

Invesco Ltd (IVZ)

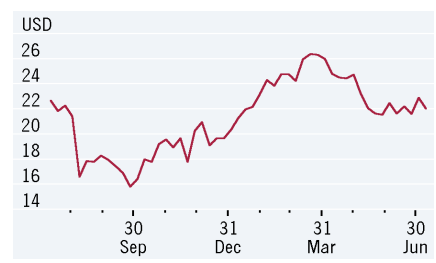
June AUM — Passive Drives The Bus; Active Remains Sluggish

- Company Update
- Estimate Change

- **June AUM a mixed bag** — Post 7/11 market close, IVZ reported 6/30 AUM of \$646.6B, up 2.3% MTM and 10 bps below our \$647B forecast (Figure 1) with the increase MTM largely due to positive market returns, FX, and LT net inflows. Per the release, FX increased AUM by \$2.3B while active LT inflows were flat — suggesting LT net inflows driven by passive. We view the data mixed across businesses as the mostly in-line AUM resulted from positive passive variance offset by an active negative variance.
- **Flows likely solid though may produce a negative mix shift** — We estimate net LT inflows between \$1.5B and \$2B (3% annualized growth rate) with flattish LT active flows, and between \$1.5B and \$2B LT passive inflows (22% annualized growth rate) [Figure 2]. Money market outflows were ~\$300M (5% annualized loss rate). However, LT inflows were skewed by \$1.4B QQQ inflows, suggesting “core” LT inflows of ~\$500M. By asset class, we estimate total equities inflows were flat to ~\$500B and we range total fixed income flows between \$1B and 1.5B.
- **Lowering adjusted 2012-14 EPS estimates** — We lower 2012-2014 EPS estimates to \$1.83/\$2.07/\$2.34 versus \$1.85/\$2.11/\$2.39 prior. Revisions primarily reflect updated NAVs.
- **Maintain Buy; \$27 12-month price target; affirm IVZ/WDR pair trade** — On the one hand we are encouraged around the 4% MTM AUM passive growth as we believe ETFs continue to take share — see our 7/5 report, [June ETF Data: Another Month; More Share Gains](#). On the other hand, active AUM/flows below our forecast and likely result in an adverse mix shift in June. We expect some flow acceleration in the ST from the Risk Premia which inflected to a positive 3-year track record in June. However, despite low expectations into the disclosure, we do not see significant outperformance in the ST due to mix trends — though the stock still screen cheaply, in our view. IVZ’s mixed disclosure follows: 1) BEN’s in-line AUM with flows likely ahead of forecast; and, 2) EV’s slightly below forecast AUM — see our 7/11 reports, [June AUM Generally In-Line; Flows Likely Outpace Forecast](#); and, [June AUM A Tad Light; Likely Due To Higher Than Forecast Attrition](#) — as we expect industry flows to remain idiosyncratic. We prefer AMG and LM among Traditionals.

Buy	1
Price (11 Jul 12)	US\$22.19
Target price	US\$27.00
Expected share price return	21.7%
Expected dividend yield	3.1%
Expected total return	24.8%
Market Cap	US\$9,946M

Price Performance (RIC: IVZ.N, BB: IVZ US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.41A	0.44A	0.42A	0.42A	1.69A	1.68A
2012E	0.44A	0.42E	0.47E	0.50E	1.83E	1.87E
Previous	0.44A	0.42E	0.48E	0.51E	1.85E	na
2013E	na	na	na	na	2.07E	2.18E
Previous	na	na	na	na	2.11E	na
2014E	na	na	na	na	2.34E	2.49E
Previous	na	na	na	na	2.39E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	16.1	13.2	12.1	10.7	9.5
P/E reported (x)	22.1	14.1	13.3	11.4	10.0
P/BV (x)	1.3	1.2	1.2	1.1	1.1
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	1.9	2.2	3.1	4.1	4.7
Per Share Data (US\$)					
EPS adjusted	1.38	1.69	1.83	2.07	2.34
EPS reported	1.01	1.57	1.66	1.95	2.21
BVPS	17.52	17.81	18.64	19.78	21.07
Tangible BVPS	-0.11	-0.24	0.58	1.78	3.12
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.43	0.49	0.69	0.90	1.05
Profit & Loss (US\$m)					
Net interest income	0	0	0	0	0
Fees and commissions	3,488	4,092	4,201	4,548	4,969
Other operating Income	0	0	0	0	0
Total operating income	3,488	4,092	4,201	4,548	4,969
Total operating expenses	-2,898	-3,194	-3,201	-3,390	-3,661
Oper. profit bef. provisions	590	898	1,000	1,157	1,307
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	244	10	-86	27	32
Pre-tax profit	834	908	914	1,185	1,339
Tax	-197	-286	-273	-296	-335
Extraord./Min. Int./Pref. Div.	-171	108	119	0	0
Attributable profit	466	730	761	888	1,004
Adjusted earnings	583	725	775	888	1,004
Growth Rates (%)					
EPS adjusted	54.7	22.0	8.6	13.2	13.0
Oper. profit bef. prov.	21.8	52.2	11.3	15.7	13.0
Balance Sheet (US\$m)					
Total assets	20,444	19,347	19,915	20,712	21,540
Avg interest earning assets	na	na	na	na	na
Customer loans	na	na	na	na	na
Gross NPLs	na	na	na	na	na
Liab. & shar. funds	20,444	19,347	19,915	20,712	21,540
Total customer deposits	na	na	na	na	na
Reserve for loan losses	na	na	na	na	na
Shareholders' equity	8,265	8,119	8,522	9,000	9,528
Profitability/Solvency Ratios (%)					
ROE adjusted	7.7	8.9	9.3	10.1	10.8
Net interest margin	na	na	na	na	na
Cost/income ratio	83.1	78.1	76.2	74.5	73.7
Cash cost/average assets	18.5	15.6	16.4	16.7	17.3
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Figure 1. June AUM Mostly In-Line With Our Forecast...

