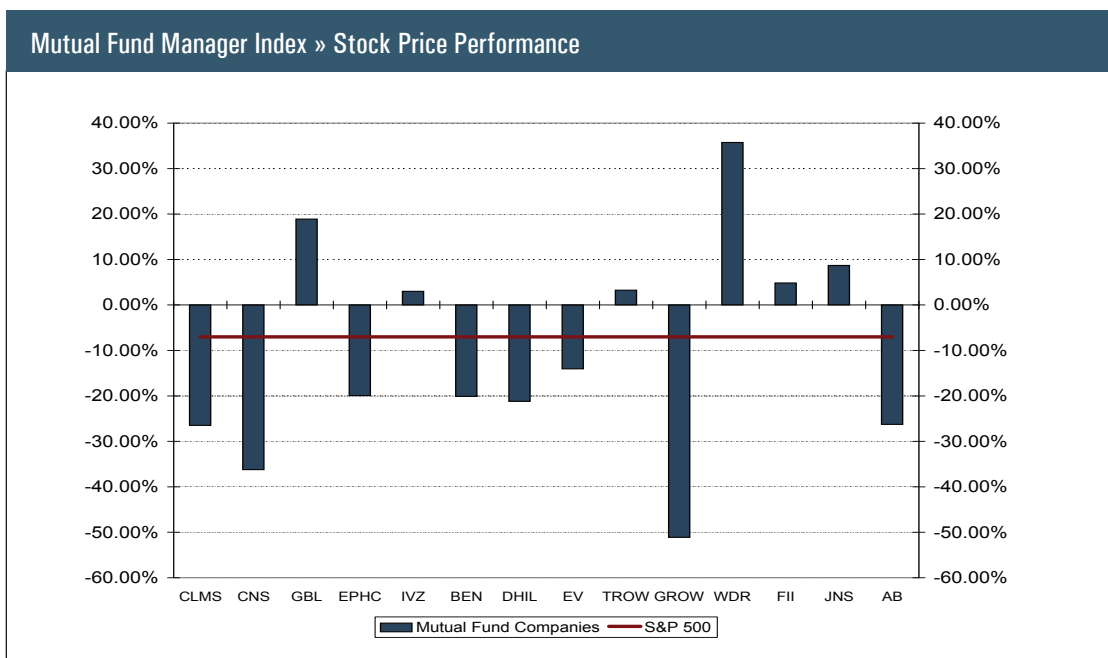
## Segment Focus: Mutual Fund Companies

Generally, mutual fund managers' stock prices reflect the performance of the equity markets overall, which influence trends in the companies' AUM, revenue, and earnings. Consequently, as equity investment performance declines, mutual fund companies often experience asset outflows and reduced earnings resulting from the operating leverage inherent in the asset management business model.

