

## Equities

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# Invesco Ltd (IVZ)

## Off The Call – 2012 Setting Up Favorably; Affirm Buy, Raise Target

- Company Update
- Target Price Change
- Estimate Change

- **Maintain Buy; Raise price target \$2 to \$27; Remains a top pick** — We see: 1) improving flow dynamics; 2) solid expense control; and, 3) active FCF deployment. Higher target reflects the higher EPS outlook, introduction of 2014 estimates, and improved flow visibility. New target is 14.5x our revised adjusted 2012 EPS vs 14x prior.
- **Raising EPS estimates on higher markets and lower tax rate; introduce 2014** — Revised 2012-13 EPS = \$1.84 and \$2.14 vs \$1.72 and \$2.03 prior; 2014 = \$2.41.
- **Flow story constructive** — Flow momentum improving across products, channels, and geography and management is seeing increased engagement in active and risk assets into 2012, suggesting IVZ should participate nicely if “risk-on”/active equities fully emerge across retail + institutional. By product, multi-strategy/balanced (including Premia Plus), RE (direct and REITs), bank loans, and equity income driving bulk of volumes. US distribution continues to build; institutional investors RFP pipeline picking up after slow(er) 2011. Canada continues to trend favorably after difficult period while Asia momentum strong led by RE.
- **Margins have some room to run; tax rate easing** — Management noted 3Q comp likely appropriate run rate suggesting good leverage in 1Q12 despite adverse seasonality and G&A should normalize given non-recurring step-up in quarterly costs. Management guided incremental margins in the 50% to 60% range with bias to upper band assuming favorable market backdrop. Management expects 25% effective tax rate in 2012 given more favorable mix of business in low(er) tax jurisdiction regions with potential 50 bps step down in 2013.
- **Further capital repatriation in 2012** — Management focused on delivering buyback, dividend & deleveraging B/S and less focused toward M&A; expect dividend hike in 2Q.
- **Laterals** — Management cautiously optimistic investors beginning to step back into active equities and riskier assets; possibly constructive for equity A/Ms but see mixed flow dynamics for much of the sector given positioning/performance issues; beyond IVZ, favorable for TROW and AMG, we believe. 4Q increase in PE transaction fees and RE performance fees directionally positive for Alternatives from an ENI perspective, where we have an above consensus view.

<b>Buy</b>	<b>1</b>
Price (26 Jan 12)	US\$22.78
Target price	US\$27.00
	from US\$25.00
Expected share price return	18.5%
Expected dividend yield	2.2%
<b>Expected total return</b>	<b>20.7%</b>
Market Cap	US\$10,274M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
<b>2011A</b>	0.41A	0.44A	0.42A	0.42A	1.68A	1.68A
<b>2012E</b>	<b>0.43E</b>	<b>0.43E</b>	<b>0.46E</b>	<b>0.51E</b>	<b>1.84E</b>	<b>1.79E</b>
Previous	na	na	na	na	1.72E	na
<b>2013E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>2.14E</b>	<b>2.09E</b>
Previous	na	na	na	na	2.03E	na
<b>2014E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>2.41E</b>	<b>2.96E</b>
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, CIR. 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
<b>Valuation Ratios</b>					
P/E adjusted (x)	16.5	13.5	12.4	10.7	9.4
P/E reported (x)	22.7	14.5	13.2	10.8	9.6
P/BV (x)	1.3	1.3	1.2	1.1	1.0
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	1.9	2.2	2.4	2.7	3.1
<b>Per Share Data (US\$)</b>					
EPS adjusted	1.38	1.68	1.84	2.14	2.41
EPS reported	1.01	1.57	1.72	2.10	2.38
BVPS	17.52	17.76	18.98	20.76	22.70
Tangible BVPS	-0.11	-0.11	1.23	2.91	4.80
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.43	0.49	0.54	0.62	0.70
<b>Profit &amp; Loss (US\$m)</b>					
Net interest income	0	0	0	0	0
Fees and commissions	3,488	4,092	4,272	4,671	5,081
Other operating Income	0	0	0	0	0
<b>Total operating income</b>	<b>3,488</b>	<b>4,092</b>	<b>4,272</b>	<b>4,671</b>	<b>5,081</b>
Total operating expenses	-2,898	-3,194	-3,218	-3,434	-3,700
<b>Oper. profit bef. provisions</b>	<b>590</b>	<b>898</b>	<b>1,054</b>	<b>1,236</b>	<b>1,380</b>
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	244	10	7	28	31
<b>Pre-tax profit</b>	<b>834</b>	<b>908</b>	<b>1,061</b>	<b>1,264</b>	<b>1,412</b>
Tax	-197	-286	-276	-316	-353
Extraord./Min. Int./Pref. Div.	-171	108	0	0	0
<b>Attributable profit</b>	<b>466</b>	<b>730</b>	<b>785</b>	<b>948</b>	<b>1,059</b>
Adjusted earnings	583	725	804	948	1,059
<b>Growth Rates (%)</b>					
EPS adjusted	54.7	21.8	9.1	16.3	13.1
Oper. profit bef. prov.	21.8	52.2	17.4	17.3	11.6
<b>Balance Sheet (US\$m)</b>					
<b>Total assets</b>	<b>20,444</b>	<b>19,935</b>	<b>20,745</b>	<b>21,574</b>	<b>22,437</b>
Avg interest earning assets	na	na	na	na	na
Customer loans	na	na	na	na	na
Gross NPLs	na	na	na	na	na
<b>Liab. &amp; shar. funds</b>	<b>20,444</b>	<b>19,935</b>	<b>20,745</b>	<b>21,574</b>	<b>22,437</b>
Total customer deposits	na	na	na	na	na
Reserve for loan losses	na	na	na	na	na
Shareholders' equity	8,265	8,095	8,633	9,302	10,049
<b>Profitability/Solvency Ratios (%)</b>					
ROE adjusted	7.7	8.9	9.6	10.6	10.9
Net interest margin	na	na	na	na	na
Cost/income ratio	83.1	78.1	75.3	73.5	72.8
Cash cost/average assets	18.5	15.6	15.8	16.2	16.8
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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## Investment Summary

