



# ASSET MANAGEMENT INDUSTRY

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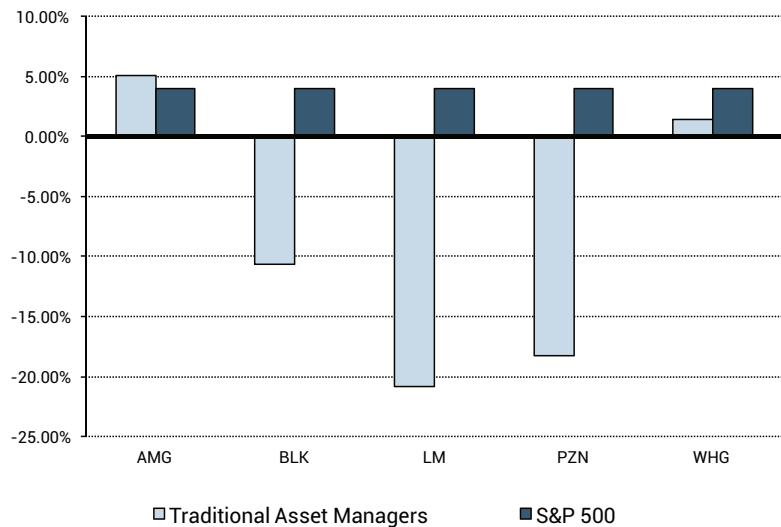
## SEGMENT FOCUS: TRADITIONAL ASSET MANAGERS

Most traditional asset managers saw double-digit percentage declines in their share prices for the 12 months ended June 30, 2012 as the S&P managed a modest gain over the same period. Excessive market volatility, including sharp corrections last Summer and again this Spring, is the primary catalyst for the lackluster performance of these businesses over the last year or so. Downturns are especially problematic for equity asset managers whose fees vary with market conditions, which can often lead to drastic swings in profitability given their predominantly fixed cost base. Bear markets and corrections can also make their clients nervous, leading to asset outflows amidst deteriorating investment performance.

As manifested by the adjacent chart, Legg Mason continued to underperform its peers in recent months. This trend is nothing new as the stock has lost over 80% of its value since 2006 while most other asset managers have recovered the AUM and share values that cratered during the financial crisis. Market participants blame client outflows, subpar investment performance, and integration issues with its affiliates as the main contributors to its attrition over the last few years. Shares of LM have performed well thus far in August 2012, but a reported net loss of \$9.5 million in the most recent quarter suggests it's not quite out of the woods just yet.

Pzena hasn't fared much better, down almost 80% since its IPO in October 2007. Like many other value managers, PZN has underperformed its growth-oriented counterparts since 2007. Still, contrarian investors like PZN might see this as a bullish sign for the stock's future prospects, but these recoveries can take time. One of the leading analysts covering the sector, Glenn Schorr of Nomura Securities, elaborates on what Legg Mason and Pzena are going through – "once an asset

TOTAL RETURNS FOR 12 MONTHS ENDED 6/29/12



manager digs a hole, it takes a long time to turn themselves around." PZN's 30% gain in the first week of August 2012 suggests that it's already embarking on that process.

Not all sector participants have struggled in recent months. Affiliated Managers Group is fresh off a 52-week high. In a recent note to investors, analysts at Goldman Sachs comment on the acquisitive asset manager's recent outperformance, explaining, "AMG is a stand out amid industry-wide outflows with strength from the new affiliates, alternatives, and EM equities, unlike most peers where AUM mix is moving toward lower fixed income/passive products. While succession planning deal activity is slow due to the market environment, the pipeline for alternative and divestiture deals remains strong."

As for its struggling competitors, a reversal of the Q2 2012 trend in market conditions and asset flows will likely be needed to keep pace with AMG.

