Asset Management Industry
Valuation Trends & Considerations

November 27, 2012
Introduction
Agenda

Discussion Topics

• Lovell Minnick Partners overview
• Industry background
• Valuation considerations
• Valuation trends

Objective

• Discuss environmental factors influencing valuation
• Review key criteria and approaches to valuation
• Analyze trends in valuations and transaction themes
Lovell Minnick Partners Overview

- Independent, management-owned private equity firm focusing on financial services companies and related business service firms that create, manage, distribute, support or administer financial products & investments
  - Initially formed in 1999 as the private equity affiliate of Putnam Lovell Securities
  - Provides equity capital for management buyouts, private firm ownership transitions, recapitalizations and growth capital
  - Target investment size of €15 – €75 million
  - Raised over $850 million in committed capital and have completed investments in over 30 companies
  - 15 investment professionals with over 200 years of collective industry experience
  - Offices in Philadelphia and Los Angeles with a presence in Frankfurt

**Representative Deal Flow Since 2008**

**Partnerships Managed by LMP**

($ millions)

- 2007: $200
- 2008: $400
- 2009: $600
- 2010: $800
- 2011: $1,000
Extensive operational and investment experience across the investment management value chain

**Manufacturing**

- **Fixed Income**
  - Atlantic Asset Management
- **Equity**
  - Berkeley Capital Management LLC
  - ClariVest Asset Management, LLC
- **Emerging Markets**
  - Matthews

**Product Distribution**

- **first allied**
- **HD VEST Financial Services**
- **AssetMark**
- **PlanMember Financial Corporation**
- **ALPS Fund Services**

**Wealth Management/Trust**

- **Wealth Management**
  - Mercer Advisors
  - Stein Roe Investment Counsel
- **Trust**
  - Seaside National Bank & Trust
  - Kanaly Trust
Partnership and Value Creation

**Organizational Development**
- Compensation and retention
- Senior executive and sales force recruiting
- Operating leverage
- Corporate transitions

**Growth Initiatives**
- Corporate development
- Product development
- Business development
- Capital structure solutions

**Exit Maximization**
- Strategic positioning
- Buyer landscape knowledge and contact base
- Buyer economic analysis
- Monetize growth trajectory at appropriate time

### Realized or Publicly Traded LMP Investments

($ millions)

- **12 Investments**
- Exit Year - 2: $33.9
- Exit Year - 1: $43.0
- Exit Year: $56.1

**Revenue CAGR:** 29%

**EBITDA CAGR:** 47%

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(1) Includes all LMP realized investments
(2) Past performance is not necessarily indicative of future results.
State of the Industry
Challenging Environment for Investment Managers

- Valuation must be understood in the context of an industry facing considerable challenges
- Only those firms that overcome these challenges will command a premium valuation

Limited Organic Growth
- Net inflows flat since the credit crisis
- Global economic slowdown projected, particularly in developed countries
- Margins remain healthy, but are unlikely to improve due to limited growth

Shifting Investor Preferences
- Continued rise in passive products at the expense of traditional active
- Risk averse investors prefer cash and fixed income over equities
- Alternatives gaining more widespread acceptance and availability

Structural Changes in the Industry
- Investors increasingly demand independent, conflict-free advice
- Advice-seeking investors shift balance of power towards distribution
- Forced divestitures due to parent company capital and regulatory requirements
Industry Growth Has Stalled

- Historically, asset managers generated healthy growth through market gains and net flows
- However, total industry AUM has been flat since the onset of the financial crisis
  - Primary driver has been lack of net inflows

Global AUM Trend

($ trillions)

Source: Boston Consulting Group

Global Net Flows

(\% of AUM at beginning of period)
Challenges Facing Traditional Products

- Appetite for lower cost, higher yield, and non-correlated products all driving growth in alternatives and passive products
- Eroding market share for traditional actively-managed products

Asset Class Growth & Revenue Matrix

(2011 – 2015 CAGR)

Source: Boston Consulting Group
Net Flows Favoring Yield Products

- Since the financial crisis, investors have avoided risk, resulting in net outflows from equities.
- Net inflows concentrated on fixed income products, market moneys, and bank deposits.
- Regulation (pension fund reform, Solvency II) compounds the problem by incentivizing allocations away from equities.