We affirm our Buy rating, raise our 2012-13 EPS estimates, introduce 2014 EPS, and raise our 12-month price target \$2 to \$27 following constructive 4Q conference call held on 1/26 – see our initial take, [4Q11 Initial Read – Solid At The Core; Flow Momentum Improving; Retain Buy](#). Our target revision follows the higher EPS outlook, introduction of 2014 estimates, and improved flow visibility. The new target equates to 14.5x our revised adjusted 2012 EPS vs 14x prior, and a modest P/E premium to peers given improving flow dynamics at a time when industry is in flux. IVZ remains among our top picks; Affirm IVZ/WDR pair trade.

Key takeaways from the call: 1) improving flow dynamics; 2) solid expense control; and, 3) active FCF deployment with continued focus on buyback, dividend hike, and B/S deleveraging.

The flow picture continues to strengthen across products, geographies, and clients, and management noted early signs of increasing traction into early 2012, suggesting IVZ is well positioned to participate should flows decisively turn into riskier assets. The 4% annualized LT growth rate in 4Q is likely among best in class and we expect further relative catch up to lower quality platforms where trends are not as favorable given inferior strategic positioning and/or performance issues.

## Raising Adjusted EPS Estimates; Introduce 2014

We raise our 2012 adjusted EPS estimate from \$1.72 to \$1.84 while increase our 2013 estimate from \$2.03 to \$2.14. Revisions reflect strong 1QTD market impact, stronger margin leverage, higher performance fees & other revenue, and 100 bps reduction in tax rate. Given momentum in RE business, management commentary suggests higher sustainability around transaction fees. Additionally, the tax rate is expected to decline to 25% in 2012 versus ~28% in 2011 following shift in business mix toward more favorable tax jurisdictions with such trend potentially continuing into 2013, in their view.

We also introduce 2014 adjusted EPS at \$2.41 assuming 7% market impact, ~4% LT annualized growth, and 24.5% tax rate.

## Key Takeaways

We note the following key takeaways post 4Q:

1. **Flows in right direction:** Flow momentum is building across products, clients, and geography, including positive flows across all asset classes and channels, though led by passive (and not dissimilar from recent BLK commentary) but also by equities and riskier asset more recently. Key items include:
  - **By product, multi-strategy/balanced, RE (direct and REITs), bank loans, and equity income driving bulk of volumes;**
  - **Premia Plus related AUM now ~\$6B versus minimal one-year ago with strong performance** and volumes potentially accelerating given strong three-year track record, for instance;

