



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.

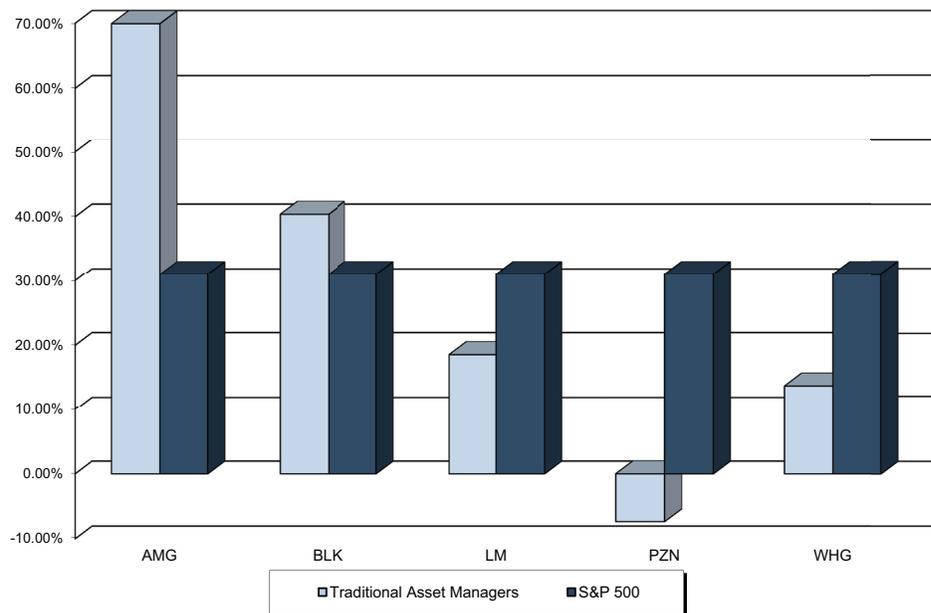
SEGMENT FOCUS: TRADITIONAL ASSET MANAGERS

Our index of traditional asset managers soared 40% for the twelve months ended June 30, 2011 on the back of a bull market rally that saw most of the major indices advance 30% over the same period. Continued appreciation in the stock market allows traditional long-only equity managers to build AUM and lever off their fixed expenses to produce huge gains in earnings and their own market valuations. Adding debt to this equation can amplify this momentum as demonstrated by AMG's 70% return over the period.

Still, after two years of nearly continuous gains in the broader indices and top lines of most asset managers, the markets took a bit of a breather in the second quarter of 2011. Shares of publicly traded US money managers followed suit, losing 7% of their overall value in the quarter on debilitated market conditions and net equity outflows from funds investing in domestic stocks. Indeed all five components of our traditional asset manager index underperformed the S&P 500 in the most recent quarter.

The decline in equity asset flows comes after a quarter in which the Investment Company Institute reported that total stock inflows reached \$30 billion for the first three months of 2011. Even if the stock market does bounce in the next month, analysts at Goldman Sachs don't expect such a pick-up to boost equity flows by a great extent in the near term, according to FoxBusiness.com.

TOTAL RETURNS FOR 12 MONTHS ENDED 06/30/11



As a result, the investment bank lowered its forecasts and price targets on “pure market play” asset managers, including Pzena, Janus, and T. Rowe Price. Instead Goldman is favoring diversified investment firms such as BlackRock, which has less than 10% of its AUM in active equity and more than half in alternative, multi-asset class, and fixed income. Analysts at Goldman Sachs contend, “the latter is taking share from more traditional asset management over a secular basis.”

Despite the decline in equity asset flows and their own stock prices, these “pure play” asset managers finished the quarter strong, benefiting from the market's best week in two years. Strong market action at the end of last month allowed these firms to recover some of their AUM just before quarter-end when the bills go out for many of these businesses.

