Issue 3
1st Quarter 2002

April 30, 2002

Asset Management Focus
Freeman & Co.

2002— Preview

The M&A market for money managers has continued during this bear market, as measured by the number of deals, but has shrunk considerably when measured by assets. Large firms have been focused on costs, operating margins and product performance, not on large strategic acquisitions.

In Europe, we have found intra-country M&A continuing and a focus on cross-border strategic alliances as a way to penetrate new markets. Cultural, language and political barriers make building or buying cross-border businesses difficult. We see continued demand for alternative products by institutional investors and more steps being made in product innovation and evolution. We expect both these trends to continue.

Performance as of March 31, 2002

Index	Total Return 1st Quarter 2002	Total Return Trailing 12 Months	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	0.3%	0.2%	-2.5%	10.2%
NASDAQ	-5.4%	0.3%	-9.2%	8.6%
FTSE EuroTop 100	1.7%	-7.9%	-0.5%	9.1%
LBGC*	-0.5%	4.6%	6.2%	7.5%

**Lehman Brothers Govt./Credit Index*

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Indices at April 30, 2002:

DJIA	9,946
NASDAQ	1,688
S&P 500	1,077
FTSE EuroTop 100	2,744
10 Year US Treasury Bond Yield	5.09%
Euro to dollar	$0.90

Summary

Our key findings are:

- There were 28 asset management acquisitions announced in the 1st quarter of 2001. Down slightly from 30 in the 4th quarter of 2001 and 36 in the 1st quarter of 2001
- Assets under management ("AUM") acquired fell to $47.9 billion, down 11% from the 4th quarter of 2001 and down 49% as compared to the 1st quarter of 2001
- Acquisition targets were focused among smaller firms; the largest global acquisition was $11 billion AUM and the largest US acquisition was $6 billion AUM
- In Europe intra-country consolidation continues, favoring cross-industry deals (i.e. Insurance Companies—Private Banks)
- Cross-border barriers to entry in Europe remain high, leading to strategic alliances as the predominant market entry technique. We believe many of these strategic alliances will lead to future acquisitions
- Eight firms made acquisitions or formed strategic partnerships (joint ventures, alliances and distribution arrangements) as an entrance to the alternative investment industry
- The number of new alternative investment entrants decreased 36% over the preceding quarter. Fund of funds represented 48% of the new entrants and hedge funds accounted for the remaining 52%
- Announced allocations to alternative investments in the first quarter totaled $363 million. Additionally, foundations, endowments and institutions announced interest in investing up to $4.5 billion in alternative investment product

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Global Asset Management Transactions

The first quarter of 2002 was one of the slowest periods for M&A activity of the past several years. Across all industries, global M&A fees earned fell an estimated 26% over last quarter and 40% over the first quarter of 2001[1]. Though the number of asset manager acquisitions in the first quarter of 2002 at 28 was in the range of 30 we had predicted in the preceding issue of *Asset Management Focus,* the size of transactions has fallen from $840 billion in AUM during 2001 to only $48 billion AUM this quarter.

Joint ventures announced were in line with the first quarters of the previous two years. Alliances increased over the first quarter of last year, when none were announced. Not surprisingly, the majority of the joint ventures and alliances announced this quarter involved alternative investment product. Four of the five joint ventures and two of the three alliances tracked by Freeman & Co. this quarter involved alternative investment products. These deals are highlighted on page 10.

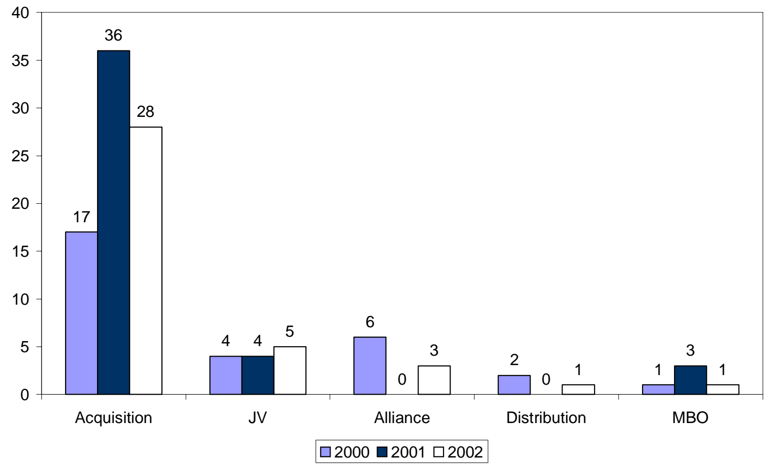
It still appears that 120-130 acquisitions remains a reasonable target for the year, although, in the current environment we expect total deal volume or AUM to be well below past years. Large buyers continue to adjust their cost bases and focus on their core businesses. Large strategic transactions (above $50 billion AUM) are not a priority in the current environment.

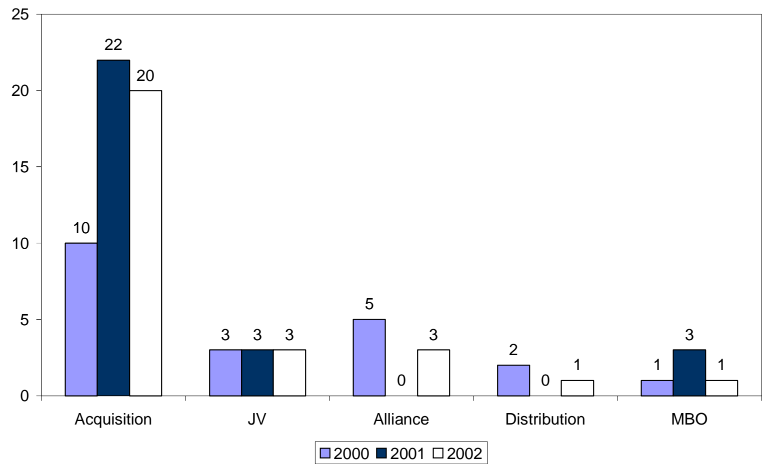
US—Europe Transactions

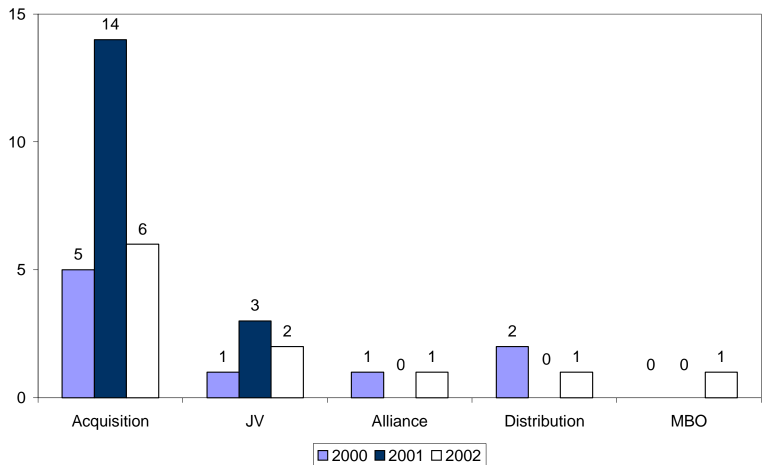
US firms were involved in over three times as many M&A transactions as European firms. The majority of this acquisition activity in the US involved a US firm acquiring a US firm (occurring in 13 of 20 acquisitions or 65% of the time). Only one acquisition involved a European firm buying a US firm when the Asset Management Company Plc announced its intention to buy a 49% stake in Hillview Capital Advisors LLC. The majority of the remaining transactions involved Canadian firms.

