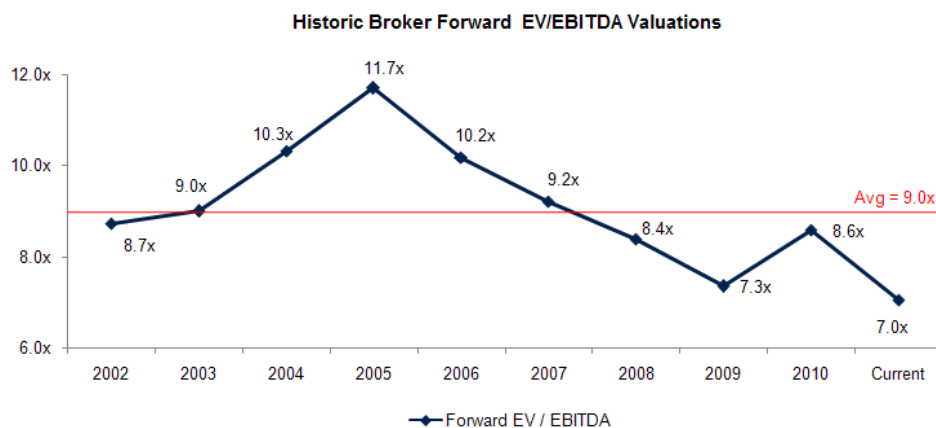


Insurance Brokers

Third Quarter 2011 Broker Preview: Buy on Better-Than-Expected Commentary and Trough Valuations

Summary:

The third quarter is a typically unremarkable one, although we expect commentary to be neutral to positive. In particular, rates are moving up, exposures are at least stable, and several companies will exhibit progress on margin initiatives. We reduced our 2012 estimates by an average of 5% to reflect the weaker economic environment. However, on average we still expect the group to produce earnings growth of 16% in 2012, due to cost cutting, acquisition-related growth, and increased share buybacks. Given that the stocks have hit historically low valuation levels (7times EV/EBITDA), we believe it is an opportune time to buy the brokers.



Source: Company Reports, SNL, William Blair LLC Estimates

Expected Results:

We expect the quarter to be quiet from an earnings perspective, given that it is a seasonally weaker period. In aggregate, organic and margin performance should be in line with the second quarter. Deviations from expectations will likely come from the degree of cost savings and sustainability of contingent levels. Our estimates are moderately below consensus, but our numbers will likely be right in the mean as we move closer to the earnings releases. BRO will likely do better than the second quarter, but could disappoint again if contingents decline. AJG has a better-than-average chance of upside depending on performance of its new acquisitions and energy credits.

Recommendation:

We believe the stocks already reflect lower estimates and rate improvement should help offset some of the macroeconomic weakness. In addition, the ability to generate cash should provide increased flexibility (i.e., buyback potential) if the equity market remains distressed. Our top picks are Aon and Willis. Near-term evidence of progress on margin initiatives should help the stocks move off relatively low levels.

Financial Services and Technology; Insurance Brokers

September 30, 2011

Aon Corporation

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: AON (NYSE)
 Price: \$42.29 (52-Wk.: \$39-\$55)

Arthur J. Gallagher & Co.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: AJG (NYSE)
 Price: \$26.85 (52-Wk.: \$24-\$32)

Brown & Brown, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: BRO (NYSE)
 Price: \$18.20 (52-Wk.: \$17-\$27)

Marsh & McLennan Companies, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: MMC (NYSE)
 Price: \$27.09 (52-Wk.: \$23-\$32)

Willis Group Holdings Public Limited Company

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: WSH (NYSE)
 Price: \$34.65 (52-Wk.: \$31-\$42)

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Valuation Comparison

Ticker	Rating	Price	GAAP EPS			GAAP P/E			Cash P/E			EV / EBITDA		
			2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
AON	O	40.05	\$3.07	\$3.37	\$3.77	13.0x	11.9x	10.6x	12.1x	10.8x	8.5x	9.1x	6.8x	6.3x
AJG	M	26.10	\$1.36	\$1.35	\$1.65	19.1x	19.4x	15.8x	14.0x	14.7x	12.4x	10.2x	8.3x	7.1x
BRO	M	17.90	\$1.13	\$1.07	\$1.10	15.8x	16.7x	16.2x	12.0x	12.4x	11.9x	7.4x	7.5x	7.2x
MMC	M	26.71	\$1.66	\$1.81	\$2.14	16.1x	14.8x	12.5x	15.5x	14.2x	11.9x	8.3x	7.7x	7.2x
WSH	O	33.75	\$2.69	\$2.80	\$3.45	12.6x	12.1x	9.8x	11.1x	18.0x	9.1x	8.6x	8.3x	7.4x
Average						15.3x	15.0x	13.0x	13.0x	14.0x	10.8x	8.7x	7.7x	7.0x
Median						15.8x	14.8x	12.5x	12.1x	14.2x	11.9x	8.6x	7.7x	7.2x

Source: Company reports, Thomson One, and William Blair & Company L.L.C.

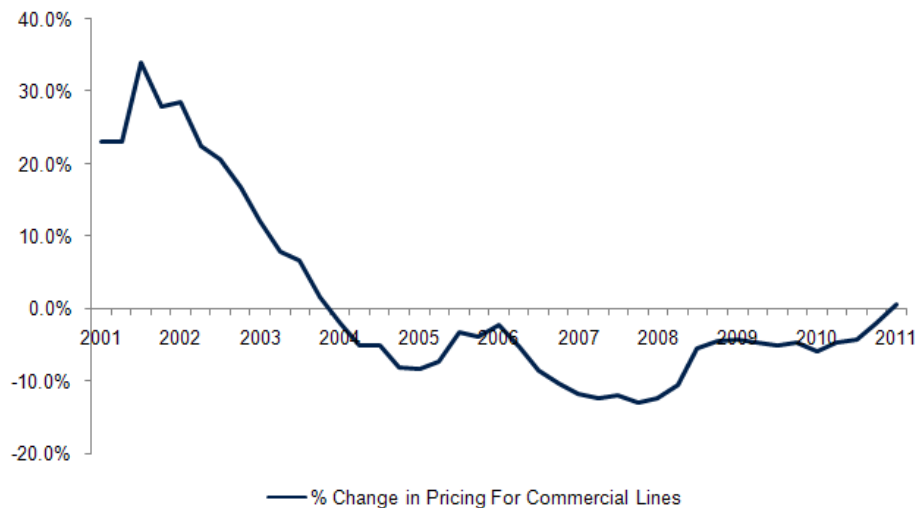
Factors to Watch:

Improving rate should provide a tailwind

The impact of rate has the potential to go from -1% to -3% to 0% to 2% by earlier 2012. We are not calling for a turn in the cycle, but recent market conversations suggest that rates are shifting to moderately positive. From recent conversations with private brokers and channel checks in the industry, we are hearing that a number of lines in certain regions are beginning to take rate, and we expect that trend to continue to develop through the remainder of the year and into 2012. Improving rate has the potential to help negate a potential slide in exposure units if the economy does slide into a recession.

The rate improvement is occurring in a number of different lines and the degree of improvement varies materially. Workers' compensation and coastal property coverages are leading the way, although laggards such as directors and officers and other liability lines are beginning to catch up. It appears that the lines under greater pressure are moving to solidly positive territory, while the liability lines, which had been lagging are getting closer to flat.

Commerical Pricing Environment



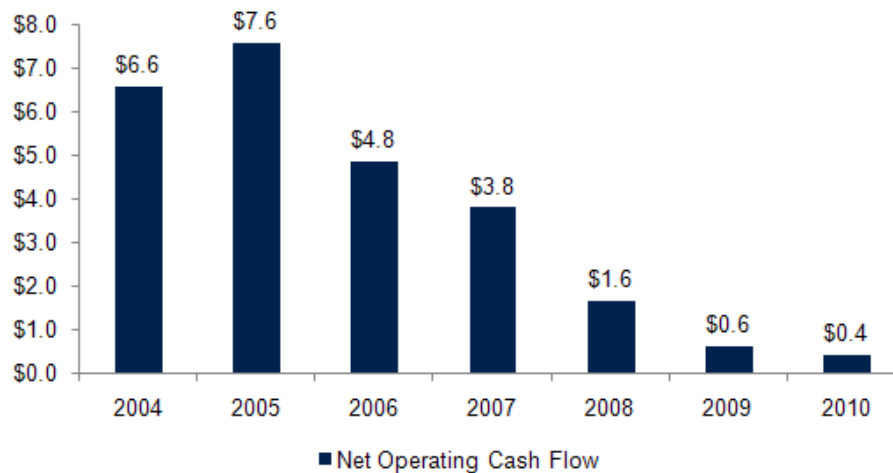
Source: CIAB Pricing Analysis Q2 2011

Rate increases should be somewhat beneficial to brokers during the third quarter, but will become more impactful as we move into 2012. Rate increases should help offset some of the weakness in exposure growth that we are anticipating over the next 12 to 18 months as the economy continues to sputter, and the regulatory environment continues to be unclear. On balance, the combination of rate and net new business acquisition should keep broker organic growth in positive territory for the next several quarters, despite pressure on exposure levels.

The workers' compensation line is leading the way on the pricing front. Trends in the workers' compensation line appear to foreshadow what is in store for the rest of the industry. Our cash flow methodology suggests that when cash flow declines to relatively low levels that pricing will begin to increase. Recent data shows that that is exactly what is happening in the workers' compensation market today.

Cash flow for workers' compensation-oriented insurers has materially deteriorated, due to years of declining prices and an upward shift in claims trends. Cash flow for these insurers declined from a peak of \$7.6 billion in 2005 to under \$0.5 billion in 2010. This level of distress finally pushed underwriters to increase pricing.

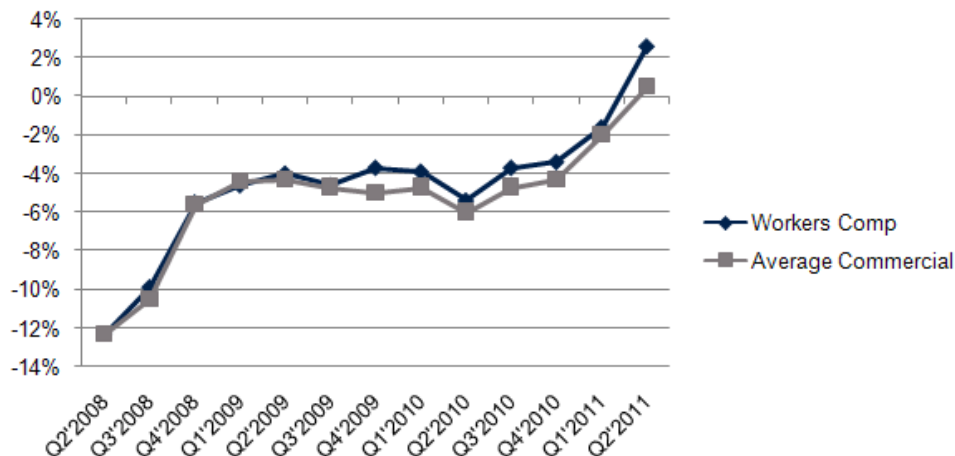
Workers Comp Net Operating Flow for AM BEST Workers Comp Composite



Sources: A.M. BEST's Aggregates and Averages and William Blair & Company L.L.C.

