Issue 11
2nd Half 2004

February 28, 2005

Asset Management Focus
Freeman & Co. LLC

Inside this Issue:

Indices at 12/31/04:

DJIA	10,783
Nasdaq	2,175
S&P 500	1,212
FTSE 100	4,814
10 Year US Treasury Bond Yield	4.22%
Dollar to Euro	$1.36

A Slow Year, Focused on Repositioning

Deal activity in 2004 started out strong, but slowed down in the second half of the year. Smaller "fill-in" acquisitions continued to dominate, but there were some large deals in the second half. The motives behind the larger deals varied, but many were divestitures of non-core activities or unsuccessful prior acquisitions. While we expect some large deals to be announced in 2005, we believe smaller acquisitions of specialist firms will continue to drive acquisition activity as companies refine their strategies and market positions.

Performance as of December 31, 2004

Index	Total Return 4Q 2004	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	9.2%	10.9%	3.6%	-2.3%
NASDAQ	14.7%	8.6%	3.7%	-11.8%
FTSE 100	5.3%	7.5%	-2.6%	-7.0%
LBGC*	0.1%	4.2%	6.6%	8.0%
HFRI FoF**	5.3%	8.9%	8.7%	7.1%
CSFB/Tremont***	5.6%	9.6%	9.3%	7.4%

**Lehman Brothers Govt./Credit Index ** Hedge Fund Research Institute Fund Weighted Composite ***CSFB/Tremont Hedge Fund Index*

Summary:

- 2004 saw 148 acquisitions, a 12% decline from 169 acquisitions in 2003.
- Global assets acquired have declined every year for the last five years. Total AUM acquired in 2004 was $406 billion, an 11% decline from $457 billion in 2003, and less than one-fourth of $1,710 billion transacted in 2000. The US saw the most activity, both sell-side and buy-side, with Europe experiencing a significant slowdown. Asian acquisition and JV activity picked up in 2004.
- Acquisitions continue to be small with an average AUM of $2.7 billion and median AUM of $1.5 billion, although there were several larger deals in the second half. Over 60% of all acquisitions in 2004 involved companies with less than $500 million in AUM, and there were only 10 transactions involving companies with over $10 billion in AUM (with seven announced in 2H04).
- Motivations for large deals varied, from regulatory issues to divestitures to focus on core activities. Some observers expect this trend to continue into 2005, reflecting the hot start of M&A activity in 2005 generally. However, the idiosyncratic nature of large deals in 2004 does not necessarily point to a significant new trend towards large acquisitions in asset management.
- Alternative investments was the only sector within the asset management industry that experienced a significant increase in deal activity in 2004, reflecting the continuing theme of convergence among alternative asset classes. Most other sectors experienced modest increases or significant declines.

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Deal Activity

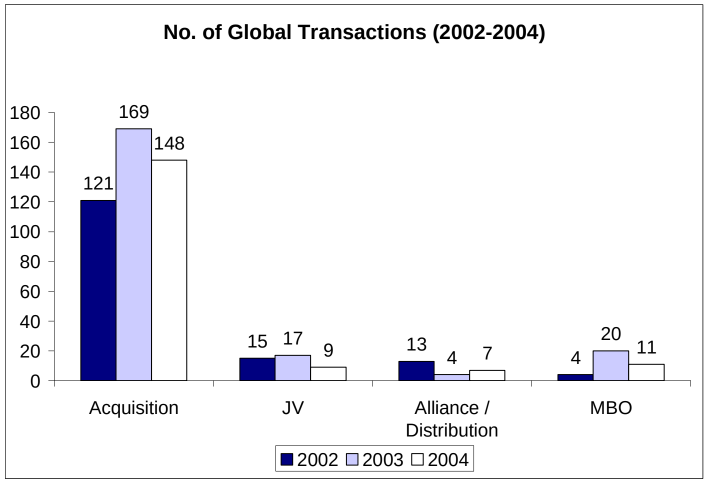
Transaction activity in 2004 was down from 2003, overall and in most sub-sectors. The slowdown occurred in the second half of the year after a robust first half. The decline is not surprising given the slower than expected economic growth both in the US and globally, high oil prices, currency fluctuations, expectation of higher interest rates in the US and inflationary pressures – all factors that contribute to pessimism in the financial markets and suppress buyers' desires to spend heavily on acquisitions.

