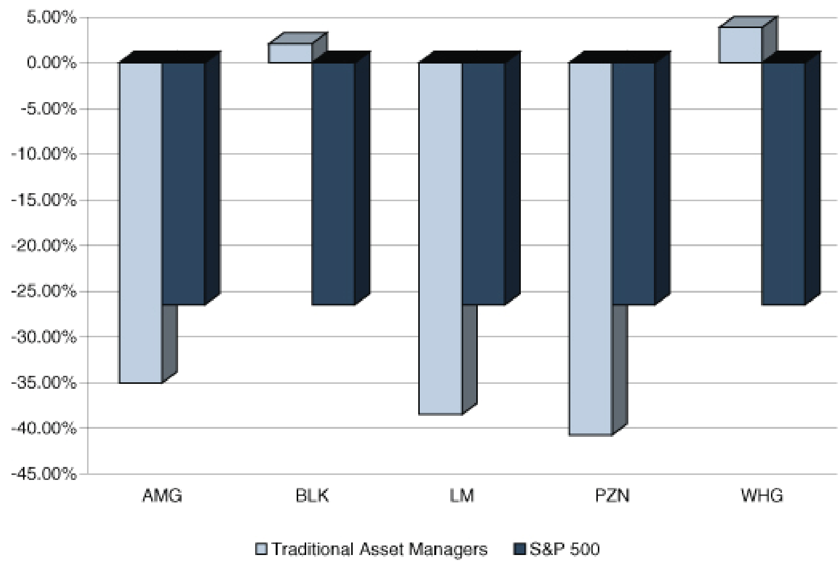
Asset Management Industry

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

Segment Focus: Traditional Asset Managers

Our market weighted index of traditional asset managers soared over 40% during the second quarter of 2009, outperforming both the S&P 500's gain (14%) and shares of publicly traded asset mangers that recovered 22% of their value over the period. Much of this appreciation is attributable to BlackRock's 83% increase in its share price over the period as the overseer of $2.7 trillion in client assets has emerged from the financial crisis as the world's largest money manager following its June 11th acquisition of Barclays Global Investors for $13.5 billion. BlackRock was also recently named one of the ten firms tapped by the Treasury Department to participate in its Public-Private Investment Program ("P-PIP"), wielding its influence in both the public and private domain.

Traditional Asset Manager Focus :: Total Return for 12 Months Ended 06/30/09



Some asset managers also benefited from JP Morgan's recent upgrade of Franklin Resources and T. Rowe Price, citing "improvements in global market returns versus domestic returns" and the eventual negative impact that higher rates will have on money market funds. Still, the underlying systematic risk of these funds remains as JP Morgan warned its clients, "since we have little conviction on the direction of equity markets, we support a more market-neutral stance on the traditional asset management sector."

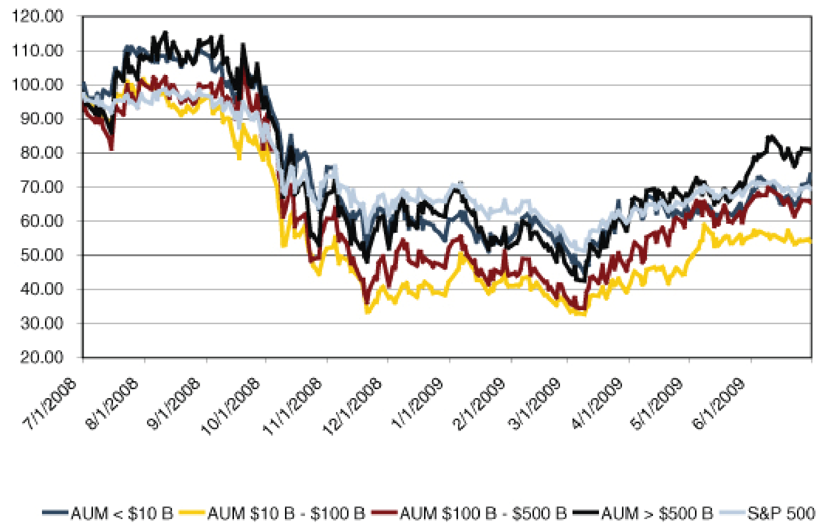
As for systemic risk, BlackRock founder and Chief Executive, Larry Fink, quelled any speculation that BlackRock might become "too-big-to-fail" and pose a risk to the financial system, noting the firm's lack of leverage in its capital structure and management of client assets for fiduciary rather than trading purposes. Given the stock's recent performance, most investors seem to be convinced. As for its involvement with the federal government via P-PIP participation, Mr. Fink assuaged investors that BlackRock has the proper firewalls in place to nullify any conflicts of interest between its investment management and risk analytics departments. Still, Mr. Fink conceded that any company managing nearly $3 trillion in assets could pose some shock to the financial system, "if one person or entity is able to make a bet-the-farm investment decision based on poor investment analysis for an extraordinary large amount of capital."