Workers' compensation is the only major commercial line that has moved into positive territory, with an estimated 2.6% rate increase in the second quarter of 2011 versus -5% in the year ago period. Prices have actually increased for the first time since second quarter 2004. According to CIAB survey, 75% of those that responded said pricing was flat to up 20% and only 22% said rates were going down. This compares to 29% who saw flat to up pricing for the second quarter of 2010, and 71% who said rates were going down during that period.

Average Commercial Pricing



Source: CIAB Pricing Study, William Blair & Company LLC

Organic growth not likely to sink to 2008/2010 levels

We expect that the economic slowdown and uncertainty in the marketplace will likely begin to have a visible impact on broker organic growth during the back half of 2011 and into 2012, causing us to lower our overall EPS estimates as we approach the end of the third quarter.

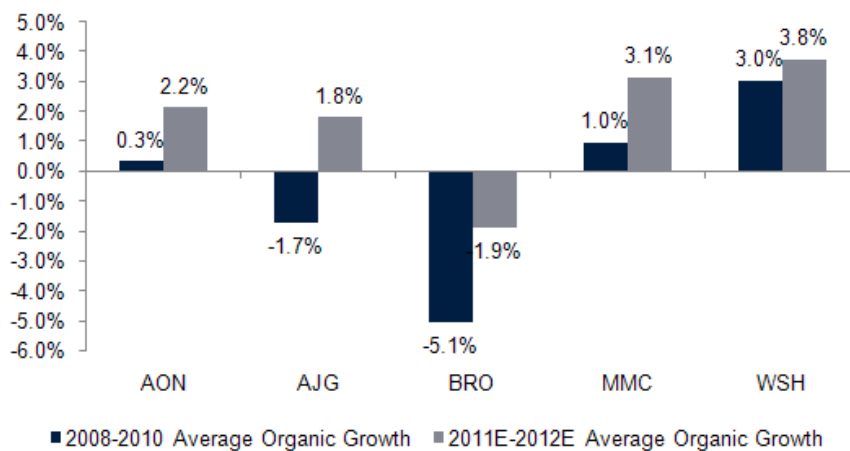
WB EPS Estimate Revisions

Ticker Symbol	Rating	New WB Estimates		Old WB Estimates		Recent Changes in EPS Estimates	
		2011	2012	2011	2012	2011	2012
AON	O	\$3.37	\$3.77	\$3.38	\$3.97	(\$0.01)	(\$0.20)
AJG	M	\$1.35	\$1.65	\$1.33	\$1.68	\$0.02	(\$0.03)
BRO	M	\$1.07	\$1.10	\$1.10	\$1.18	(\$0.03)	(\$0.08)
MMC	M	\$1.81	\$2.14	\$1.91	\$2.24	(\$0.10)	(\$0.10)
WSH	O	\$2.80	\$3.45	\$2.83	\$3.55	(\$0.03)	(\$0.10)
Estimates Revised Upward						1	0
Estimates Unchanged						0	0
Estimates Revised Downward						4	5

Source: William Blair & Company L.L.C.

We lowered our organic growth estimates for 2012 from an average of 4% to 2% mainly to reflect the potential for a stagnant U.S. and declining growth in Europe. These levels still remain comfortably above results from 2008-2010.

Historical and Forecasted Average Organic Revenue Growth



Sources: Company reports and William Blair & Company L.L.C.

Part of this improvement can be explained through the change in rate expectations. Whereas in 2009 rates were estimated to be down 2% to 3%, we are expecting rates to be up by 1% to 3% for 2012, which should help offset any moderate declines in exposure growth and keep total organic growth positive.

Estimated Components of Organic Growth

Organic Growth Components	2009			2012		
	Low	Midpoint	High	Low	Midpoint	High
Effect of Pricing	-3.0%	-2.5%	-2.0%	1.0%	2.0%	3.0%
Exposure Unit Change	-5.0%	-3.5%	-2.0%	-2.0%	-1.0%	0.0%
Net New Business	3.0%	4.5%	6.0%	2.0%	3.0%	4.0%
Total Organic Growth	-5.0%	-1.5%	2.0%	1.0%	4.0%	7.0%

Source: Thomson One, William Blair & Company L.L.C.

The three major factors to watch in the near term are: 1) U.S. organic; 2) reinsurance brokerage, and 3) emerging market growth. The U.S. should stabilize as the exposure headwinds are somewhat offset by rate pressure lessening. We are far less optimistic about EMEA organic, however. Reinsurance brokerage has the potential to add upside to current forecasts if the hardening of property catastrophe and related lines gains steam. Emerging markets should continue to be a key growth lever, particularly as we expect South America to produce significant organic growth going forward. Our forecasts assume that organic revenues grow by 3% in 2012, which we feel might be somewhat conservative, but appropriate given the current macro environment.

Organic Revenue Growth Trends for Insurance Brokerage

Company	Ticker	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	2007	2008	2009	2010	2011E	2012E
Aon Corporation	AON	-3.0%	-0.8%	-0.5%	3.0%	2.0%	1.9%	2.5%	2.3%	2.0%	2.2%	1.9%	2.2%	3.0%	2.0%	-1.0%	0.0%	2.2%	2.1%
Arthur J. Gallagher	AJG	-3.0%	-3.0%	0.0%	0.0%	1.6%	2.0%	2.0%	2.0%	1.5%	1.5%	2.0%	2.0%	1.5%	-1.5%	-2.2%	-1.5%	1.9%	1.8%
Brown & Brown	BRO	-8.6%	-4.0%	-2.6%	-3.3%	-2.3%	-4.8%	-2.0%	-2.0%	-1.5%	-1.0%	-1.0%	-0.5%	-3.4%	-5.5%	-5.1%	-4.6%	-2.8%	-1.0%
Marsh & McLennan	MMC	0.0%	1.0%	3.0%	5.0%	4.0%	5.0%	4.0%	3.1%	2.4%	2.3%	2.2%	2.1%	0.0%	0.6%	0.3%	2.0%	4.0%	2.3%
Willis Group Holdings	WSH	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.5%	3.5%	3.5%	3.5%	1.8%	3.8%	3.8%	3.8%
Median		-3.0%	-0.8%	0.0%	3.0%	2.0%	2.0%	2.5%	2.3%	2.0%	2.2%	2.0%	2.1%	1.5%	0.6%	-1.0%	0.0%	2.2%	2.1%
Average		-2.3%	-0.6%	0.8%	1.7%	1.9%	1.4%	2.1%	1.9%	1.7%	1.8%	1.7%	1.9%	0.9%	-0.2%	-1.2%	-0.1%	1.8%	1.8%

Source: Company reports

Recent performance and expectations:

Aon: Aon's organic, which had been lagging, showed decent progress in the quarter. The North American segment showed life for the third quarter in a row. International also remained strong, especially in Latin America and Asia. Reinsurance brokerage continues to lag and is dragging down overall organic somewhat. Going forward, strong presence in emerging markets, particularly South America, and an expected rebound at Aon/Benfield (related to rates) should help offset more challenging environments in Europe and domestically. We lowered our overall organic estimates to 2% for 2011 and 2012.

AJ Gallagher: Gallagher performed in line with expectations in the second quarter with organic going from 1.6% to 2% on a sequential basis. Organic growth was split between international operations and the U.S., which was a positive sign that growth in the U.S. has moved into positive territory. We expect positive organic growth to continue in the near term—a growing presence in London should augment growth particularly with potential rate firming in Lloyds. The U.S. could be a potential drag on overall organic moving into 2012 as middle-market exposure trends seem to have stagnated with economic uncertainty. We expect organic revenue growth to remain steady around 2% for the remainder of 2011 and into 2012.

Brown and Brown: Organic growth has been hampered by depressed economies in Florida and the West Coast (California, Arizona, and Nevada). National retail performed particularly poorly during the second quarter as did special programs, but much of the decline was explained by individual office issues as opposed to overall weakness. We expect a bounce-back from the -5% organic growth experienced during the second quarter; we forecast -2% for the rest of 2011 and -1% for 2012. We had expected organic to rebound into positive territory by 2012, but that could be optimistic if core territories do not begin to show some economic life. The growth could be helped by rising workers' compensation rates in the key states of Florida and California. Shifting dynamics in Florida homeowners market should be a moderate positive, but expectations may be ahead of reality as the changes will likely be gradual and BRO's exposure is limited.

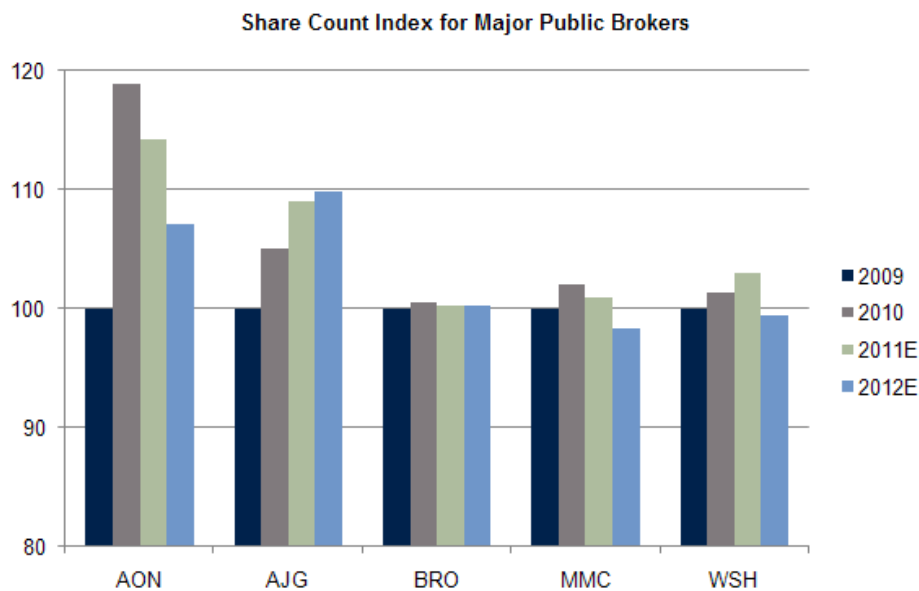
Marsh McLennan: Marsh's second-quarter organic of 5% was ahead of expectations, as emerging markets and reinsurance brokerage led the way. Strong momentum in both of these markets should help offset expected weakness in Europe and domestically. We expect Marsh's organic growth rate to be roughly 4% in 2011, but then to slow to 2% in 2012 as exposure growth slows.