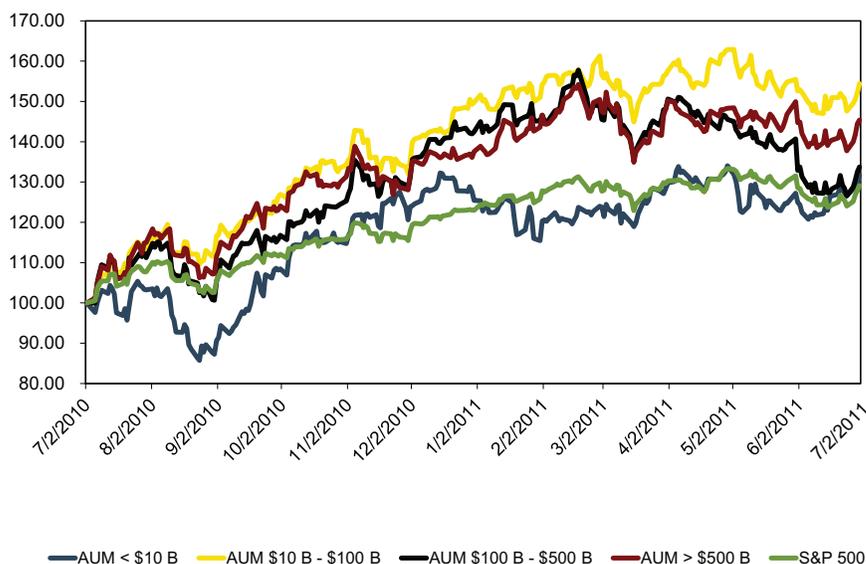
Market Overview: 2011 Q2

Despite a lackluster quarter for the asset management sector, most money managers remain optimistic on domestic stocks and economic conditions in the wake of the Federal Reserve's QE2 program that ended last month. According to the Russell Investment Manager Outlook poll conducted in May and June of this year, 62% of registered advisors were bullish on US equities with only 12% bearish, a higher ratio of bulls-to-bears than the corresponding outlook on both the international and emerging stock markets. Regarding the termination of the Fed's asset purchases from the Treasury, Greg Nott, Chief Investment Officer at Russell, noted, "we believe this development will provide a healthy opportunity for the US economy to stand on its own and are confident that authorities will act quickly to provide additional support if it is indeed required." The asset managers polled in the survey appear to share that sentiment.

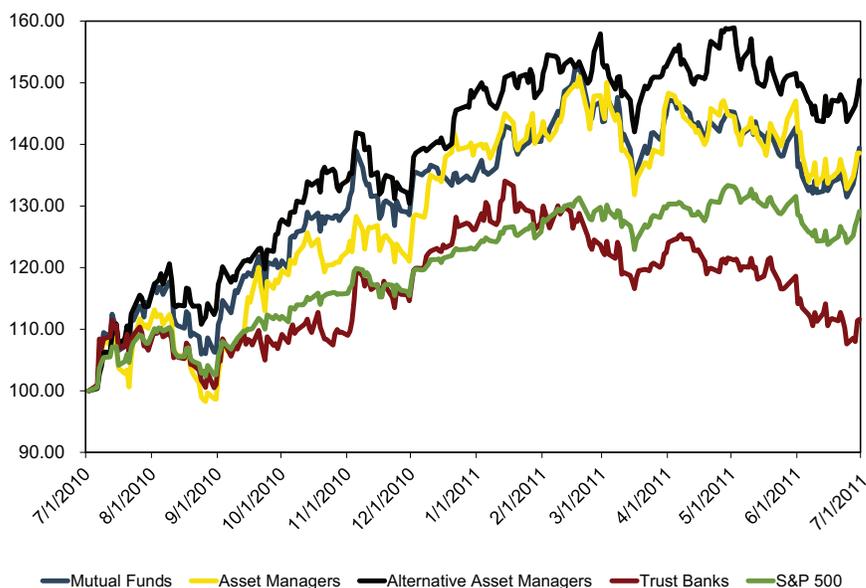
Part of this optimism may be attributable to the recent success enjoyed by most asset managers over the last couple of years in both relative and absolute terms. Our index of publicly traded asset managers is up 112% since the market's bottom in March of 2009, compared to a 95% gain in the S&P. Given these businesses' inherent vulnerability to market conditions, such outperformance is not uncommon during bull market periods when most asset managers are able to lever off fairly sizeable gains in revenue. Still, the discrepancy in performance between the various classes of asset managers is somewhat alarming as publicly traded hedge funds and private equity firms have completely turned it around gaining 180% since the market bottom compared to just 50% for trust banks. With the Federal Reserve holding key interest rates close to 0%, these custody banks have been forced to waive the fees they collect on money market funds. Most publicly traded alternative asset managers, on the other hand, are riding

the tide of higher asset prices and have avoided the demise that seemed to be priced into their equity valuations just a couple of years ago.