	Assets Under Management (\$B)					
	4/30/12 Actual	5/31/12 Actual	6/30/12 Actual	MTM Chg	CIRA Est.	% Variance
Total AUM	668.4	632.1	646.6	2.3%	647.0	-0.1%
LT Active	485.1	457.3	468.0	2.3%	469.9	-0.4%
LT Passive	109.3	103.5	107.6	4.0%	105.7	1.8%
Money Mkts	74.0	71.3	71.0	-0.4%	71.4	-0.6%
Active LT AUM:						
Equity	244.2	222.7	229.2	2.9%	230.1	-0.4%
Fixed Income	122.7	119.9	121.7	1.5%	120.7	0.8%
Balanced	51.4	49.4	51.5	4.3%	51.8	-0.6%
Alternatives	66.8	65.3	65.6	0.5%	67.4	-2.6%
Passive LT AUM:						
Equity	55.6	51.0	54.6	7.1%	52.4	4.2%
less: QQQs	32.7	29.5	31.9	8.4%	31.9	0.0%
"core" Equity	22.9	21.5	22.7	5.2%	20.5	10.7%
Fixed Income	32.8	33.8	33.9	0.3%	34.5	-1.8%
Alternatives	20.9	18.7	19.1	2.1%	18.8	1.7%
"Core" passive	76.6	74.0	75.7	2.2%	73.8	2.6%
Long-Term AUM	594.4	560.8	575.6	2.6%	575.6	0.0%
"Core" LT AUM	561.7	531.3	543.7	2.3%	543.7	0.0%
Asset Class						
Equity	299.8	273.7	283.8	3.7%	282.5	0.5%
"Core" Equity	267.1	244.2	251.9	3.1%	250.5	0.5%
Fixed Income	155.5	153.7	155.6	1.2%	155.2	0.3%
Balanced	51.4	49.4	51.5	4.3%	51.8	-0.6%
Alternatives	87.7	84.0	84.7	0.8%	86.2	-1.7%
FX	2,300	-7,100	2,300	N/A	1,900	N/A

Source: Company reports, Citi Research and Analysis

Figure 2. ...While LT Flows Driven By Passive

	Estimated Net Flows (\$M)		Estimated Annualized Organic Growth
	6/30/12		
	Post-Release	Pre-Release	
Total Flows	1,700	1,000	3.2%
LT Active	100	1,200	0.3%
LT Passive	1,900	-300	22.0%
Money Mkts	-300	100	-5.0%
<u>Active LT Flows</u>			
Equity	-1,400	-500	-7.5%
Fixed Income	1,100	500	11.0%
Balanced	400	1,000	9.7%
Alternatives	0	200	0.0%
<u>Passive LT Flows:</u>			
Equity	1,700	-500	40.0%
less: QQQs	1,400	1,400	57.0%
"core" Equity	300	-1,900	16.7%
Fixed Income	300	200	10.7%
Alternatives	-100	0	-6.4%
"Core" Passive	500	-1,700	8.1%
Long-Term Flows	2,000	900	4.3%
"Core" LT Flows	600	-500	1.4%
<u>Asset Class</u>			
Equity	300	-1,000	1.3%
"Core" Equity	-1,100	-2,400	-5.4%
Fixed Income	1,400	700	10.9%
Balanced	400	1,000	9.7%
Alternatives	-100	200	-1.4%

Source: Company reports, Citi Research

Companies mentioned: (BEN.N; US\$109.59; 2); (EV.N; US\$26.43; 2); (AMGN; US\$107.82; 1); (LM.N; US\$26.11; 1)

