

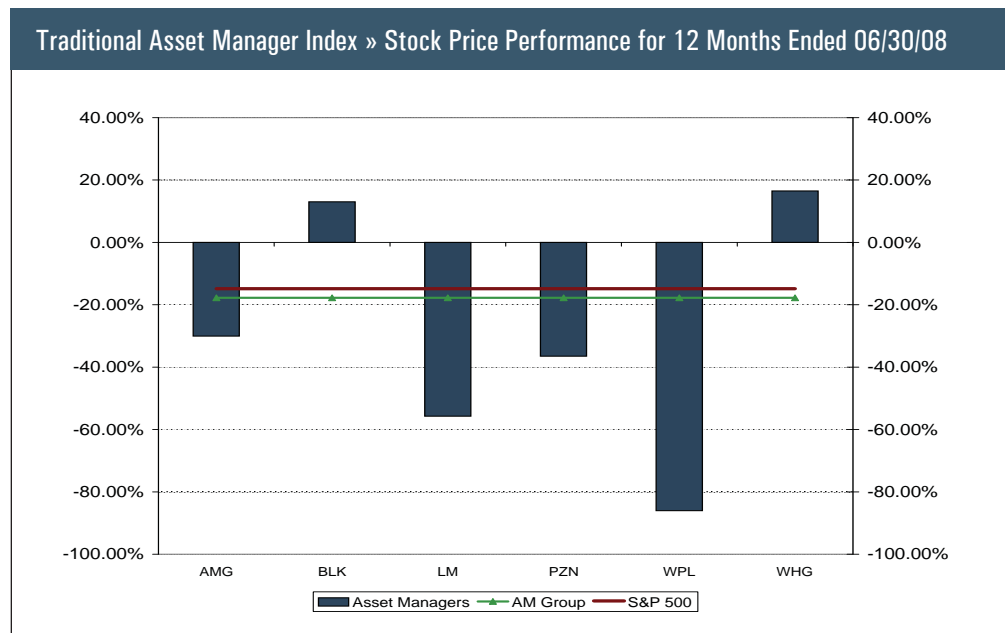


# Asset Management Industry

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.

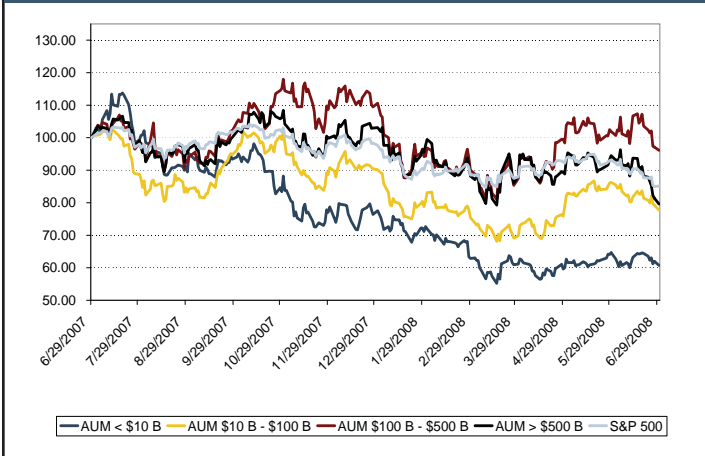
## Segment Focus: Traditional Asset Managers

- » In line with deteriorating economic trends, many investment managers continued to see asset outflows during the second quarter of 2008 as overall market performance remained weak. As managed assets decline due to market performance and/or client withdrawals, asset management firms and mutual fund companies tend to experience margin compression as the revenue base contracts while fixed operating expenses remain stable. Deteriorating profitability, in turn, adds pressure to publicly traded investment managers' stock prices. Managers seeing stable or even expanding assets primarily offered strong money market programs, which attract investors in times of volatile or unfavorable market trends. As market woes continued, the majority of publicly traded traditional asset managers' stock performance lagged the market overall during the trailing twelve month period, with the exception Blackrock and Westwood Holdings:
  - Blackrock continued to outperform the traditional asset manager group as well as the overall market in the trailing twelve months ended June 30, 2008 due to continued funding inflows to money market products; however, Blackrock's performance began to decline during the month of June in connection with speculation of Merrill Lynch selling its 49% stake in the company to generate liquidity. Additionally, Blackrock's earnings announcement for the first quarter (occurring in April 2008), although favorable, did not meet analysts' more optimistic expectations.
  - Legg Mason continued to trend downward for the trailing twelve month period as concerns related to structured investment vehicles and exposure to credit problems weighed on investors' perceptions of the company. Asset outflows due to ongoing underperformance for a large number of its products, including some of the "flagship" funds, resulted in reduced revenues, while continued charges contributed to a large net loss reported in early May for the first quarter.
  - Affiliated Asset Managers Group, the third largest traditional asset manager included in the index, saw unfavorable performance compared to the group overall for the trailing twelve months, as the stock price levels realized in late April and early May began to decline in line with declines in AUM following asset outflows from its quantitative strategies.
  - W.P. Stewart was the worst performer in the traditional manager group in the trailing twelve months ended June 30, 2008, as its stock price continually declined beginning in the third quarter of 2007 and reached its lowest point in February of 2008 following the company's delayed financial reporting in light of the pursuit of "strategic alternatives."