Willis: Organic results for the second quarter were somewhat disappointing. The U.S. segment was flat, somewhat weaker than major competitors Aon and Marsh. Most of their U.S. business is middle-market oriented—similar to Brown & Brown and A.J. Gallagher (which averaged -2% growth in second quarter 2011)—a segment of the market we believe will continue to lag larger firms. We expect the U.S. segment to do slightly better going forward, given some upward pricing pressure. However, even if growth remains weaker than forecast, a higher-than-average proportion of reinsurance/Lloyds should

more than compensate. Overall, we expect organic to remain in the 4% range for the rest of 2011 and for 2012.

Stock buybacks could help drive EPS growth in 2012

The brokers have been issuing shares over the course of 2010 and 2011 to fund acquisitions and growth. However, the three large brokers, AON, Marsh, and Willis, have each launched large share-buyback programs that run through the rest of 2011 and into 2012. As we mentioned in our discounted cash flow analysis of AON, the brokers are great cash-generating businesses, and we expect cash levels at the major brokers to increase rapidly over the next 12 to 24 months. While A.J. Gallagher and Brown & Brown tend to focus their cash on acquisitions, we believe the larger brokers will become even more aggressive with their capital management. We have modeled significant reductions in share counts for 2012 for AON, MMC, and WSH, and we believe that these repurchase programs could continue for the next several years. Share-buybacks could be a strong contributor to EPS growth for the three large brokers in 2012, another major reason why we favor them over their middle-market peers.



Source: Company Reports

Third Quarter Forecasts:

Earnings Remain Solid

We are expecting a decent earnings period in the third quarter, in line with the third quarter of 2010 with some variation by stock. Organic growth and revenue from acquisitions should be better than the year-ago period, boosted somewhat by rate pressure lessening. AON, MMC, and WSH in particular will benefit from increased exposure to emerging markets where organic growth has been stronger, pricing declines have been less severe, and dollar weakness has provided some exchange rate benefits to reported results. AON and MMC should also benefit from sourcing the majority of their business from large companies, as we believe that the middle-market recovery is lagging behind that of the larger firms.

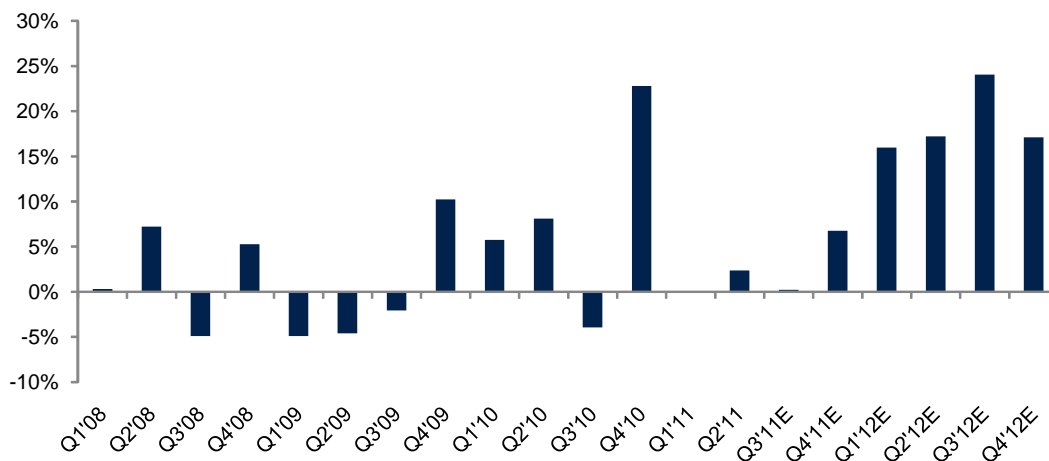
EPS Comparison

Ticker	GAAP EPS		
	3Q2011E	3Q2010	2Q2011
AON	\$0.72	\$0.61	\$0.83
AJG	\$0.44	\$0.41	\$0.42
BRO	\$0.30	\$0.31	\$0.26
MMC	\$0.26	\$0.27	\$0.51
WSH	\$0.33	\$0.37	\$0.61

Sources: Company reports, William Blair & Company, L.L.C.

Earnings growth has been depressed in recent quarters by a struggling economy and weak industry pricing. Industry pricing has improved somewhat over the last several quarters, and evidence of some rate increases is starting to emerge across the marketplace. However, we believe the macroeconomic environment still poses challenges to above-average growth rates, and we are maintaining conservative estimates for the last two quarters of 2011 and into 2012, as we see how the economy performs. We forecast earnings to show moderate year-over-year growth through the remainder of 2011, and then far stronger growth moving into 2012.

Average EPS Growth of the Five Brokers



Sources: Company reports, William Blair & Company, L.L.C.

We are slightly below consensus for the majority of the brokers, especially for 2012, given our pessimistic view of the economy. Our estimates could prove to be conservative should rate increases become more pervasive, or if economic activity picks up substantially over the next 6 to 12 months.

WB EPS Estimates vs. Consensus

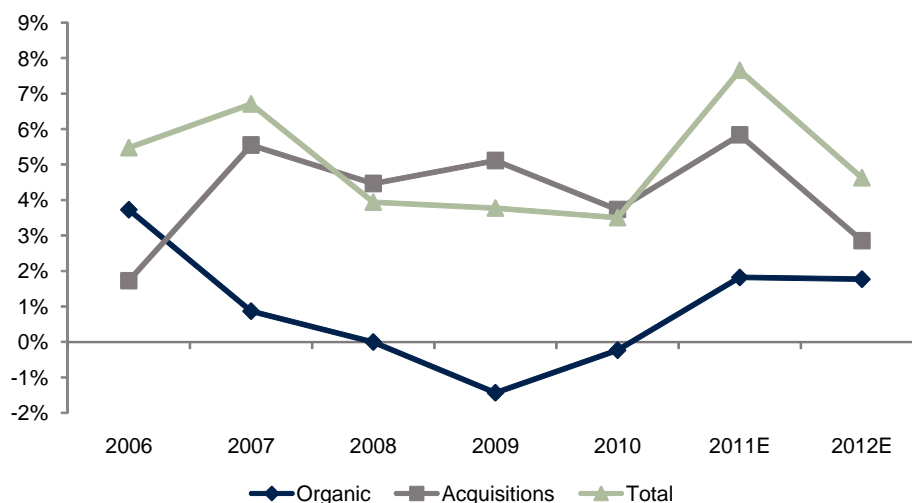
Ticker Symbol	Rating	WB Estimates			Consensus Estimates			WB vs Consensus		
		3Q'11	2011	2012	3Q'11	2011	2012	3Q'11	2011	2012
AON	O	\$0.72	\$3.37	\$3.77	\$0.73	\$3.40	\$3.83	(\$0.01)	(\$0.03)	(\$0.06)
AJG	M	\$0.44	\$1.35	\$1.65	\$0.44	\$1.36	\$1.76	\$0.00	(\$0.01)	(\$0.11)
BRO	M	\$0.30	\$1.07	\$1.10	\$0.31	\$1.11	\$1.25	(\$0.01)	(\$0.04)	(\$0.15)
MMC	M	\$0.26	\$1.81	\$2.14	\$0.27	\$1.81	\$2.17	(\$0.01)	\$0.00	(\$0.03)
WSH	O	\$0.33	\$2.80	\$3.45	\$0.37	\$2.88	\$3.33	(\$0.04)	(\$0.08)	\$0.12
Estimates Above Consensus							0	0	1	
Estimates Below Consensus							4	4	4	
Estimates in Line With Consensus							1	1	0	

Source: Thomson One, William Blair & Company L.L.C.

Revenue: Gradual uptick

We expect sector revenues to rebound somewhat in 2011 and 2012. Revenue growth is the combination of organic growth, related to exposure growth and pricing changes, and the expectation of higher levels of acquisitions. Our forecast for sector revenue growth is 8% in 2011, compared to historical revenue growth of 4% in 2009 and 4% in 2010. The 8% figure is derived from 6% acquisition growth and a turnaround in organic from an estimated 0% in 2010 to +2% in 2011.

Average Insurance Brokerage Revenue Growth



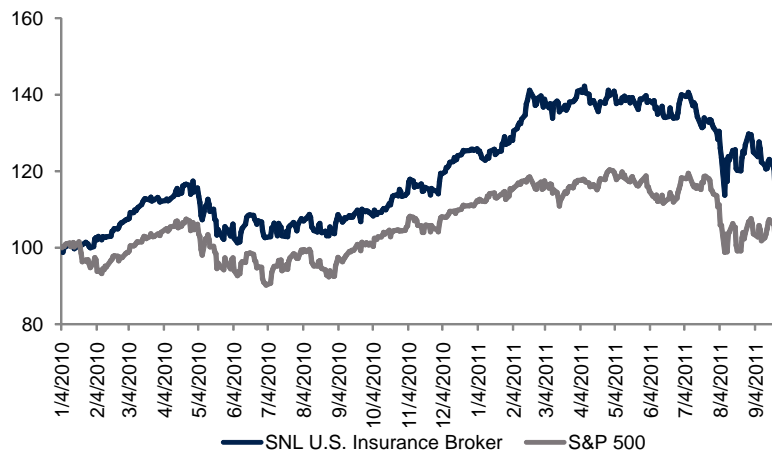
Note: Excludes Financial Services for Arthur J. Gallagher, and Consulting for MMC and AON

Source: Company reports

Stock Performance

The brokerage sector performance has been very poor during the course of the third quarter. The stocks are down on average 10% year-to-date, versus 9% for the S&P 500, with the majority of those losses coming over the last two months. Willis and Marsh are the best performers of the group, roughly flat for the year, while Brown is down more than 25% YTD.