Figure 3. Invesco Ltd. Summary Model

Invesco Ltd.		William R. Katz																	
Earnings Results and Forecasts		(212) 816-5394																	
(\$ Millions, Except As Noted)		william.katz@citi.com																	
GAAP																			
Key Forecast Variables:		1Q11	2Q11	3Q11	4Q11	1Q12	Forecast:			2010	2011	Forecast:			% Change				
							2Q12	3Q12	4Q12			2012E	2013E	2014E	2QE/1Q	2QE/2Q	12E/11	13E/12E	14E/13E
GAAP Revenue																			
Management		792.3	819.1	779.5	747.6	791.4	792.1	801.0	818.1	2,747.0	3,138.5	3,202.6	3,461.5	3,786.1	0.1	-3.3	2.0	8.1	9.4
Service & Distribution		198.7	211.4	189.1	181.1	189.0	191.9	190.7	194.8	645.5	780.3	766.3	826.6	907.8	1.5	-9.2	-1.8	7.9	9.8
Other		21.1	20.5	16.0	33.5	22.8	30.0	35.0	35.0	54.1	91.1	122.8	131.4	141.9	31.6	46.3	34.8	7.0	8.0
Other UIT		11.4	11.4	10.6	11.0	10.0	11.4	11.4	11.4	41.1	44.4	44.2	53.0	53.0	14.0	0.0	-0.5	19.9	0.0
Total Operating Revenues		1,027.3	1,070.0	997.8	997.1	1,033.7	1,035.4	1,048.1	1,084.2	3,487.7	4,092.2	4,201.5	4,547.5	4,968.8	0.2	-3.2	2.7	8.2	9.3
GAAP Operating Expenses																			
Compensation		305.9	318.3	302.2	315.3	318.5	301.7	300.7	309.2	1,114.9	1,241.7	1,230.1	1,318.1	1,431.1	-5.3	-5.2	-0.9	7.2	8.6
Third-Party Fees		324.5	341.8	314.4	301.8	317.1	320.4	318.4	325.2	1,053.8	1,282.5	1,281.1	1,382.0	1,515.5	1.1	-6.3	-0.1	7.9	9.7
Marketing		25.7	26.1	13.1	21.1	26.7	27.0	27.0	27.0	78.5	86.0	107.7	113.1	118.7	1.1	3.4	25.2	5.0	5.0
Property & Office		64.0	61.9	62.0	61.0	66.8	67.0	67.0	67.0	238.4	248.9	267.8	274.5	281.4	0.3	8.2	7.6	2.5	2.5
General & Administration		73.6	77.6	68.3	73.1	73.3	73.0	73.0	73.0	262.2	292.6	292.3	302.5	314.6	-0.4	-5.9	-0.1	3.5	4.0
Restructuring Charge		7.9	11.3	10.0	13.2	1.5	7.0	7.0	7.0	150.0	42.4	22.5	0.0	0.0					
Total Operating Costs		801.6	837.0	770.0	785.5	803.9	796.1	793.1	808.4	2,897.8	3,194.1	3,201.5	3,390.1	3,661.3	-1.0	-4.9	0.2	5.9	8.0
GAAP Operating Income		225.7	233.0	227.8	211.6	229.8	239.3	255.0	275.9	589.9	898.1	1,000.0	1,157.4	1,307.5	4.2	2.7	11.3	15.7	13.0
Non Operating Income/(Expense)		-50.8	-28.2	-85.3	174.3	-81.4	-9.9	2.5	2.9	243.9	10.0	-85.9	27.1	31.7					
Pretax Income		174.9	204.8	142.5	385.9	148.4	229.5	257.4	278.8	833.8	908.1	914.1	1,184.5	1,339.1	54.6	12.0	0.7	29.6	13.1
Income Taxes		75.6	75.4	59.1	76.0	73.6	59.7	66.9	72.5	197.0	286.1	272.7	296.1	334.8	-18.9	-20.9	-4.7	8.6	13.1
Tax Rate (%)		29.9	29.2	26.2	27.3	27.5	26.0	26.0	26.0	29.7	28.2	26.4	25.0	25.0	-5.5	-10.9	-6.3	-5.3	0.0
Noncontrolling interests		-78.2	-53.6	-83.5	107.6	-119.1	0.0	0.0	0.0	171.1	-107.7	-119.1	0.0	0.0					
GAAP Net Income		177.5	183.0	166.9	202.3	193.9	169.8	190.5	206.3	465.7	729.7	760.5	888.4	1,004.3	-12.4	-7.2	4.2	16.8	13.1
Recurring Net Income		182.5	188.2	171.6	183.2	194.9	174.4	195.1	210.9	583.3	725.5	775.2	888.4	1,004.3	-10.5	-7.4	6.8	14.6	13.1
Cash Net Income		191.7	207.1	192.3	192.0	199.7	193.5	213.6	229.6	639.7	783.1	836.4	945.0	1,061.6	-3.1	-6.6			