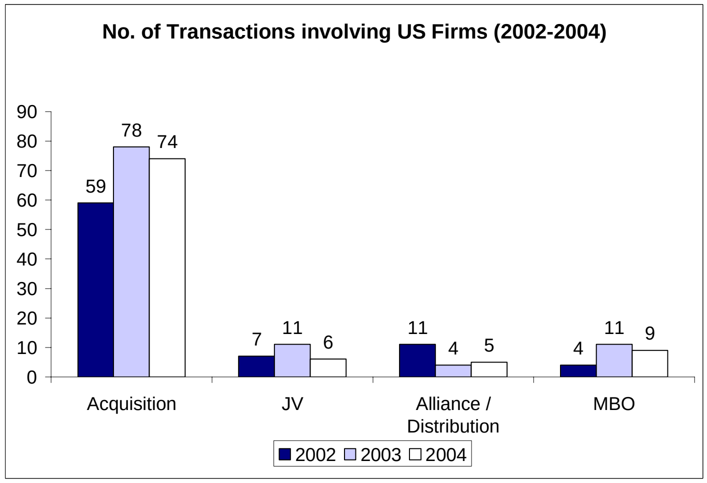
There were 148 acquisitions in 2004, a 12% decline from 169 acquisitions the previous year. There were only 69 acquisitions in 2H04, a 13% decline compared to 79 acquisitions in 1H04 and almost 30% fewer than the 97 completed in the second half of 2003. There were only 30 acquisitions in 4Q04 compared to 39 in both 3Q04 and 2Q04. However, acquisition activity for 2004 overall was actually in line with a five-year average (144 acquisitions). The spike in 2003 may to some extent reflect deals that started in prior periods, but were not announced until 2003.

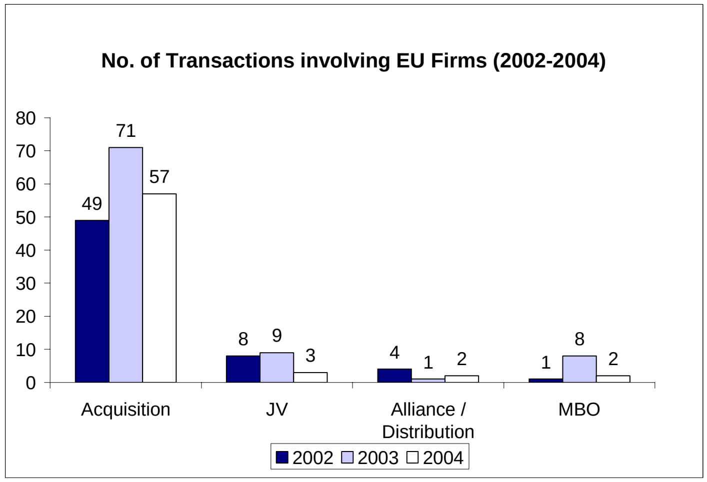
The proportion of cross-border acquisitions involving European companies increased slightly from 2003. Out of 57 acquisitions involving European firms, 22 or 39% involved a non-European counterparty. This compares with only 24% in 2003.

As with acquisitions, the number of strategic partnerships (JVs, alliances, and distribution arrangements) also declined in 2004 compared with 2003. Only 16 strategic partnerships were announced in 2004 compared to 21 in 2003.

MBO activity saw a trend reversal this year. An increase in MBO activity, which started in 2003 and continued into the first half of 2004, did not materialize in the second half of the year. Only 2 MBOs were announced in 2H04 compared to 9 in 1H04. The total number of MBOs for the year was just over half that of 2003. Several of 2003's and 1H04's MBOs occurred as a result of failed company sales that were initiated a year or so before. When these deals didn't go through, it gave management opportunities to acquire their companies at attractive valuations. It is hard to say whether the decline in MBO activity is the result of a decline in unsuccessful deals, valuation issues, financing concerns, or other factors.

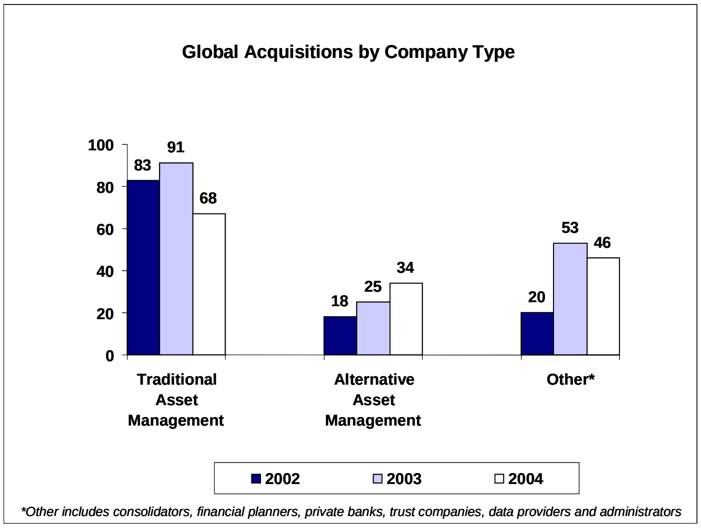






Source: Freeman & Co.