Composite Broker Stock Performance (Indexed)



Source: Thomson One, SNL

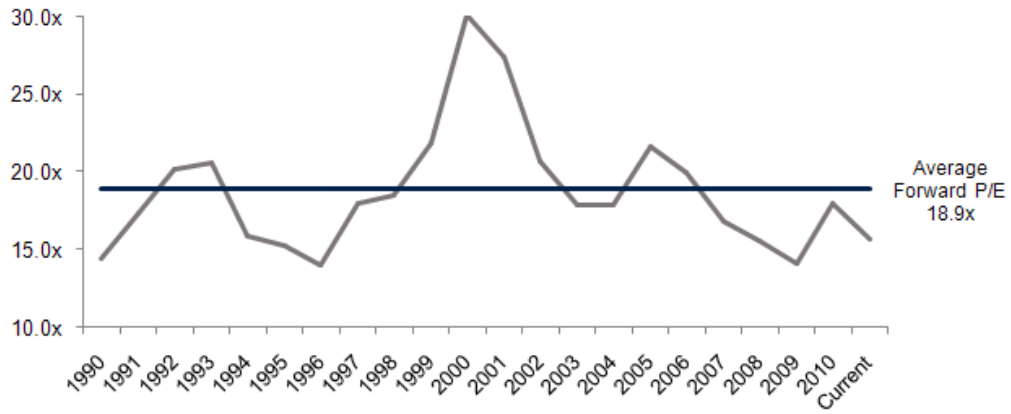
Valuation

Given the recent market correction, valuations have moved off their highs for the year, based on the prospects of a slowing economy. Earnings growth should begin to come off low levels by the end of 2011 and into 2012. The combination of weak industry pricing, a contracting economy, and lower acquisition levels resulted in revenue growth one-third of historical levels for the last three years. EPS growth declined from a 20-year average of 11% to an average of 3% in the last three years (excluding the last five years, which included the Spitzer-led investigations and the recent recession, historical revenue and EPS growth would have averaged 13% and 15%, respectively). P/E multiples moved to historical lows (13.9 times forward earnings) in 2009, reflecting the lower growth rate. The current average forward P/E multiple is 15.0 times 2011 earnings; the average EV-to-EBITDA ratio is 7.7 times 2011 EBITDA.

In the near term, we expect multiples to stay relatively stable, with potential for minor improvement. Both P/E and EV-to-EBITDA ratios are trading at compressed levels, due to economic uncertainty. Over the long term, multiples have significant upside when the P&C pricing cycle experiences a positive inflection. Our cash flow analysis shows a good probability of an upward turn in pricing in 2013 or 2014. The brokers tend to be early leaders in cycle turns and therefore multiple expansion could occur in 2012 (i.e., 6 to 12 months before pricing increases), which should also coincide with a return to stronger earnings growth.

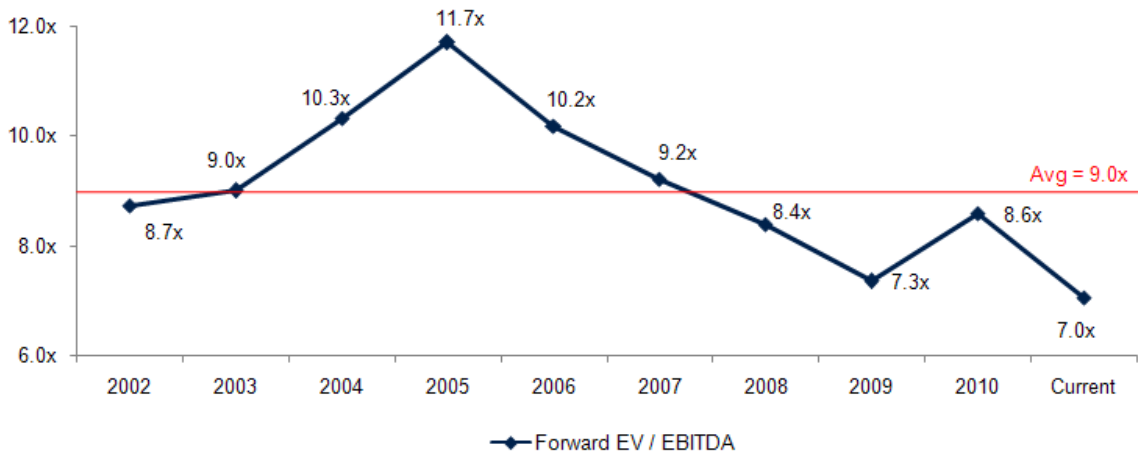
On a relative basis, we expect the group to keep pace with the overall market but not outperform. However, we specifically like AON and WSH, which are both trading at roughly 9 times 2012 cash earnings, respectively, due to their attractive valuations versus the group and above-average growth prospects. We believe both stocks have the chance to trade closer to the 12 to 14 times range, and thus significantly outperform the group and the broader market.

One-Year Forward P/E Multiple



Source: Company reports, Thomson One, and William Blair & Company L.L.C.

Historic Broker Forward EV/EBITDA Valuations



Source: Company Reports, SNL, William Blair LLC Estimates

Aon Corporation

Quarterly View:

The third quarter should be highlighted by improved reinsurance and consulting growth rates. Our Third quarter 2011 estimate is \$0.72, compared to consensus of \$0.73. Aon could receive some foreign currency benefits in the quarter, due to the weakness of the dollar versus the prior-year period. One drawback is that the international business tends to be seasonally weaker this quarter, particularly in Europe, which could hurt margins slightly despite increased cost savings. We have conservatively modeled brokerage margin at 17.9%, or 50 basis points above third quarter 2010.

Key Factors to Watch:

- **Potential cost savings:** The major factors driving the outcome will be cost savings and revenue growth levels. Management initially projected a 2012 cost savings of \$318 million to \$335 million. This represents roughly 8% of the cost base of the combined organization. Cost savings should come from several areas, including back-office/administration, management overlap, moving Aon benefit outsourcings onto the Hewitt platform, and general corporate costs. The most-interesting factor should be potential savings from moving Aon's benefit outsource onto Hewitt's platform. Our high low range for 2012 is \$300 million to \$375 million with our current estimate (base case) assuming \$320 million. Our Third-quarter estimate assumes that \$70 million of cost savings are realized compared to \$34 million in the first quarter.
- **Brokerage organic:** Our forecast calls for brokerage organic revenue growth to be 2.5%, which would be the fourth positive quarter in a row and compares to -0.5% for third quarter 2010. The largest improvement has been in the United Kingdom and reinsurance segments. The reinsurance segment had -3% organic growth in 2010, and has improved somewhat through the first half of the year to -1%. The catastrophes in New Zealand, Australia, Japan, and the U.S. should impact reinsurance pricing and help push organic back into positive territory. Hardening of the reinsurance market is a big plus for Aon, as 23% of its brokerage revenues in 2010 came from reinsurance.
- **Hewitt business trends:** We expect moderately better revenue performance and increased cost savings. We expect organic revenue, which was flat during the first half of the year, to be up by 1% to 2% as outsourcing revenue has the potential to stabilize. We forecast core margins (excluding cost savings and goodwill charges) to stay around 16% on a sequential basis, as the third quarter is seasonally weak. Our margin forecast may be too conservative.

Recommended Action:

We are reaffirming our Outperform on Aon. The stock has potential for significant long-term upside. The ability to make roughly \$5.00 of cash earnings in 2012 highlights the strong underlying core earnings power. Brokerage stocks average a 13 to 15 times multiple of cash earnings, which suggest significant upside assuming that Aon can hit its targets.

Aon Corporation

	2009	Q1'10	Q2'10	Q3'10	Q4'10	2010	Q1'11	Q2'11	Q3'11E	Q4'11E	2011E	2012E
INCOME STATEMENT												
Brokerage comm. & fees	\$7,503.0	\$1,922.2	\$1,883.0	\$1,784.0	\$2,904.0	\$8,493.2	\$2,755.0	\$2,806.0	\$2,597.0	\$3,012.6	\$11,170.6	\$11,447.5
% Change	0.8%	5.1%	1.3%	0.3%	42.6%	13.2%	43.3%	49.0%	45.6%	3.7%	31.5%	2.5%
Net investment income	\$142.0	\$13.0	\$18.0	\$15.0	\$12.0	\$58.0	\$34.0	\$12.0	\$12.0	\$12.0	\$70.0	\$40.0
% Change	(46.2%)	11.0%	11.0%	11.0%	11.0%	(59.2%)	11.0%	11.0%	11.0%	11.0%	20.7%	(42.9%)
Total Revenue	\$7,645.0	\$1,935.2	\$1,901.0	\$1,799.0	\$2,916.0	\$8,551.2	\$2,789.0	\$2,818.0	\$2,609.0	\$3,024.6	\$11,240.6	\$11,487.5
% Change	(0.9%)	4.1%	0.5%	(0.9%)	40.3%	11.9%	44.1%	48.2%	45.0%	3.7%	31.5%	2.2%
Compensation Benefits & G&A	\$5,975.0	\$1,539.0	\$1,495.0	\$1,417.0	\$2,282.0	\$6,733.0	\$2,202.0	\$2,234.0	\$2,070.7	\$2,337.9	\$8,844.5	\$8,918.8
% Change	(5.5%)	5.6%	0.1%	(2.1%)	44.7%	12.7%	43.1%	49.4%	46.1%	2.4%	31.4%	0.8%
Benefits to Policyholders												
Interest expense	\$124.0	\$34.0	\$33.0	\$50.0	\$65.0	\$182.0	\$63.0	\$63.0	\$63.0	\$62.0	\$251.0	\$236.0
AON Amortization & Depreciation	\$242.0	\$58.0	\$60.0	\$60.0	\$60.0	\$238.0	\$62.0	\$72.0	\$62.0	\$62.0	\$258.0	\$248.0
Deal Amortization					\$65.0	65	\$61.0	\$59.0	\$60.0	\$60.0	\$240.0	\$310.0
Hewitt Depreciation					\$40.0	40	\$21.0	\$18.0	\$17.5	\$17.0	\$73.5	\$63.0
Total Amortization & Depreciation					\$165.0	\$343.0	\$144.0	\$149.0	\$139.5	\$139.0	\$571.5	\$621.0
Total Operating Expenses	\$6,341.0	\$1,631.0	\$1,588.0	\$1,542.0	\$2,472.0	\$7,233.0	\$2,388.0	\$2,428.0	\$2,255.7	\$2,521.9	\$9,593.5	\$9,712.8
% Change	(2.3%)	5.5%	0.6%	0.3%	47.1%	14.1%	46.4%	52.9%	46.3%	2.0%	32.6%	1.2%
Pretax Operating Income	\$1,304.0	\$304.2	\$313.0	\$257.0	\$444.0	\$1,318.2	\$401.0	\$390.0	\$353.3	\$502.7	\$1,647.0	\$1,774.7
% Change	7.1%	-2.8%	0.0%	-7.9%	11.3%	1.1%	31.8%	24.6%	37.5%	13.2%	24.9%	7.8%
Pretax Operating Margin	17.1%	15.7%	16.5%	14.3%	15.2%	15.4%	14.4%	13.8%	13.5%	16.6%	14.7%	15.4%
Special Charges	\$0.0	\$0.0	\$50.0	\$50.0	\$87.0	\$187.0	\$45.0	\$19.0	\$0.0	\$75.0	\$139.0	\$0.0
Adj. P-T Income	\$1,304.0	\$304.2	\$263.0	\$207.0	\$357.0	\$1,131.2	\$356.0	\$371.0	\$353.3	\$427.7	\$1,508.0	\$1,774.7
Income Taxes	\$354.0	\$61.0	\$60.0	\$61.0	\$144.3	\$326.3	\$116.0	\$96.0	\$102.5	\$150.8	\$465.3	\$523.6
Tax rate	27%	20%	23%	29%	33%	25%	32.6%	24.6%	29.0%	30.0%	28%	30%
Adj. A-T Income from cont. ops.	\$950.0	\$243.2	\$203.0	\$146.0	\$212.7	\$804.9	\$240.0	\$275.0	\$250.9	\$276.9	\$1,042.8	\$1,251.2
A-T Income from disc. ops./charges												
A-T Net Income	\$950.0	\$243.2	\$203.0	\$146.0	\$212.7	\$804.9	\$240.0	\$275.0	\$250.9	\$276.9	\$1,042.8	\$1,251.2
% Change								266				
Minority Interest	(\$45.0)	(\$8.0)	(\$5.0)	(\$3.0)	(\$10.0)	(\$26.0)	(\$9.0)	(\$9.0)	(\$9.0)	(\$9.0)	(\$36.0)	(\$36.0)
Preferred dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Adjusted Income	\$905.0	\$235.2	\$198.0	\$143.0	\$202.7	\$778.9	\$231.0	\$266.0	\$241.9	\$267.9	\$1,006.8	\$1,215.2
Net Income Per Share	\$3.12	\$0.83	\$0.70	\$0.51	\$0.59	\$2.61	\$0.67	\$0.78	\$0.72	\$0.80	\$2.96	\$3.77
Extraordinary Items Per Share, Net	\$0.00	\$0.00	\$0.11	\$0.10	\$0.25	\$0.46	\$0.13	\$0.06	\$0.00	\$0.22	\$0.41	\$0.00
Capital Gains (losses) Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Operating Income Per Share	\$3.12	\$0.83	\$0.81	\$0.61	\$0.84	\$3.07	\$0.80	\$0.83	\$0.72	\$1.03	\$3.37	\$3.77
% Change	10.3%	9.9%	6.0%	(6.7%)	(11.8%)	(1.6%)	(3.7%)	2.6%	18.0%	22.6%	9.8%	11.9%
Cash Earnings Per Share	\$3.32	\$0.89	\$0.87	\$0.67	\$0.87	\$3.30	\$0.85	\$0.96	\$0.90	\$0.99	\$3.71	\$4.72