Avg Fully Diluted Shares		472.1	467.4	461.0	458.3	455.9	457.1	457.2	457.3	463.2	464.7	456.9	456.2	453.6	0.3	-2.2	-1.7	-0.2	-0.6
Operating EPS (FD)		0.39	0.40	0.37	0.40	0.43	0.38	0.43	0.46	1.26	1.56	1.70	1.95	2.21	-10.8	-5.3	8.7	14.8	13.7
GAAP EPS (FD)		0.38	0.39	0.36	0.44	0.43	0.37	0.42	0.45	1.01	1.57	1.66	1.95	2.21	-12.7	-5.1	6.0	17.0	13.7
Adjusted EPS (FD)		0.41	0.44	0.42	0.42	0.44	0.42	0.47	0.50	1.38	1.69	1.83	2.07	2.34	-3.4	-4.5	8.6	13.2	13.0
Margins (%)																			
Operating Income		22.7%	22.8%	23.8%	22.5%	22.4%	23.8%	25.0%	26.1%	21.2%	23.0%	24.3%	25.5%	26.3%	6.3	4.2			
Adjusted Operating Income		37.6%	37.9%	36.2%	36.0%	36.4%	36.8%	38.8%	40.1%	35.6%	36.9%	38.1%	38.9%	40.1%	1.2	-2.9			
EBITDA		29.4%	29.1%	28.2%	29.6%	29.6%	27.2%	29.5%	30.5%	26.8%	29.1%	29.2%	29.8%	30.5%	-8.3	-6.7			
Net Income		17.8%	17.6%	17.2%	18.4%	18.9%	16.8%	18.6%	19.4%	16.7%	17.7%	18.4%	19.5%	20.2%	-10.7	-4.3			
Return on Common Equity (%)		8.8%	9.1%	8.5%	9.1%	9.6%	8.5%	9.4%	10.0%	7.7%	8.9%	9.3%	10.1%	10.8%	-11.4	-6.7			
Total Assets Under Mgmt (\$mm)		641,900	653,700	598,400	625,300	672,800	646,600	656,189	673,239	616,500	625,300	673,239	739,769	812,008	-3.9	-1.1	7.7	9.9	9.8
% Change Q/Q		4.1%	1.8%	-8.5%	4.5%	7.6%	-3.9%	1.5%	2.6%										
Net Flows (\$mm)		9,200	7,300	2,200	6,000	8,100	-7,354	5,400	8,850	-8,100	24,700	14,996	32,000	34,000					
% Beg AUM (Annualized)		6.0	4.5	1.3	4.0	5.2	-4.4	3.3	5.4	-1.8	4.0	2.4	4.8	4.6					
Ann'l Organic Growth (Loss) Rate		6.0%	4.5%	1.3%	4.0%	5.2%	-4.4%	3.3%	5.4%	-1.9%	4.0%	2.4%	4.8%	4.6%					
Average Assets Under Mgmt (\$mm)		630,200	652,800	632,700	621,700	658,200	656,050	651,861	665,860	532,350	634,350	657,993	706,504	775,889	-0.3	0.5	3.7	7.4	9.8
Average Active AUM (\$mm)		543,975	562,875	542,125	528,100	552,400	546,725	541,896	553,426	464,250	544,275	548,612	584,666	634,921	-1.0	-2.9	0.8	6.6	8.6
Average Passive AUM (\$mm)		86,675	93,525	91,450	93,600	105,800	109,325	109,966	112,434	72,244	91,319	109,381	121,838	140,968	3.3	16.9	19.8	11.4	15.7
Miscellaneous																			
Net Revenue Yield		46.0	46.0	44.6	46.1	45.0	45.1	45.8	46.6	47.4	45.7	45.6	46.1	45.7	0.2	-2.0	-0.2	1.0	-0.7
Net Revenue Yield ex PF		45.7	45.6	44.5	44.6	43.7	44.5	45.2	45.1	46.9	45.1	44.6	45.0	44.7					
Dividends Per Share		\$0.12	\$0.12	\$0.12	\$0.12	\$0.17	\$0.17	\$0.17	\$0.17	\$0.43	\$0.49	\$0.69	\$0.90	\$1.05	0.0	40.8	40.8	30.4	16.7
EBITDA (\$ mm)		302.2	311.7	281.3	295.6	306.4	281.5	309.0	330.6	935.6	1,190.8	1,227.4	1,356.0	1,516.8	-8.1	-9.7	3.1	10.5	11.9
Cash Net Income (\$mm)		191.7	207.1	197.2	192.5	207.4	189.2	209.1	224.9	639.7	788.5	808.7	916.1	1,032.4	-8.8	-8.6	2.6	13.3	12.7
Free Cash Flow Per Share		\$0.40	\$0.43	\$0.41	\$0.35	\$0.44	\$0.41	\$0.46	\$0.49	\$1.27	\$1.58	\$1.80	\$2.05	\$2.31	-6.4	-3.9	13.8	13.7	12.8
Net Debt (Cash) Per Share		\$1.83	\$2.07	\$1.38	\$1.21	\$1.62	\$1.47	\$1.32	\$1.18	\$1.25	\$1.19	\$1.18	\$1.09	\$1.26					

