



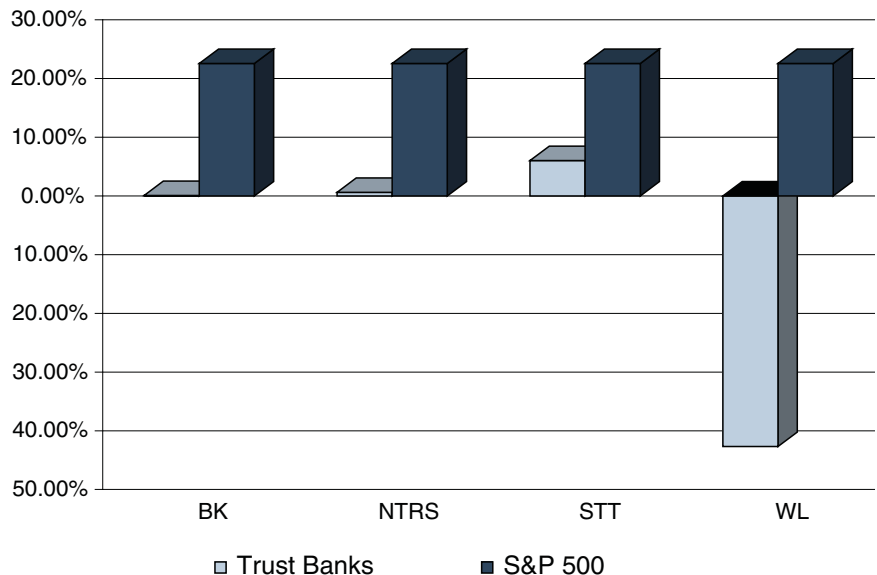
# Asset Management Industry

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: Trust Banks

Publicly traded trust banks returned a paltry 0.81% in 2009, which pales in comparison to the major U.S. indices that gained anywhere from 20% to 40%. In our Q4 2008 segment focus on trust banks we noted that the sector stood to benefit (on a relative basis) from any continued deterioration in the equity markets and corresponding flight to quality in the Treasury markets. Indeed, trust banks significantly outperformed the S&P in the first quarter of 2009 when these circumstances persisted, and the market bottomed on March 6, 2009. Unfortunately, we failed to provide a corresponding outlook in the event of a sharp rebound that ultimately transpired over the last three quarters of 2009. As servicers of client assets for custodial and administrative purposes, trust banks have not benefited as much from the steep yield curve as their banking counterparts, nor have they gained as much ground as other asset managers whose AUM recovered with the equity markets and investor confidence.

The segment's smallest component, Wilmington Trust, had an especially bad 2009 when it announced a \$68.5 million loss for the fourth quarter of 2008 in January and was forced to sell \$330 million in preferred stock to the Treasury as part of its participation in the TARP program. WL continued to report losses and underperform its peers throughout the year due in large part to its unique exposure to residential and commercial real estate loans and continued escalation in non-performing asset holdings. State Street, on the other hand, recovered nicely after losing over half its market cap on January 20, 2009 when its tangible common equity dropped to 1.05% upon consolidation of its



asset backed commercial paper conduit. Since then, State Street's share price has nearly tripled as the company repaid its TARP obligations and improved its capital ratios to appease investor anxiety following the events of January 20th. Still, STT's shares were up just 5.94% for 2009, despite outperforming all its peers in the struggling segment.

The outlook for trust banks isn't any better than their recent performance. UBS lowered its price targets on Bank of New York Mellon, Northern Trust, and State Street, citing expectations for underperformance on a listless near term outlook. Specifically, UBS analysts contend, "We think trust banks remain lackluster heading into the fourth quarter earnings, as the near term outlook remains sluggish, and while we don't think there's much downside to trust stocks at these multiples, we think they're range-bound near-term given multiple headwinds."