Although we had expected an increase in the amount of acquisition activity in Europe, the number of acquisitions involving European firms actually fell 50% quarter over quarter. This trend may have been caused by a period of uncertainty over capital markets returns and growth. This is evidenced by the fact that the majority of the Europe to Europe acquisitions (60%) involved intra-country deals as firms continue to boost their domestic competitive positions, rather than expand into other countries.

We expect European consolidation to be focused intra-country, probably through 2003, with limited cross-border activity until late 2003 or 2004. This will be driven by the ease of intra-country deals (language, culture, regulatory, political) compared to cross-border deals.







Source: Freeman & Co.

[1] Freeman & Co. estimates

US Companies acquired in the First Quarter

The number of US companies acquired in the first quarter of 2002 was slightly higher than last quarter with 15 transactions compared to 14 in the fourth quarter of 2001. We expect a similar number next quarter, focusing on smaller acquisitions.

First Republic Bank and Prudential Financial (US) were the most active buyers in the first quarter acquiring two firms apiece. First Republic acquired two boutique money managers, Froley, Revy Investment Co. and Starbuck Tisdale & Associates to boost its high net worth business. Prudential, made its first and second acquisitions since going public in the 4th quarter of 2001 by buying the Swiss private bank, Standard Charter Grindlays and the Mexican Pension fund, Afore XXI. The Bank of New York was the only multiple buyer from 2001 to make an acquisition in the first quarter. We expect to see the acquisitive money managers (i.e. Legg Mason, AMG, Boston Private Financial) making acquisitions in 2002 as well as service and support firms (i.e. Bank of New York, Mellon).

The number of asset management acquisitions this quarter was boosted by a number of divestitures. Several transactions in the first quarter alone involved the sale of individual business units. Hoening Group (NASDAQ: HOEN), which was bought by Investment Technology Group[2] (NYSE: ITG) in January, split up its Axe Houghton subsidiary into three separate units for sale. The Bank of New York[3] acquired the Index Asset Management Unit, while Palisades Capital Management acquired the Small Cap Growth unit. The third part of the business was sold to Byram Capital Management, a company created by Axe-Houghton's former president. Toronto-Dominion Bank also sold two of its business units in the first quarter: CIBC Mellon (JV) acquired TD's Investment Fund Custody Business and AGF Management LTD acquired the Fund Evaluation Unit.

1st Quarter 2002 US Companies Acquired

Month	Year	Partner 1 / Target	Partner 2 / Acquirer	Ownership %	Total Deal AUM ($MM)
1	2002	Enhanced Investment Technologies Inc.	Berger LLC	100	6,000
1	2002	Peter B. Cannell & Co.	New York Community Bancorp	53	650
1	2002	Virginia Investment Counselors	BB&T Corp	100	1,200
2	2002	Axe-Houghton's Small Cap Growth Equities	Palisade Capital Management	100	
2	2002	Froley, Revy Investment Co.	First Republic Bank	82	2,200
2	2002	Gulf Investment Management Corp.	OppenheimerFunds	100	2,500
2	2002	Hillview Capital Advisors LLC	Asset Management Investment Co.	49	650
2	2002	Northwestern Trust and Investors Advisory	Bank of Montreal	100	
2	2002	SIFE	Wells Fargo Funds Management	100	712
3	2002	Babson-United Investment Advisors Inc.	Advest Group Inc	100	1,200
3	2002	Gannett Welsh & Kotler Inc	Bank of New York	100	5,000
3	2002	Starbuck Tisdale & Associates	First Republic Bank	100	1,000

Source: Freeman & Co.

Alternative investment providers and high net worth ("HNW") managers will be a focus for firms during the year. The market returns and volatility have introduced investors to risk, something not well appreciated during the late 1990's. Products with uncorrelated returns have become "must haves," as our current and past research indicates. The HNW market continues to be viewed as attractive due to client stickiness and perceived loyalty.

Assets Acquired in the First Quarter

The dollar amount of assets acquired declined in the first quarter, falling 11% from the fourth quarter of 2001. With $48 billion acquired in the first quarter the amount of AUM acquired in 2002 is on pace to hit the lowest levels since the first quarter of 1997. The steep decline in assets acquired was caused by the lack of any large deals this quarter. The driver of this has been economic uncertainty as large firms have been forced to cut costs and resize businesses. The largest deal of the quarter involved the merger of the asset management arms of two South African Companies, Standard Bank and Liberty Group Ltd. The merger boosted Liberty Group's AUM by $11.7 billion.

Most of the deal activity involved boutique money managers and alternative investments as firms looked to fill product gaps. Until an economic rebound becomes imminent, expect asset managers to continue focusing their efforts on smaller deals involving:

Asset Acquired by Region ($MM)

Region	1997	1998	1999	2000	2001	2002 YTD
Africa		34,910		28,900		11,700
Asia	21,840	68,982	82,244	28,802	26,842	2,486
Canada	9,000	11,600	8,304	43,181	48,152	
Europe	194,595	126,422	160,057	667,646	115,454	9,353
South America	312	8,285	19,062	2,122	2,047	2,485
US	522,525	229,605	415,067	945,624	647,321	21,856
Total	**748,272**	**479,804**	**684,734**	**1,716,275**	**839,816**	**47,879**

Source: Freeman & Co.

- Intra-country transactions
- Regional expansion
- Product add ons
- High net worth business

We think that the high net worth equity-based firms will be in high demand as numerous firms continue to pursue this strategy. Firms such as Bank of New York, Mellon Financial, Wells Fargo, State Street and Legg Mason continue to make this client segment a strategic priority.