Transactions by Company Type



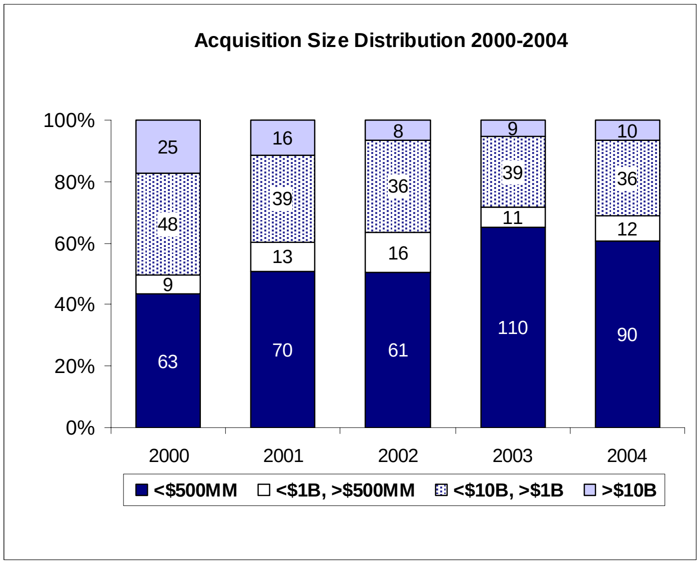
Source: Freeman & Co.

Acquisition activity in 2004 slowed down significantly for traditional asset management companies. Alternatives continued to be hot, with the number of alternative acquisitions increasing by nearly 40% for the second straight year. With alternative products gaining acceptance as "mainstream" products (despite generally disappointing performance in 2004 for many classes), buyers are keen to add these products.

Recognizing the importance of having an alternative product capability, several large institutions acquired alternative firms in 2004. Examples include JP Morgan's acquisition of a 55% stake in Highbridge Capital Management, one of the largest hedge fund complexes with approximately $7 billion in AUM, and BNP Paribas' acquisition of the Javelin hedge fund of funds from Zurich Capital Markets.[1] In addition, alternative acquisitions this year continued to reflect the trend towards convergence among alternative asset classes (HFOF, private equity, hedge funds, structured products, real estate, etc.) as alternative firms become more diversified. A notable example of convergence in alternatives is Hamilton Lane's[2] acquisition of a controlling stake in Richcourt Group, a HFOF manager, from Citco. Hamilton Lane manages private equity fund of funds portfolios, and its acquisition of Richcourt marks its first entry into the hedge fund space diversifying both its product offering and client base. Our recent research report *Convergence in Alternatives* dated November 29, 2004 explores the trends and reasons for these alternative acquisitions in more detail.

Among "Other" firms acquired, there were fewer acquisitions of fund administrators and private bank/private client firms this year than in 2003, while acquisitions of financial planning firms and trust companies increased slightly as buyers continue to build their HNW businesses. Acquisitions of outsourcing/third party service providers increased slightly as well.

Deal Size



Source: Freeman & Co.

Small deals continued to dominate this year as buyers pursued product or distribution fill-ins. Approximately 60% of all acquisitions in 2004 involved companies with less than $500 million in AUM. However, as a percentage of total deals, this number decreased slightly compared with 2003. The second half of 2004 saw a pick up in the number of large acquisitions, with over twice as many $10+ billion companies acquired in the second half of the year as in the first (7 vs. 3). The largest deal of the year was BlackRock's purchase of State Street Research and Management from MetLife, announced in August. Approximately half of State Street's $52 billion in AUM are in equities and real estate, helping BlackRock diversify away from fixed income into equities and hedge funds. We believe 2005 will also see a large number of small deals as convergence in alternatives continues, hedge fund M&A picks up (see our report *Are Hedge Fund M&A Deals a Sustainable Trend?* dated January 3, 2005), and buyers continue to fill products gaps. However, we also expect to see some large deals driven by divestitures of non-core or unsuccessful asset management subsidiaries of large financial institutions.

[1] Freeman & Co. acted as a financial advisor to Zurich Capital Markets.
[2] Freeman & Co. acted as a financial advisor to Hamilton Lane.

Assets Acquired by Seller Region

Assets Acquired by Seller Region by Year ($MM)

Region	2000	2001	2002	2003	2004
Africa	28,900		11,700	974	4,500
Asia	28,802	26,842	6,797	12,683	22,765
Canada	43,181	48,152	33,830	14,040	5,506
Europe	667,646	115,454	311,294	187,496	91,264
South America	2,122	2,047	3,683	7,890	6,432
US	939,624	654,901	113,641	233,620	275,584
Total	**$1,710,275**	**$847,396**	**$480,944**	**$456,704**	**$406,051**

Acquisitions	145	138	121	169	148
Average Size	11,795	6,141	3,975	2,702	2,744
Median Size*	2,000	1,572	1,300	1,155	1,500

