

Equities

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Brokers & Asset Managers

Where To Hide...The Alts + Pairs

■ Industry Overview

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- **Recalibrating as economic vibrancy fades, markets get trounced, and uncertainty re-ignites** — Being an Asset Manager & B/D analyst these days is about as much fun as getting teeth pulled, but nonetheless the rapid deterioration in the macro backdrop causes us to review our portfolio strategy.
- **Big picture remains** — We remain globally most focused on U.S. vs. Non-U.S. peers as — despite the weak May jobs picture — the relative appeal remains best domestically. Within this framework we remain most geared to the Alts but at the margin shift to a more defensive stance across our coverage universe, and have downgraded our view of Broker Dealers, bringing us more in-line with CIRA's domestic strategists recent shift from over to equal weight among diversified financials.
- **Why we are staying the course on the Alts** — First, we believe valuations already reflect dismal performance fee leverage. Second, we see further flow and market share gains — see also our 6/4 note, [The Retail Perspective: Takeaways Post UBS WMA Mgmt Meeting](#) — which highlights yet another channel of potential/untapped growth. Third, though ENI forecasts will be at risk as markets tumble: a) allocations toward alts are clearly rising; b) the sector faces far less redemption risk; and, c) fee related earnings (FRE) are mostly based on committed capital, and NOT subject to market gyrations. No question realization cycles seem to be getting pushed out, however: a) the businesses are diversifying; b) we suspect dry powder deployment could accelerate; and, c) the stocks offer an already generous yield based just on FRE earnings, the latter predominantly secure despite the market tumult. All screen well cheap but we particularly like KKR and BX best at present, when also overlaying liquidity.
- **Not great news for Traditionals** — As tumbling markets de-lever earnings and likely further shut off quick recovery in equities flows. Additionally, with rates likely lower for longer, FI volumes likely will remain robust, but lower multiple in nature. We expect management teams will now begin to address compensation to counter the revenue pressures akin to moves in 2008 and 2011, helping but not fully protecting, margins. Here, we like AMG and LM, which remain on both TPL! and our Global Focus Five List (see our 5/18 note, [Looking To The U.S. Port In The Building Global Macro Storm; Adding LM.N To The Global Focus Five And Removing IAP.L](#)). While we remain cautious elsewhere for the most part, we are cognizant the segment is getting much cheaper, even after implicitly adjusting for May/early June market swoon. Still, we expect choppy backdrop to limit sustained gains broadly.
- **Bad news for brokers** — As NIM pressures resurface while downward trending markets likely erode DART/DAT volumes. We expect the sector to address costs but see less potential flexibility vs. Traditional Managers. In turn, we cut ratings on AMTD and SCHW, and remain more focused on FXCM, which should outperform given the stepped up currency/macro volatility — see also our 6/4 note, [Downgrade AMTD + SCHW As Rate + Retail Re-engagement Risks Re-ignite; FXCM Should Prove Increasingly Attractive](#).
- **Pairing off to deal with the volatility** — Given what is likely to be an uneven near term outlook for our sector at large, we affirm the following pair trades: (Buy-rated) AMG/Sell rated TROW; (Buy rated) APO/Neutral rated AB; and Neutral rated BLK/Neutral rated EV.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Figure 1. Citi Investment Research and Analysis: Asset Manager Valuation and Earnings Comparisons