One notable exemption from this year's index of traditional asset managers is W.P. Stewart & Co. The Bermudan-based money manager was delisted from the NYSE in January due to its failure to meet the exchanges's continued listing criteria of having an average market capitalization of at least $25 million over a 30-day trading period. The delisting will inevitably reduce the marketability of WPL shares but should help the firm lower regulatory costs while continuing its listing on the Bermudan exchange.

Market Overview: 2009 Q2

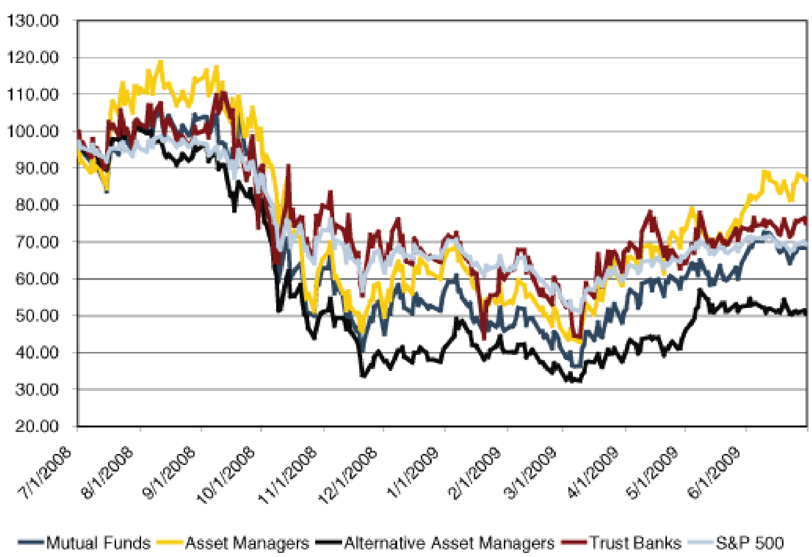
Despite a warm reception from Wall Street and most asset mangers upon its announcement, P-PIP has failed to bridge the bid-ask spread on the toxic assets plaguing the balance sheets of some of the nation's largest financial institutions. The plan did attract a few potential investors, but most banks were simply unwilling to part with their troubled assets at basement prices that would only further aggravate their capital positions. On the buy side, some asset managers have balked at the opportunity given the inherent risks of doing business with the federal government - PIMCO recently withdrew its application "as a result of uncertainties regarding the design and implementation of the program."

Asset Managers Index :: Breakdown by Size



A recent report from The Boston Consulting Group, titled "Conquering the Crisis: Global Asset Management 2009," noted that the subpar performance of the products offered and recommended by asset managers has led many clients to question both their advisor's judgment and the products they offer. The BCG report predicts that this financial crisis will have a much more profound impact than the previous bursting of the dot-com bubble given the magnitude of investment losses and declines in asset classes traditionally assumed to be reliable. Despite the recent favorable performance in the equity markets and shares of publicly traded asset managers, it's still apparent that most asset managers have their work cut out for them to repair the attrition in AUM and investor confidence precipitated by the events over the last few quarters.

Asset Managers Index :: Breakdown by Type



The BCG report also warned asset managers about the potential follies of becoming too overconfident with the recent rise in the equity markets and not preparing for an "Armageddon scenario" where the recession deepens and asset prices continue to soften. Kai Kramer, who heads up BCG's global asset management practice, cautioned industry participants in a recent telephone interview with Reuters that "asset managers cannot be tricked by green shoots and must make sure they are ready if the crisis gets worse again, where firms see more massive outflows or another drop in the market."

BCG expects firms specializing in asset allocation and passively constructed ETFs to thrive in the current market environment as Mr. Kramer indicated that "people are sick and tired of paying a lot of money for lackluster returns." Meanwhile active managers and stock pickers will have to deliver alpha to justify their high fees and attract new business in the current era of heightened risk aversion and sharpened investor scrutiny.