**Median deal size calculated using only deals with reported AUM*

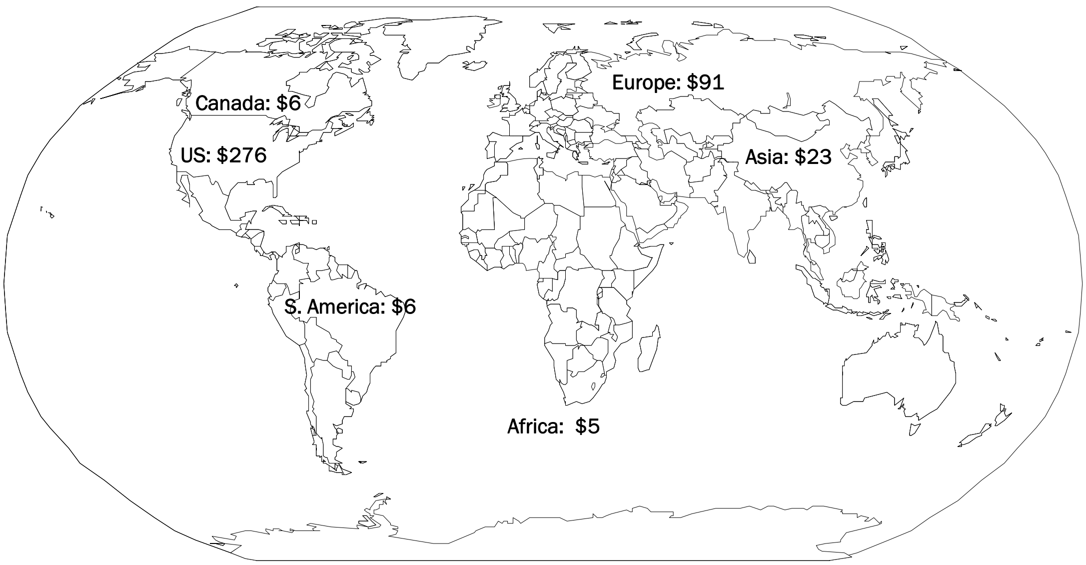
Source: Freeman & Co.

Total AUM acquired globally has been falling steadily for the last five years. In 2004, total AUM acquired fell by 11% compared to 2003. Average and median deal sizes were closer in 2004 than they have been in years, indicating fewer outliers. The median deal size of $1.5 billion was 30% higher than in 2003 while the average deal size was in line with the 2003 level.

2004 saw a pickup of Asian acquisitions, both in number of deals and assets acquired. There were 24 Asian acquisitions in 2004 compared to 20 in 2003, a 20% increase. While still not quite at 2000 or 2001 levels, AUM of Asian sellers increased by almost 80% this year, with average deal size up 50% from a year ago. We believe this reflects the growing importance of Asia as a strategic location for buyers, who are rushing to gain access to Asian distribution channels through acquisitions. In addition, companies like AIG and HSBC joined others like JP Morgan and ABN AMRO in creating joint ventures with asset management firms in China. Foreign institutions are currently barred from entering the market without a Chinese partner; therefore, a joint venture with a local company is the only way to gain access to the world's sixth-largest economy and its $1.4 trillion in household savings.

Assets acquired in Europe dropped by over 50% in 2004 as European firms focused on strategic re-positioning while US firms did not acquire large European players. Acquisitions of Canadian targets also declined. The US and Africa were the only two other regions with increased seller AUM activity in 2004.

Assets Acquired by Seller Region ($ billions)



Source: Freeman & Co.

Assets Acquired by Buyer Region

Assets Acquired by Buyer Region by Year ($MM)

Region	2000	2001	2002	2003	2004
Africa	33,576		11,700	974	22,880
Asia	9,174	1,802	6,461	10,313	985
Canada	8,072	47,926	36,820	23,430	2,006
Europe	870,139	537,727	216,991	110,666	46,423
South America	122	3,447	885	4,670	
US	789,193	256,495	208,088	306,650	333,758
Total	**$1,710,275**	**$847,396**	**$480,944**	**$456,704**	**$406,051**

No. of Acquisitions	145	138	121	169	148
Average Size	11,795	6,141	3,975	2,702	2,744
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**Median deal size calculated using only deals with reported AUM*