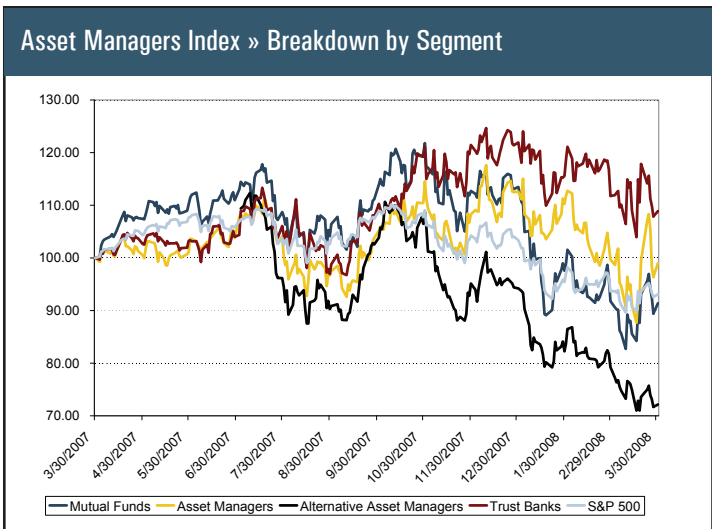
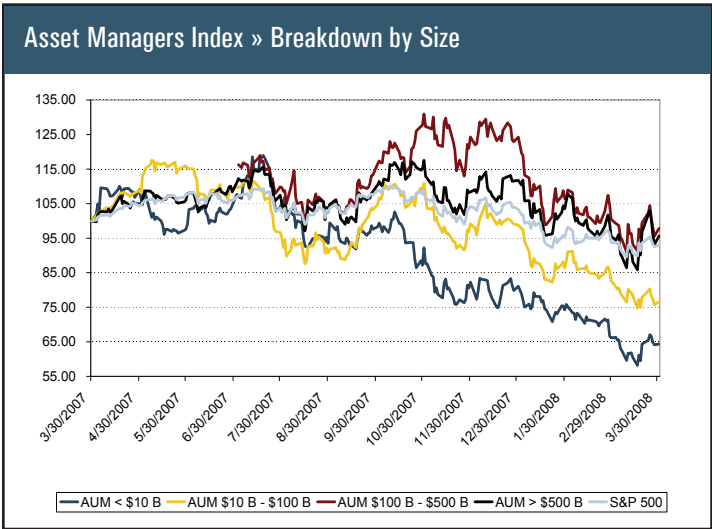
- » For the trailing twelve months ended March 31, 2008, eight of the 14 companies included in our mutual fund manager industry subset saw stock price declines which exceeded the market overall, due in large part to declining equity market conditions. U.S. Global Investors exhibited the weakest performance during the trailing twelve months, due largely to the market's negative reaction to the inflation of the company's stock price during 2006. Cohen & Steers, which emphasizes REIT management, also experienced price declines in 2007 related to investor concerns regarding both equity and real estate market conditions.
- » Unfavorable conditions in the credit markets resulting from the subprime fallout also negatively impacted several mutual fund companies managing funds holding auction rate securities ("ARS"). ARS suffered as two-thirds of the auctions for these publicly offered bonds failed in the first quarter of 2008, resulting in liquidity problems and significant writedowns. Auction rate securities

had previously been considered a low-risk, short term instrument analogous to short term treasuries or commercial paper. But as credit ratings for bond insurers backing ARS deteriorated, the perceived risk of the securities increased and investors withdrew participation from the auctions. The failed auctions left investors such as closed end funds holding long term, illiquid investments which were difficult to value. Alliance Bernstein, which reported unfavorable fourth quarter earnings trends due primarily to the performance of its hedge funds, reported failed auctions for three closed-end municipal funds in February 2008. Calamos Asset Management also experienced issues in the auction-rate securities market and announced plans to refinance the leverage on five closed-end funds which previously issued auction-rate stock. Eaton Vance also reported struggles with ARS in the first quarter and announced the planned restructure of \$1.6 billion of ARS into long-term debt.

- » Despite unfavorable market performance for most of the mutual fund managers included in our index, six companies experienced stock price increases during the trailing twelve months. The most notable gain was observed for Waddell & Reed Financial, which reported increasing earnings and asset inflows resulting from the launch of several new asset allocation products.