Arthur J. Gallagher & Co.

Quarterly View:

Our estimate for third quarter 2011 is \$0.44, in line with consensus and compared to \$0.41 a year ago. The third quarter represents the first full period of results for the company after the Heath Lambert acquisition, which should provide more clarity around integration efforts. We also hope to get more clarity in regard to the ramp on the clean energy business and concrete plans for what they will do in 2012. Aside from the corporate segment, earnings from the core brokerage and risk management areas should grow in the high-single digits, reflecting momentum from recent deals.

Key Factors to Watch:

- **Recent deal activity:** AJG has made or signed agreements for nearly 20 acquisitions through the first nine months of 2011. The activity has been spread across product and geographic sectors. The largest deal was the Heath Lambert acquisition in May, which is expected to generate \$158 million in annualized revenue. The deal will be the biggest driver of earnings in 2012 and will spur significant growth in AJG's international brokerage. Original guidance is that it should break even in the near term and then potentially add more than 20% to brokerage earnings in the long term. We expect management to provide more clarity around integration efforts after the first full quarter of operating results is reported. Although not as recent, the acquisition of GAB TPA deal last October with expected annualized revenues of \$50 will provide continued momentum to the Gallagher Basset subsidiary. We expect acquisitions to add 20%+ to revenue growth for the third quarter.
- **Brokerage organic:** Organic revenue growth increased from -3% in the first half of 2010 to 0% in the back half of 2010. Organic in the first half of 2011 was 2%, and we expect the company to maintain a 2% rate for the next several quarters. Upside is possible if rates in the U.S. market are able to offset potential slowdowns in Europe and the domestic middle market.
- **Clean Energy Update:** During the third quarter three additional plants received permits, which should improve the profitability of the corporate segment going forward. We expect management to provide more-specific strategies for the clean energy program, and plans for the future of the program in 2012 and beyond.

Recommended Action:

We are reaffirming our Market Perform rating. AJG has strong long-term potential, as the company has significant leverage to an improving U.S. economy. If property-and-casualty pricing improves in 2013, AJ Gallagher will be one of the prime beneficiaries. However, with the stock currently trading above 20 times our 2011 estimates, we believe near-term upside will be limited.

Arthur J. Gallagher & Co.
Earnings Model

	2009	Q1'10	Q2'10	Q3'10	Q4'10	2010	Q1'11	Q2'11	Q3'11E	Q4'11E	2011E	2012E
TOTAL COMPANY												
Commissions	\$1,003.7	\$232.9	\$276.3	\$271.6	\$259.4	\$1,040.2	\$256.0	\$317.9	\$337.1	\$320.6	\$1,231.6	\$1,370.7
% change	9%	0%	3%	7%	4%	4%	10%	15%	24%	24%	18%	11%
Fees	\$708.0	\$165.0	\$179.4	\$185.7	\$204.9	\$735.0	\$189.0	\$214.7	\$209.0	\$224.9	\$837.6	\$894.7
% change	3%	3%	-1%	2%	11%	4%	15%	20%	13%	10%	14%	7%
Investment Income - Fiduciary	\$17.7	\$1.4	\$2.1	\$1.6	\$1.8	\$6.9	\$1.9	\$2.2	\$2.1	\$1.9	\$8.1	\$6.8
% change	-57%	-82%	-58%	-48%	-10%	-61%	36%	5%	31%	6%	17%	-16%
Investment Income - All Other	\$0.5	\$62.7	\$2.4	\$1.0	(\$1.2)	\$64.9	\$0.0	\$9.2	\$14.0	\$16.0	\$39.2	\$72.0
% change	-38%					12880%					-40%	84%
Investment Gains (Losses)	(\$0.6)	\$4.8	(\$1.3)	(\$0.5)	(\$6.4)	(\$3.4)	(\$0.6)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1.8)	(\$1.6)
% change												
Gross Revenues	\$1,729.3	\$466.8	\$458.9	\$459.4	\$458.5	\$1,843.6	\$446.3	\$543.6	\$561.9	\$563.0	\$2,114.8	\$2,342.6
% change	5%	16%	1%	5%	5%	7%	-4%	18%	22%	23%	15%	11%
Less Brokerage	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
% change												
Revenues	\$1,729.3	\$466.8	\$458.9	\$459.4	\$458.5	\$1,843.6	\$446.3	\$543.6	\$561.9	\$563.0	\$2,114.8	\$2,342.6
% change	5%	16%	1%	5%	5%	7%	-4%	18%	22%	23%	15%	11%
Compensation	\$1,061.0	\$258.8	\$270.0	\$272.7	\$290.6	\$1,092.1	\$289.6	\$312.1	\$327.6	\$343.6	\$1,272.9	\$1,390.5
% change	7%	3%	0%	5%	3%	3%	12%	16%	20%	18%	17%	9%
Other Operating	\$327.9	\$78.8	\$82.6	\$84.4	\$88.7	\$334.5	\$92.7	\$102.7	\$101.2	\$105.1	\$401.7	\$426.7
% change	-12%	1%	6%	5%	-3%	2%	18%	24%	20%	18%	20%	6%
Investment Expenses	\$11.1	\$70.7	\$4.6	\$5.8	\$17.2	\$98.3	\$2.0	\$16.5	\$16.5	\$16.5	\$51.5	\$67.2
% change	-	3267%	130%	-3%	1620%	-	-97%	259%	184%	-4%		
Interest	\$28.5	\$8.6	\$8.7	\$8.6	\$8.7	\$34.6	\$9.5	\$10.6	\$10.6	\$10.6	\$41.3	\$42.4
% change		nm	nm	26%	18%		nm	nm	23%	22%		
Depreciation	\$30.6	\$7.7	\$8.0	\$8.3	\$8.3	\$32.3	\$8.1	\$9.1	\$8.9	\$8.9	\$35.0	\$35.2
% change	2%	0%	7%	8%	8%	6%	5%	14%	7%	7%		
Amortization	\$57.9	\$13.9	\$14.3	\$14.5	\$15.8	\$58.5	\$16.4	\$18.3	\$18.4	\$18.7	\$71.8	\$77.1
% change	32%	12%	-8%	5%	-2%	1%	18%	28%	27%	18%		
One-Time Items												
Expenses	\$1,517.0	\$438.5	\$388.2	\$394.3	\$429.3	\$1,650.3	\$418.3	\$469.3	\$483.2	\$503.3	\$1,874.1	\$2,039.1
% change	2%	23%	2%	5%	6%	9%	-5%	21%	23%	17%		
Earnings Before Income Taxes	\$212.3	\$28.3	\$70.7	\$65.1	\$29.2	\$193.3	\$28.0	\$74.3	\$78.7	\$59.7	\$240.7	\$303.5
% change	30%	-35%	-5%	3%	-4%	-9%	-1%	5%	21%	104%		
Tax benefit related to Litigation/One-timers												
Provision For Income Taxes	\$78.0	\$7.8	\$24.8	\$22.1	(\$18.9)	\$35.8	\$10.1	\$27.5	\$30.1	\$22.6	\$90.3	\$117.2
Effective Tax Rate	36.7%	28%	35%	34%	-65%	18.5%	36%	37%	38%	38%	37.5%	38.6%
Operating Earnings	\$134.3	\$20.5	\$45.9	\$43.0	\$48.1	\$157.5	\$17.9	\$46.8	\$48.6	\$37.0	\$150.4	\$186.3
% change	21%	-28%	5%	3%	148%	17%	-13%	2%	13%	-23%	-5%	24%
Discontinued ops			2.1		\$13.90							
Earnings Per Share	\$1.32	\$0.20	\$0.44	\$0.41	\$0.32	\$1.36	\$0.16	\$0.42	\$0.44	\$0.33	\$1.35	\$1.65
% change	12%	-31%	1%	-1%	68%	3%	-18%	-5%	7%	4%	-1%	23%
Cash EPS	\$1.70	\$0.29	\$0.53	\$0.50	\$0.55	\$1.86	\$0.26	\$0.53	\$0.54	\$0.44	\$1.77	\$2.10
% change	14%	-23%	-2%	0%	85%	9%	-10%	0%	9%	-19%	-5%	19%
Average Diluted Shares	100,622	102,936	104,648	105,736	107,327	105,099	110,315	111,826	111,765	112,065	111,493	112,678

Brown & Brown, Inc.

Quarterly View:

Our third quarter 2011 estimate of \$0.30 is slightly below consensus of \$0.31. The company has been battling softness in key markets, including Florida, the West Coast, and several individual office situations that made organic look far worse than it really was for the second quarter. Signs of bottoming in these core markets would be a significant positive for 2011; however, in management presentations they did not seem as upbeat about a rebound in the economy or a hardening in insurance pricing. Given these soft markets, the company has elevated acquisition activity in the last 12 months. Acquisition revenue for the quarter should come in at more than \$20 million, which should help offset their lower-than-industry organic levels.