- **IVZ should participate nicely if “risk-on” trade emerges:** US distribution continues to build and the institutional investors RFP pipeline is picking up after slow(er) 2011. While still early, management noted some evidence of investor re-engagement and does expect some move to riskier assets in 2012, suggesting the firm should participate nicely if the “risk-on”/active equities momentum accelerated from here;
  - **Canada continues to trend favorably after difficult period while Asia momentum strong led by RE.**
2. **Margins should continue to move higher:** IVZ should continue to benefit from 50%+ incremental margins and overall cost control into 2012. Management noted 3Q11 employee compensation is likely an appropriate run rate in 2012 suggesting good leverage in 1Q12 despite adverse seasonality. G&A should normalize following non-recurring \$4M step-up in costs in 4Q11. Per management, incremental margins are in the 50% to 60% range at present though senior officials see a bias toward the upper band assuming a favorable market backdrop. Encouragingly, incremental margins are approximately equal on active vs passive products despite the net fee rate differentials, or 52 bps annualized for active vs 10 bps for passive/ETFs. Management also expects a 25% effective tax rate in 2012 given more favorable mix of business in low(er) cost regions – and 100 bps less than our previous modeling – with potential to step down another 50 bps in 2013.
  3. **Performance fee momentum building:** 1Q and 4Q are typically seasonally stronger periods - IVZ benefited from strong RE performance fees during 4Q11 and UK is typically a notable contributor in 1Q – but management also sees increased probability for additional performance fee generators to kick in, including Quant (following improved performance), PE, and PPIP, though both are likely weighted toward 2013.
  4. **Further capital repatriation in 2012:** Management is focused on delivering on buyback, dividend & B/S deleveraging and less focused toward M&A. That said, we do see management as a selective buyers over time but there appears reduced interest in the ST and no interest in large scale deals at present – here, we see management continuing to execute and focus on organic product development, with recent success of Premia Plus, an example for instance. At the margin, we believe management appears to be putting more emphasis in dividends and we expect a dividend hike in 2Q to \$0.14 per share from \$0.1225.

## Laterals

Management is cautiously optimistic investors beginning to step back into active equities and risk assets which is constructive at the margin for equity A/Ms, but we continue to see mixed flow dynamics/positioning/performance for much of the sector, which could temper broad based participation even before considering active/passive shifts. Beyond IVZ, we see re-engagement favorable for TROW and AMG.

Additionally, the 4Q increase in PE transaction fees and RE performance fees is directionally positive for Alternatives from an ENI perspective, and where we have an above consensus view.