Net Flows into Long-Term Assets

- Risk Aversion
- Risk Absorption

1H 2012 European Net Flows

(E€ billions)

- Emerging Market Bonds
- USD High Yield Bonds
- Asset Allocation
- Global Corporate Bonds
- USD Investment Grade Bonds
- Global Currencies Bonds
- Euro Money Markets
- Euro Target Maturity
- Emerging Market Equities
- High Yield Global Bonds
- Euro Equities
- Short-Term Euro Bonds

Source: 2012 Investment Company Institute Fact Book, Boston Consulting Group, Strategic Insight

1) 2012 YTD information through September 30, 2012
2) Mutual fund net flows
Commoditization of Beta

- Passive products, including ETFs, on the rise and taking share from actively managed products
- Low return environment increases the appeal of ETFs as a cost-effective means for asset allocation
- Lackluster investment performance by many celebrated fund managers (e.g. Bill Miller)
- Continued relevance of certain actively-managed strategies (e.g. small cap, emerging markets, etc.)

Global AUM by Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Alternatives</th>
<th>Passive/ETF</th>
<th>Solutions</th>
<th>Active Specialties</th>
<th>Active Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>8%</td>
<td>21%</td>
<td>63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>13%</td>
<td>22%</td>
<td>54%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>13%</td>
<td>24%</td>
<td>49%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ICI, Preqin, Strategic Insight, HFR, BlackRock ETF report, Towers Watson, P&I, BCG Global Asset Management

Notes:
1) Alternatives includes structured products, hedge funds, private equity, real estate, infrastructure, LDI and commodity
2) Solutions include absolute-return, target-date, asset allocation and volatility
3) Specialties includes foreign, global, small and mid-cap credit, high yield, etc.
4) Active core includes active domestic, large-cap equity, and fixed income funds

$39 trillion
$48 trillion
$58 trillion

'03 – ’08 CAGR '08 – ’11 CAGR
14.1% 8.0%
9.6% 14.2%
26.0% 24.1%
5.1% 9.2%
1.4% 2.8%
Growth in Alternative Strategies

- Early part of the last decade saw a surge in the growth of alternative assets
- Moderate growth expected in the near-term
  - Aided by increased interest in non-correlated and yield-oriented strategies following the financial crisis, e.g. absolute return, alternative credit, etc.
  - Challenged by a difficult fundraising environment, particularly in private equity
- While pensions and sovereign wealth funds will drive the majority of near-term net flows, an emerging source of growth is the increased accessibility of alternative products to retail investors

Global Alternative Asset Growth

Rise in Retail Alternative Assets

Source: Strategic Insight, HFR Industry Reports, McKinsey
1) Long-term ’40 Act Funds
Distribution Trending Towards Professional Advice

- Post-crisis, investors are more interested in seeking out professional financial advice
  - Considerable uncertainty following the financial crisis
  - Net worth significantly diminished after the real estate downturn and financial market turmoil
  - Many investors nearing or entering retirement age
  - Supporting regulatory initiatives in both Europe (RDR) and the U.S. (DOL/ERISA)

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**Trends in Distribution**

<table>
<thead>
<tr>
<th>Historical</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Advice</td>
<td></td>
</tr>
<tr>
<td>• Wirehouse</td>
<td></td>
</tr>
<tr>
<td>• Insurance</td>
<td></td>
</tr>
<tr>
<td>Advisor Compensation</td>
<td></td>
</tr>
<tr>
<td>• Commission</td>
<td></td>
</tr>
<tr>
<td>Product Manufacturing</td>
<td></td>
</tr>
<tr>
<td>• Actively managed</td>
<td></td>
</tr>
<tr>
<td>Investment Decision</td>
<td></td>
</tr>
<tr>
<td>• Model portfolio</td>
<td></td>
</tr>
</tbody>
</table>

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**Advisor-Controlled AUM**

<table>
<thead>
<tr>
<th>2003</th>
<th>2009</th>
<th>2014P</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6.8</td>
<td>$10.4</td>
<td>$14.6</td>
</tr>
</tbody>
</table>

7.0% CAGR

Source: Cerulli Associates
Paradigm Shift

• To recap, as we’ve seen
  – Significant impediments to growth for asset managers
  – Paradigm shift in the structure of the industry
• Valuation depends upon a firm’s ability to navigate this challenging market environment