Key Factors to Watch:

- **Acquisitions:** We expect acquisitions to add roughly 7% to growth in the third quarter, which is driven by the September acquisition of Crowe Paradis (\$23 million annualized) and the First Horizon acquisition (\$14.8 million annualized). The company has announced or completed 13 acquisitions over the first nine months of 2011.
- **Expense restraint is crucial:** The second-quarter organic weakness hit EBITDA margins significantly, as we were expecting 37%, versus the 33% announced. We lowered our EBITDA margin assumptions to 34% for both 2011 and 2012, versus 35.4% in 2010. Inability to hold the line on expenses, could lead to downside to our current estimates.
- **Retail organic still negative:** We expect retail organic in the third quarter to be -1%, and overall organic to be -2%. BRO's retail organic has not shown the same improvement as the other brokers, due to the depressed economies in Florida and California, and several office-specific issues. The second quarter provided some positive news on both Florida and the Western Retail offices, both of which showed substantial improvement versus 2010 levels. We hope to see this trend continue through the rest of 2011.

Recommended Action:

We are reaffirming our Market Perform rating on Brown. After a challenging period, we expect organic growth to begin exhibiting a gradual turn around and hopefully reach positive territory by the end of 2012 or early 2013. However, given the higher-than-average price earnings multiple of 17 times, we believe that there are better values in the sector.

Brown & Brown, Inc.

	2009	Q1'10	Q2'10	Q3'10	Q4'10	2010	Q1'11	Q2'11	Q3'11E	Q4'11E	2011E	2012E
INCOME STATEMENT												
Commissions & Fees	\$964.9	\$250.7	\$241.1	\$246.1	\$229.1	\$966.9	\$261.5	\$246.0	\$260.3	\$235.2	\$1,003.0	\$1,034.2
% change	0%	-5%	-1%	1%	7%	0%	4%	2%	6%	3%	4%	3%
Investment Income	\$1.2	\$0.3	\$0.3	\$0.4	\$0.3	\$1.3	\$0.2	\$0.4	\$0.3	\$0.3	\$1.2	\$0.9
% change	-81%	0%	-25%	100%	41%	13%	-28%	16%	-14%	-1%	-7%	-26%
Other Income	\$1.9	\$1.3	\$2.3	\$1.2	\$0.5	\$5.3	\$0.6	\$0.4	\$0.7	\$0.7	\$2.4	\$2.8
% change	-66%	-283%	72%	109%	-17%	185%	-56%	-81%	-42%	28%	-55%	17%
Total Revenues	\$967.9	\$252.3	\$243.7	\$247.7	\$229.9	\$973.5	\$262.2	\$246.8	\$261.3	\$236.2	\$1,006.6	\$1,037.9
% Change	-1%	-4%	-1%	2%	7%	1%	4%	1%	6%	3%	3%	3%
Compensation & Benefits	\$484.7	\$122.2	\$121.4	\$122.0	\$122.3	\$487.8	\$126.6	\$125.9	\$129.2	\$125.4	\$507.0	\$521.1
% change	0%	-4%	-1%	2%	6%	1%	4%	4%	6%	3%	4%	3%
Non-cash stock compensation	\$7.4	\$2.0	\$1.8	\$1.5	\$1.6	\$6.9	\$2.8	\$2.7	\$3.0	\$3.0	\$11.5	\$12.0
% change	1%	8%	5%	-13%	-24%	-7%	42%	52%	100%	86%	67%	5%
Other Operating Expenses	\$143.4	\$35.6	\$33.1	\$31.7	\$34.0	\$134.4	\$36.0	\$36.5	\$37.2	\$38.3	\$148.1	\$152.2
% change	4%	-1%	-7%	-11%	-7%	-6%	1%	10%	17%	13%	10%	3%
Amortization	\$49.9	\$12.6	\$12.7	\$12.9	\$13.4	\$51.5	\$13.5	\$13.6	\$13.6	\$13.6	\$54.2	\$57.2
% change	7%	1%	1%	3%	7%	3%	8%	7%	5%	5%	6%	6%
Depreciation	\$13.2	\$3.3	\$3.1	\$3.1	\$3.1	\$12.6	\$3.1	\$3.1	\$3.2	\$3.2	\$12.6	\$12.8
% change	0%	-2%	-5%	-7%	-4%	-5%	-4%	-1%	3%	2%	0%	1%
Interest	\$14.6	\$3.6	\$3.6	\$3.6	\$3.6	\$14.5	\$3.6	\$3.6	\$3.2	\$4.3	\$14.7	\$16.4
% change	-1%	-1%	0%	0%	-2%	-1%	0%	-1%	-12%	19%	1%	12%
Total Expenses	\$713.1	\$179.2	\$175.7	\$174.8	\$178.0	\$707.6	\$185.6	\$185.3	\$189.4	\$187.9	\$748.2	\$771.7
% change	1%	-3%	-2%	-1%	3%	-1%	4%	6%	8%	6%	6%	3%
PT Income	\$254.8	\$73.1	\$68.0	\$72.8	\$52.0	\$265.9	\$76.7	\$61.5	\$71.9	\$48.4	\$258.5	\$266.3
% change	-7%	-8%	2%	8%	27%	4%	5%	-10%	-1%	-7%	-3%	3%
Tax	\$101.5	\$29.0	\$26.8	\$28.7	\$19.8	\$104.3	\$30.4	\$24.4	\$28.8	\$19.4	\$102.9	\$106.5
Tax Rate	39.8%	39.6%	39.4%	39.4%	38.1%	39.2%	39.6%	39.7%	40.0%	40.0%	39.8%	40.0%
Minority Interest	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$153.3	\$44.1	\$41.2	\$44.1	\$32.1	\$161.6	\$46.3	\$37.1	\$43.2	\$29.0	\$155.5	\$159.8
% change	-8%	-8%	1%	8%	36%	5%	5%	-10%	-2%	-10%	-4%	3%
Cash Income	\$203.2	\$56.7	\$53.8	\$57.0	\$45.5	\$213.0	\$59.8	\$50.6	\$56.7	\$42.7	\$209.8	\$217.0
Operating EPS	\$1.06	\$0.31	\$0.29	\$0.31	\$0.22	\$1.13	\$0.32	\$0.26	\$0.30	\$0.20	\$1.07	\$1.10
% change	-10%	-9%	1%	8%	34%	7%	3%	-12%	-4%	-10%	-5%	3%
Cash EPS	\$1.40	\$0.40	\$0.38	\$0.40	\$0.31	\$1.49	\$0.41	\$0.35	\$0.39	\$0.29	\$1.44	\$1.50
% change	-7%	-7%	1%	7%	24%	6%	3%	-8%	-2%	-6%	-3%	4%
Operating EPS excl contingents	\$0.87	\$0.17	\$0.26	\$0.27	\$0.20	\$0.90	\$0.20	\$0.25	\$0.26	\$0.18	\$0.89	\$0.94
% change	-6%	-18%	2%	11%	19%	3%	15%	-6%	-2%	-6%	-1%	6%
Cash EPS excluding contingents	\$1.22	\$0.26	\$0.35	\$0.36	\$0.29	\$1.26	\$0.29	\$0.34	\$0.36	\$0.28	\$1.26	\$1.33
% change	-3%	-13%	1%	9%	15%	3%	12%	-3%	-1%	-4%	1%	6%
Average Diluted Shares	142.3	142.8	142.3	142.3	144.7	143.0	145.7	145.0	145.1	145.0	145.2	144.8
Actual Shares	142.5	142.6	141.9	141.9	143.2	143.2	143.5	142.8	142.8	142.8	142.8	142.8
Dividends Per Share	\$0.29	\$0.08	\$0.08	\$0.08	\$0.08	\$0.31	\$0.08	\$0.08	\$0.08	\$0.08	\$0.32	\$0.32
Dividend Payout Ratio	27.4%	25.1%	26.8%	25.0%	36.0%	27.7%	25.2%	31.3%	26.9%	39.9%	29.9%	29.0%
Reported Book Value	\$9.61	\$9.85	\$10.14	\$10.14	\$10.19	\$10.19	\$10.41	\$10.64	\$10.86	\$10.99	\$10.99	\$11.78
Return on Average Equity (ROE)	11.7%	12.7%	11.6%	12.3%	8.9%	11.4%	12.5%	9.8%	11.2%	7.4%	10.3%	9.8%

Marsh & McLennan Companies, Inc.

Quarterly View:

Marsh should have a solid third quarter, although it tends to be one of its seasonally weakest, given a slowdown in Europe over the summer months. We project top-line growth of 5%, driven by the Risk and Insurance Services and Consulting segments. Our \$0.26 third quarter 2011 estimate is slightly below consensus of \$0.27, and includes \$73 million of costs related to the early extinguishment of debt. We expect near-term results to show modest progress in both the Risk and Insurance Services and Consulting segments. However, the company lacks a near-term catalyst. More-aggressive deployment of cash is a possibility.

Key Factors to Watch:

- **Use of cash is the question mark:** We estimate that Marsh has close to \$1 billion of excess cash and plenty of leverage flexibility. The company has indicated a preference for acquisitions and has definitely become more active in the space recently. However, higher dividends and a large share-buyback program are also on the table.
- **Organic Growth:** Insurance brokerage organic of 5% was tied for highest in the group for the second quarter. We are projecting 4% for the third quarter, driven by strong performance in Latin America and Asia, as well as in reinsurance. We are keeping a close eye on U.S. organic to make sure it continues its string of four quarters with positive organic. Consulting organic is showing accelerating growth in the first half of 2011. Total consulting organic has gone from 3% in 2010 to 6% in second quarter 2011, and we expect it to remain near those levels, with particular strength in the Rewards and Talent Management, Oliver Wyman, and Investment Consulting businesses.
- **Risk and Insurance Services margins:** The brokerage margin moved up from 15.5% in 2006 to 18.6% in 2009. However, the margin showed only a moderate increase in 2010, and is only up slightly for year-to-date 2011. The ability to expand the margin in 2011 as the business environment remains challenging would be a significant positive for the stock. Our current forecasts assume a nearly 100-basis-point improvement in margin from 2010 through 2012.

Recommended Action:

We are reaffirming our Market Perform rating on Marsh. Marsh has significant buying power and is showing the willingness to use it. However, we believe other brokers will exhibit a higher level of near-term growth. Given that the stock is trading at a 25% premium to AON and WSH, based on 2011 P/E multiples, upside will likely be limited in the near term.

Marsh & McLennan Companies, Inc.