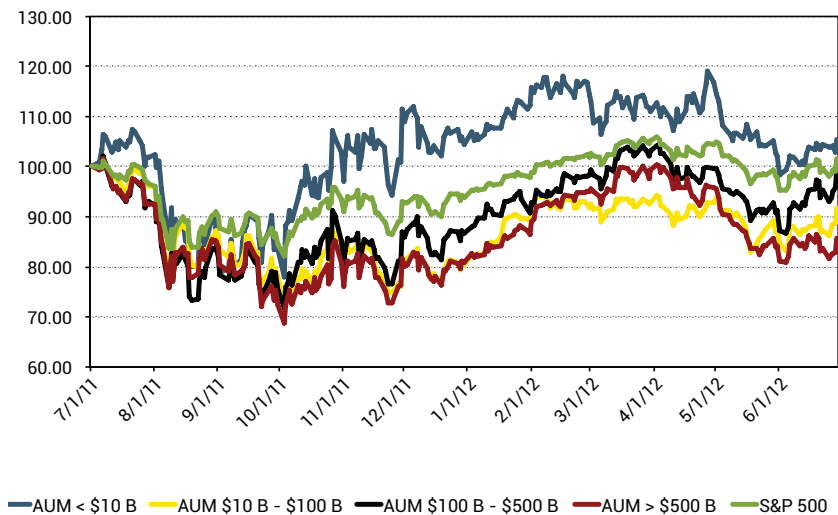


## Market Overview: 2012 Q2

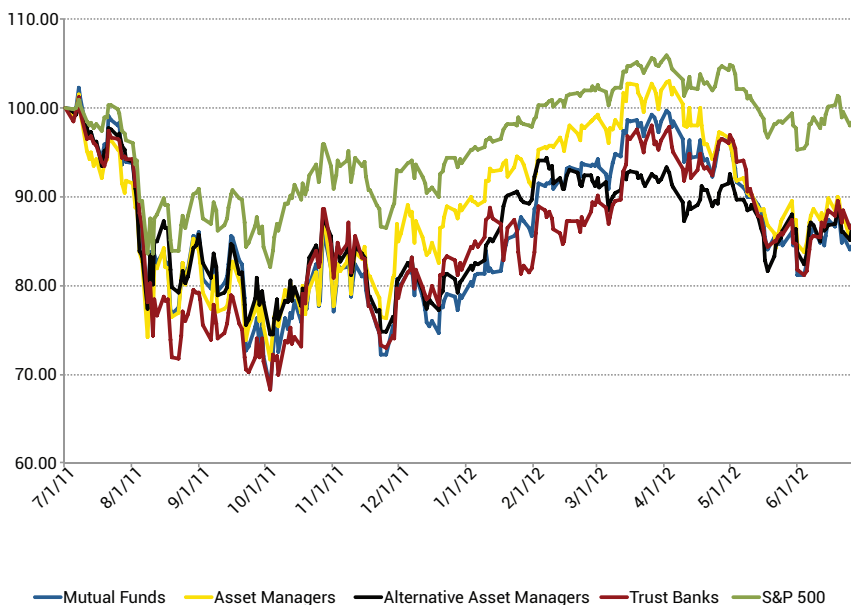
All four components of the asset manager sector significantly underperformed the S&P for the 12 months ended June 30, 2012. Market volatility and investor anxiety are the primary culprits for the sector's recent struggles, as many clients have been chasing performance out of slumping equity funds and into more stable fixed income products that typically pay lower management fees. International equity and blended funds still account for 51% of the \$30 trillion in total global assets, according to wealth management research firm Strategic Insight, so downside potential remains if current market conditions persist.

Apparently, size does matter for asset managers, as the more diminutive publicly-traded RIAs have been outperforming their larger counterparts over the last few quarters. Asset managers of all sizes have undoubtedly benefited from the exodus of clients and their advisors from the larger brokerage firms in the months following the Lehman collapse and ensuing financial crisis. Interestingly, it's the smaller publicly traded RIAs that have been able to carry this momentum into 2012. More personalized levels of service and greater dependence upon individual clients that tend to be more loyal than institutional customers have been cited as possible explanations to their recent success in a difficult market environment. Still, industry observers should be cautioned that these market-weighted indices can be susceptible to company-specific circumstances before attempting to read the tea leaves with these statistics.

ASSET MANAGERS INDEX :: BREAKDOWN BY SIZE



ASSET MANAGERS INDEX :: BREAKDOWN BY TYPE



## Mergers & Acquisitions Review: 2012 Q2

According to Schwab Advisor Services, the number of RIA deals in the first half of 2012 (25) was off slightly from the prior year period (27), but total AUM transacted nearly doubled from \$21 billion to \$36 billion. Average deal size in AUM terms expanded from \$770 million to \$1.4 billion. Jon Beatty, senior vice president of sales and relationship management at Schwab notes, "While the second quarter slowed a bit in terms of the number of completed transactions, we've seen a big jump in the average deal size so far this year, indicating the overall strength of the RIA segment." Noteworthy recent transactions in the asset manager sector include the following:

- » In March, AMG acquired a majority stake in Veritable, a PA-based advisor with over \$10 billion under management.
- » Two independent fee-only RIAs, Savant Capital and The Monitor Group, joined forces on April 25, 2012 to create a wealth management firm with \$2.7 billion in AUM and ten offices across Illinois, Wisconsin, Virginia, and Florida.
- » Hennessey Advisory signed a definitive agreement with FBR Fund Advisers on June 6, 2012 to purchase the assets related to the management of the entire family of ten FBR funds. The deal is expected to close in the third quarter of this year and raise Hennessey's AUM from \$800 million to \$2.7 billion.
- » Kansas-based Mariner Wealth Advisors acquired a majority stake in the wealth management unit of Omaha's Orizon Investment Counsel on July 9, 2012 to expand its geographic footprint in the nation's heartland.
- » On July 10, 2012, NestWise LLC, a subsidiary of LPL Financial, announced its intention to acquire Veritat Advisors, a full-service RIA that uses a proprietary online financial planning platform for advisors serving the mass market.

### MARKET MULTIPLES AS OF 6/29/12

	Ticker	Price / Trailing EPS	Price / Forward EPS	Total Capital / AUM	Total Capital / EBITDA
<b>ASSET MANAGERS</b>					
Affiliated Managers Group, Inc.	AMG	35.42	12.51	1.88%	10.29
BlackRock, Inc.	BLK	13.45	11.47	1.00%	10.09
Legg Mason, Inc.	LM	17.12	10.99	0.83%	11.04
Pzena Investment Management, Inc.	PZN	17.04	12.66	1.95%	8.14
Westwood Holdings Group, Inc.	WHG	18.00	nm	2.15%	12.27
Group Median		17.12	11.99	1.88%	10.29
<b>MUTUAL FUNDS</b>					
AllianceBernstein Investments, Inc.	AB	nm	11.13	nm	nm
Calamos Asset Management, Inc.	CLMS	13.01	11.74	0.90%	1.74
Cohen & Steers, Inc.	CNS	25.56	17.26	3.36%	14.99
GAMCO Investors, Inc.	GBL	15.58	12.98	3.91%	10.48
Epoch Holding Corporation	EPHC	24.76	18.45	2.36%	13.61
INVESCO Ltd.	IVZ	13.95	10.49	2.50%	13.47
Franklin Resources, Inc.	BEN	12.82	11.60	3.56%	8.92
Diamond Hill Investment Group, Inc.	DHIL	15.32	nm	2.59%	9.77
Eaton Vance Corp.	EV	15.06	13.54	2.08%	8.71
T. Rowe Price Group, Inc.	TROW	21.34	16.44	2.89%	12.10
U.S. Global Investors, Inc.	GROW	19.86	nm	3.57%	12.78
Waddell & Reed Financial, Inc.	WDR	14.70	12.06	2.97%	8.93
Federated Investors, Inc.	FII	14.10	12.49	0.72%	9.07
Janus Capital Group Inc.	JNS	11.33	11.33	1.23%	6.82
Group Median		15.06	12.27	2.59%	9.77
<b>ALTERNATIVE ASSET MANAGERS</b>					
Och-Ziff Capital Mgmt Group LLC	OZM	nm	5.70	40.9%	nm
Brookfield Asset Management, Inc.	BAM	10.75	22.83	nm	7.85
Blackstone Group L.P.	BX	nm	6.54	3.5%	nm
Fortress Investment Group LLC	FIG	nm	5.76	3.7%	nm
Group Median		10.75	6.15	3.7%	7.85
<b>TRUST BANKS</b>					
Northern Trust Corporation	NTRS	18.33	13.54	nm	nm
Bank of New York Mellon Corporation	BK	10.66	9.15	nm	nm
State Street Corporation	STT	12.03	10.09	nm	nm
Group Median		12.03	10.09	nm	nm
<b>OVERALL MEDIAN</b>					
		15.19	11.74	2.50%	10.09

Despite the year-over-increase in AUM transacted for the first half of 2012, RIA deal activity slowed in the second quarter to 8 acquisitions of targets with a combined \$12 billion in AUM, down from 17 deals with \$24 billion in assets transacted in the prior quarter. Still, Q3 is off to a fast start as the market begins to recover some of the ground it lost during the Spring. These trends demonstrate the high correlation between RIA deal activity and market conditions as sellers are always looking to maximize proceeds and buyers stay sidelined when investors get nervous.



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## VALUE FOCUS » ASSET MANAGEMENT INDUSTRY

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Segment Focus: Traditional Asset Managers

Second Quarter 2012 Market Overview

Second Quarter 2012 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.

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