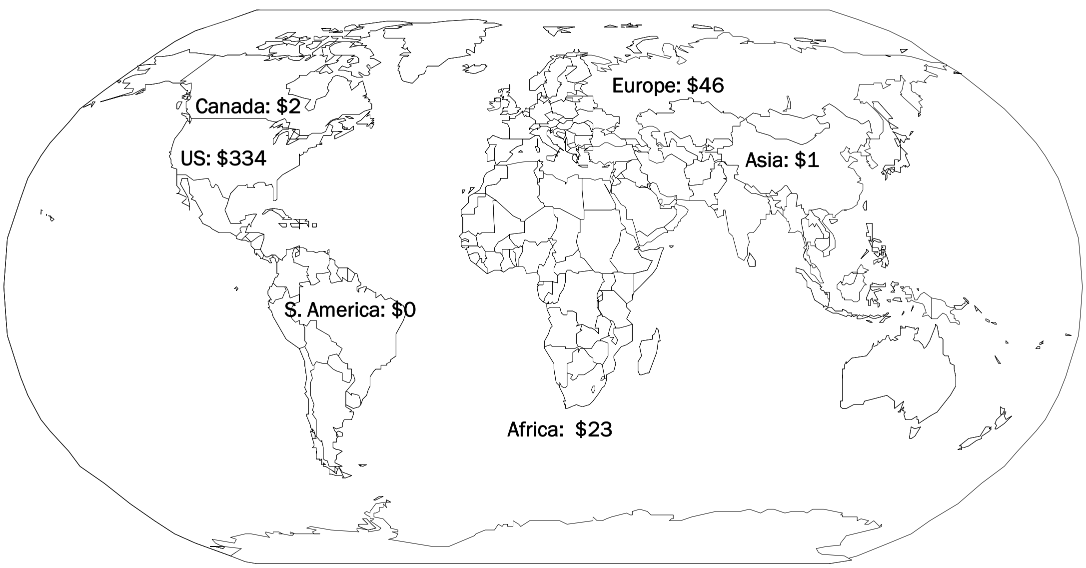
Source: Freeman & Co.

The US was the most active buyer this year, acquiring $334 billion or 82% of the total global AUM transacted. This is the highest concentration of buying activity by a single region in the last five years. In comparison, last year US acquired 67% of the global AUM transacted, while in 2001 Europe acquired 63%. In addition, for the third straight year, US was a net buyer, with a "net buy" of approximately $58 billion. This tremendous buying concentration by US firms reflected not only an increase in the US buying activity, but also a much bigger buying slowdown in other regions, and occurred despite continuing weakness in the US dollar.

Europe has been a net seller for the last three years, with AUM sold exceeding AUM acquired by $45 billion in 2004. AUM acquired by European buyers in 2004 was less than half that of 2003 and the lowest it has been in the last five years. Several factors contributed to the slowdown of European buying activity:

- Relatively high valuations for asset management businesses.
- Increasing cautiousness about the long-term prospects of asset management businesses in Europe due to slow pension reforms and slower than expected economic growth.
- Focus by large European institutions on integrating prior acquisitions and re-defining their long-term strategies.

Assets Acquired by Buyer Region ($ billions)



Source: Freeman & Co.

US Companies Acquired in 2004

Acquisitions of U.S. Firms with over $1B in AUM in 2H04

Month	Target	Acquirer	Total Deal AUM ($MM)
8	State Street Research	BlackRock Inc.	$ 52,000
7	Pareto Partners	Mellon Financial Corporation	38,000
10	Alliance Capital's Cash Mgmt. Bus.	Federated Investors	29,000
7	PanAgora Asset Management Inc.	Putnam Investments	16,000
11	AQR Capital Management	Affiliated Managers Group	12,000
9	Highbridge Capital Management	JP Morgan Chase	7,000
10	FI Portfolio Team of TimesSquare Capital	Bear Stearns Asset Management	6,000
11	Four Scudder Investment Offices	Legg Mason, Inc.	5,800
9	Growth-Stock Business of TimesSquare Capital	Affiliated Managers Group	5,000
10	Delta Asset Management	Berkeley Capital Management LLC	4,000
8	Safeco Mutual Funds	Pioneer Asset Management	3,600
10	Columbus Circle Investors	Principal Global Investors LLC	3,000
7	Fremont Investment Advisors	Affiliated Managers Group	3,000
7	Core / Core plus and High Yield FI Business of Pareto Partners	MacKay Shields LLC	3,000
9	Tanager Financial Services Inc.	Wachovia Corp.	2,000
9	Oak Ridge Investments LLC	Pioneer Asset Management	1,500

Source: Freeman & Co.

As we discussed in our *Asset Management Focus* for the first half of 2004, there were few large acquisitions in 1H04, and nearly all were in the second quarter. The pace picked up in the second half with five acquisitions involving US targets with over $10 billion in AUM. The largest, BlackRock's acquisition of State Street Research, represents a strategic entry by a major fixed income player into equities through a large acquisition – the type of strategic motivation we traditionally associate with large deals. From the point of view of the seller, however, the sale of State Street Research represents a return to a focus on its core activities. MetLife continues its exit from the money management business, having sold Conning Corp. to Swiss Re in 2001 and its 48% stake in Nvest LP to CDC in 2000. MetLife has returned its focus to insurance, recently announcing the acquisition of Travelers Life & Annuity from Citigroup. The purchase will make MetLife the largest individual life insurer in North America.

Other significant asset management transactions involving insurance companies in the second half of 2004 included:

- Mellon's acquisition of 70% of Pareto Partners' currency management business and global fixed income business, with total AUM of approximately $38 billion. Prior to the transaction, Mellon owned 30% of Pareto, with the remainder split between employees (40%) and XL Capital (30%). Mellon acquired the 70% of the business it didn't already own, and XL exited its investment. In a separate transaction, Pareto sold its core/core plus and high-yield fixed income asset management business with $3 billion in AUM to MacKay Shields LLC, a unit of New York Life.