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Company Name			Ticker	Rating	6/3/2012 Price	Operating/Adjusted EPS						Cash / Adjusted EPS						3-Yr EPS CAGR	EBITDA (\$MM)					(\$B)	FTM Dividend				
						2011	2012E	2013E	2014E	12E/11	13E/12E	14E/13E	2011	2012E	2013E	2014E	11/10	12E/11	13E/12E	14E/13E		LTM	2011	2012E	2013E	2014E			
Traditional Managers:																													
Affiliated Managers Group			AMG	Buy	\$97.87	\$6.62	\$7.45	\$8.97	\$10.20	12.5%	20.4%	13.7%	\$6.62	\$7.45	\$8.97	\$10.20	52.8%	12.5%	20.4%	13.7%	27.4%	467.1	471.2	539.0	663.8	765.4	363.9	\$0.00	
AllianceBernstein Holding			AB	Neutral	\$12.43	\$1.14	\$1.11	\$1.22	\$1.47	-2.2%	9.5%	20.8%	\$1.14	\$1.11	\$1.22	\$1.47	-74.7%	-2.2%	9.5%	20.8%	-35.3%	465.7	508.7	479.5	517.6	606.1	418.0	\$1.09	
Artio Global			ART	Sell	\$3.02	\$1.23	\$0.06	(\$0.11)	(\$0.12)	-95.2%	-291.0%	8.3%	\$1.23	\$0.06	(\$0.11)	(\$0.12)	-28.4%	-95.2%	-291.0%	8.3%	-140.2%	136.9	177.7	11.4	(16.5)	(17.8)	26.6	\$0.08	
BlackRock, Inc.			BLK	Neutral	\$166.57	\$11.85	\$12.86	\$14.24	\$16.09	8.5%	10.7%	13.0%	\$12.80	\$13.77	\$15.17	\$17.03	12.5%	7.5%	10.2%	12.3%	9.2%	3,793.0	3,763.0	4,010.5	4,339.3	4,815.4	3,684.1	\$6.00	
Eaton Vance Corp.			EV	Neutral	\$23.51	\$2.03	\$1.88	\$1.99	N/A	-7.7%	6.1%	N/A	\$2.03	\$1.88	\$1.99	N/A	50.1%	-7.7%	6.1%	N/A	N/A	439.1	453.7	418.2	438.9	N/A	191.7	\$0.78	
Federated Investors, Inc.			FTI	Neutral	\$18.96	\$1.55	\$1.70	\$1.89	\$2.32	9.7%	11.2%	22.8%	\$1.63	\$1.73	\$1.94	\$2.37	-15.7%	6.3%	12.1%	22.2%	4.9%	280.0	278.6	305.8	335.6	401.6	363.6	\$1.08	
Franklin Resources, Inc.*			BEN	Neutral	\$102.05	\$8.56	\$9.44	\$10.45	N/A	10.3%	10.7%	N/A	\$8.63	\$9.44	\$10.45	N/A	25.0%	9.3%	10.7%	N/A	N/A	2,955.8	2,932.6	3,099.2	3,348.0	N/A	726.4	\$2.33	
Invesco Ltd			IVZ	Buy	\$20.85	\$1.69	\$1.91	\$2.19	\$2.47	13.2%	15.0%	12.4%	\$1.69	\$1.91	\$2.19	\$2.47	67.6%	13.2%	15.0%	12.4%	29.7%	1,205.6	1,190.8	1,288.9	1,449.6	1,616.6	668.4	\$0.69	
Janus Capital Group Inc.			JNS	Neutral	\$6.90	\$0.80	\$0.63	\$0.72	\$0.87	-21.3%	15.6%	20.6%	\$0.83	\$0.66	\$0.76	\$0.87	-5.3%	-20.7%	14.9%	15.3%	-1.7%	286.5	320.4	261.5	289.5	334.3	164.0	\$0.24	
Legg Mason, Inc.*			LM	Buy	\$24.27	\$1.77	\$1.88	\$2.46	\$3.18	5.9%	30.9%	N/A	\$3.08	\$3.11	\$3.67	\$4.49	110.6%	0.9%	18.2%	N/A	15.8%	501.8	556.4	477.3	568.3	661.3	639.3	\$0.44	
T. Rowe Price Group, Inc.			TROW	Sell	\$55.21	\$2.92	\$3.28	\$3.62	\$3.86	12.3%	10.2%	6.6%	\$2.92	\$3.28	\$3.62	\$3.86	14.1%	12.3%	10.2%	6.6%	12.2%	1,327.3	1,319.2	1,474.8	1,635.4	1,758.0	554.8	\$1.36	