[2] Freeman & Co. represented ITG for its acquisition of Hoenig Group

[3] Freeman & Co. represented Bank of New York for its acquisition of Hoenig Group's ADR Index Business

Europe—Market entry strategies applied by European financial organizations

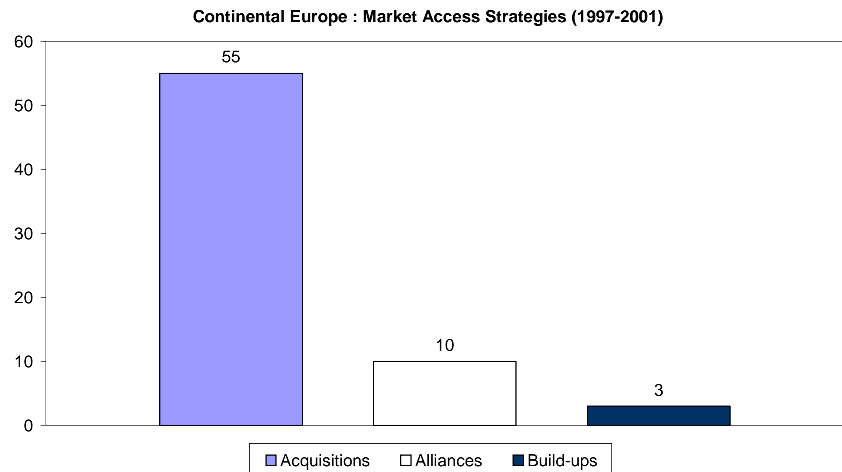
In this section we describe M&A activity in continental Europe by European asset gatherers: universal banks, asset managers, private banks and insurance companies

M&A and strategic alliances are gaining more and more popularity among the European financial services community. Mergers & acquisitions are the leading market access strategies that contribute to the integration of the European asset management market. Since 1997, 55 acquisitions and 10 strategic alliances involving asset management businesses took place in continental Europe. Presumably, we expect mergers & acquisitions to represent the most important market access strategy in the future, too.

However, due to disproportionate risks (derived from the integration of different firm cultures and business fields), we don't expect noticeable cross-border acquisitions to occur until consolidation in domestic markets has been completed and all synergies are realized. This is the case of BNP Paribas, which has been busy up until now signing strategic alliances with European partners (*Caixa* (Spain), *Dresdner* (Germany) *Savings Bank of Florence* (Italy), etc) in various business fields while synergies of the merger are being realized. Alliances have proved to be very efficient strategies to bypass national tax legislation, accounting standards and different consumer protection regulations.

In spite of considerable progress toward European capital market integration following the completion of the Single Market and the introduction of the Euro, national borders still constitute a considerable barrier for retail financial markets. Direct cross-border business between financial services suppliers and end-consumers is still the exception. Likewise, the expansion through branches and subsidiaries abroad is considered an unattractive strategy for 4 major reasons:

- High fixed costs
- Existing over-capacities
- Yields with significant time lags
- New sale technologies



Source: Freeman & Co.

For asset management products the outdated definition of UCITS in the directives limits cross-border marketing of innovative fund products. In addition, the burden of registration in a target market raises the costs for entering a national market. Furthermore, host country responsibility for supervision of advertising and marketing together with tax discrimination hamper the emergence of a unified fund market. The problems are aggravated by distribution channels that are still biased in favor of domestic fund companies. These barriers to a unified market will not erode rapidly and will continue to inhibit cross-border M&A.

As far as the promising pension market is concerned, we are seeing new potential obstacles emerging as a consequence of national pension reforms. The German example shows that very specific national requirements on new pension products can constitute additional barriers to entry for foreign suppliers, this is coupled with the trend highlighted in our January 2002 report whereby large trade unions and insurance companies (e.g., IG Metal) are favoring national fund managers.

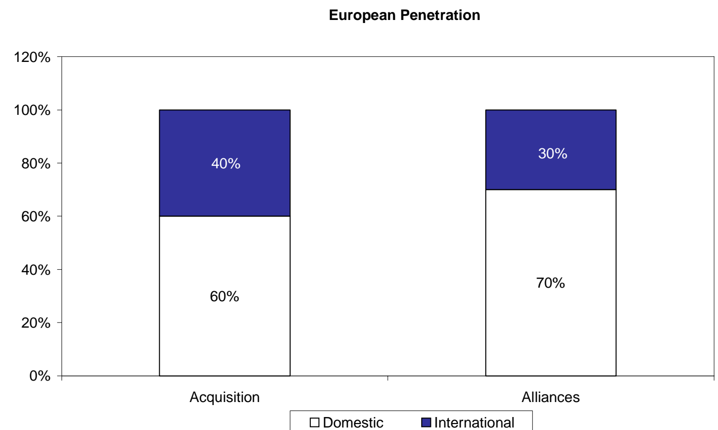
While these challenges exist, we expect to see a sustained pace of cross-border alliances among mid and large-size players. The goals will be to share resources and use local experience to benefit both parties. The success of these ventures will be dependent on both firms' commitment and management skills in an arena where many alliances do not have measurable long term success. One advantage of the European model is that firms often use alliances as a precursor to an acquisition. Many of the strategic alliances may in fact be firm relationship builders, akin to dating, before one party decides to initiate an acquisition.

Regardless of the future course of asset management M&A in Europe, our data indicates that the single market will take years to develop so that a cross-border deal is as easy as an in-country acquisition, if ever. This M&A example is also indicative of the challenges money managers may face in developing a consistent pan European business strategy.

Europe—European integration or domestic consolidation?

In the last five years, 60% of European acquisitions took place in domestic markets. Moreover half of the cross-border acquisitions have either targeted offshore countries (Luxembourg and Ireland) or countries within the acquirer's region, which leads to smaller cultural and social differences (i.e. Nordic region, Benelux or Southern Europe). An example of regional cross-border acquisitions is the integration in 2000 of Merita Bank (Finland), Nordbanken (Sweden), Unidanmark (Denmark) and K-Bank (Norway) into NORDEA Group.

If we exclude domestic alliances that we view as established in anticipation for a later M&A transaction, the percentage of alliances that are cross-border goes up to 50%. Strategic alliances are the most efficient strategy currently available for pan-European players to bypass natural barriers (culture and language) without committing a great amount of resources and to reduce the financial and operational risks. We anticipate a substantial increase in the number of cross-border alliances in the next two years, which we think will contribute significantly to the shape of the future M&A landscape. We think that strategic alliances backed by cross-shareholding agreements will be the standard and will constitute the foundations for further M&A activity.



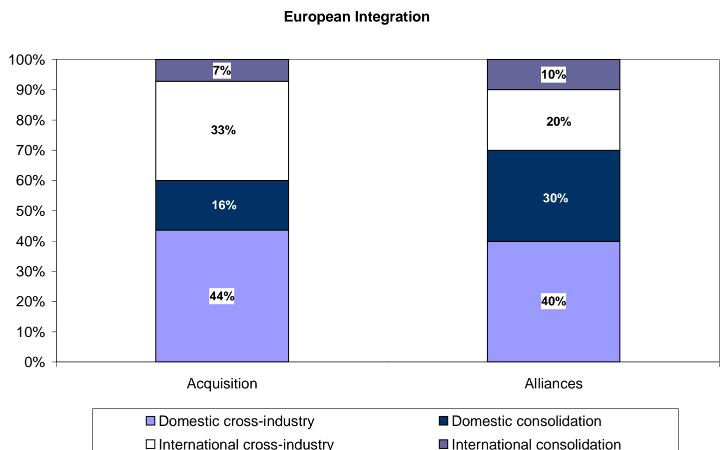
Source: Freeman & Co.