**Then**

• Positive macroeconomic outlook
• Greater job security / long horizon
• Investors in accumulation phase
• Equities orientation
• Fee opacity and unawareness
• Prefer active managers
• Risk-seeking
• Closed or controlled architecture
• Self-directed

**Now**

• Negative macroeconomic outlook
• Less job security / shorter horizon
• Investors at or near retirement
• Fixed income orientation
• Fee transparency and scrutiny
• Towards passive products
• Risk-aversion
• Open architecture
• Advisor-directed
Valuation Considerations
Valuation Process

**Qualitative Assessment**
- Qualitative analysis before quantitative analysis
- Consider intrinsic value factors
- Consider market and situational factors

**Financial Analysis**
- Prepare historical and projected financials
- Common adjustments include:
  - One-time items
  - Standalone costs
  - Management compensation

**Valuation Analysis**
- Common valuation methodologies include:
  - Discounted cash flows analysis
  - Comparable companies analysis
  - Publicly-traded companies
  - Previous transactions
Valuation Metrics

**Preferred Metrics**
- Enterprise Value / EBITDA
- Price / Earnings

**Challenged Metrics**
- Enterprise Value / Revenue
- Enterprise Value / AUM

More meaningful indicators of value returned to capital providers

Results can be misleading; often used because they are the only figures publicly available

Valuation depends upon the quality of the underlying target and various situational factors
Intrinsic Value Considerations

**Business Strategy**
- Scale vs. specialization
- Differentiation
- Scarcity value
- Barriers to entry

**Organization**
- Quality of leadership
- Bench strength / key person risk
- Shareholder composition
- Aligned compensation and equity incentives

**Investment Products**
- Diversified product line-up / concentration risks
- Performance
- Style risk
- Product capacity
- New product pipeline / opportunities
Intrinsic Value Considerations (continued)

**Investment Process**
- Institutionalization
- Repeatability
- Sources of alpha
- Proprietary / unique expertise or information advantages

**Organic Growth**
- Performance indicators
- Net flows
- Diverse and stable distribution channels
- Sales organization
- Intermediary / consultant / client feedback

**Quality of Revenue**
- Diversification (style, client, product, manager, etc.)
- Recurrence (particularly in alternatives)
- Quality of distribution
- Client composition
Market & Situational Forces Influencing Value

**Strategic Buyer Intensity**
- Depth of buyer universe
- Perceptions of target product mix
- Macro conditions / market timing

**Strategic Value to Buyer**
- Cost savings / synergies
- Distribution synergies
- Willingness to share / pay for benefits

**Transaction Dynamics**
- Use of proceeds
- Intentions of key personnel
- Form of security / participation in economics
- Contractual rights and protections
- Voting and governance rights
Industry Valuation Trends
Historical Context

- Traditional managers have traded downwards based on lower growth expectations and economic uncertainty
- Alternative managers still establishing a trading range after a number of IPO’s since 2007

### Historical Price / NTM Earnings

<table>
<thead>
<tr>
<th></th>
<th>5-Yr.</th>
<th>3-Yr.</th>
<th>1-Yr.</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>16.5x</td>
<td>15.2x</td>
<td>14.1x</td>
<td>14.1x</td>
</tr>
<tr>
<td>Alternative</td>
<td>12.4x</td>
<td>9.5x</td>
<td>8.5x</td>
<td>9.0x</td>
</tr>
</tbody>
</table>

### Historical TEV / NTM EBITDA

<table>
<thead>
<tr>
<th></th>
<th>5-Yr.</th>
<th>3-Yr.</th>
<th>1-Yr.</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>8.8x</td>
<td>8.6x</td>
<td>8.4x</td>
<td>8.1x</td>
</tr>
<tr>
<td>Alternative</td>
<td>16.5x</td>
<td>15.2x</td>
<td>14.1x</td>
<td>14.1x</td>
</tr>
</tbody>
</table>

Source: FactSet
Note: NTM = Next Twelve Months
Traditional asset managers include AB, AMG, ART, BEN, BLK, CLMS, CNS, EV, FII, GBL, IVZ, JNS, LM, PZN, TROW, VRTS, WDR
Alternative asset managers include APO, BX, CG, FIG, KKR, OAK, OZM
Organic Growth Leading to Outperformance

- Asset managers with positive organic growth have outperformed the S&P 500; meanwhile, those with negative organic growth have underperformed the S&P 500