Market Overview: 2008 Q1



- » Asset manager stocks outperformed the overall market during the twelve month period ended March 31, 2008, although the disparity between the performance of the industry subsets and the S&P 500 narrowed from fiscal 2007. Trust banks continued to exhibit the most favorable performance of the four asset manager subgroups due to investors' flight to securities perceived as more stable amidst recession fears. Additionally, enhanced revenues attributable to foreign exchange trading and securities lending bolstered the earnings performance of State Street, Bank of New York Mellon, and Northern Trust.
- » Alternative asset managers continued to represent the weakest market performers among publicly traded asset managers, as uncertainty related to pricing of illiquid assets continued. Additionally, private equity manager Blackstone (the second largest of the five companies included in the alternative asset manager subgroup) continued to underperform due to weakening fourth quarter earnings and an ongoing lack of available financing for completing large leveraged transactions. Brookfield Asset Management (the largest alternative asset manager in the subset) also saw weakening stock prices in late 2007 and early 2008 due in part to investor concerns regarding deterioration in the real estate market.
- » Mutual fund managers ended the trailing twelve month period slightly below the S&P 500 due partially to unfavorable fourth quarter earnings performances and asset outflows reported by several companies. Additionally, liquidity issues in the auction-rate securities market heightened liquidity concerns for certain managers, which could result in a rising cost of leverage for many closed-end funds and declining investment income for fund participants.
- » Traditional asset management companies fared better than the overall due in large part to the continued strong performance of Blackrock, despite rumors of subprime exposure in early February and the unfavorable impact of reduced liquidity for auction rate preferred securities. Blackrock's performance was seemingly bolstered by the March 2008 announcement of the co-sponsorship of Private National Mortgage Acceptance Co., an entity established to purchase and restructure distressed mortgage loans, as well as the selection of Blackrock by the New York Federal Reserve to oversee funds previously managed by Bear Stearns.

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## Mergers & Acquisitions Review

- » Following a record year for M&A activity and IPOs by fund managers, many analysts are forecasting a slowdown in the acquisition market for traditional long-only managers; however, due to the continued perception of strong growth opportunities available to fund managers, activity for the alternative investments sector is likely to supplement total deal activity for 2008.
- » Broader economic conditions are also expected to have a significant impact on deal activity for the foreseeable future. For instance, many private equity firms may look to compensate for declining leverage by purchasing companies with more stable revenue and cash flow, such as asset managers. Still, many believe that M&A activity may be constrained by growing uncertainty related to capital markets and the inability for potential acquirers to obtain the necessary financing for these transactions.
- » Globalization is also expected to drive asset manager transactions in 2008 as fund managers continue to look overseas to fulfill investors' growing demand for international diversification. On January 25, 2008, BlackRock announced plans to purchase a 40% stake in India's DSP Merrill Lynch Fund Managers and launched an IPO for BlackRock Absolute Return Strategies, a fund of funds, to be listed on the London Stock Exchange. Malaysia has also become a recent focus of many asset managers attempting to diversify internationally. Franklin Resources became the fifth foreign fund manager to be licensed in Malaysia on March 31, 2008. Malaysia began issuing licenses as part of a plan to increase competition in a market which has been historically dominated by state-linked funds with little exposure to overseas investments.
- » The presence of special purpose acquisition companies ("SPACs") in the asset management industry has increased as unattractive market conditions and complex processes have enhanced the incentive for asset managers to avoid filing for IPOs. According to SNL Financial, Jefferies & Co. documented at least seven SPACs established specifically to combine with a financial services company during 2007, with asset managers as typically the most attractive targets. A notable example included hedge fund GLG Partners announcement on June 22, 2007 of its intention to purchase Freedom Acquisition Holdings. SPAC transactions have continued into 2008, the most recent example being Alternative Asset Management Acquisition's announcement of a reverse merger with Halcyon Asset Management on March 13th.
- » Despite an expected decline in overall transaction activity and IPO filings, the following notable M&A events occurred during the first quarter of 2008:
  - On January 31, Wilmington Trust announced its intent to acquire AST Capital, which will allow Wilmington to nearly double the amount of assets it administers and add approximately \$27 million in annual revenue.
  - Julius Baer Americas Inc. ("JBA") filed for an IPO on February 12, 2008. The offering size is listed as \$1 billion, and JBA plans to change its name to Artio Global Investors in connection with the IPO.