Europe—Types of merger & acquisition

European acquisitions, whether they are domestic or cross-border, aim to achieve economies of scope (cross-industry) and ultimately economies of scale by acquiring various business fields and distribution channels simultaneously.

Indeed 77% of acquisitions happen to be cross-industry transactions (insurance companies buying universal banks or universal banks (Dexia bank) buying private banking operations). This allows the acquirer to offer a wide range of investment services through multiple distribution channels/business units (asset management, wealth management, life and pension, etc).

Only 23% of acquisitions have been executed to achieve pure economies of scale (consolidation in core activity). According to our research we believe that 50% of European strategic alliances are signed to consolidate core activities and are viewed as a complementary strategy to cross-industry acquisitions. The other half of these alliances represent cross-industry partnerships to open the door for new business areas and a broader product offering. Examples of cross-industry alliances are (1) Delta Lloyd Deutshland and Shroders Plc and (2) Munich Re and Ergo Versicherungsgruppe.



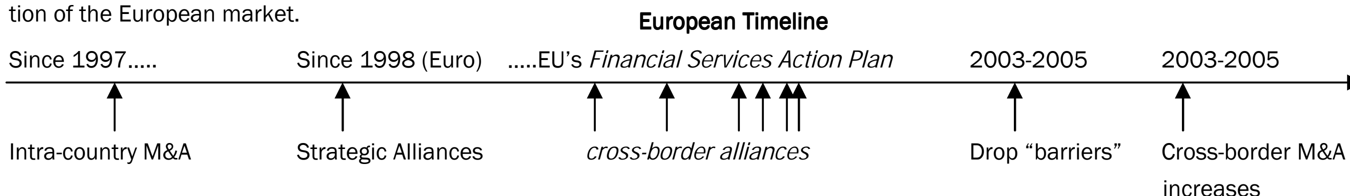
Source: Freeman & Co.

We consider cross-industry alliances without cross-selling agreements as a non-viable strategy in the long run. These cross-industry alliances, including cross-selling opportunities, can also be short lived when they lead to a situation where both parties decide to merge in order to fully benefit from the multiple synergies created by the alliance (Allianz and Dresdner Bank). This appears to be the current thought process among the European banking and insurance community.

This cross-industry trend follows the US pattern of recent years, where we have seen a proliferation of these transaction. Examples include commercial banks buying money managers (J.P. Morgan—American Century), broker dealers buying private banks (Charles Schwab—US Trust) and insurance companies buying banks (Travelers—Citibank).

Europe— Acquisition process by type of European buyer

We believe strategic alliances will be the main instrument of cross-border activity until policy-induced barriers are removed. With further cooperation between national supervisory institutions and a minimum harmonization of regulations through EU directives (e.g., takeover principles and rules) we will inevitably see mergers & acquisitions as the most important market access strategy in the future. We expect strategic alliances to continue in the short term, and on the longer term M&A should prevail as the most efficient tool for further integration of the European market.



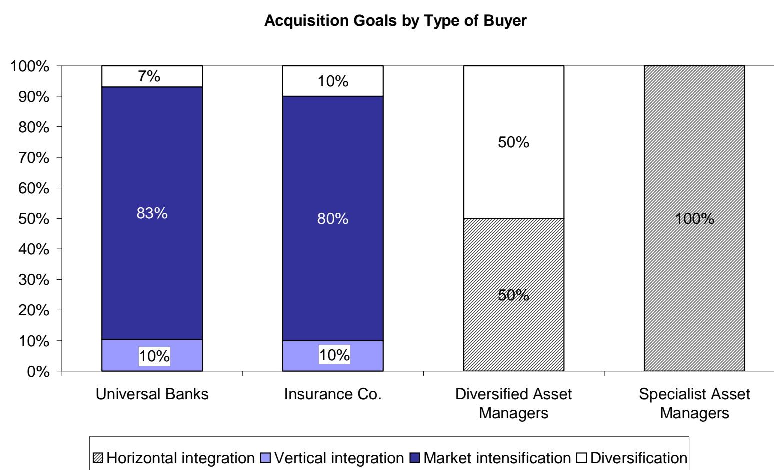
Universal Banks and Insurance Companies:

Another trend that we have seen with large financial services providers, such as universal banks and insurance companies, is the increasing exposure to a number of asset gathering businesses. Their acquisition process is set to pursue a strategy ("*market intensification*") that leads to a deeper penetration of the European saving market, which includes:

- Diversification of asset gathering related business fields
- Broad market diversification through a multinational distribution strategy.

Examples of this strategy include:

- HSBC acquired the French HNWI-focused CCF,
- Mediolanum bought the German boutique Bankhaus August Lenz & Co.



Source: Freeman & Co.

Diversified Asset Managers

Lacking the distribution capabilities that full service financial providers have, independent asset managers have focused on developing their product manufacturing skills. As far as production is concerned, our research indicates that the key issues for European investors and distributors are performance, costs and product development. These firms' acquisition strategy is therefore set to increase product diversity ("*diversification*") and to maintain profitability and strong earnings growth through consolidation ("*horizontal integration*") and a broadening of product areas. They also view product diversity beyond the traditional classifications such as active vs passive, equity vs bond or retail vs institutional. Examples of product expansion by European firms include:

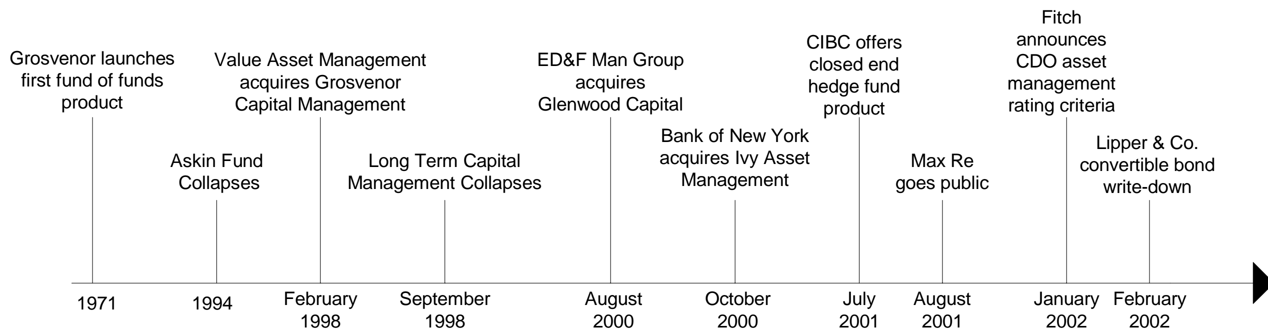
- Aberdeen Asset Management has agreed to buy the Swiss real estate specialist "Celexa" in stock and cash to double its real estate business and
- Aberdeen Asset Management bought "ESB" fund manager located in Ireland