LTM Stock Price Performance

Total Enterprise Value / NTM EBITDA

Source: Capital IQ
Note: NTM = Next Twelve Months
Managers with positive organic growth include AMG, BEN, BLK, CNS, EV, FII, TROW, WDR; managers with negative organic growth include AB, ART, JNS, LM
Diversification Enhances Valuation

- Diversified managers enjoy several advantages:
  - Consistently higher trading multiples
  - Superior returns to shareholders
  - Greater price resiliency in market downswings
  - Lower cost of capital
- For a typical traditional asset manager, a 2.0% reduction in overall cost of capital likely translates into a 10-15% increase in equity value

<table>
<thead>
<tr>
<th>Group</th>
<th>Price Change</th>
<th>Forward P/E</th>
<th>Risk &amp; Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000 - 2006</td>
<td>2007 - Present</td>
<td></td>
</tr>
<tr>
<td>Diversified Asset Managers²</td>
<td>249.0%</td>
<td>-3.2%</td>
<td>13.3x 14.0x 15.5x 16.4x 1.31 9.8%</td>
</tr>
<tr>
<td>Undiversified Asset Managers³</td>
<td>44.8%</td>
<td>-59.3%</td>
<td>12.4x 13.2x 14.3x 15.4x 1.51 11.5%</td>
</tr>
<tr>
<td>Diversified Better (Worse) than Undiversified</td>
<td>204.2%</td>
<td>56.2%</td>
<td>1.0x 0.8x 1.2x 0.9x 0.20 1.7%</td>
</tr>
</tbody>
</table>

Source: Capital IQ
Note: WACC = Weighted average cost of capital
1) Diversification is based on an assessment of managers' asset class, geography and distribution channel characteristics
2) Diversified managers include AB, BEN, BLK, EV, IVZ, LM, TROW
3) Undiversified managers include CLMS, FII, JNS, PZN, WDR
European Traditional vs. Alternative Managers

- In Europe, alternative managers trade in line with traditional managers
  - More established public market presence compared with U.S. alternative managers
  - Discount associated with alternative managers eroded in the last decade
  - Both have traded up modestly in the last year, but valuations still trail historical norms

<table>
<thead>
<tr>
<th>Price / 2013E Earnings</th>
<th>Historical Delta in Price / Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Asset Managers</td>
<td>Alternative Asset Managers</td>
</tr>
</tbody>
</table>

Source: Capital IQ

Traditional asset managers include Aberdeen, Azimut Holdings, F&C, Henderson, Jupiter, Schroders
Alternative asset managers include 3i Group, Ashmore, Charlemange, GAM, Gottex, Intermediate Capital, Man Group, Partners Group, Polar Capital
U.S. Traditional vs. Alternative Managers

- Public alternative managers continue to experience a discount relative to traditional managers.
- EBITDA valuation discount reflects higher risk associated with performance fees, limited trading history of alternative managers, and fundraising risk associated with the private equity firms.
- Earnings valuation discount reflects the factors above, plus greater usage of leverage in traditional managers.

**TEV / 2013E EBITDA**

- Traditional Asset Managers: 7.7x
- Alternative Asset Managers: 6.7x

**Price / 2013E Earnings**

- Traditional Asset Managers: 13.5x
- Alternative Asset Managers: 8.0x

**Historical Delta in Price / Earnings**

- Traditional Manager P/E minus Alternative Manager P/E: 5.5x

Source: Capital IQ

Note: TEV = Total Enterprise Value

Traditional asset managers include AB, AMG, ART, BEN, BLK, CLMS, CNS, EV, FII, GBL, IVZ, JNS, LM, PZN, TROW, VRTS, WDR.

Alternative asset managers include APO, BX, CG, FIG, KKR, OAK, OZM.
U.S. vs. European Managers

- For traditional managers, U.S. valuations currently exceed European managers due to perceived higher risk and lower growth profile of the European market.
- For alternative managers, European valuations exceed U.S. managers due to more established shareholder bases, longer track record in the public market, and greater composition of hedge funds.