Market Multiples as of 03/31/08					
	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
<b>ASSET MANAGERS</b>					
Affiliated Managers Group, Inc.	AMG	25.65	14.08	1.96%	7.82
BlackRock, Inc.	BLK	28.79	19.94	2.08%	13.65
Legg Mason, Inc.	LM	15.21	15.66	1.12%	8.48
Pzena Investment Management, Inc.	PZN	95.00	17.01	3.35%	nm
W.P. Stewart & Co., Ltd.	WPL	nm	nm	6.34%	nm
Westwood Holdings Group, Inc.	WHG	29.37	nm	3.26%	20.58
<i>Group Median</i>		<i>28.79</i>	<i>16.34</i>	<i>2.67%</i>	<i>11.07</i>
<b>MUTUAL FUNDS</b>					
AllianceBernstein Investments, Inc.	AB	14.67	12.05	0.74%	13.27
Calamos Asset Management, Inc.	CLMS	13.34	12.52	1.87%	3.71
Cohen & Steers, Inc.	CNS	14.97	14.97	3.56%	8.23
GAMCO Investors, Inc.	GBL	18.05	15.79	5.11%	11.10
Epoch Holding Corporation	EPHC	24.96	21.02	3.76%	nm
INVESCO Ltd.	IVZ	14.85	11.49	2.35%	8.51
Franklin Resources, Inc.	BEN	12.98	11.87	3.75%	8.65
Diamond Hill Investment Group, Inc.	DHIL	17.43	nm	3.90%	11.34
Eaton Vance Corp.	EV	20.21	14.00	2.63%	11.26
T. Rowe Price Group, Inc.	TROW	20.83	17.01	3.31%	11.65
U.S. Global Investors, Inc.	GROW	15.04	nm	3.62%	9.62
Waddell & Reed Financial, Inc.	WDR	21.14	14.34	4.60%	13.35
Federated Investors, Inc.	FII	18.47	13.37	1.34%	10.56
Janus Capital Group Inc.	JNS	21.75	14.54	2.42%	11.82
<i>Group Median</i>		<i>17.74</i>	<i>14.17</i>	<i>3.43%</i>	<i>11.10</i>
<b>ALTERNATIVE ASSET MANAGERS</b>					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	7.72	24.6%	nm
Brookfield Asset Management, Inc.	BAM	21.64	26.56	52.4%	12.80
GLG Partners, Inc.	GLG	51.61	9.81	12.9%	24.02
Blackstone Group L.P.	BX	nm	10.66	4.0%	nm
Fortress Investment Group LLC	FIG	nm	8.47	13.2%	nm
<i>Group Median</i>		<i>36.62</i>	<i>9.81</i>	<i>13.2%</i>	<i>nm</i>
<b>TRUST BANKS</b>					
Wilmington Trust Corporation	WL	11.78	11.31	4.19%	nm
Northern Trust Corporation	NTRS	20.52	14.94	1.94%	nm
Bank of New York Mellon Corporation	BK	17.53	12.10	4.27%	nm
State Street Corporation	STT	22.90	13.86	1.54%	nm
<i>Group Median</i>		<i>19.02</i>	<i>12.98</i>	<i>3.06%</i>	<i>nm</i>
<b>OVERALL MEDIAN</b>		<b>20.21</b>	<b>14.00</b>	<b>3.56%</b>	<b>11.26</b>



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## VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

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Segment Focus: Mutual Fund Companies

First Quarter 2008 Market Overview

M&A Review

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## About Value Focus: Asset Management Industry

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Mercer Capital's Value Focus is a quarterly publication providing perspective on valuation issues pertinent to asset managers, trust companies, and investment consultants. Having built a substantial client base in the money management industry, we have decided to formalize our equity research efforts to provide a regular, detailed overview of pertinent issues and relevant current events. Each issue will highlight a market segment: 1st quarter: Mutual Fund Companies, 2nd quarter: Traditional Asset Managers, 3rd quarter: Alternative Asset Managers, and 4th quarter: Independent Trust Companies. To see past issues of the "Value Focus," visit [www.mercercapital.com](http://www.mercercapital.com) under the Knowledge Center section of our website.

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## About Mercer Capital

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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, auction rate security valuation and related services.

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