Waddell & Reed Financial			WDR	Neutral	\$27.14	\$2.06	\$2.27	\$2.42	\$2.60	9.7%	7.0%	7.5%	\$2.06	\$2.27	\$2.42	\$2.60	10.8%	9.7%	7.0%	7.5%	9.2%	312.8	312.0	333.6	359.0	384.3	93.8	\$1.01	
WisdomTree			WETF	Buy	\$6.56	\$0.03	\$0.10	\$0.23	\$0.23	241.1%	138.6%	-2.6%	\$0.03	\$0.10	\$0.24	\$0.23	-145.6%	228.0%	135.0%	-2.5%	-251.4%	6.6	4.2	13.8	32.3	43.6	15.7	\$0.00	
Medians/Composites:										9.7%	10.7%	12.7%					12.5%	7.5%	10.5%	12.4%	9.2%								
Alternative Managers:																													
Apollo Global Management			APO	Buy	\$11.36	(\$0.86)	\$2.82	\$2.52	\$2.60	N/A	-10.6%	3.1%	(\$0.86)	\$2.82	\$2.52	\$2.60	N/A	N/A	-10.6%	3.1%	-10.5%	N/A	N/A	N/A	N/A	N/A	N/A	83.1	\$1.02
Blackstone Group L.P.			BX	Buy	\$11.88	\$1.25	\$1.41	\$1.74	\$2.55	12.3%	23.3%	46.6%	\$1.25	\$1.41	\$1.74	\$2.55	-0.3%	12.3%	23.3%	46.6%	11.4%	N/A	N/A	N/A	N/A	N/A	N/A	190.1	\$0.67
KKR & Co. L.P.			KKR	Buy	\$11.74	\$0.73	\$2.18	\$1.79	\$1.95	197.0%	-17.8%	9.1%	\$0.73	\$2.18	\$1.79	\$1.95	-74.0%	197.0%	-17.8%	9.1%	-14.1%	N/A	N/A	N/A	N/A	N/A	N/A	62.3	\$0.69
Och-Ziff Capital Management			OZM	Buy	\$6.95	\$0.48	\$1.31	\$1.32	\$1.52	174.6%	0.6%	15.5%	\$0.48	\$1.31	\$1.32	\$1.52	-57.7%	174.6%	0.6%	15.5%	5.3%	290.6	290.6	784.1	738.2	853.8	30.1	\$1.04	
Medians/Composites:										174.6%	0.6%	15.5%					-57.7%	174.6%	0.6%	15.5%	5.3%								
Group Medians/Composites:										9.7%	10.7%	13.4%					12.5%	7.5%	10.2%	13.0%	9.2%								
Company Name			Ticker	Rating	Price Target	Price / Earnings (x)				Versus 52-Week		Price / Cash (Adjusted) Earnings				Historical FTM P/E	Enterprise Value (\$MM)	Mkt Cap (\$MM)	Enterprise Value / EBITDA (x)				Mkt Cap / AUM	Div. Yield					
						2011	2012E	2013E	2014E	High	Low	2011	2012E	2013E	2014E				LTM	2011	2012E	2013E	2014E						
Traditional Managers:																													
Affiliated Managers Group			AMG	Buy	\$132.00	14.8	13.1	10.9	9.6	-14.4%	39.3%	14.8	13.1	10.9	9.6	14.2	\$7,117	\$5,187	15.2	15.1	13.2	10.7	9.3	1.4%	0.0%				
AllianceBernstein Holding			AB	Neutral	\$15.00	10.9	11.2	10.2	8.4	-45.4%	0.2%	10.9	11.2	10.2	8.4	14.1	\$3,404	\$3,454	7.3	6.7	7.1	6.6	5.6	0.8%	8.8%				
Artio Global			ART	Sell	\$2.75	2.5	51.4	N/A	N/A	-82.5%	-27.4%	2.5	51.4	N/A	N/A	10.2	\$148	\$180	1.1	0.8	13.0	N/A	N/A	0.7%	2.6%				