Source: Company reports, Citi Research

Invesco Ltd

Company description

Invesco is a leading independent global investment management company. IVZ provides services to retail, institutional and private wealth management clients. It manages separate client-focused equity, fixed income, balanced, money market, and real estate investment portfolios and mutual funds through AIM, Atlantic Trust, Invesco, Perpetual, PowerShares, Trimark and WL Ross. The company was founded in December 1935 and is based in Atlanta, Georgia.

Investment strategy

We rate the shares of Invesco Buy. Our positive thesis is based on: 1) improving flow dynamics at a time of weak to flattening prospects among many traditional managers, and likely bolstering the case for IVZ to shift from the "Grinders" into the "Gatherers", and thus allow for solid if not moderate PE multiple expansion; 2) potential for solid performance fees that may not be fully appreciated by investors; 3) solid FCF management driving buyback and further de-leveraging; and 4) following sharp underperformance, IVZ looks inexpensive, trading at the lowest FTM P/E multiple versus both history and 2008-09 trough levels among peers.

Valuation

We value the shares of Invesco using the target P/E method. Our \$27.00 12-month price target is derived by applying a ~14x target P/E to our FTM adjusted EPS estimate. The ~14x target P/E is moderately below the historical GAAP median of 16x but at the high range of the sector.

Risks

The three central risks to our 12-month price target reflect below average markets, and outsized FX swings, the combination of which could reduce our EPS estimates and temper upward P/E multiple revaluation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Franklin Resources Inc

Valuation

Our target price on BEN is \$117. We value the shares of Franklin Resources using the Target P/E method. Our target factors a 13.5-14x target multiple applied to our calendar 2012 net operating profit after tax per share estimate, equivalent to ~\$115. We then add \$2 calculated by using a 5x target multiple on net B/S-related earnings. The 13.5-14x target multiple is below the firm's 16x historical FTM P/E multiple, and in line to peers.

Risks

BEN benefits from declining systemic risks, is among the most diversified platforms in our coverage universe – as measured by mix, geography, and distribution channel – and among the strongest balance sheets that should support shareholder friendly capital management. In addition, BEN has among the best trading liquidity among our coverage universe.

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Eaton Vance

Valuation

We value the shares of Eaton Vance using the target P/E method. Our \$25 target price is derived by applying a 12.5x target P/E multiple to our forward 12-month adjusted EPS estimate which adds back the change in redemption value for non-controlling interests. We believe an in-line to below cash P/E multiple relative to peers is justified at present given the company's slowing organic growth trends.

Risks

If the impact from any of the following factors proves to be greater/less than we expect, the stock may have difficulty reaching our target price or could outperform it. If market conditions improve faster than anticipated, the stock may outperform our target. In addition, should EV sustain organic growth higher than our expectations, possibly driven by traction in absolute return, global macro, tax efficiency, or inflation protection products, our AUM and EPS forecasts could be too conservative, leading the stock to outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Affiliated Managers Group

Valuation

We value the shares of AMG using the target P/E method. Our \$132 target reflects a 14.5x target P/E against our 2013 economic EPS estimate. AMG has historically traded at 14x and 15x FTM economic (cash) P/E.

Risks

AMG's manager of managers model collars downside market and EPS risk reflecting revenue, income, and equity sharing arrangements across an increasingly global footprint. The two central risks to our price target reflect a delay in the closing of deals and sustained below trend capital markets which might reduce our EPS expectations and temper P/E multiple expansion.

If the impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, including minimal or no performance-based fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Legg Mason Inc

Valuation

We value the shares of LM using a combination of Target P/E method and sum-of-the-parts. Our \$32.50 12-month target price is derived by applying a 11x target P/E multiple to our calendarized 2013 EPS estimate (discounted back 6 months at 10% cost of capital) plus adding \$7 per share related to the estimated NPV of the

company's NOL and purchase goodwill tax shields. We believe a 11x target P/E multiple, below the company's 15x historical FTM P/E, is warranted given uneven organic growth prospects.

Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

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.

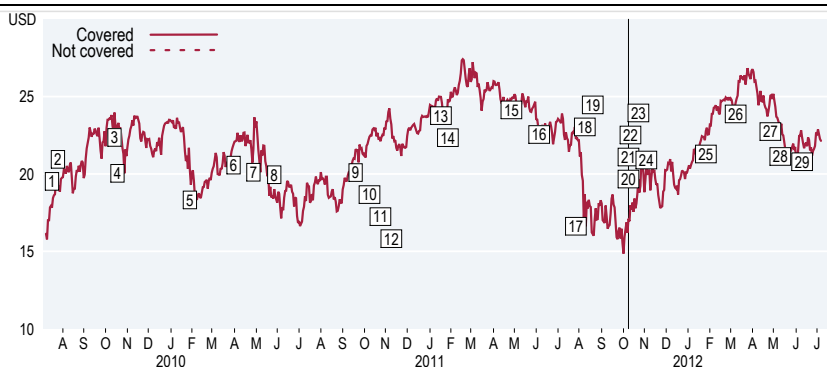
IMPORTANT DISCLOSURES

Invesco Ltd (IVZ)

Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 17-Jul-09	1M	*21.00	17.82
2 27-Jul-09	1M	*22.00	19.28
3 14-Oct-09	1M	*27.00	23.97
4 19-Oct-09	1M	*30.00	23.12
5 28-Jan-10	1M	*27.00	20.21
6 31-Mar-10	1M	*26.00	21.91
7 28-Apr-10	1M	*27.00	21.61
8 27-May-10	1M	*25.00	19.02
9 20-Sep-10	1M	*26.00	21.60
10 8-Oct-10	1M	*27.00	22.41