Specialists

Specialist asset managers such as alternative investment providers tend to have a more efficient business: high management fees an efficient operating cost-structure and high operating margins. But they are considered as niche players focused on product manufacturing excellence and as such they are highly dependent on the cycles of the markets in which they operate. The key for these firms is to (1) reach critical mass, (2) gain distribution through third parties or independently and (3) diversify product revenue risk by adding related product sets. Examples of this strategy include:

- "3i" group (private equity firm) has acquired the "Bank Austria High Tech Fund" (VC fund)
- "Knorr Capital Partner " (private equity firm) acquiring "Value Management and Research AG" (money manager)

Alternative Investments—Historical Developments



We decided to take a historical perspective of the alternative investment industry to examine the effects that recent developments may have on the future of the industry. Traditionally known for their high stakes risks for sophisticated investors, such as ultra high net worth investors and foundations/endowments, hedge funds are rapidly expanding to include more retail oriented investors. The products are still out of reach for most of the population, but the minimum investments required to invest in hedge fund style product is falling due to the offering of closed end funds by certain institutions with minimum investments of $50,000.

Several major events have helped to fuel the current alternative investment boom. The bull market of the last decade created a never before seen rise in the number of millionaires and high net worth individuals across the world. Investors looking to preserve their wealth have poured money into alternative investments that are not correlated to the fledgling markets. Several developments in the alternative industry also helped to fuel the recent growth. Hedge funds had always been perceived as "risky" investments as they often require lock-up periods and $1 million minimum investments. Events such as collapses of Askin (1994), Long Term Capital (1998), and Lipper & Co. (2002) have reminded investors with a certain consistency every four years of individual manager risks.

These high profile events brought attention indirectly to hedge fund of funds, which have become popular as they provide investors an opportunity to pool their money and spread their investment across several funds (usually ranging from 8-15 managers). In return for paying a base fee, and occasionally a performance fee, investors can gain a level of diversification, due diligence, product structuring and on-going monitoring that they might not be able to achieve on their own. The hedge fund of funds also provide an advisory layer to institutional investors not comfortable investing directly into hedge funds and the fiduciary risks to which they may be exposed.

The hedge fund of fund business seemed to go mainstream in the fall of 2000 when ED&F Man Group (August) and Bank of New York[4] (October) completed acquisitions of Glenwood Capital and Ivy Asset Management, respectively. Since then, these firms have experienced rapid growth and numerous competitors began educating themselves about this product and developing market entry strategies. Most firms have chosen to pursue partnerships or internal development compared to acquisitions, although there have been a number of firms reportedly for sale. We believe two things need to occur for more M&A transactions to occur: first, more potential buyers need to understand the hedge fund of fund business, its key drivers and risks, and second, the growth rates of firms need to slow (we have seen annual AUM growth rates of 75-100%), so that fair value can be successfully negotiated.

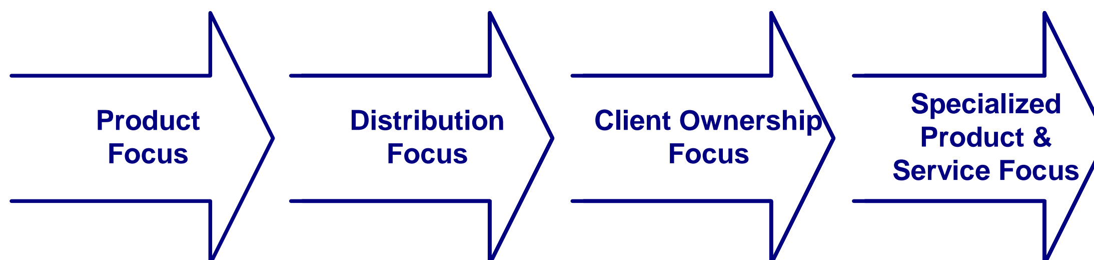
The number of new entrants to the industry has been very high (see page 9), drawing some comparisons to internet mania. The main difference is that hedge funds and fund of funds have revenue models that actually work. However, we believe that this intense competition will lead to market segmentation among participants as smaller firms may be forced to pursue niche strategies. We also caution firms from expecting to achieve the AUM growth of some larger competitors. Firms of all sizes need to find an edge, a strategic advantage or a differentiating factor to compete in this market segment. As an example of this, most of our conversations with participants or potential entrants has revolved around distribution issues.

Where does the future lead us then? We think there will be a continuation of strategic partnering, matching product providers with distribution channels. Many of these may follow our predictions for the European asset management marketplace, where alliances are precursors to acquisitions. Also, the development of a large structured product (CFO) market for hedge fund of funds may force many firms to partner or be acquired in order to have a capital source for the equity tranches, as has happened with many fixed income CDO managers.

[4] Freeman & Co. represented Bank of New York on its acquisitions of Ivy Asset Management

Alternative Investments—Lifecycle

We decided to examine the hedge fund of funds industry using a lifecycle model we first presented in our March 2000 report. At that time we presented this model as representative of the 1990's, and said that the "fourth [stage] is beginning to emerge." The hedge fund of fund business fell into this category, but now we examine the lifecycle of this business:



Product Focus

Product Focus was and is the core strength of hedge fund of fund firms; they offer an unusual product that fits investor's needs. Initial resources were generally put into developing a strong product, through research, manager contacts, proprietary models and risk management tools. Although firms all have a different methodology for product creation and management, product focus remains the key edge for firms as they present to investors.

Distribution Focus

With an increase in competition and the success of the Bank of New York—Ivy Asset Management and ED&F Man—Glenwood Capital Management transactions in raising capital, many firms have begun to focus on distribution. Rarely does the plan of "build a better mousetrap and the world will beat a path to your door" work (sometimes it does). As such, fund of funds need to make a transition to focus part of the business on distribution strategy. Not all firms will manage this well, but we believe that those who do will be well positioned for success.

We have seen a number of distribution strategies in this area. Institutional: some have followed the traditional long-only world approach and targeted the pension fund consultants. A number of issues arise here including long lead times, the educational process required and the potential that the consultant is forming its own fund of funds. Third-party marketing: we believe these have mixed success, but it can be a viable way for small funds to add marketing as a variable cost function. A big concern of ours is if the manager does not achieve a client ownership focus; that is, know the customer and not be disintermediated by the marketing relationship. Partnerships: can be very successful with the right partner, but a number of factors have to work including commitment, economics, teamwork and branding.