Figure 1. Invesco Summary Model

Invesco Ltd.		William R. Katz																	
Earnings Results and Forecasts		(212) 816-5394																	
(\$ Millions, Except As Noted)		william.katz@citi.com																	
GAAP		Forecast:								Forecast:					% Change				
Key Forecast Variables:		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2010	2011	2012E	2013E	2014E	1QE/4Q	1QE/1Q	12E/11	13E/12E	14E/13E
GAAP Revenue																			
Management		792.3	819.1	779.5	747.6	781.5	801.3	826.6	843.5	2,747.0	3,138.5	3,252.7	3,553.4	3,868.8	4.5	-1.4	3.6	9.2	8.9
Service & Distribution		198.7	211.4	189.1	181.1	187.9	192.8	196.8	200.8	645.5	780.3	778.4	850.0	928.9	3.8	-5.4	-0.2	9.2	9.3
Other		21.1	20.5	16.0	33.5	30.0	30.0	35.0	35.0	54.1	91.1	130.0	139.1	150.2	-10.4	42.2	42.7	7.0	8.0
Other UIT		11.4	11.4	10.6	11.0	11.4	11.4	11.4	11.4	41.1	44.4	45.6	53.0	53.0	3.6	0.0	2.7	16.2	0.0
Total Operating Revenues		1,027.3	1,070.0	997.8	997.1	1,035.8	1,043.0	1,077.2	1,115.7	3,487.7	4,092.2	4,271.7	4,670.5	5,080.9	3.9	0.8	4.4	9.3	8.8
GAAP Operating Expenses																			
Compensation		305.9	318.3	302.2	315.3	309.8	309.3	319.5	321.7	1,114.9	1,241.7	1,260.3	1,360.8	1,471.3	-1.8	1.3	1.5	8.0	8.1
Third-Party Fees		324.5	341.8	314.4	301.8	313.9	321.9	328.5	335.1	1,053.8	1,282.5	1,299.5	1,420.5	1,550.3	4.0	-3.3	1.3	9.3	9.1
Marketing		25.7	26.1	13.1	21.1	22.0	23.0	24.0	24.0	78.5	86.0	93.0	97.7	102.5	4.3	-14.4	8.1	5.0	5.0
Property & Office		64.0	61.9	62.0	61.0	63.0	63.0	63.0	63.0	238.4	248.9	252.0	258.3	264.8	3.3	-1.6	1.2	2.5	2.5
General & Administration		73.6	77.6	68.3	73.1	71.0	71.0	71.0	71.0	262.2	292.6	284.0	296.8	311.6	-2.9	-3.5	-2.9	4.5	5.0
Restructuring Charge		7.9	11.3	10.0	13.2	8.0	7.0	7.0	7.0	150.0	42.4	29.0	0.0	0.0					
Total Operating Costs		801.6	837.0	770.0	785.5	787.7	795.3	813.0	821.8	2,897.8	3,194.1	3,217.8	3,434.1	3,700.5	0.3	-1.7	0.7	6.7	7.8
GAAP Operating Income		225.7	233.0	227.8	211.6	248.1	247.7	264.3	293.9	589.9	898.1	1,053.9	1,236.5	1,380.4	17.3	9.9	17.4	17.3	11.6
Non Operating Income/(Expense)		-50.8	-28.2	-85.3	174.3	2.2	0.7	2.0	2.5	243.9	10.0	7.5	27.7	31.5					
Pretax Income		174.9	204.8	142.5	385.9	250.4	248.4	266.3	296.4	833.8	908.1	1,061.4	1,264.2	1,411.9	-35.1	43.1	16.9	19.1	11.7
Income Taxes		75.6	75.4	59.1	76.0	65.1	64.6	69.2	77.1	197.0	286.1	276.0	316.0	353.0	-14.4	-13.9	-3.5	14.5	11.7
Tax Rate (%)		29.9	29.2	26.2	27.3	26.0	26.0	26.0	26.0	29.7	28.2	26.0	25.0	25.0	-4.8	-13.0	-7.7	-3.8	0.0
Noncontrolling interests		-78.2	-53.6	-83.5	107.6	0.0	0.0	0.0	0.0	171.1	-107.7	0.0	0.0	0.0					
GAAP Net Income		177.5	183.0	166.9	202.3	185.3	183.8	197.0	219.3	465.7	729.7	785.4	948.1	1,058.9	-8.4	4.4	7.6	20.7	11.7
Recurring Net Income		182.5	188.2	171.6	183.2	190.5	188.4	201.6	223.9	583.3	725.5	804.3	948.1	1,058.9	4.0	4.4	10.9	17.9	11.7
Cash Net Income		191.7	207.1	192.3	190.5	198.0	196.3	209.7	232.3	639.7	781.6	836.4	963.9	1,075.3					
Avg Fully Diluted Shares		472.1	467.4	461.0	458.3	456.6	456.3	455.0	454.9	463.2	464.7	455.7	451.4	445.4	-0.4	-3.3	-1.9	-0.9	-1.3
Operating EPS (FD)		0.39	0.40	0.37	0.40	0.42	0.41	0.44	0.49	1.26	1.56	1.76	2.10	2.38	4.3	7.9	13.1	19.0	13.2
GAAP EPS (FD)		0.38	0.39	0.36	0.44	0.41	0.40	0.43	0.48	1.01	1.57	1.72	2.10	2.38	-8.1	7.9	9.8	21.9	13.2
Adjusted EPS (FD)		0.41	0.44	0.42	0.42	0.43	0.43	0.46	0.51	1.38	1.68	1.84	2.14	2.41	4.3	6.8	9.1	16.3	13.1
Margins (%)																			
Operating Income		22.7%	22.8%	23.8%	22.5%	24.7%	24.4%	25.2%	27.0%	21.2%	23.0%	25.4%	26.5%	27.2%					
Adjusted Operating Income		37.6%	37.9%	36.2%	35.8%	37.4%	36.9%	37.8%	40.0%	35.6%	36.9%	38.1%	39.1%	40.1%					
EBITDA		25.5%	25.8%	27.4%	26.1%	28.1%	27.8%	28.4%	30.1%	24.0%	26.2%	28.6%	29.6%	30.2%					
Net Income		17.8%	17.6%	17.2%	18.4%	18.4%	18.1%	18.7%	20.1%	16.7%	17.7%	18.8%	20.3%	20.8%					
Return on Common Equity (%)		8.8%	9.1%	8.5%	9.1%	9.3%	9.1%	9.6%	10.5%	7.7%	8.9%	9.6%	10.6%	10.9%					
Total Assets Under Mgmt (\$mm)		641,900	653,700	598,400	625,300	652,179	665,887	679,786	693,881	616,500	625,300	693,881	759,184	828,671	4.3	1.6	11.0	9.4	9.2
% Change Q/Q		4.1%	1.8%	-8.5%	4.5%	4.3%	2.1%	2.1%	2.1%										
Net Flows (\$mm)		9,200	7,300	2,200	6,000	4,550	5,550	5,550	5,550	-8,100	24,700	21,200	29,500	30,000					
% Beg AUM (Annualized)		6.0	4.5	1.3	4.0	2.9	3.4	3.3	3.3	-1.8	4.0	3.4	4.3	4.0					
Ann'l Organic Growth (Loss) Rate		6.0%	4.5%	1.3%	4.0%	2.9%	3.4%	3.3%	3.3%	-1.9%	4.0%	3.4%	4.3%	4.0%					
Average Assets Under Mgmt (\$mm)		630,200	652,800	632,700	621,700	642,509	659,180	672,779	686,613	532,350	634,350	665,270	726,532	793,927	3.3	2.0	4.9	9.2	9.3
Average Active AUM (\$mm)		543,975	562,875	542,125	528,100	541,476	553,901	564,222	574,685	464,250	544,275	558,571	601,851	649,880	2.5	-0.5	2.6	7.7	8.0
Average Passive AUM (\$mm)		86,675	93,525	91,450	93,600	101,033	105,279	108,557	111,928	72,244	91,319	106,699	124,681	144,047	7.9	16.6	16.8	16.9	15.5
Miscellaneous																			
Net Revenue Yield		46.0	46.0	44.6	46.1	45.8	44.6	44.9	45.9	47.4	45.7	45.3	45.4	45.2	-0.6	-0.4	-0.8	0.2	-0.5
Net Revenue Yield ex PF		45.7	45.6	44.5	44.6	44.3	44.2	44.5	44.4	46.9	45.1	44.3	44.4	44.2					
Dividends Per Share		\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.14	\$0.14	\$0.14	\$0.43	\$0.49	\$0.54	\$0.62	\$0.70	0.0	0.0	10.7	14.3	12.9
EBITDA (\$ mm)		261.5	276.4	273.1	259.8	291.1	289.7	306.3	335.9	836.6	1070.8	1222.9	1383.5	1534.8	12.1	11.3	14.2	13.1	10.9
Cash Net Income (\$mm)		191.7	207.1	192.8	192.5	205.4	203.5	216.7	239.0	639.7	784.1	843.0	985.6	1096.6	6.7	7.1	7.5	16.9	11.3
Free Cash Flow Per Share		\$0.40	\$0.43	\$0.41	\$0.43	\$0.45	\$0.44	\$0.47	\$0.52	\$1.27	\$1.67	\$1.89	\$2.22	\$2.50	3.5	11.5	13.2	17.7	12.4
Net Debt (Cash) Per Share		\$1.83	\$2.07	\$1.38	\$1.22	\$1.15	\$1.10	\$0.93	\$0.77	\$1.25	\$1.21	\$0.76	\$0.67	\$0.64					