	2009	Q1'10	Q2'10	Q3'10	Q4'10	2010	Q1'11	Q2'11	Q3'11E	Q4'11E	2011E	2012E
INCOME STATEMENT												
Insurance Services Revenues	\$5,284.0	\$1,492.0	\$1,459.0	\$1,327.0	\$1,486.0	\$5,764.0	\$1,634.0	\$1,620.0	\$1,401.3	\$1,557.9	\$6,213.2	\$6,450.5
% Change	-3%	9%	9%	8%	11%	9%	10%	11%	6%	5%	8%	4%
Risk Consulting and Technology	\$687.0	\$162.0	\$0.0	\$0.0	\$0.0	\$162.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
% Change	-31%	-13%	-100%	-100%	-100%	-76%						
Consulting Services Revenues	\$4,609.0	\$1,155.0	\$1,168.0	\$1,203.0	\$1,309.0	\$4,835.0	\$1,261.0	\$1,319.0	\$1,272.4	\$1,378.4	\$5,230.8	\$5,480.6
% Change	-11%	7%	2%	5%	6%	5%	9%	13%	6%	5%	8%	5%
Interest Income	\$17.0	\$4.0	\$3.0	\$6.0	\$7.0	\$20.0	\$7.0	\$5.0	\$5.0	\$5.0	\$22.0	\$16.0
Investment Income	(\$2.0)	\$8.0	\$18.0	(\$2.0)	\$19.0	\$43.0	\$19.0	(\$6.0)	(\$2.0)	\$10.0	\$21.0	\$40.0
Corporate Eliminations	(\$68.0)	(\$14.0)	(\$21.0)	(\$6.0)	(\$10.0)	(\$51.0)	(\$11.0)	(\$11.0)	(\$11.0)	(\$11.0)	(\$44.0)	(\$48.0)
Corporate Eliminations % Revenue	-0.6%	-0.5%	-0.8%	-0.2%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Total Revenues	\$10,527.0	\$2,807.0	\$2,627.0	\$2,528.0	\$2,811.0	\$10,773.0	\$2,910.0	\$2,927.0	\$2,665.7	\$2,940.3	\$11,443.0	\$11,939.2
% Change	-9%	7%	1%	-1%	2%	2%	4%	11%	5%	5%	6%	4%
Salaries & Benefits	\$6,240.0	\$1,650.0	\$1,614.0	\$1,586.0	\$1,690.0	\$6,540.0	\$1,721.0	\$1,728.0	\$1,778.2	\$1,778.9	\$7,006.1	\$7,197.4
% Change	-10%	7%	5%	2%	5%	5%	4%	7%	12%	5%	7%	3%
Amortization of Intangibles	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
% Change												
Operating Expenses	\$2,941.0	\$706.0	\$1,042.0	\$699.0	\$770.0	\$3,217.0	\$691.0	\$735.0	\$829.1	\$821.9	\$3,077.0	\$3,290.2
% Change	-14%	1%	38%	0%	-2%	9%	-2%	-29%	19%	7%	-4%	7%
Interest Expense	\$241.0	\$60.0	\$60.0	\$60.0	\$53.0	\$233.0	\$51.0	\$49.0	\$121.0	\$48.0	\$269.0	\$192.0
Total Operating Expenses	\$9,422.0	\$2,416.0	\$2,273.0	\$2,315.0	\$2,459.0	\$9,463.0	\$2,462.0	\$2,512.0	\$2,486.3	\$2,552.8	\$10,013.1	\$10,295.6
% Change	-11%	5%	-3%	0%	0%	0%	2%	11%	7%	4%		
PT Operating Income	\$1,105.0	\$391.0	\$354.0	\$213.0	\$352.0	\$1,310.0	\$447.0	\$415.0	\$179.4	\$387.5	\$1,428.9	\$1,643.6
Pretax Operating Margin	10.5%	13.9%	13.5%	8.4%	12.5%	12.2%	15.4%	14.2%	6.7%	13.2%	12.5%	13.8%
Special Items	(\$791.0)	\$0.0	\$443.0	\$0.0	\$0.0	\$443.0	\$0.0	\$0.0	(\$73.0)	\$0.0	\$886.0	\$813.0
Other Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pretax Income	\$314.0	\$391.0	\$797.0	\$213.0	\$352.0	\$1,753.0	\$447.0	\$415.0	\$106.4	\$387.5	\$1,355.9	\$1,643.6
% Change	297%	47%	-805%	18%	-1860%	458%	14%	-48%	-50%	10%	-23%	21%
Taxes	\$53.0	\$117.0	(\$60.0)	\$55.0	\$106.0	\$218.0	\$128.0	\$129.0	\$33.0	\$120.1	\$410.1	\$835.6
Tax Rate	16.9%	29.9%	-7.5%	25.8%	30.1%	12.4%	28.6%	31.1%	31.0%	31.0%	30.2%	50.8%
Taxes Adj	\$241.0	\$117.0	\$95.1	\$55.0	\$122.0	\$389.1	\$128.0	\$129.0	\$33.0	\$120.1	\$410.1	\$493.1
Tax Rate Adj	21.8%	29.9%	26.9%	25.8%	34.7%	29.7%	28.6%	31.1%	31.0%	31.0%	28.7%	30.0%
Minority Interest (net of tax)	\$15.0	\$4.0	\$6.0	\$3.0	\$3.0	\$16.0	\$6.0	\$7.0	\$7.0	\$7.0	\$27.0	\$12.0
Participating securities adj.	\$19.0	\$0.0	\$3.0	\$0.0	\$0.0	\$3.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
A-T Adjusted Income	\$830.0	\$270.0	\$250.0	\$155.0	\$227.0	\$902.0	\$313.0	\$279.0	\$139.4	\$260.4	\$991.8	\$1,138.5
% Change	10%	31%	45%	-38%	13%	9%	16%	12%	-10%	15%	10%	15%
Adjustments Net	(\$444.0)	(\$22.0)	\$271.0	\$43.0	\$0.0	\$292.0	\$12.0	\$3.0	\$0.0	\$0.0	\$15.0	\$0.0
A-T Net Income Con. Ops	\$386.0	\$248.0	\$521.0	\$198.0	\$227.0	\$1,194.0	\$325.0	\$282.0	\$139.4	\$260.4	\$1,006.8	\$1,138.5
A-T Net Income Without Minority		\$252.0	\$527.0	\$201.0	\$230.0		\$331.0	\$289.0	\$146.4	\$267.4	\$1,033.8	
Operating Earnings	\$830.0	\$270.0	\$241.8	\$146.1	\$243.4	\$901.3	\$306.9	\$283.5	\$118.6	\$264.2	\$973.2	\$1,138.5
Net EPS - Cont Ops	\$0.74	\$0.46	\$0.96	\$0.36	\$0.41	\$2.19	\$0.59	\$0.51	\$0.26	\$0.48	\$1.84	\$2.14
% Change	-656%	36%	-406%	-10%	36%	197%	27%	-47%	-29%	17%	-16%	17%
Adjusted Operating EPS	\$1.59	\$0.50	\$0.46	\$0.28	\$0.41	\$1.66	\$0.56	\$0.50	\$0.26	\$0.48	\$1.81	\$2.14
% Change	9%	26%	39%	-41%	9%	4%	12%	10%	-10%	17%	9%	19%
Adjusted EPS (Normalized)	\$1.41	\$0.50	\$0.44	\$0.27	\$0.44	\$1.65	\$0.55	\$0.51	\$0.26	\$0.49	\$1.78	\$2.14
% Change	1%	19%	40%	-11%	17%	1%	10%	17%	-3%	10%	8%	21%
Amortization Expense Per Share	\$0.08	\$0.02	\$0.02	\$0.02	\$0.02	\$0.08	\$0.03	\$0.03	\$0.03	\$0.03	\$0.10	\$0.11
Adjusted Cash EPS	\$1.49	\$0.48	\$0.97	\$0.38	\$0.43	\$1.72	\$0.61	\$0.53	\$0.28	\$0.51	\$1.88	\$2.25
% Change	0%	0%	192%	19%	9%	15%	27%	-45%	-26%	18%	9%	20%
Average Shares	523.5	536.0	545.0	548.0	549.0	544.5	554.0	555.0	545.0	540.0	548.5	531.3
Dividend/Share	\$0.81	\$0.20	\$0.20	\$0.21	\$0.21	\$0.82	\$0.21	\$0.22	\$0.22	\$0.22	\$0.87	\$0.90
Amortization Expense	\$64.0	\$16.0	\$16.0	\$16.0	\$16.0	\$64.0	\$22.0	\$22.0	\$22.0	\$22.0	\$88.0	\$88.0
Depreciation	\$307.0	\$81.0	\$61.0	\$61.0	\$61.0	\$264.0	\$61.0	\$60.0	\$60.0	\$60.0	\$241.0	\$240.0
EBITDA	\$1,717.0	\$548.0	\$491.0	\$350.0	\$482.0	\$1,871.0	\$581.0	\$546.0	\$382.4	\$517.5	\$2,026.9	\$2,163.6
EBITDA/Share	3.28	1.02	0.90	0.64	0.88	3.44	1.05	0.98	0.70	0.96	3.70	4.07
EBITDA Margin	16.3%	19.5%	18.7%	13.8%	17.1%	17.4%	20.0%	18.7%	14.3%	17.6%	17.7%	18.1%
Impairment		-22.00	-172.00	43.00	0.00		12.00	3.00	73.00	0.00		

Willis Group Holdings Public Limited Company

Quarterly View:

Our operating EPS estimate of \$0.33 is \$0.04 below consensus and third quarter 2010 EPS. Willis could face some earnings headwinds during the quarter, such as unfavorable foreign exchange, due to a weak dollar, and some additional charges to expenses from an operational review. In addition, compensation costs are expected to be materially higher as cost savings are not yet expected to mitigate higher salary, 401(k), and amortization costs. This burden should begin to ease as we move into 2012.

Key Factors to Watch:

- **Organic growth:** Organic should remain at or above peer levels for 2011 and 2012. We expect organic of 4% in the third quarter. Organic has been benefiting from continued strength in the international segment. However, in the second quarter, North America posted disappointing organic growth of 0%, particularly since several competitors posted positive growth for the quarter of roughly 2% to 3%. North America should improve from these levels, particularly if rate increases take hold across the board, and we would like to see them remain above zero for the remainder of the year to feel comfortable with longer-term prospects. We expect the International and Global segments to continue to grow in the 4% to 5% range, as this segment is helped by growth in emerging and developing markets, and experiences less pricing pressure than in domestic markets.
- **Compensation costs:** The key for the quarter is that the restricting of the compensation line is on track. We expect 6% growth and a compensation ratio of 65%; this assumes higher amortization, salary and 401(k)s costs will result in \$28 million of higher during the quarter. Compensation costs are typically a far larger percentage of revenue during the third quarter because it tends to be the seasonally weakest quarter. Mitigating cost savings are only expected to reach \$7 million, although, this may be conservative.
- **Expense initiative:** The company announced an expense restructuring plan with a target of \$90 million to \$100 million of savings by 2012. Our 2012 estimate, which assumes a 1% growth rate in compensation costs, is conservative in that we assume cost savings reach a \$25 million run-rate by the end of 2012. Lower compensation costs could drive materially higher earnings.