Source: Capital IQ

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>U.S. Traditional</td>
<td>European Traditional</td>
</tr>
<tr>
<td>13.5x</td>
<td>12.0x</td>
</tr>
<tr>
<td>U.S. Alternative</td>
<td>European Alternative</td>
</tr>
<tr>
<td>8.0x</td>
<td>12.0x</td>
</tr>
</tbody>
</table>
Global Asset Management M&A Activity

- Recent transaction volumes and valuations trail pre-crisis levels
- Downward trend in valuation reflects sector headwinds and overall quality of businesses transacted

**Total Number of Transactions and AUM Acquired**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Transactions</th>
<th>AUM Acquired ($ BN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>113</td>
<td>$797</td>
</tr>
<tr>
<td>2002</td>
<td>113</td>
<td>$508</td>
</tr>
<tr>
<td>2003</td>
<td>82</td>
<td>$349</td>
</tr>
<tr>
<td>2004</td>
<td>108</td>
<td>$556</td>
</tr>
<tr>
<td>2005</td>
<td>110</td>
<td>$1,092</td>
</tr>
<tr>
<td>2006</td>
<td>97</td>
<td>$2,057</td>
</tr>
<tr>
<td>2007</td>
<td>88</td>
<td>$1,337</td>
</tr>
<tr>
<td>2008</td>
<td>95</td>
<td>$1,610</td>
</tr>
<tr>
<td>2009</td>
<td>42</td>
<td>$55</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
<td>NA</td>
</tr>
<tr>
<td>2011</td>
<td>4</td>
<td>$80</td>
</tr>
<tr>
<td>YTD 2012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Transaction Volume and Median EBITDA Multiples**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Transaction Volume ($ BN)</th>
<th>Median EBITDA Multiple Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$14.6</td>
<td>14.1x</td>
</tr>
<tr>
<td>2002</td>
<td>$8.4</td>
<td>12.3x</td>
</tr>
<tr>
<td>2003</td>
<td>$8.0</td>
<td>12.0x</td>
</tr>
<tr>
<td>2004</td>
<td>$7.7</td>
<td>12.4x</td>
</tr>
<tr>
<td>2005</td>
<td>$12.3</td>
<td>13.1x</td>
</tr>
<tr>
<td>2006</td>
<td>$21.3</td>
<td>14.1x</td>
</tr>
<tr>
<td>2007</td>
<td>$31.0</td>
<td>11.4x</td>
</tr>
<tr>
<td>2008</td>
<td>$13.5</td>
<td>10.3x</td>
</tr>
<tr>
<td>2009</td>
<td>$28.7</td>
<td>8.6x</td>
</tr>
<tr>
<td>2010</td>
<td>$8.5</td>
<td>11.1x</td>
</tr>
<tr>
<td>2011</td>
<td>$9.5</td>
<td>9.4x</td>
</tr>
<tr>
<td>YTD 2012</td>
<td>NA</td>
<td>$1.1</td>
</tr>
</tbody>
</table>

Source: Capital IQ, Company Filings
Note: YTD reflects 1H 2012.

Lack of blockbuster transactions and market volatility have reduced AUM acquired

Includes BlackRock / BGI transaction
Key Transaction Trends

Long Term Trends

- Consolidation driven by rising costs associated with distribution access and scale efficiencies
- Separation of alpha and beta products driving demand for hedge funds and index products / ETFs
- Disaggregation of manufacturing and distribution causing unbundling of captive asset managers
- IPO market remains active but volatile

M&A Valuation Trends

- Public market multiples converging around the median as market has rallied
- Since 2007, there has been a clear re-valuation of the asset management businesses
- Valuations for control deals have migrated to high single digit multiples
  - Highly dependent on quality of the franchise

Example Transactions Driven by Key Trends

Consolidation
- Affiliated Managers Group
- Yacktman Asset Management
- Henderson Global Investors
- Gartmore

Global Product Platforms
- Blackstone
- Harboursmaster Capital Management Limited

Disaggregation
- ING Investment Management Asia-Pacific
- Dexia
- Robeco
Conclusion
Conclusion

Challenging Market Environment
- Difficult to generate organic growth in today’s market
- Limited net flows outside of fixed income, emerging market, and passive products

Shifting Industry Structure
- Traditional products face stiff competition from passive and alternative products
- Commoditization of beta and demand for advice shift power towards distributors

Valuation Analysis
- Valuation reflects the intrinsic value of the firm plus market and situational factors
- Valuation is quality dependent; qualitative assessment guides quantitative analysis

Valuation Trends
- Challenging growth environment keeping current valuations below historical levels
- Diversified, scaled, and growth-oriented firms command stronger valuations

Transaction Activity
- M&A activity limited by uncertainty, bid/ask spread, and competing priorities