Source: Company Reports and Citi Investment Research and Analysis

## 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 into 2012 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 12-month price target is derived by applying a 14.5x target P/E to our 2012 adjusted EPS estimate. The 14.5x target P/E is below historical GAAP median of 16x but 10% sector premium.

### Risks

The three central risks to our 12-month price target reflect below average markets, outsized FX swings, and deal integration risks, 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.

**Integration risk** — The upcoming VanKampen integration could pose operating risks.

## Affiliated Managers Group

(AMG.N; US\$102.61; 1)

### Valuation

We value the shares of AMG at \$115 using the target P/E method. We apply a 15x target P/E against our 2012 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.

## T Rowe Price Group Inc

(TROW.O; US\$61.04; 2)

### Valuation

We value the shares of T. Rowe price using the Target P/E method. Our \$49 12-month price target is derived by applying a 14x target multiple to our 2012 EPS estimate plus adding approximately ~\$6 per share in net cash + investments. The 14x multiple compares to a historical 21x FTM P/E multiple in light of lower industry multiples at present.

### 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.

## Waddell & Reed Financial, Inc

(WDR.N; US\$29.36; 2)

### Valuation

We value the shares of Waddell & Reed using the Target P/E method. Our \$29 12-month price target is derived by applying a 13x target multiple to our 2012 EPS estimate. The 13x multiple is below WDR's historical multiple (16x FTM P/E).