Mergers & Acquisitions
Review: 2009 Q2

Following an anemic start to 2009 for asset manager transaction activity, the second quarter witnessed the largest deal ever in terms of transacted AUM - BlackRock purchased $1.5 trillion of AUM for $13.5 billion, or 0.9% of AUM, to become the world's largest asset manager with $2.7 trillion under management. This acquisition, along with Credit Agricole's purchase of Societe Generale Asset Management with $808 billion in AUM, led to a 400% increase in transacted AUM for the first half of 2009 compared to the previous year. Still, there were only 85 total asset management M&A deals in the first half of 2009, which is down 35% from the previous period. The median deal size was also down in the first half of 2009 to just under $1 billion for the first time since the 1990s, according to *Investment Executive*.

Divestitures represented 47% of deals for the first half of 2009 and are expected to be the driving force behind much of the sector's M&A activity for the rest of the year as battered financial institutions sell their asset management departments to raise capital and repair their balance sheets. There were corresponding declines in cross-border deals and purchases of alternative asset managers due to some familiarity bias amidst global economic uncertainty and dismal 2008 investment performance for most alternative asset managers.

For the second half of 2009, analysts at Jefferies Putnam Lovell expect more transaction activity in the sector as the more traditional asset managers seek economies of scale at attractive prices while private equity firms are drawn to the industry's (typically) high operating margins and low capital requirements.

Market Multiples as of 06/30/09

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	73.18	9.23	1.85%	10.57
BlackRock, Inc.	BLK	22.00	18.34	1.40%	13.86
Legg Mason, Inc.	LM	nm	11.20	0.82%	nm
Pzena Investment Management, Inc.	PZN	nm	10.05	1.50%	nm
W.P. Stewart & Co., Ltd.	WPSLF	nm	nm	1.01%	nm
Westwood Holdings Group, Inc.	WHG	23.98	nm	3.79%	16.22
Group Median		*23.98*	*10.62*	*1.45%*	*13.86*
MUTUAL FUNDS					
AllianceBerstein Investments, Inc.	AB	5.28	10.15	0.31%	4.77
Calamos Asset Management, Inc.	CLMS	nm	10.69	0.91%	nm
Cohen & Steers, Inc.	CNS	18.60	32.82	3.09%	9.34
GAMCO Investors, Inc.	GBL	36.69	21.91	5.32%	23.37
Epoch Holding Corporation	EPHC	19.63	nm	2.83%	14.63
INVESCO Ltd.	IVZ	11.45	14.74	1.98%	9.05
Franklin Resources, Inc.	BEN	10.67	16.27	3.08%	6.66
Diamond Hill Investment Group, Inc.	DHIL	28.91	nm	2.13%	16.86
Eaton Vance Corp.	EV	17.31	18.13	2.60%	9.81
T. Rowe Price Group, Inc.	TROW	15.86	21.54	2.68%	8.58
U.S. Global Investors, Inc.	GROW	30.44	nm	3.75%	17.24
Waddell & Reed Financial, Inc.	WDR	15.71	15.71	3.65%	9.55
Federated Investors, Inc.	FII	10.12	10.40	0.61%	6.43
Janus Capital Group Inc.	JNS	7.73	14.78	1.76%	6.57
Group Median		*15.86*	*15.71*	*2.64%*	*9.34*
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	5.84	10.9%	nm
Brookfield Asset Management, Inc.	BAM	13.25	13.78	51.4%	16.01
GLG Partners, Inc.	GLG	nm	8.11	8.4%	nm
Blackstone Group L.P.	BX	nm	10.07	2.1%	nm
Fortress Investment Group LLC	FIG	nm	6.44	3.5%	nm
Group Median		*13.25*	*8.11*	*8.4%*	*nm*
TRUST BANKS					
Wilmington Trust Corporation	WL	nm	7.40	13.96%	21.59
Northern Trust Corporation	NTRS	17.24	14.08	2.58%	9.53
Bank of New York Mellon Corporation	BK	23.16	9.74	3.80%	12.36
State Street Corporation	STT	7.16	6.72	1.08%	4.05
Group Median		*17.24*	*8.57*	*3.19%*	*10.95*
OVERALL MEDIAN		**17.27**	**10.94**	**2.60%**	**9.81**

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VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

Segment Focus: Traditional Asset Managers

Second Quarter 2009 Market Overview

Second Quarter 2009 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. To see past issues of **Value Focus**, visit www.mercercapital.com under the Knowledge Center section of our website.

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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