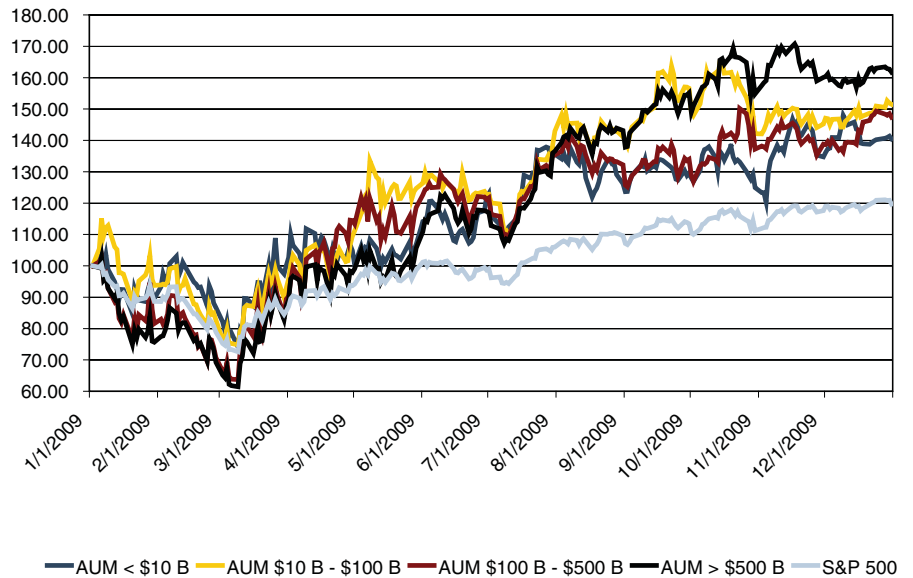
## Market Overview: 2009 Q4

Bucking the trend from the past few quarters, our market-weighted index of publicly traded asset managers lagged the S&P, primarily due to the aforementioned underperformance of the trust banks, which combined capitalization represents over 40% of the index. Excluding these underperformers, asset managers returned 9% in the fourth quarter of 2009, which is in line with the other major U.S. indices. The fourth quarter saw most asset managers continue on the road to recovery, repairing AUM and attracting new assets from previously sidelined investors, although most will report year-over-year declines in revenue and net income for 2009.

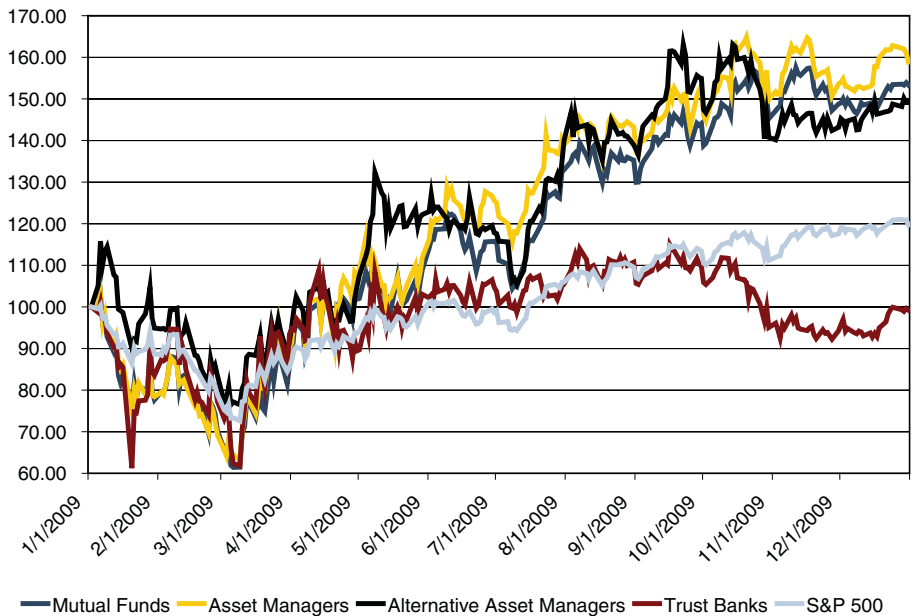
Some of the recent fuel for the sector has come from Wall Street optimism as analysts at Jefferies, Goldman Sachs, and JP Morgan, among others, have upgraded several asset managers in anticipation of continued strength in the equity markets and more favorable asset allocations from their underlying investors in 2010. *MarketWatch's* Sam Mamudi noted that some analysts see early 2010 as the time when investors will finally be ready to take on more risk and begin adding to their stock holdings. Specifically, Goldman analyst Marc Irizarry cited three factors that support his favorable outlook for the sector:

- » Lower interest rates into the foreseeable future coupled with rising equity markets for the first half of 2010;
- » A favorable revenue mix shift as flows move toward risk-assets, which boost flows into more-profitable stock funds; and
- » Supportive valuations (forward P/E ratios on the order of 18x – in line with the historical average) on still below-average margins.

Asset Managers Index :: Breakdown by Size



Asset Managers Index :: Breakdown by Type



Still, as of January 22, 2010, our asset managers' index is down over 7%, which is symptomatic of the sector's vulnerability to market conditions and a potential correction against the tremendous run for equities over the last nine months. A deep exposure to market movements and investor sentiment mean these stocks are probably not suitable for those with low risk tolerances or bearish outlooks in the foreseeable future.

Mergers & Acquisitions  
Review: 2009 Q4

Asset manager M&A for the fourth quarter matched the theme of this sector for all of 2009 – fewer transactions but higher deal value when compared against the previous year. According to Jefferies, deal volume in the fourth quarter of 2009 totaled 30, compared to 45 over the same period in 2008, while disclosed deal value jumped to \$6.5 billion from \$4 billion led by the Invesco/Van Campen (1.26% of AUM) transactions and Deutsche Bank/Sal. Oppenheim (0.74% of AUM) transactions. These most recent deals show a return to normal transaction pricing (~1% of AUM) as opposed to the fire sales witnessed at the end of 2008 and the first half of 2009.