BlackRock, Inc.			BLK	Neutral	\$180.00	14.1	13.0	11.7	10.4	-20.2%	21.6%	13.0	12.1	11.0	9.8	19.9	\$32,336	\$29,884	8.5	8.6	8.1	7.5	6.7	0.8%	3.6%				
Eaton Vance Corp.			EV	Neutral	\$23.50	11.6	12.5	11.8	N/A	-31.0%	17.1%	11.6	12.5	11.8	N/A	17.5	\$3,046	\$2,723	6.9	6.7	7.3	6.9	N/A	1.4%	3.3%				
Federated Investors, Inc.			FTI	Neutral	\$22.00	12.2	11.2	10.0	8.2	-30.1%	32.0%	11.7	11.0	9.8	8.0	14.7	\$2,287	\$1,980	8.2	8.2	7.5	6.8	5.7	0.5%	5.7%				
Franklin Resources, Inc.*			BEN	Neutral	\$125.00	11.9	10.8	9.8	N/A	-25.8%	16.3%	11.8	10.8	9.8	N/A	16.6	\$19,467	\$21,954	6.6	6.6	6.3	5.8	N/A	3.0%	2.3%				
Invesco Ltd			IVZ	Buy	\$28.50	12.4	10.9	9.5	8.5	-22.6%	43.6%	12.4	10.9	9.5	8.5	16.9	\$11,321	\$9,569	9.4	9.5	8.8	7.8	7.0	1.4%	3.3%				
Janus Capital Group Inc.			JNS	Neutral	\$7.75	8.7	11.0	9.5	7.9	-46.9%	28.7%	8.3	10.5	9.1	7.9	18.0	\$1,687	\$1,280	5.9	5.3	6.5	5.8	5.0	0.8%	3.5%				
Legg Mason, Inc.*			LM	Buy	\$32.50	13.7	12.9	9.9	N/A	-35.8%	7.3%	7.9	7.8	6.6	N/A	18.5	\$3,405	\$3,389	6.8	6.1	7.1	6.0	N/A	0.5%	1.8%				
T. Rowe Price Group, Inc.			TROW	Sell	\$56.00	18.9	16.8	15.3	14.3	-19.5%	23.6%	18.9	16.8	15.3	14.3	20.1	\$13,143	\$14,073	9.9	10.0	8.9	8.0	7.5	2.5%	2.5%				
Waddell & Reed Financial			WDR	Neutral	\$32.00	13.1	12.0	11.2	10.4	-36.1%	18.8%	13.1	12.0	11.2	10.4	16.1	\$1,992	\$2,323	6.4	6.4	6.0	5.5	5.2	2.5%	3.7%				
WisdomTree			WETF	Buy	\$9.50	N/A	N/A	N/A	N/A	-31.7%	22.2%	213.4	65.1	27.7	28.4	59.9	\$869	\$901	N/A	N/A	63.2	26.9	19.9	5.7%	0.0%				
Medians:						12.3	12.2	10.2	9.0	-31.0%	21.6%	11.8	12.0	10.5	9.6	16.9	\$100,221	\$96,896	7.1	6.7	7.5	6.9	6.7	1.4%	3.3%				
Alternative Managers:																													
Apollo Global Management			APO	Buy	\$16.75	N/A	4.0	4.5	4.4	-39.9%	28.4%	N/A	4.0	4.5	4.4	6.0	\$32,336	\$4,374	N/A	N/A	N/A	N/A	N/A	N/A	5.3%	9.0%			
Blackstone Group L.P.			BX	Buy	\$18.00	9.5	8.4	6.8	4.7	-39.5%	13.0%	9.5	8.4	6.8	4.7	12.6	\$21,411	\$13,168	N/A	N/A	N/A	N/A	N/A	N/A	6.9%	5.6%			
KKR & Co. L.P.			KKR	Buy	\$20.00	16.0	5.4	6.6	6.0	-38.7%	31.2%	16.0	5.4	6.6	6.0	6.8	\$7,770	\$8,125	N/A	N/A	N/A	N/A	N/A	N/A	13.0%	5.9%			
Och-Ziff Capital Management			OZM	Buy	\$11.50	14.6	5.3	5.3	4.6	-58.0%	-5.1%	14.6	5.3	5.3	4.6	10.6	\$3,356	\$3,144	11.5	11.5	4.3	4.5	3.9	10.4%	15.0%				
Medians:						14.6	5.3	5.9	4.6	-39.7%	20.7%	14.6	5.3	5.9	4.6	N/A	\$64,872	\$28,811	11.5	11.5	4.3	4.5	3.9	8.7%	7.4%				
Group Medians/Composites:						12.4	11.2	9.9	8.3	-35.8%	21.6%	12.1	11.0	9.8	8.4	16.1	\$3,405	\$3,454	7.3	6.7	7.4	6.8	6.2	1.4%	3.5%				