Recommended Action:

We would continue to buy shares of Willis going into 2012. While the third quarter should face several headwinds, we expect progress on several fronts and a strong earnings rebound to occur 2012. Signs of stronger domestic growth and the beginnings of cost savings should be positives for the stock.

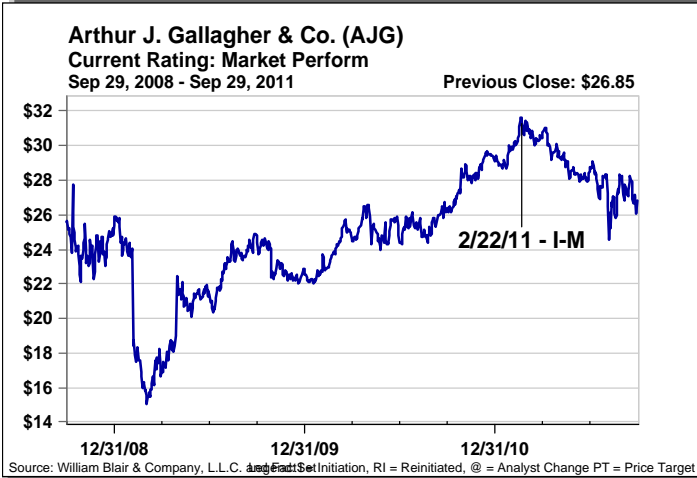
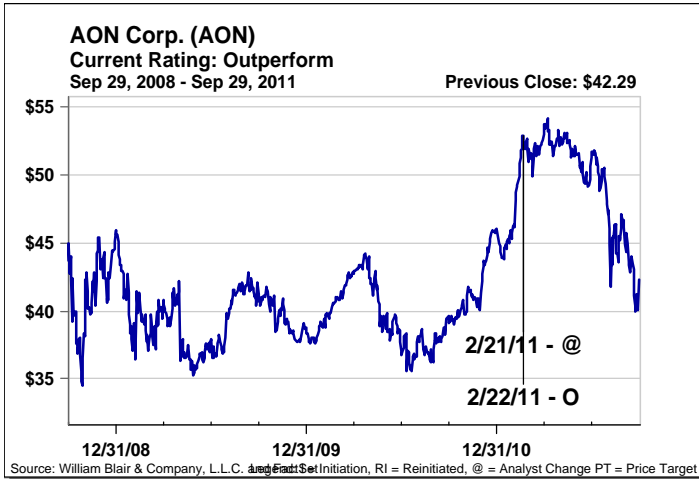
Willis Group Holdings Public Limited Company

	2009	Q1'10	Q2'10	Q3'10	Q4'10	2010	Q1'11	Q2'11	Q3'11E	Q4'11E	2011E	2012E
INCOME STATEMENT												
Commissions & Fees	\$3,210.0	\$963.0	\$789.0	\$723.0	\$825.0	\$3,300.0	\$1,000.0	\$854.0	\$751.9	\$858.0	\$3,463.9	\$3,584.4
% Change	16.7%	5.2%	2.2%	1.3%	2.0%	2.8%	3.8%	8.2%	4.0%	4.0%	5.0%	3.5%
Other Fees	\$1.0	\$0.0	\$0.0	\$0.0	\$1.0	\$1.0	\$0.0	\$1.0	\$0.0	\$0.0	\$1.0	\$0.0
% Change	na	na	na	na	na	na	na	na	na	na	na	na
Interest Income	\$52.0	\$9.0	\$10.0	\$10.0	\$9.0	\$38.0	\$8.0	\$8.0	\$7.5	\$7.5	\$31.0	\$26.5
% change	-37%	-40%	-17%	0%	-40%	-27%	-11%	-20%	-25%	-17%	-18%	-14.5%
Total Revenues	\$3,263.0	\$972.0	\$799.0	\$733.0	\$835.0	\$3,339.0	\$1,008.0	\$863.0	\$759.4	\$865.5	\$3,495.9	\$3,610.9
% Change	15%	5%	2%	1%	1%	2%	4%	8%	4%	4%	5%	3.3%
Compensation Costs	\$1,820.0	\$486.0	\$453.0	\$462.0	\$469.0	\$1,870.0	\$502.0	\$495.0	\$491.8	\$494.2	\$1,982.9	\$1,997.0
% Change	16%	1%	2%	5%	3%	3%	3%	9%	6%	5%	6%	0.7%
Other Costs	\$579.0	\$149.0	\$135.0	\$129.0	\$153.0	\$566.0	\$142.0	\$146.0	\$132.1	\$155.8	\$575.9	\$564.9
% Change	0%	10%	-2%	-15%	-1%	-2%	-5%	8%	2%	2%	2%	-1.9%
Total General and Admin. Expenses	\$2,399.0	\$635.0	\$588.0	\$591.0	\$622.0	\$2,436.0	\$644.0	\$641.0	\$623.9	\$650.0	\$2,558.9	\$2,561.9
% Change	12%	3%	1%	0%	2%	2%	1%	9%	6%	4%	5%	0.1%
Depreciation Expense	\$60.0	\$15.0	\$16.0	\$14.0	\$18.0	\$63.0	\$16.0	\$19.0	\$17.0	\$17.0	\$69.0	\$72.0
% Change	18%	7%	14%	-7%	6%	5%	7%	19%	21%	-6%	10%	4.3%
Amortization Expense	\$93.0	\$21.0	\$21.0	\$22.0	\$18.0	\$82.0	\$17.0	\$17.0	\$17.0	\$17.0	\$68.0	\$65.0
% Change	138%	-13%	-9%	0%	-25%	-12%	-19%	-19%	-23%	-6%	-17%	-4.4%
Interest Expense	\$169.0	\$43.0	\$41.0	\$40.0	\$42.0	\$166.0	\$40.0	\$34.0	\$34.0	\$34.0	\$142.0	\$126.0
% change	78%	13%	-5%	-5%	-9%	-2%	-7%	-17%	-15%	-19%	-14%	-11.3%
Other Expense	\$0.0	\$0.0	\$2.0	\$0.0	\$0.0	\$2.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Operating Expenses	\$2,721.0	\$714.0	\$668.0	\$667.0	\$700.0	\$2,749.0	\$717.0	\$711.0	\$691.9	\$718.0	\$2,837.9	\$2,824.9
% Change	16%	3%	1%	-1%	0%	1%	0%	6%	4%	3%	3%	0%
Operating Income	\$542.0	\$258.0	\$131.0	\$66.0	\$135.0	\$590.0	\$291.0	\$152.0	\$67.5	\$147.5	\$658.1	\$786.0
% change	9%	8%	7%	25%	6%	9%	13%	16%	2%	9%	12%	19.4%
Operating Pre-Tax Margin	16.6%	26.5%	16.4%	9.0%	16.2%	17.7%	28.9%	17.6%	8.9%	17.0%	18.8%	21.8%
Other Unusual/Non-Recurring Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reported Pre-Tax Margin	16.6%	26.5%	16.4%	9.0%	16.2%	17.7%	28.9%	17.6%	8.9%	17.0%	18.8%	21.8%
Tax	\$103.0	\$67.0	\$35.0	\$10.0	\$28.0	\$140.0	\$76.0	\$38.3	\$17.0	\$37.2	\$168.5	\$208.3
Tax Rate	19%	26%	27%	15%	21%	24%	26%	25%	25%	25%	26%	27%
A- T Net Income	\$439.0	\$191.0	\$96.0	\$56.0	\$107.0	\$450.0	\$215.0	\$113.7	\$50.5	\$110.4	\$489.6	\$577.7
% Change	16%	9%	4%	-26%	13%	3%	13%	18%	-10%	3%	9%	18%
Equity Earnings in Associates	\$33.0	\$20.0	(\$2.0)	\$9.0	(\$5.0)	\$22.0	\$16.0	(\$3.0)	\$9.0	(\$5.0)	\$17.0	\$23.0
Minority Interest	(\$21.0)	(\$7.0)	(\$2.0)	(\$1.0)	(\$3.0)	(\$13.0)	(\$8.0)	(\$4.0)	(\$1.0)	(\$5.0)	(\$18.0)	(\$18.0)
Operating Income after-tax and minority interest	\$451.0	\$204.0	\$92.0	\$64.0	\$99.0	\$459.0	\$223.0	\$106.7	\$58.5	\$100.4	\$488.6	\$582.7
% change	19%	5%	5%	-29%	25%	2%	9%	16%	-9%	1%	6%	19%
Operating Earnings Per Share	\$2.68	\$1.20	\$0.54	\$0.37	\$0.58	\$2.69	\$1.28	\$0.61	\$0.33	\$0.58	\$2.80	\$3.45
% Change	5%	3%	3%	-30%	24%	0%	7%	13%	-11%	-1%	4%	23%
other extraordinary gains/losses	0.21	0.00	0.00	0.00	0.00	0.00	1.09	0.12	0.00	0.00	\$1.21	0.00
Adjusted Earnings Per Share	\$2.47	\$1.20	\$0.54	\$0.37	\$0.58	\$2.69	\$0.20	\$0.48	\$0.33	\$0.58	\$1.59	\$3.45
% Change	-2%	3%	3%	16%	24%	9%	-84%	-10%	-11%	-1%	-41%	117%
Cash Operating EPS (New GAAP)	\$2.88	\$1.29	\$0.63	\$0.47	\$0.66	\$3.04	\$0.27	\$0.55	\$0.40	\$0.65	\$1.87	\$3.73
% Change	6%	2%	1%	12%	15%	6%	-79%	-12%	-14%	-1%	-38%	99%
Average Shares	168.3	170.0	171.0	171.0	171.0	170.8	174.0	176.0	176.0	174.5	175.1	169.6
Dividends Per Share	\$1.04	\$0.26	\$0.26	\$0.26	\$0.26	\$1.04	\$0.26	\$0.26	\$0.26	\$0.26	\$1.04	\$1.04
Payout Ratio	36.1%	20.1%	41.3%	55.4%	39.6%	34.2%	97.1%	46.9%	64.4%	40.2%	55.5%	27.9%

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William Blair & Company, L.L.C. is a market maker in the security of Aon Corporation and Arthur J. Gallagher & Co. and Brown & Brown, Inc. and Marsh & McLennan Companies, Inc. and Willis Group Holdings Public Limited Company and may have a long or short position.

Additional information is available upon request.





Current Rating Distribution (as of 08/31/11)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	59	Outperform (Buy)	8
Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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