Client Ownership Focus

This stage has not developed yet in the fund of funds business, but may be on the horizon. It is the ability to have a relationship with your end client as a way of extending the longevity of client relationships, preventing disintermediation, cross-selling and improving profitability.

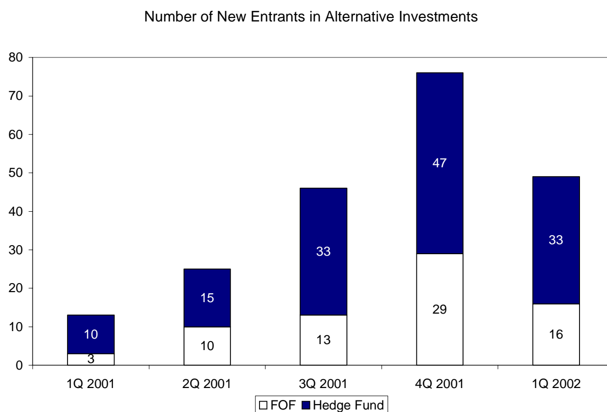
When do we think this will be a priority? It should be now, but many firms may not focus on it until they experience its negative impact, although the foundation is being laid now. As an example, mutual funds who relied on Charles Schwab's OneSource platform saw large asset outflows after the 1997 Asian currency crisis and realized then that they did not know their customers. With the proliferation of partnerships, some fund of funds may realize after the next negative event that they do not own or know their clients.

Specialized Product & Service Focus

The fund of funds industry has already reached this stage in its development, although we believe this will be a 3-5 year cycle. The first part of core product differentiation has been developing for about 18 months. We have seen this include product expansion along the risk/return spectrum (cash plus, low volatility, higher target returns), along hedge fund investment types (long/short only, diversified, arbitrage only, "new" managers) and along geographic lines (US, Asian or European Managers).

The next set of product trends are in their infancy and could lead to sizeable growth in the business and for service and support companies in the industry. These products include (1) closed-end funds, (2) structured products (CFOs), (3) reinsurance/insurance vehicles and (4) private equity hedge fund incubator business.

Alternative Investments



The number of new entrants into the alternatives investment space decreased by 36% since the 4th quarter of 2001 to 49. The decline was fueled by a 37% decrease in the number of established companies that launched new hedge fund products since last quarter. The number of individual managers (versus large companies) who started hedge funds this quarter increased by 50% over the last quarter.

Fund of funds products represented 48% of the new entrants for the first quarter, which is proportionate to the trend we have seen since Freeman & Co. began tracking new entrants in the first quarter of 2001. During this time fund of funds have accounted for 51% of the new entrants.

Although we expect the popularity of alternative investments to continue, it appears the rush to launch new products may have hit its peak in the previous quarter. Many of the large financial institutions and asset managers have already established their presence and will likely concentrate on growing the asset levels in their current funds, versus launching additional funds. However, many may try to differentiate their product suite by targeting new products such as closed end funds and structured products, but this should be concentrated among those with critical mass already.

This new level of competition leads to questions about which firms will do well in product performance and capital raising over the short and long term. The key factors for success for many firms will be brand name, distribution, product development, access to managers, intellectual creativity and critical mass. Currently, we favor the independent firms, particularly in the short term, based on their ability to focus on product management and capital raising. These firms will become differentiated as they hit $500 million, $1 billion and $2 billion AUM. Larger financial services firms entering the business will have a slow go at first as they add people and try to leverage internal distribution channels. Over the long run, the best large firms will bring advantages, like capital, structuring capabilities and distribution to eclipse smaller firms if these points can be well managed.

Alternative Investments— Allocations

1st Quarter 2002 Alternative Investments Allocation Announcements

Date	Firm	Total Assets ($MM)	% Allocation	Value of Allocation ($MM)
1/8/02	Canada Pension Plan Investment Board	7,500	1%	100
2/7/02	Pentegra Group	1,700	15%	250
3/20/02	Smith College	300	4%	13
2/11/02	Swiss Life Hedge Fund Partners	40	-	-
	Average:	**2,385**	**3%**	**121**
	Total:	**9,540**	**4%**	**363**

Firms Considering Allocations to Alternative Investments

Date	Firm	Total Assets ($MM)	% Allocation	Value of Allocation ($MM)
3/21/02	Abilene Chstian University	140	3.6	5
3/8/02	Creighton University	210	10.0	21
3/11/02	Illinois Teachers' Retirement System	22,600	7.0	1,582
3/15/02	Montana Board of Investments	9,000	1.5	135
3/22/02	Northwestern Memorial Hospital	1,300	39.0	507
2/12/02	Ohio State University	1,000	3.9	39
2/6/02	Public Policy Institute of California	190	10.5	20
3/27/02	Shelby County Retirement System	745	-	-
1/29/02	State of Michigan	47,500	3.0	1,425
2/6/02	Smithsonian Institute	-	-	670
3/8/02	Texas Tech University System	250	20.0	50
1/3/02	United States Holocaust Memorial Museum	100	5.0	5
2/15/02	University of Illinois Foundation	800	5.0	40
1/24/02	University of Memphis	170	10.0	17
3/6/02	University of Wisconsin	300	10.0	30
2/22/02	Virginia Retirement System	44,000	-	-
	Average:	**8,554**	**9.9**	**325**
	Total:	**128,305**	**-**	**4,546**

Source: Freeman & Co.

Another $363 million of alternative investment allocations were announced during the 1st quarter of 2002, with an average allocation of roughly 3.8%. This allocation percentage is in line with our past research of 2-6% from 2001.

We continue to see a strong institutional pipeline demand for alternative investments. During this quarter, funds totalling $128 billion are considering allocations to alternative investments, with an estimated allocation totalling $4.5 billion AUM. At an estimated average return of 15%, this adds roughly 400 basis points of revenue, or $180 million, to the hedge fund industry. We believe a large percentage of these allocations will flow into fund of funds, primarily the larger firms.

Up until now, we have not seen large allocations from insurance companies, but this may change in the near future. The CFO (collateralized fund obligation) product sponsored by Investcorp Management has targeted three tranches of debt including AAA ($250MM), A ($65MM) and BBB ($50MM) that would allow insurance companies and other investors to indirectly allocate assets to the hedge fund class. These CFOs would also help to educate investors about the hedge fund asset classes, and perhaps lead to future direct allocations.