- Putnam Investments' acquisition of Nippon Life Insurance's 30% stake in PanAgora Asset Management, a quantitative investment manager with approximately $16 billion in equities and fixed income. Prior to the transaction, the ownership was divided equally between Putnam and Nippon Life. Putnam increased its stake to 80%, and Nippon Life will retain a 20% interest in the company and will continue to market PanAgora's products in Japan.

Other notable transactions of the second half of the year included:

- Federated Investors' acquisition of Alliance Capital's cash management business, solidifying its position as one of the largest money market fund managers in the country.

- AMG's acquisition of a stake in AQR Capital Management, a quantitative investment management firm with long-only and hedge fund products. As discussed on page 7, this transaction represents a departure for AMG from their typical transaction structure.

- JP Morgan's acquisition of Highbridge Capital Management, one of the largest hedge fund complexes in the world. This acquisition raised a number of questions regarding hedge fund M&A, and we believe more acquisitions of this type will follow. (See our report *Are Hedge Fund M&A Deals a Sustainable Trend?*)

European Companies Acquired in 2004

Acquisitions of E.U. Firms with over $1B in AUM in 2H04

Month	Target	Acquirer	Total Deal AUM ($MM)
11	Barings Asset Mgmt	MassMutual Financial Group	$ 32,000
12	Rensburg	Investec PLC	18,380
7	Credit Agricole Indosuez Private Banking Italy	Banca Intesa	1,730
11	Richcourt Group	Hamilton Lane	1,500
7	Credaris Port. Mgmt. GmbH	HSH Nordbank AG	1,200

Source: Freeman & Co.

The largest European transaction, announced in November, echoed the theme of the largest US transaction – divestiture to focus on core activities. ING Group announced its sale of Baring Asset Management in separate transactions to US groups MassMutual and Northern Trust. MassMutual will buy the $32 billion investment management business of Baring Asset Management, while Northern Trust will buy the Financial Services Group (providing fund administration, custody, and trust services with approximately $63 billion in assets under administration). MassMutual's acquisition will enable its Babson Capital Management subsidiary, to distribute their US products through the Barings sales force.

Multiple Buyers in 2004

Multiple buyers accounted for over one-third of the deals and 42% of the AUM transacted this year, with several familiar buyers appearing on the list. Mellon was the most active acquirer, announcing five acquisitions totaling approximately $44 billion in AUM, or 11% of the global AUM acquired. In addition to its stake in Pareto, Mellon also made several acquisitions to grow its wealth management business:

- Evaluation Associates, a $4.5 billion manager of HFOF and long-only products for pension funds, endowments, and HNW individuals, to gain expertise in alternative investments.
- Three HNW firms, Safeco Trust, Paragon Asset Management, and Providence Group Investment Advisory, to gain access to local distribution channels.

Companies that made Multiple Acquisitions in 2004

Acquirer	Number of Acquisitions	Total Deal AUM ($MM)
Mellon Financial Corporation	5	$ 43,850
Affiliated Managers Group	4	27,000
UBS AG	4	15,717
Bear Stearns Co.	4	6,780
BNP Paribas SA	4	1,657
MassMutual Financial Group	3	37,920
Principal Financial Group, Inc.	3	16,000
Banco Espirito Santo SA	3	919
First Republic Bank	3	660
Jovian Capital Corporation	3	550
J.P. Morgan Chase & Co.	2	7,000
Pioneer Asset Management	2	5,100
Societe Generale SA	2	2,700
Wachovia Corporation	2	2,000
AGF Management Ltd.	2	1,456
Milton Corporation Limited	2	7
Deutsche Bank AG	2	1

Source: Freeman & Co.

Affiliated Managers Group also made multiple acquisitions this year including two unusual ones:

- AMG purchased a minority stake in AQR Capital Management, a $12 billion quantitative manager with $6.5 billion in hedge fund products. In addition to being AMG's first transaction involving an affiliate specializing in alternative investment products, this acquisition was also unusual in that instead of buying a majority stake in the business as it typically does, AMG acquired a minority stake. AMG did retain certain minority protections, but the deal does not involve puts and calls for the minority stake. Otherwise, the transaction was reflective of AMG's typical deal structure.
- We talked about AMG's acquisition of Genesis Holdings, a UK-based manager with $7 billion in AUM, in our *Asset Management Focus* for the first half of 2004, but it is worth mentioning again that Genesis is the first non-US acquisition for AMG and the first affiliate concentrating in emerging markets equity securities.
- In addition, AMG acquired a 60% stake in the growth equity business of TimesSquare Capital from Cigna (Bear Stearns later acquired TimesSquare's $6 billion FI management team). The acquisition provides AMG with additional capacity in growth equities in the small, "smid" and mid-cap areas.
- Finally, AMG announced the acquisition of Fremont Investment Advisors, a multi-manager mutual fund platform that will be integrated into AMG's Managers Funds mutual fund family. The acquisition adds complimentary products and opens up additional distribution channels to existing Managers Funds products. This acquisition follows the acquisition of the mutual fund family of Conseco Capital Management, announced in 2003.