While 60% of the deals in the fourth quarter were divestitures (also consistent with the rest of 2009), analysts at Jefferies see strategic deals between independent firms, such as Advisory Research's sale to Piper Jaffrey and Metropolitan West Asset Management's purchase by TCW, to drive dealmaking in 2010. This marks a sharp turnaround from 2009 when only 61 independently-owned managers changed hands, the lowest tally in more than a decade. Aaron Dorr, a managing director at Jefferies' Financial Institutions Group, expects divestitures "to continue to play out through the first half of 2010 when the urgency of capital raising and strategic realignment of financial institutions should taper off. We also anticipate aging owners of independent firms who missed the last bull market to seek to transact in 2010 given improving market conditions, asset flows, and pricing." This sentiment is strikingly similar to Mr. Irizarry's sector outlook for the coming year.

Market Multiples as of 12/31/09

Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA	
<b>ASSET MANAGERS</b>					
Affiliated Managers Group, Inc.	AMG	nm	12.57	1.86%	21.76
BlackRock, Inc.	BLK	47.68	21.97	0.89%	9.67
Legg Mason, Inc.	LM	nm	19.21	0.98%	nm
Pzena Investment Management, Inc.	PZN	24.67	19.38	3.88%	nm
W.P. Stewart & Co., Ltd.	WPSLF	nm	nm	2.46%	nm
Westwood Holdings Group, Inc.	WHG	23.00	20.89	2.72%	15.77
<i>Group Median</i>		<u>24.67</u>	<u>19.38</u>	<u>2.16%</u>	<u>15.77</u>
<b>MUTUAL FUNDS</b>					
AllianceBernstein Investments, Inc.	AB	19.79	14.05	0.53%	16.70
Calamos Asset Management, Inc.	CLMS	nm	13.88	1.15%	nm
Cohen & Steers, Inc.	CNS	nm	24.56	4.29%	19.33
GAMCO Investors, Inc.	GBL	55.51	22.25	6.21%	30.11
Epoch Holding Corporation	EPHC	31.67	16.08	2.37%	19.18
INVESCO Ltd.	IVZ	40.50	17.93	2.67%	35.43
Franklin Resources, Inc.	BEN	27.22	14.90	4.64%	16.48
Diamond Hill Investment Group, Inc.	DHIL	27.57	14.50	3.06%	16.76
Eaton Vance Corp.	EV	28.16	15.84	2.63%	15.63
T. Rowe Price Group, Inc.	TROW	45.91	21.91	3.74%	24.44
U.S. Global Investors, Inc.	GROW	nm	23.23	7.46%	nm
Waddell & Reed Financial, Inc.	WDR	36.80	17.25	4.35%	20.17
Federated Investors, Inc.	FII	14.03	13.41	0.76%	8.36
Janus Capital Group Inc.	JNS	nm	16.20	2.13%	19.32
<i>Group Median</i>		<u>29.91</u>	<u>16.14</u>	<u>2.86%</u>	<u>19.25</u>
<b>ALTERNATIVE ASSET MANAGERS</b>					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	11.45	25.5%	nm
Brookfield Asset Management, Inc.	BAM	26.72	28.44	51.9%	14.26
GLG Partners, Inc.	GLG	nm	11.93	6.2%	nm
Blackstone Group L.P.	BX	nm	13.81	4.1%	nm
Fortress Investment Group LLC	FIG	nm	9.47	6.3%	nm
<i>Group Median</i>		<u>26.72</u>	<u>11.93</u>	<u>6.3%</u>	<u>14.26</u>
<b>TRUST BANKS</b>					
Wilmington Trust Corporation	WL	(11.02)	16.45	2.93%	nm
Northern Trust Corporation	NTRS	13.79	15.41	1.62%	6.64
Bank of New York Mellon Corporation	BK	(18.90)	11.70	3.49%	7.72
State Street Corporation	STT	14.47	10.01	1.27%	8.37
<i>Group Median</i>		<u>1.39</u>	<u>13.56</u>	<u>2.28%</u>	<u>7.72</u>
<b>OVERALL MEDIAN</b>					
		<u>26.97</u>	<u>15.96</u>	<u>2.93%</u>	<u>16.70</u>

Consistent with our warning on sector performance, we contend any meaningful correction or downturn in the equity markets could break the momentum of deal pricing and preclude any anticipated recovery in transaction volume. Still, in the absence of any such pullback, 2010 dealmaking in the sector is poised for a comeback from the drought of 2009.



5860 Ridgeway Center Parkway, Suite 400  
Memphis, Tennessee 38120

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## VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

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Segment Focus: Alternative Asset Managers

Fourth Quarter 2009 Market Overview

Fourth Quarter 2009 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. 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](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.

### **Matt Crow**

President

901.322.9728

[crowm@mercercapital.com](mailto:crowm@mercercapital.com)

### **Brooks Hamner**

Senior Financial Analyst

901.322.9714

[hamnerb@mercercapital.com](mailto:hamnerb@mercercapital.com)

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