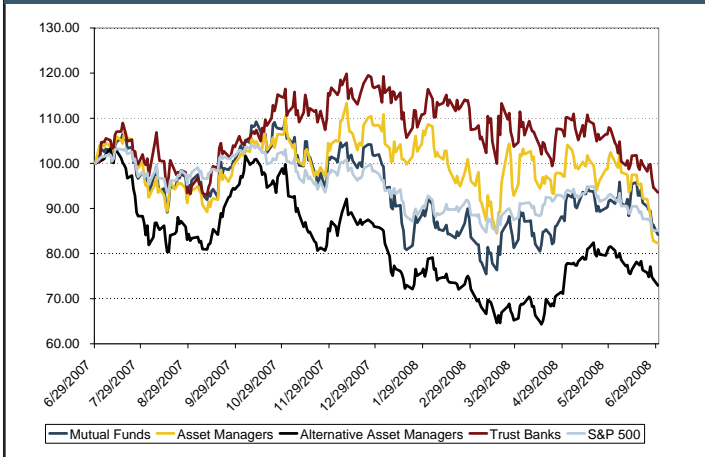


Market Overview: 2008 Q2

Asset Managers Index » Breakdown by Size



Asset Managers Index » Breakdown by Segment



- » Asset managers and mutual funds ended the trailing twelve months ended June 30, 2008 with a similar performance to the overall market. Trust banks (as a group) remained the strongest performers of the four asset manager subgroups as investors' continued to prefer "safe" investments amidst ongoing recession fears. Additionally, several custody banks benefit from market volatility, which enhances servicing income, as well as foreign exchange opportunities arising from the weakened dollar.
- » Traditional asset manager stocks, as a whole, outperformed the market as well as mutual funds and alternative asset managers throughout the majority of the first six months of 2008 as continued stability exhibited by Blackrock offset weakened performances for Legg Mason and Affiliated Managers Group, Inc. However, traditional asset manager stock performance lagged that of the overall market for the month of June due primarily to a decline in Blackrock's (the largest company in the subgroup) price levels.
- » Alternative asset managers continued to represent the weakest market performers among publicly traded asset managers, although the gap between the alternative manager subset and the three other groups began to narrow during the second quarter of 2008. The improved performance is primarily attributable to the Brookfield Asset Management (the largest alternative asset manager in the subset), which saw strengthening prices in April and May in line with its differentiated investment products involving infrastructure, utilities, timber, and real estate, most of which perform relatively well in less favorable market conditions as compared to peer equity or hedge fund managers.
- » Mutual fund managers ended the trailing twelve month period slightly below the S&P 500 due partially to unfavorable first quarter earnings performances and asset outflows reported by several companies. Additionally, liquidity issues in the auction-rate securities market resulted in continued liquidity concerns for certain managers. Franklin Resources, the largest mutual fund manager in the group, lagged the subset overall due to the underperformance of several of its products relative to competitors. T. Rowe Price Group saw more favorable pricing trends as managed assets expanded due to growth in retirement funds and stronger fund performance.

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## Mergers & Acquisitions Review: 2008 Q2