Other multiple buyers included:

- UBS, the world's largest private bank with over $674 billion in AUM, acquired three private banking firms in Europe this year. UBS is committed to growing its wealth management business and has grown its UK investment management business to almost $6 billion from inception four years ago. In addition, UBS acquired the Miami-based Latin American wealth management business of Dresdner Bank, divested as part of a revamp by Allianz AG, Dresdner's parent company.
- In a similar move, BNP Paribas acquired two European private banks. BNP also acquired Javelin Fund Ltd., Zurich Capital Markets' proprietary hedge fund of funds[1] and Integrated Finance Ltd., an advisor on strategic risk management and derivatives.
- Bear Stearns had a busy year and made a number of key acquisitions including: TimesSquare Capital's fixed income portfolio team with $6 billion in AUM; Measurisk, a provider of risk measurement solutions; the Private Equity Specialty Finance business of BDC Financial; and a 50% stake in the Capital Markets division of Migdal Insurance, a division focused on investment and asset management.
- MassMutual made three acquisitions totaling approximately 9% of the global AUM transacted this year. In addition to its purchase of Baring Asset Management from ING and subsidiary David Babson's acquisition of Duke Street Capital Debt Management (discussed in our *Asset Management Focus* for the first half of 2004), MassMutual acquired a Taiwan-based trust bank, Fuh Hwa, to further gain access to Asian distribution channels.

[1] Freeman & Co. acted as a financial advisor to Zurich Capital Markets.

European Trends: Repositioning

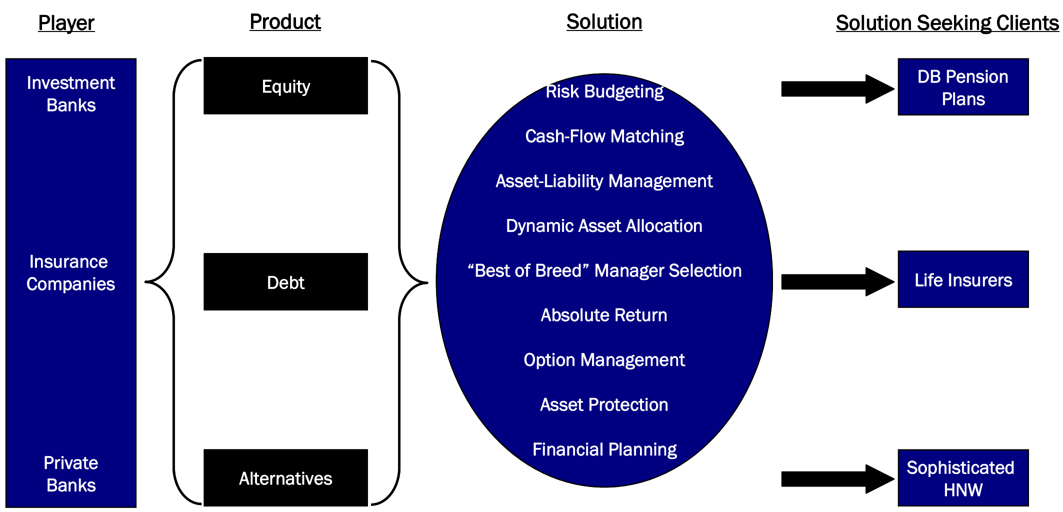
During the bull market, European asset managers had considerable help in achieving positive performance. Rising stock markets, positive demographics and favorable pension reforms buttressed returns, and many firms were content to rely on these supporting factors. The result was an abundance of undifferentiated business strategies and "me too" products. While this was fine for a while, eventually the tides began to roll out. Now that these favorable conditions can no longer be relied upon, something more is needed.

At the same time, clients' needs have become more refined. Investors of all types have begun to demand more innovative solutions in order to meet specific needs and respond to a changing marketplace. As product innovations percolate from the most sophisticated investors with the most specific needs to a broader audience, they become more widely understood and in demand. These products are steadily earning a permanent place in the market.

Focus on Solution Seekers

In response to these demand trends, we believe European managers will increasingly focus on meeting the needs of what we refer to as "Solution Seekers" -- sophisticated investors who will pay a premium for customized products, tailored advice or other special services. While still seeking attractive returns, increasingly they require products that can help insulate them from market downturns. Solution Seekers include insurance companies, corporate pension (DB) plans and other institutions with special regulatory or other needs. We believe this group also includes an increasing number of high net worth individuals (particularly UHNW) and family offices. These clients have not abandoned their demand for high levels of client service, but now they are also looking for innovative products.