Date	Rating	Target Price	Closing Price
11 25-Oct-10	1M	*28.00	22.11
12 9-Nov-10	1M	*26.50	23.20
13 18-Jan-11	*2M	26.50	24.98
14 27-Jan-11	2M	*27.00	24.83
15 27-Apr-11	2M	*25.50	24.82
16 6-Jun-11	2M	*24.50	22.55
17 27-Jul-11	2M	*24.00	22.26
18 9-Aug-11	2M	*18.50	18.69
19 19-Aug-11	2M	*17.00	16.11
20 8-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
21 8-Oct-11	*2	17.00	16.20
22 12-Oct-11	*1	*21.00	17.98
23 24-Oct-11	1	*23.00	19.67
24 3-Nov-11	1	*25.00	20.45
25 26-Jan-12	1	*27.00	22.78
26 8-Mar-12	1	*30.00	24.60
27 26-Apr-12	1	*31.00	25.06
28 10-May-12	1	*28.50	22.74
29 11-Jun-12	1	*27.00	22.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

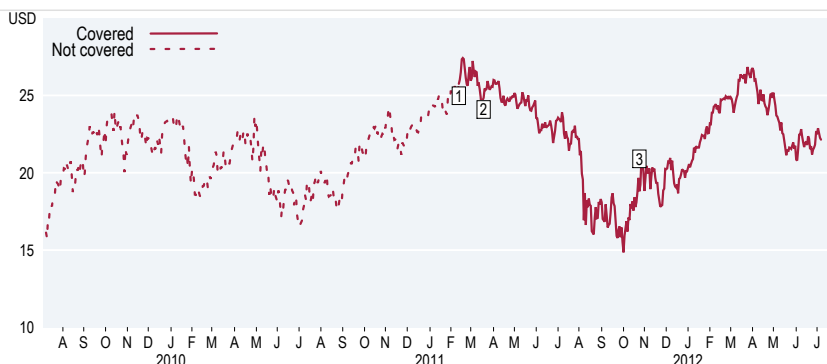
Invesco Ltd (IVZ)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	25.75

* Indicates change

	Date	Rating	Target Price	Closing Price
2	18-Mar-11	*REM MP	-	24.85

	Date	Rating	Target Price	Closing Price
3	25-Oct-11	*ADD MP	-	18.80

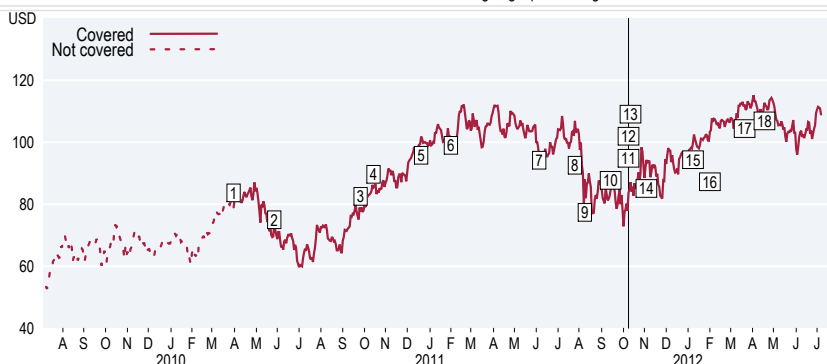
Rating/target price changes above reflect Eastern Standard Time

Affiliated Managers Group (AMG)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	31-Mar-10	*1M	*105.00	79.00
2	27-May-10	1M	*100.00	73.68
3	27-Sep-10	1M	*104.00	77.71
4	14-Oct-10	1M	*106.00	85.42
5	21-Dec-10	1M	*123.00	101.86
6	1-Feb-11	1M	*128.00	100.01

* Indicates change

	Date	Rating	Target Price	Closing Price
7	6-Jun-11	1M	*122.00	94.22
8	26-Jul-11	1M	*125.00	106.92
9	9-Aug-11	1M	*110.00	88.07
10	14-Sep-11	1M	*107.00	84.71
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	107.00	77.85

	Date	Rating	Target Price	Closing Price
13	12-Oct-11	1	*105.00	87.15
14	3-Nov-11	1	*110.00	94.30
15	9-Jan-12	1	*115.00	99.99
16	1-Feb-12	1	*120.00	103.41
17	21-Mar-12	1	*129.00	112.19
18	18-Apr-12	1	*132.00	112.76

Rating/target price changes above reflect Eastern Standard Time

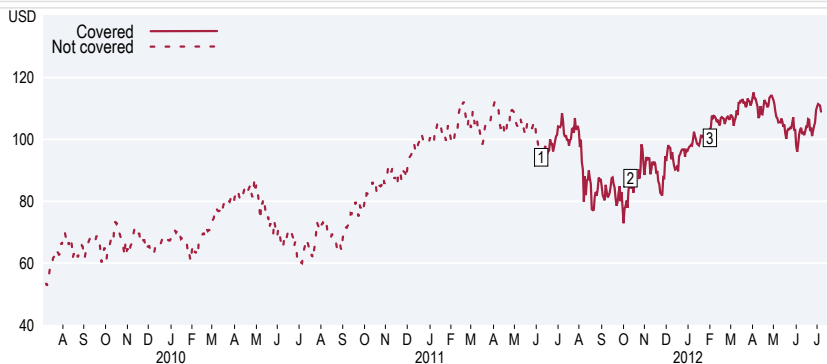
Affiliated Managers Group (AMG)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	8-Jun-11	*ADD MP	-	94.59