Source: FactSet, Citi Investment Research and Analysis

Figure 2. Citi Investment Research and Analysis: Broker Valuation and Earnings Comparisons

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Company Name	Ticker	Rating	6/3/12 Price	Operating EPS				Adjusted / Cash EPS				3-Yr EPS CAGR	EBITDA (\$M)				Total Client Assets (\$B)	Annual Dividend	
				2011	2012E	2013E	2014E	2011	2012E	2013E	2014E		2011	2012E	2013E	2014E			
Online Brokers:																			
TD Ameritrade Holding Corp¹	AMTD	Neutral	\$16.47	\$1.13	\$1.08	\$1.21	N/A	\$1.30	\$1.25	\$1.38	N/A	6.6%	1,206.4	1,143.2	1,258.9	N/A	452.4	\$0.26	
E*Trade Financial Corp	ETFC	N/C	\$8.05	\$0.45	\$0.52	\$0.68	\$1.02	N/A	N/A	N/A	N/A	31.2%	477.5	547.7	657.6	762.4	172.0	\$0.00	
Interactive Brokers Group	IBKR	N/C	\$14.07	\$1.34	\$1.26	\$1.54	\$1.72	N/A	N/A	N/A	N/A	8.7%	769.9	736.0	897.1	1,102.1	25.1	\$0.42	
LPL Investment Holdings²	LPLA	Neutral	\$31.68	\$1.85	\$2.07	\$2.27	\$2.68	\$1.85	\$2.07	\$2.27	\$2.68	13.2%	444.7	474.8	515.1	598.7	354.1	\$2.24	
Charles Schwab Corp	SCHW	Neutral	\$12.10	\$0.72	\$0.60	\$0.65	\$0.93	\$0.72	\$0.60	\$0.65	\$0.93	9.1%	1,568.1	1,455.8	1,602.2	2,146.5	1,833.5	\$0.24	
Raymond James	RJF	N/C	\$32.80	\$2.19	\$2.49	\$3.08	N/A	N/A	N/A	N/A	N/A	18.9%	N/A	639.0	812.0	N/A	270.0	\$0.52	
Stifel Financial	SF	N/C	\$30.18	\$1.80	\$2.34	\$2.95	N/A	N/A	N/A	N/A	N/A	10.9%	N/A	N/A	N/A	N/A	119.4	\$0.00	
F/X Online Brokers:																			
Gain Capital	GCAP	N/C	\$4.85	\$0.56	\$0.28	\$0.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$0.20	
FXCM Inc²	FXCM	Buy	\$10.13	\$0.74	\$0.76	\$0.95	N/A	\$0.74	\$0.76	\$0.95	N/A	0.9%	89.7	97.7	124.7	150.4	N/A	\$0.24	
IG Group³	IGG-LON	Neutral	£4.30	£32.63	£38.09	£40.13	£43.00	N/A	£42.53	£44.75	£47.10	9.6%	N/A	N/A	N/A	N/A	N/A	N/A	
Medians/Composites:																			
				16.8x	15.2x	11.8x	10.0x	16.8x	15.3x	14.0x	12.4x	15.4x		7.8x	6.4x	5.2x	3.9x	1.5%	1.6%
F/X Online Brokers:																			
Gain Capital	GCAP	N/C	N/C	8.7	17.1	7.2	N/A	N/A	N/A	N/A	N/A	7.6	\$189	N/A	N/A	N/A	N/A	4.1%	
FXCM Inc²	FXCM	Buy	\$14.50	13.8	13.3	10.6	N/A	13.8	13.3	10.6	N/A	11.1	\$754	6.2	5.7	4.4	3.7	2.4%	
IG Group³	IGG-LON	Neutral	£5.00	0.1	0.1	0.1	0.1	N/A	0.1	0.1	0.1	13.9	\$2	N/A	N/A	N/A	N/A	N/A	
Medians/Composites:																			
				8.7x	13.3x	7.2x	0.1x	13.8x	6.7x	5.4x	0.1x	11.1x		6.2x	5.7x	4.4x	3.7x	N/A	3.2%

Source: FactSet, Citi Investment Research and Analysis

Companies mentioned: (AB.N; US\$12.43; 2); (AMG.N; US\$97.87; 1); (AMTD.N; US\$16.47; 1); (APO.N; US\$11.36; 1); (BLK.N; US\$166.57; 2); (BX.N; US\$11.88; 1); (EV.N; US\$23.51; 2); (FXCM.N; US\$10.13; 1); (KKR.N; US\$11.74; 1); (LM.N; US\$24.27; 1); (SCHW.N; US\$12.10; 1); (TROW.O; US\$55.21; 3)

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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