ASSET MANAGERS INDEX :: BREAKDOWN BY SIZE



ASSET MANAGERS INDEX :: BREAKDOWN BY TYPE



Mergers & Acquisitions Review: 2011 Q2

As this newsletter goes to print, three notable transactions were recently announced, suggesting some revitalization in merger activity among asset managers heading into the back half of 2011:

- » On July 7, 2011, Principal Global Investors, a member of Principal Financial Group signed a definitive agreement to acquire a 74% stake in Origin Asset Management for \$66 million, implying an enterprise valuation at roughly 3% of the international equity managers \$3 billion in AUM.
- » UBS has agreed to buy ING's Australian investment management unit with \$35.2 billion in AUM, as the Dutch bank continues to contract its balance sheet following a government bailout and UBS looks to become one of Australia's top 10 money managers by asset size.
- » Apollo Global Management recently announced its intention to acquire Gulf Stream Asset Management which manages 10 Collateralized Loan Obligations (CLOs) with more than \$3 billion in AUM.

The terms of the last two deals have not been disclosed, and all of the above transactions are expected to close in the second half of this year. In addition to these pending acquisitions, Oaktree Capital recently filed a registration statement with the SEC to offer shares to public investors. The LA-based junk bond manager with over \$80 billion in AUM looks to raise \$100 million in its IPO and given its reputation as a savvy, opportunistic investor in troubled assets, this goal may be achieved with minimal dilution from outside investors.

The resurgence in dealmaking and IPO activity in the asset management space may suggest that valuations have returned to levels that sellers are comfortable with, and that buyers are

MARKET MULTIPLES AS OF 06/30/11

Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA	
ASSET MANAGERS					
Affiliated Managers Group, Inc.	AMG	32.73	12.19	1.92%	10.55
BlackRock, Inc.	BLK	17.00	12.87	1.14%	11.41
Legg Mason, Inc.	LM	20.10	12.41	0.98%	11.88
Pzena Investment Management, Inc.	PZN	16.23	12.35	2.24%	9.11
W.P. Stewart & Co., Ltd.	WPSL	nm	nm	2.95%	nm
Westwood Holdings Group, Inc.	WHG	22.68	16.86	2.23%	15.37
<i>Group Median</i>		<u>20.10</u>	<u>12.41</u>	<u>2.07%</u>	<u>11.41</u>
MUTUAL FUNDS					
AllianceBernstein Investments, Inc.	AB	15.31	11.11	nm	12.85
Calamos Asset Management, Inc.	CLMS	14.97	12.00	1.12%	2.66
Cohen & Steers, Inc.	CNS	28.58	18.73	3.76%	18.69
GAMCO Investors, Inc.	GBL	17.34	12.54	3.97%	10.96
Epoch Holding Corporation	EPHC	21.00	26.25	2.67%	15.92
INVESCO Ltd.	IVZ	20.17	11.20	2.87%	17.55
Franklin Resources, Inc.	BEN	17.03	13.59	4.45%	11.53
Diamond Hill Investment Group, Inc.	DHIL	17.01	14.44	2.55%	10.88
Eaton Vance Corp.	EV	19.50	13.26	2.25%	10.78
T. Rowe Price Group, Inc.	TROW	22.60	16.31	3.07%	12.96
U.S. Global Investors, Inc.	GROW	15.67	10.45	3.49%	9.67
Waddell & Reed Financial, Inc.	WDR	18.74	12.98	3.67%	11.42
Federated Investors, Inc.	FIL	14.45	12.29	0.81%	8.88
Janus Capital Group Inc.	JNS	10.26	9.17	1.41%	6.87
<i>Group Median</i>		<u>17.18</u>	<u>12.76</u>	<u>2.87%</u>	<u>11.19</u>
ALTERNATIVE ASSET MANAGERS					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	8.26	38.4%	nm
Brookfield Asset Management, Inc.	BAM	13.32	26.54	nm	8.99
Blackstone Group L.P.	BX	nm	8.16	5.1%	nm
Fortress Investment Group LLC	FIG	nm	6.34	5.4%	nm
<i>Group Median</i>		<u>13.32</u>	<u>8.21</u>	<u>5.4%</u>	<u>8.99</u>
TRUST BANKS					
Northern Trust Corporation	NTRS	16.96	13.32	nm	nm
Bank of New York Mellon Corporation	BK	12.14	9.49	nm	nm
State Street Corporation	STT	14.83	10.49	nm	nm
<i>Group Median</i>		<u>14.83</u>	<u>10.49</u>	<u>nm</u>	<u>nm</u>
OVERALL MEDIAN					
		<u>17.01</u>	<u>12.38</u>	<u>2.77%</u>	<u>11.18</u>

more optimistic about the future prospects of these businesses. Still, any further adverse developments concerning European sovereign debt issues, a potential US default on its Treasury debt, or political instability in the Middle East and elsewhere, could cripple this momentum and reverse the recent uptick in M&A activity among asset managers.



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Segment Focus: Traditional Asset Managers

Second Quarter 2011 Market Overview

Second Quarter 2011 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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