* Indicates change

	Date	Rating	Target Price	Closing Price
2	12-Oct-11	*REM MP	-	87.15

	Date	Rating	Target Price	Closing Price
3	1-Feb-12	*ADD MP	-	103.41

Rating/target price changes above reflect Eastern Standard Time

Franklin Resources Inc (BEN)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	17-Jul-09	2H	*80.00	72.57
2	2-Aug-09	2H	*89.00	88.68
3	14-Oct-09	2H	*114.00	108.98
4	29-Oct-09	2H	*120.00	107.56
5	31-Mar-10	*1L	*130.00	110.90
6	12-Apr-10	1L	*140.00	115.06
7	27-May-10	1L	*132.00	99.79
8	29-Jul-10	1L	*137.00	99.82
9	11-Oct-10	1L	*143.00	113.39

* Indicates change

	Date	Rating	Target Price	Closing Price
10	20-Oct-10	1L	*150.00	116.12
11	21-Dec-10	1L	*135.00	111.90
12	11-Jan-11	1L	*138.00	115.86
13	18-Jan-11	1L	*143.00	120.29
14	27-Jan-11	1L	*160.00	122.73
15	29-Apr-11	1L	*163.00	129.12
16	6-Jun-11	1L	*155.00	121.95
17	8-Aug-11	1L	*140.00	106.63
18	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
19	8-Oct-11	*1	140.00	94.93
20	10-Oct-11	1	*130.00	99.77
21	27-Oct-11	1	*135.00	108.24
22	8-Dec-11	1	*125.00	96.48
23	11-Jan-12	*2	*105.00	96.67
24	1-Feb-12	2	*112.00	111.97
25	8-Feb-12	2	*120.00	116.70
26	8-Mar-12	2	*125.00	119.93
27	11-Jun-12	2	*117.00	105.41

Rating/target price changes above reflect Eastern Standard Time

Franklin Resources Inc (BEN)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	118.27
2	11-Feb-11	*REM MP	-	128.55

* Indicates change

	Date	Rating	Target Price	Closing Price
3	29-Apr-11	*ADD MP	-	129.12
4	1-Aug-11	*REM MP	-	126.44

	Date	Rating	Target Price	Closing Price
5	19-Aug-11	*ADD MP	-	110.63
6	24-May-12	*REM MP	-	108.00

Rating/target price changes above reflect Eastern Standard Time

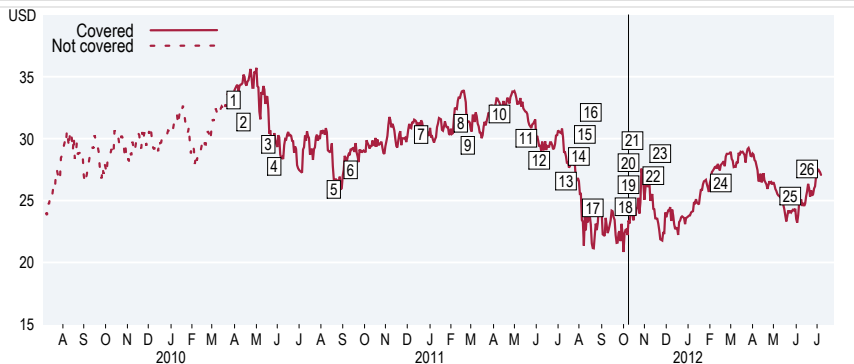
Eaton Vance (EV)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	31-Mar-10	*2M	*34.00	33.54
2	14-Apr-10	2M	*36.00	35.17
3	19-May-10	2M	*34.00	32.38
4	27-May-10	2M	*32.00	30.45
5	19-Aug-10	*3M	*23.00	26.71
6	13-Sep-10	3M	*25.00	29.17
7	21-Dec-10	3M	*28.00	31.48
8	15-Feb-11	3M	*30.00	33.58
9	24-Feb-11	3M	*29.00	31.40

* Indicates change

	Date	Rating	Target Price	Closing Price
10	11-Apr-11	3M	*30.00	32.90
11	18-May-11	3M	*29.00	32.15
12	6-Jun-11	3M	*28.00	29.36
13	13-Jul-11	3M	*27.00	28.56
14	1-Aug-11	*2M	27.00	26.57
15	9-Aug-11	2M	*23.50	23.69
16	17-Aug-11	2M	*23.00	23.05
17	19-Aug-11	2M	*21.00	21.16
18	5-Oct-11	2M	*22.00	22.63

	Date	Rating	Target Price	Closing Price
19	8-Oct-11	Stock rating system changed		
20	8-Oct-11	*2	22.00	22.21
21	14-Oct-11	2	*23.00	24.04
22	14-Nov-11	*3	*22.00	24.33
23	23-Nov-11	3	*20.00	21.87
24	16-Feb-12	3	*24.00	27.87
25	24-May-12	*2	*23.50	24.18
26	18-Jun-12	2	*25.00	25.76

Rating/target price changes above reflect Eastern Standard Time

Eaton Vance (EV)