### Risks

Risk reflects: 1) fund concentration; 2) uneven fundamentals around flagship funds; and, 3) outsized US-centric platform.

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.

## 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.



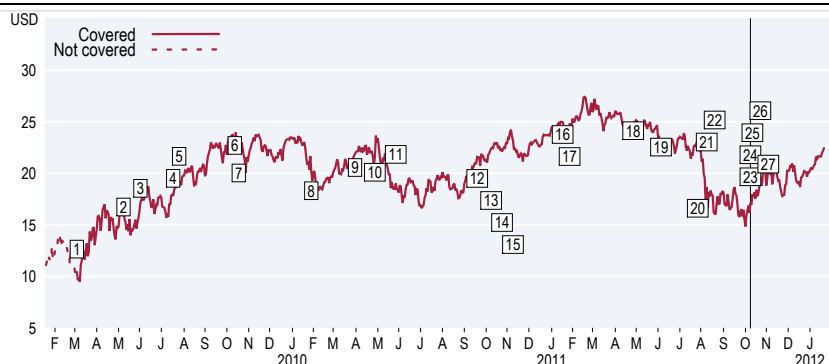
## IMPORTANT DISCLOSURES

### 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	4-Mar-09	*2H	*11.00	10.48
2	8-May-09	2H	*16.00	16.74
3	2-Jun-09	*1M	*20.00	17.17
4	17-Jul-09	1M	*21.00	17.82
5	27-Jul-09	1M	*22.00	19.28
6	13-Oct-09	1M	*27.00	22.71
7	19-Oct-09	1M	*30.00	23.12
8	28-Jan-10	1M	*27.00	20.21
9	31-Mar-10	1M	*26.00	21.91

\* Indicates change

	Date	Rating	Target Price	Closing Price
10	28-Apr-10	1M	*27.00	21.61
11	27-May-10	1M	*25.00	19.02
12	20-Sep-10	1M	*26.00	21.60
13	8-Oct-10	1M	*27.00	22.41
14	25-Oct-10	1M	*28.00	22.11
15	9-Nov-10	1M	*26.50	23.20
16	18-Jan-11	*2M	26.50	24.98
17	27-Jan-11	2M	*27.00	24.83
18	27-Apr-11	2M	*25.50	24.82

	Date	Rating	Target Price	Closing Price
19	6-Jun-11	2M	*24.50	22.55
20	27-Jul-11	2M	*24.00	22.26
21	9-Aug-11	2M	*18.50	18.69
22	19-Aug-11	2M	*17.00	16.11
23	8-Oct-11	Stock rating system changed		
24	8-Oct-11	*2	17.00	16.20
25	12-Oct-11	*1	*21.00	17.98
26	24-Oct-11	1	*23.00	19.67
27	3-Nov-11	1	*25.00	20.45

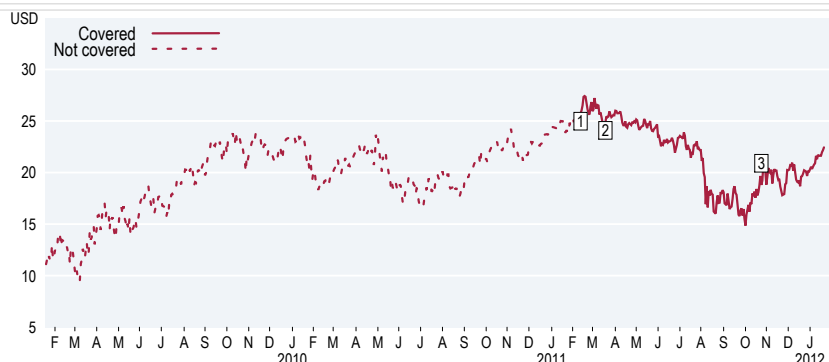
Rating/target price changes above reflect Eastern Standard Time

### 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

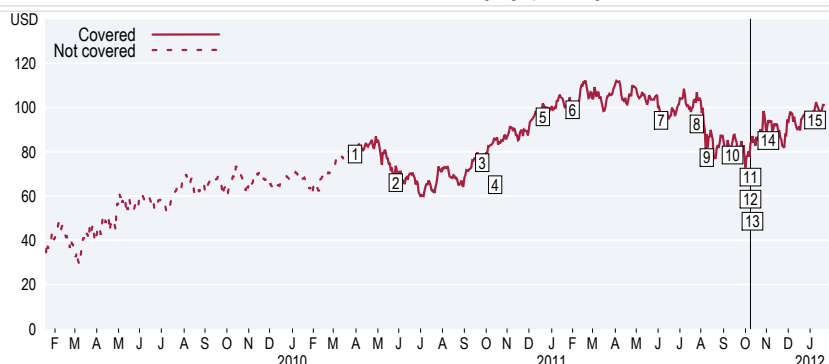
Rating/target price changes above reflect Eastern Standard Time