Alternative Investments— Entry Strategies

In the first quarter of 2002 there were eight strategic partnerships involving alternative investment managers. Since Freeman & Co. began tracking these relationships in the beginning of 2000, this is the most activity we have seen in any quarter. Although joint ventures and alliances rarely seem to be a big success in the long-only world, they continue to be a popular choice for entry into the alternative investment industry. In fact, four of the five asset management joint ventures Freeman & Co. tracked in the 1st quarter of 2002 involved alternative investment products. We believe alliances and joint ventures have a higher chance for success in the alternative area than in the long-only world. Our reasoning is that the higher fees in hedge funds allow firms to reach critical mass in revenue with a much lower asset base than in the traditional world. For example, a fixed income arbitrage firm with a 1% base and 20% performance fee would earn 400 basis points of revenue at a 15% return. In contrast, a traditional fixed income manager may earn 40 basis points. We believe these economics will allow alternative partnerships to reach revenue critical mass earlier and to provide a high level of incentives for the key people and firms involved.

1st Quarter 2002 Alternative Investment Transactions

Month	Year	Partner 1 / Target	Partner 2 / Acquirer	Details	Ownership %
1	2002	Focus Group Ltd	Brownstone Advisors	JV - Fund of Funds	
1	2002	Goodwood Inc	KBSH Capital Management	JV - Hedge Funds	
1	2002	Hedge Funds Ltd.	Suncorp-Metway Ltd.	Acquisition - Hedge Funds	50
1	2002	Saks MedScience Fund	Ladenburg Thalman & Co	Alliance - Hedge Funds	
1	2002	Solaris Capital Advisors	J. Goldman & Company	JV - Hedge Funds	
3	2002	LJH Global Investments, LLC	Attica Portfolio Management	JV - Fund of Funds	
3	2002	LJH Global Investments, LLC	Phoenix Investment Partners	Alliance - Fund of Funds	
3	2002	Transtrend B.V.	Robeco Group NV	Acquisition - Hedge Funds	49

Source:Freeman & Co.

Another trend that has surfaced is one of non-exclusive partnerships. An example is Florida-based LJH Global Investments which was involved in two strategic partnerships during the first quarter: a joint venture to produce fund of funds with Attica Portfolio Management and a fund of funds alliance with Phoenix Investment Partners. These two partnerships were LJH's second and third in the last 6 months after announcing a plan to co-manage a fund of funds with Caprock Capital Advisors in October. Phoenix has also announced multiple alternative investment partnerships recently; aside from the LJH arrangement, Phoenix announced in June of 2001 that they had teamed with Arden Asset management to develop and distribute fund of funds to Phoenix's client base.

Several established firms launched new alternative products in the first quarter, including Allianz, OppenheimerFunds and GAM. OppenheimerFunds and their recent acquisition (Tremont) launched the first of their highly-publicized closed end funds at the end of February. The success of closed end funds will rely on retail investors' understanding of, and desire for hedge fund product and the performance of the funds, which are generally burdened with above average fees, including management and underwriting fees.

Fund of Funds Activity

Date	Firm	New Firm / Fund	Notes
2/13/02	Allianz Hedge Fund Partners		Allianz Hedge Fund Partners launched three fund of funds
2/8/02	Archery Capital	Helios	Archery Capital recently kicked off its first domestic fund of funds
3/5/02	Barclays Global Investors		Barclays Global Investors launches a "high octane" version of popular market neutral fund
1/15/02	Baron Advisors	Landmark Value Strategies	Baron Advisors plans new offshore fund of funds
2/15/02	Global Asset Mgmt	GAM Global Multi-Alpha	GAM is launching its first Swiss fund of funds at the end of the month
2/7/02	GNI Fund Mgmt Ltd	GNI Global Strategies III Fund Ltd	GNI launched a capital guaranteed fund with a seven year maturity
3/12/02	Investec Asset Mgmt	Investec Global Opportunity Income Fund of Funds	Investec rolls out offshore fund of funds for South African investors
2/1/02	Meyerhoff Investment Holdings		FOF based on the $100 million-plus hedge fund portfolio of the Meyerhoff family
1/31/02	Montrusco Bolton Investments	Montrusco Bolton Focus Global Fund Ltd	Launching a FOF open to Canadian investors
3/15/02	Taurum Capital Partners LLC		Taurum opens fund of funds using in-house sector funds
2/6/02	Waters Associates Inc	Sonata Multi-Strategy Fund LP	Will launch a second fund to mimic Sonata, but leverages 2 or 3 times
2/5/02	Yankee Advisers LLC	Yankee Eagle Fund LP	Yankee Advisers has launched its second fund of funds

Hedge Fund Activity

Date	Firm	New Firm / Fund	Notes
2/11/02	AXA Rosenberg Investment Mgmt		Axa-Rosenberg to offer pan-European market-neutral strategy
3/7/02	DA Capital	DA Long/Short Equity	Former INVESCO executives launch a hedge fund
2/14/02	Decision Capital Mgmt LLC	Decision Strategy Fund LP	DCM launched its first hedge fund with a top-down analytical approach
2/12/02	Enhanced Alpha Mgmt LP	Enhanced Alpha Fund LP	Enhanced Alpha Management launched a new hedge fund
3/1/02	Goodnow, Gray & Co.	Old Kings Capital LP	Offering a long/short equity fund aimed at institutional investors
3/20/02	IKOS	IKOS LP	IKOS has slated to launch a multi-class feeder fund to allow for US investment
1/16/02	J&W Seligman & Co.	Seligman Technology Spectrum LP	J&W Seligman opens first hedge fund to external investors
2/6/02	KBC Alternative Investment Mgmt Ltd	KBC Convertible Opportunities Fund	KBC is broadening its convertible arbitrage strategy with a second fund
2/19/02	Klesch & Co.	Klesch European Distressed Fund	Launching its first hedge fund with a focus on a growing European distressed market
3/11/02	Landmark Partners	Landmark Equity Partners XI LP	The fund will purchase venture capital, buyout and mezzanine stakes globally
1/2/02	Lee Munder Capital Group	MedScience Partners LP	Launched its third hedge fund with assets garnered from friends and family
2/27/02	Mikros Ecnomics	Mikros Economics LLC	Managed futures veteran Mikros readies SEC-registered hedge fund
1/23/02	Millrace Asset Group		Millrace focuses on small-cap equity in first hedge fund
2/25/02	OppenheimerFunds	Oppenheimer Tremont Opportunity Fund LLC Oppenheimer Tremont Market Neutral Fund LLC	Launching two closed end funds with a $50,000 minimum investment
3/7/02	Orn Capital	European Value Event Fund	Orn Capital rolls out European fund
2/27/02	Quest Investment Mgmt LLC	Quest Global Convertible Fund Ltd	Global convertible fund seeks active returns
1/10/02	Scottwood Capital Mgmt		Scottwood launches an onshore and offshore hedge fund
2/14/02	Summers Fund Mgmt	Proximo Fund	Summers Fund Management is gearing up to kick off its first hedge fund
1/15/02	Viewpoint Investment Partners	High Point Offshore Ltd	Viewpoint launched its first offshore fund
1/16/02	Whitebox Advisors	Whitebox Hedge High Yield Fund	Whitebox Advisors added a new fund
2/20/02	Whiteford Advisors LLC	Symmetry International Ltd	Whiteford launched its fourth hedge fund that will focus on the consumer sector

Source: Freeman & Co., Hedgeworld.com, InvestorForce.com, Financial Times

Alternative Investments—Index Performance

The recent collapse of the Lipper & Co. convertible arbitrage fund highlights the risks of hedge fund investing. While the write-down the fund took in February was probably the result of an operational risk failure—mispricing of securities without appropriate checks and balances—it also had a great impact on hedge fund performance indexes.