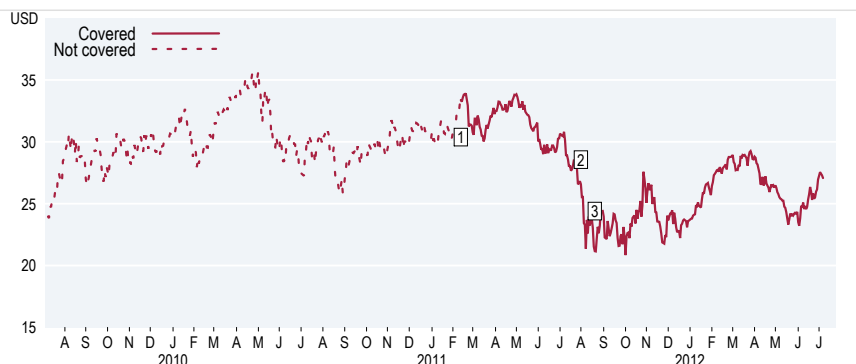
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	33.38

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM LP	-	26.57

	Date	Rating	Target Price	Closing Price
3	19-Aug-11	*ADD LP	-	21.16

Rating/target price changes above reflect Eastern Standard Time

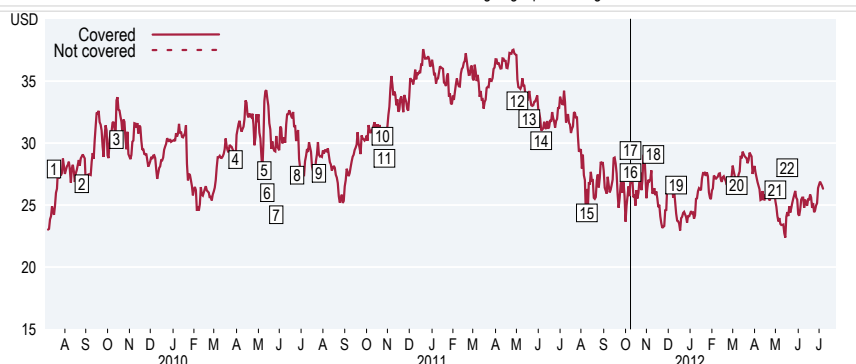
Legg Mason Inc (LM)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	17-Jul-09	2H	*25.00	24.21
2	26-Aug-09	2H	*29.00	28.92
3	14-Oct-09	2H	*32.00	33.45
4	31-Mar-10	*2M	*29.50	28.67
5	11-May-10	2M	*33.50	33.38
6	14-May-10	*1M	*44.00	33.57
7	27-May-10	1M	*41.00	30.57
8	25-Jun-10	1M	*42.00	30.70

* Indicates change

	Date	Rating	Target Price	Closing Price
9	27-Jul-10	1M	*44.00	29.07
10	25-Oct-10	1M	*45.00	30.96
11	27-Oct-10	1M	*46.00	30.58
12	3-May-11	1M	*41.00	35.13
13	19-May-11	1M	*40.00	34.20
14	6-Jun-11	1M	*38.00	31.01
15	9-Aug-11	1M	*34.00	26.30
16	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
17	8-Oct-11	*1	34.00	25.72
18	10-Nov-11	1	*33.00	26.04
19	13-Dec-11	*2	*27.00	24.31
20	7-Mar-12	2	*29.00	26.69
21	1-May-12	2	*27.50	25.32
22	17-May-12	*1	*32.50	24.43

Rating/target price changes above reflect Eastern Standard Time

Legg Mason Inc (LM)

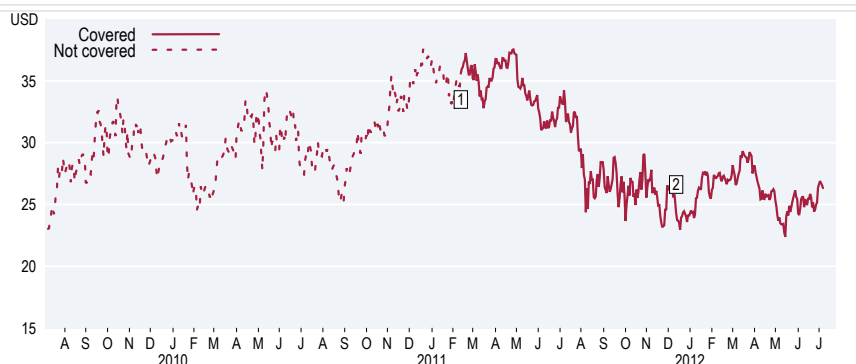
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	35.58

* Indicates change

	Date	Rating	Target Price	Closing Price
2	13-Dec-11	*REM MP	-	24.31

Rating/target price changes above reflect Eastern Standard Time

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Legg Mason Inc.

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Citi Research Ratings Distribution

Data current as of 30 Jun 2012

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
53%	37%	10%	10%	80%	10%
44%	43%	40%	48%	43%	45%

Guide to Citi Research Fundamental Research Investment Ratings:

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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to

review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Inc

William R Katz; Neil Stratton, CFA; Steven J Fullerton

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 11 July 2012 04:03 PM on the issuer's primary market.

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