- » Original investors in recent hedge fund and private equity IPOs have witnessed a precipitous decline in their stock prices with the tightening of the credit markets and the deceleration of the global economy. As of the end of the second quarter, Blackstone, Fortress, and Och-Ziff saw their share values decline by 41%, 65%, and 42%, respectively, from their debut prices. Other funds, like Kohlberg Kravis Roberts & Co. and UTI Asset Management are delaying their public offerings until market conditions improve.
- » Mergers and acquisitions among asset managers fell sharply in the first half of 2008 as the disclosed total deal value dropped to \$10.6 billion from \$36.9 billion a year earlier while the total assets under management transacted fell to \$904 billion from \$1.23 trillion, according to DealBook.com. Aaron Dorr of Jefferies Putnam Lovell attributes this decline to “a strategic overhaul [among asset managers] as they gauge the severity and duration of the global financial slump.” This macroeconomic uncertainty has caused some buyers to retract their initial bids. Alternative Asset Management Acquisition Corp., for example, agreed to terminate their agreement to purchase Halcyon Asset Management on June 23, 2008 according to SNL Financial.
- » Of the deals that are taking place, alternative asset managers remain the driving force behind much of the M&A activity for the first half of 2008. Even with the reduction of deal activity for private equity firms in a waning LBO market, the number of alternative investment mergers and acquisitions totaled a record 37% of all deals in the global investment management business for the first six months of 2008.
- » According to the *Wall Street Journal*, growth of the hedge fund industry is starting to slow as many funds are either closing or merging with existing funds as losses expand. The result is a consolidating industry, dominated primarily by larger funds such as D.E. Shaw & Co., Och-Ziff Capital Management, and Paulson and Company.
- » The slumping housing market and tightening of the credit markets have produced opportunities for asset managers to invest in distressed securities with high return potential. Blackstone has raised \$11 billion to buy distressed property and BlackRock purchased \$15 billion of UBS's subprime mortgages in a fire-sale designed by UBS to quickly reduce its exposure to its riskier mortgage-backed securities. BlackRock also inherited Bear Stearns's \$30 billion portfolio after its collapse in March.
- » Some notable recent transactions in the asset manager industry include:
  - Wilmington Trust's acquisition of UBS Fiduciary Trust Company from UBSAG in June of 2008, will add approximately \$5.5 billion in assets under administration to WL's retirement services platform, bringing its total to more than 3,800 plans and \$46 billion in assets, according to *BusinessWeek*.
  - On June 26, Northern Trust announced its intention to acquire Lakepoint Investment Partners, which manages mostly balanced portfolios with an emphasis on income and capital preservation.

Market Multiples as of 06/30/08					
	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
<b>ASSET MANAGERS</b>					
Affiliated Managers Group, Inc.	AMG	19.84	11.74	2.07%	7.46
BlackRock, Inc.	BLK	22.46	16.70	1.74%	11.65
Legg Mason, Inc.	LM	23.42	10.13	0.93%	13.30
Pzena Investment Management, Inc.	PZN	106.33	24.08	4.30%	nm
W.P. Stewart & Co., Ltd.	WPL	nm	nm	2.77%	(4.27)
Westwood Holdings Group, Inc.	WHG	29.70	nm	3.72%	21.17
<i>Group Median</i>		<i>23.42</i>	<i>14.22</i>	<i>2.42%</i>	<i>11.65</i>
<b>MUTUAL FUNDS</b>					
AllianceBernstein Investments, Inc.	AB	12.87	11.51	0.67%	11.67
Calamos Asset Management, Inc.	CLMS	18.51	13.62	2.12%	4.88
Cohen & Steers, Inc.	CNS	16.65	15.55	3.77%	9.55
GAMCO Investors, Inc.	GBL	20.01	19.08	5.41%	12.11
Epoch Holding Corporation	EPHC	22.77	nm	3.14%	nm
INVESCO Ltd.	IVZ	19.34	11.53	2.53%	8.63
Franklin Resources, Inc.	BEN	12.59	11.80	3.88%	8.50
Diamond Hill Investment Group, Inc.	DHIL	19.69	nm	4.24%	13.08
Eaton Vance Corp.	EV	22.46	17.67	3.21%	12.19
T. Rowe Price Group, Inc.	TROW	23.14	19.81	3.87%	12.74
U.S. Global Investors, Inc.	GROW	19.03	nm	4.81%	12.24
Waddell & Reed Financial, Inc.	WDR	23.34	15.84	4.94%	14.35
Federated Investors, Inc.	FII	15.79	12.99	1.05%	9.16
Janus Capital Group Inc.	JNS	24.06	17.19	2.90%	12.54
<i>Group Median</i>		<i>19.52</i>	<i>15.55</i>	<i>3.49%</i>	<i>12.11</i>
<b>ALTERNATIVE ASSET MANAGERS</b>					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	8.27	22.5%	nm
Brookfield Asset Management, Inc.	BAM	26.24	30.70	57.0%	12.38
GLG Partners, Inc.	GLG	(3.70)	8.13	9.3%	nm
Blackstone Group L.P.	BX	nm	13.29	4.2%	nm
Fortress Investment Group LLC	FIG	(5.24)	9.19	14.6%	nm
<i>Group Median</i>		<i>(3.70)</i>	<i>9.19</i>	<i>14.6%</i>	<i>nm</i>
<b>TRUST BANKS</b>					
Wilmington Trust Corporation	WL	10.02	10.37	5.08%	nm
Northern Trust Corporation	NTRS	16.68	15.24	1.94%	nm
Bank of New York Mellon Corporation	BK	15.70	11.13	3.93%	nm
State Street Corporation	STT	16.41	11.85	1.28%	nm
<i>Group Median</i>		<i>16.05</i>	<i>11.49</i>	<i>2.94%</i>	<i>nm</i>
<b>OVERALL MEDIAN</b>		<b>19.52</b>	<b>13.14</b>	<b>3.77%</b>	<b>12.11</b>



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## VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

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Segment Focus: Traditional Asset Managers

Second 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, and related services.

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