### 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

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	1-Feb-11	1M	*128.00	100.01
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

	Date	Rating	Target Price	Closing Price
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	107.00	77.85
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

Rating/target price changes above reflect Eastern Standard Time

## Affiliated Managers Group (AMG)

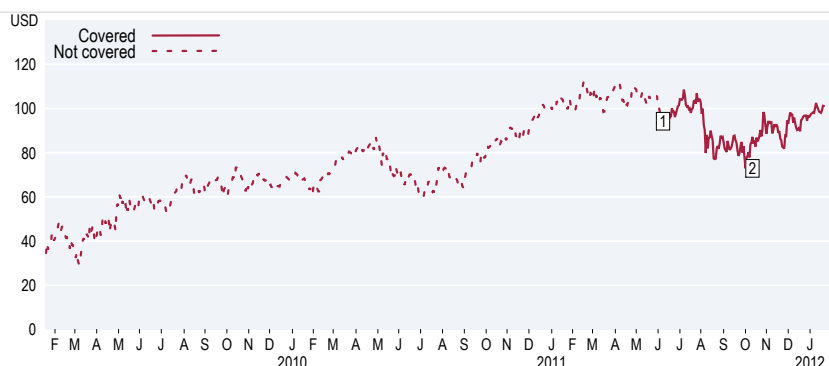
### Ratings and Target Price History

#### 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

Rating/target price changes above reflect Eastern Standard Time

## T Rowe Price Group Inc (TROW)

### Ratings and Target Price History

#### Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	4-Mar-09	2M	*23.00	22.27
2	8-May-09	2M	*39.00	40.94
3	2-Jun-09	*1M	*48.00	41.95
4	26-Jul-09	1M	*52.00	45.45
5	13-Oct-09	1M	*54.00	44.41
6	26-Oct-09	1M	*63.00	53.65
7	31-Mar-10	*1L	*62.00	54.97
8	23-Apr-10	1L	*66.00	58.88
9	27-May-10	1L	*60.00	51.47

\* Indicates change

	Date	Rating	Target Price	Closing Price
10	18-Jun-10	1L	*57.00	49.34
11	23-Jul-10	1L	*56.00	47.85
12	8-Oct-10	*2L	*53.00	51.62
13	14-Oct-10	2L	*54.00	52.52
14	22-Oct-10	2L	*57.00	54.89
15	21-Dec-10	2L	*63.00	64.27
16	28-Jan-11	2L	*67.00	65.85
17	11-Apr-11	2L	*70.00	67.30
18	19-May-11	2L	*67.00	63.73

	Date	Rating	Target Price	Closing Price
19	6-Jun-11	2L	*63.50	58.04
20	23-Jun-11	2L	*60.00	57.08
21	26-Jul-11	2L	*63.00	60.06
22	9-Aug-11	2L	*53.00	51.99
23	19-Aug-11	2L	*47.00	46.44
24	28-Sep-11	2L	*49.00	48.42
25	8-Oct-11	Stock rating system changed		
26	8-Oct-11	*2	49.00	49.06

Rating/target price changes above reflect Eastern Standard Time

## T Rowe Price Group Inc (TROW)

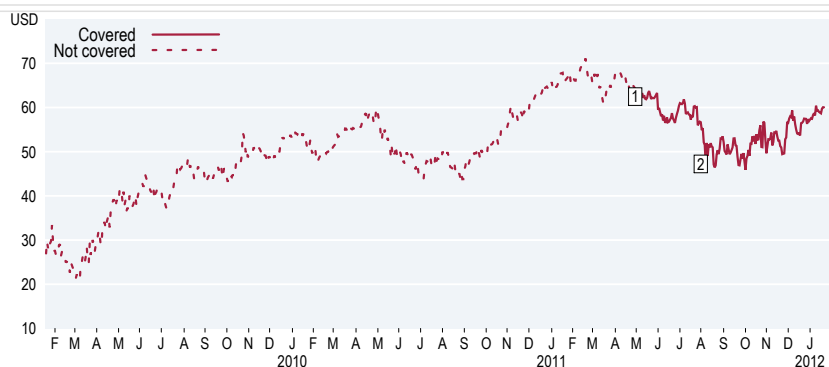
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	29-Apr-11	*ADD LP	-	64.25