The CSFB/Tremont index has kept its official performance as inclusive of Lipper's performance. This has three effects on the development of indexes and related businesses. First, it shows the underlying problems of creating these indexes and the potential for errors that are cumulative in nature. Second, a loss that can be hidden, whether in Lipper & Co. or Allied Irish Banks, can have ripples that affect the ability to create investible cash indexes. A potential liability arises for the investor who withdrew its assets in January and the new investor that added assets in February. Has the NAV been fraudulently calculated in January and February, and are investors due compensation for any losses in an investible cash index? What type of result will this have for businesses like CSFB/Tremont and Zurich Capital markets that have created investible cash indexes. Third, these index results will negatively impact Wall Street's ability to create derivative structures (options, swaps, futures) off hedge fund indexes. Risks in the creation and calculation of these index returns undermines confidence in building new businesses that rely upon them. The good news is that the issue has surfaced now, and the Street can create solutions before building these derivative businesses.

CSFB/Tremont Convertible Arbitrage Index Returns

	Feb-02	Mar-02
with Lipper	-3.2%	-0.02%
without Lipper	0.0%	0.4%
Difference	**3.2%**	**0.42%**

Source: CSFB/Tremont

Freeman & Co. Notes & News

1. Freeman & Co. is co-sponsoring a conference in New York on November 18 and 19: US-EU Investment Fund & 3rd Party Distribution Summit. This will cover both traditional and alternative investments. Please see our partner's website for more information: www.mgi-direct.ch
2. In our January report, we incorrectly reported a 6.3% return for the Ivy Asset Management Defenders Fund LP in 1999. This was the return for the second half of 1999 only.

US Public Money Managers—Valuations

				4/30/02	Last 12 Months							
	Avg, AUM $Bil.	Enterprise Value (EV) [1]	Market Cap $MM	Share Price	Revenue	EBITDA [2]	EBIT [3]	Core Net Income [3]	EV/ EBITDA [2]	EV/ EBIT [3]	Price/ Core Income [3]	Price/ TTM Income
Diversified												
Blackrock (BLK)	228.7	2,991	2,991	$46.00	545.5	186.2	178.2	110.4	16.1x	16.8x	27.1x	26.4x
Eaton Vance (EV)	55.4	2,306	2,306	$36.53	381.5	148.4	148.4	99.3	15.5x	15.5x	23.2x	23.9x
Federated Investors (FII)	170.4	4,465	3,830	$32.06	726.4	338.8	320.6	194.3	13.2x	13.9x	19.7x	21.4x
Franklin Resources (BEN)	263.8	11,585	10,987	$41.90	2,457.6	554.7	509.4	354.7	20.9x	22.7x	31.0x	24.9x
Gabelli (GBL)	24.7	1,230	1,223	$39.00	224.1	106.1	106.1	67.2	11.6x	11.6x	18.2x	19.9x
Neuberger Berman (NEU)	57.8	3,286	3,138	$43.45	618.6	241.8	227.8	131.7	13.6x	14.4x	23.8x	23.8x
SEI Investments (SEIC)	77.6	3,904	3,864	$33.69	655.9	192.2	192.2	119.5	20.3x	20.3x	32.4x	29.7x
Stilwell (SV)	194.4	5,284	4,771	$21.36	1,435.5	609.1	485.6	261.1	8.7x	10.9x	18.3x	16.6x
T Rowe Price (TROW)	153.8	4,602	4,532	$35.07	989.2	362.5	340.8	199.6	12.7x	13.5x	22.7x	22.7x
Waddell & Reed (WDR)	31.9	2,333	2,133	$25.75	472.6	186.2	175.3	98.7	12.5x	13.3x	21.6x	21.0x
Total	***1,258.5***	***$41,987***	***$39,775***		***$8,507***	***$2,926***	***$2,684***	***Average***	***14.5x***	***15.3x***	***23.8x***	***23.0x***
								Median	***13.4x***	***14.2x***	***23.0x***	***23.3x***
Insurance												
John Nuveen (JNC)	66.9	2,705	2,681	$58.00	378.0	201.7	193.6	117.2	13.4x	14.0x	22.9x	23.0x
Total	***66.9***	***$2,705***	***$2,681***		***$378***	***$202***	***$194***		***13.4x***	***14.0x***	***22.9x***	***23.0x***
Consolidators												
Affiliated Managers (AMG)	75.3	1,765	1,449	$63.60	427.1	193.9	166.7	113.6	13.8x	17.6x	30.6x	27.6x
Total	***75.3***	***$1,765***	***$1,449***		***$427***	***$194***	***$167***		***13.8x***	***17.6x***	***30.6x***	***27.6x***
Bank/Trust Companies												
Boston Private Fincl. (BPFH)	6.2	542	542	$26.85	98.6	31.8	30.7	22.1	17.1x	17.7x	24.5x	58.2x
Wilmington Trust (WL)	36.8	2,254	2,088	$63.14	477.9	200.0	193.8	126.1	11.3x	11.6x	16.6x	16.6x
Total	***43.0***	***$2,796***	***$2,630***		***$576***	***$232***	***$224***	***Average***	***14.2x***	***14.6x***	***20.5x***	***37.4x***
								Median	***14.2x***	***14.6x***	***20.5x***	***37.4x***
Limited Partnerships												
Alliance Capital L.P. (AC)	444.8	12,309	11,679	$46.01	2,971.0	832.3	697.6	630.2	14.8x	17.6x	18.5x	18.5x
Total	***444.8***	***$12,309***	***$11,679***		***$2,971***	***$832***	***$698***		***14.8x***	***17.6x***	***18.5x***	***18.5x***
Overall												
Total	***1,888.5***	***$61,562***	***$58,214***		***$12,859***	***$4,386***	***$3,967***	***Average***	***14.4x***	***15.4x***	***23.4x***	***24.9x***
								Median	***13.6x***	***14.4x***	***22.9x***	***23.0x***

Notes
1 Enterprise Value (EV) includes equity plus long term debt
2 Before tangible depreciation and amortization
3 Excludes extraordinary items and minority interest expense/income

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