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM LP	-	56.67

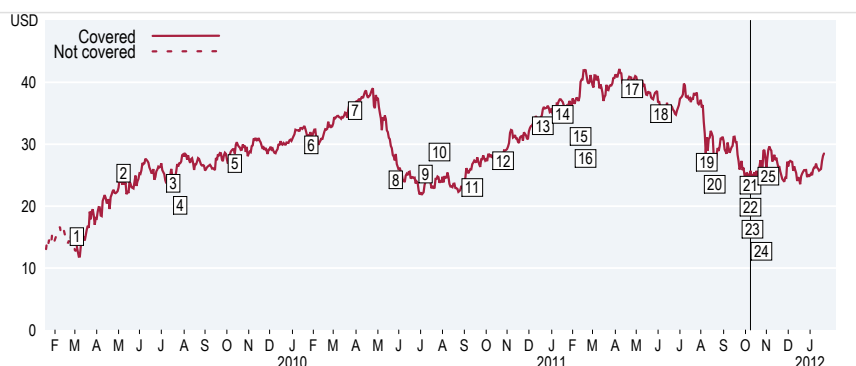
Rating/target price changes above reflect Eastern Standard Time

## Waddell & Reed Financial, Inc (WDR)

### Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 4-Mar-09	*2H	*14.00	13.48
2 8-May-09	2H	*23.00	25.32
3 17-Jul-09	2H	*25.00	24.60
4 28-Jul-09	2H	*27.00	26.93
5 13-Oct-09	2H	*30.00	28.49
6 28-Jan-10	2H	*34.00	31.41
7 31-Mar-10	*1M	*42.00	36.04
8 27-May-10	*2H	*32.00	28.43
9 8-Jul-10	2H	*27.00	23.90

\* Indicates change

Date	Rating	Target Price	Closing Price
10 28-Jul-10	2H	*26.00	23.76
11 13-Sep-10	2H	*28.00	26.79
12 26-Oct-10	*2M	*30.00	28.34
13 21-Dec-10	2M	*35.00	35.64
14 18-Jan-11	2M	*40.00	36.83
15 11-Feb-11	*1M	*44.00	40.08
16 18-Feb-11	1M	*47.00	42.06
17 26-Apr-11	1M	*48.00	39.64
18 6-Jun-11	1M	*45.00	35.17

Date	Rating	Target Price	Closing Price
19 9-Aug-11	1M	*40.00	31.11
20 19-Aug-11	1M	*36.00	27.13
21 8-Oct-11	Stock rating system changed		
22 8-Oct-11	*1	36.00	24.26
23 12-Oct-11	1	*30.00	25.00
24 25-Oct-11	*2	*27.00	25.21
25 3-Nov-11	2	*29.00	29.13

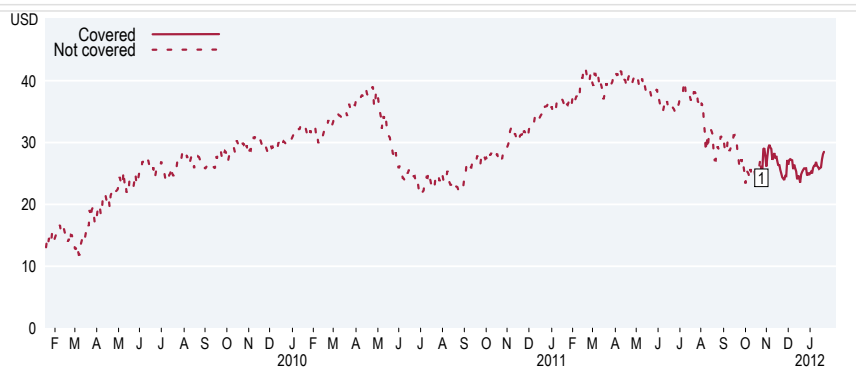
Rating/target price changes above reflect Eastern Standard Time

## Waddell & Reed Financial, Inc (WDR)

### 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 25-Oct-11	*ADD LP	-	25.21

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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<b>Data current as of 31 Dec 2011</b>	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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**Investment Ratings:** CIRA's 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 CIRA 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.

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Citigroup Global Markets Inc

William R Katz; Neil Stratton, CFA; Ashley Hartigan

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The subject company's share price set out on the front page of this Product is quoted as at 26 January 2012 04:00 PM on the issuer's primary market.

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