Solution Seekers demand innovative products that can be tailored to their specific needs, such as asymmetric return products, insurance-based long-dated guaranteed products, VAR-based analytics, portfolio diversification, and leveraged structured products. To meet these new product needs, asset managers will increasingly focus on advice-driven business models where innovative products can be tailored to client needs, supported by robust technology and reporting capabilities.



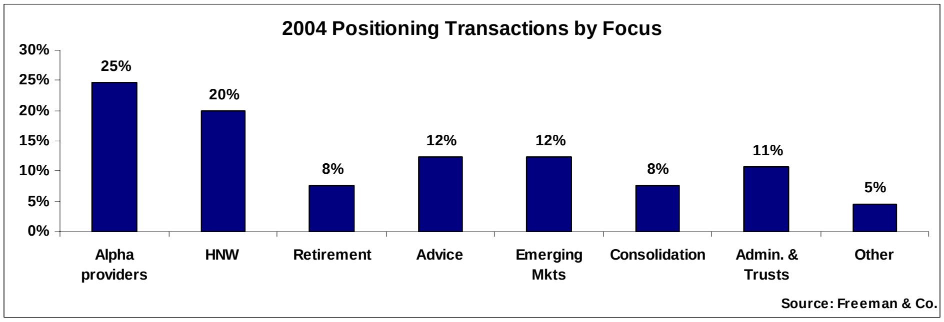
Of course, not every asset manager will become a quant shop or hedge fund. Consolidation will continue among more traditional product-oriented firms, as they will continue to focus on increasing scale and brand visibility. MassMutual's purchase of Baring Asset Management added $32 billion of assets, while Fidelity's purchase of EGG plc's mutual fund unit further added to Fidelity's scale. Other firms extended their geographic reach. For example, SocGen expanded into Japan with its purchase of Resona Asset Management and moved into India by acquiring SBI Fund Management Ltd. Geographic expansions of this type accounted for 12% of total transactions in 2004.

Specific Niches

We estimate that 75% of the transactions by European firms can be characterized as focusing on meeting the needs of Solution Seekers, as firms redefine their core businesses to focus on this segment by targeting specific niche markets or acquiring specialty products:

- Alpha Generators – mainly alternative investments – accounted for 16 transactions

- Firms targeting specialty audiences such as pension plans, life insurers and wealth management – 25 transactions
- Advice Providers – 8 transactions



The following are some of the trends we are seeing for specific niches in the European marketplace:

Alternative Investments

We expect to see value in the alternative segment captured by aggregators of alpha-oriented managers and by product structuring firms that have strong capital capabilities and risk pricing expertise. Investment banks and sophisticated insurers will join HFOF and private equity FOF firms capturing value in this segment. For example, BNP's acquisitions of the Javelin HFOF and Zurich Capital Markets' structured product business elevate BNP to a leading position within the alternative market with over $20 billion in AUM. And RMF invested seed capital in the Azura Asia Opportunity Fund, an Asian multi-strategy fund that invests in several markets and asset classes throughout Asia.

At the same time, we expect to continue to see mergers among smaller independent players or acquisitions of firms offering complementary products in order to broaden their product/strategy coverage. As we discussed in our special report *Are Hedge Fund M&A Deals a Sustainable Trend?,* this market is still dominated by smaller firms, but market forces and operational challenges encourage consolidation. Transactions in 2004 that reflected this trend included: the acquisition by hedge fund specialist Titanium Capital of commodity trading fund Tyrell Green in order to obtain a CTA capability; and the purchase by a UK-based private equity firm Coller Capital of Innovatech Montreal, a Canadian venture capital firm that invests in health care information technology and telecommunications.

Wealth Management

Wealth management has traditionally focused on service and on offering banking, trust and other products, with correspondingly less focus on product innovation. Yet wealthy investors are sophisticated, have specific needs and are becoming familiar with the increasing variety of specialty and alternative products. The pressure is therefore on wealth managers to deliver more value in the asset management aspect of their business by making these products available.

Private banks are facing competition from investment banks, who more and more are offering wealthy clients complex products that have been developed for institutional customers. There have always been good reasons for firms from these two sectors to combine (as in Deutsche Bank's acquisition of private bank Wilhelm von Finck AG), as the combination of wholesale services and wealthy clients creates a host of synergy opportunities. We believe the migration of complex institutional products to private clients to be a strong motivator for further consolidation.

Scale has always been a key success factor among private banks, but the emphasis in the past has been on distribution and geographic coverage. Scale is becoming critical on the product side as well, as larger organizations are better positioned to deliver sophisticated products. Part of their advantage lies in the ability to negotiate preferred access to private equity, hedge funds, and other products. The acquisitions this year by UBS and BNP brought additional products to these buyers, consistent with this trend.

Retirement Assets

Investment banks and scaled insurers have begun to use their balance sheets and risk pricing expertise to tighten their grip on the retirement segment. Providing derivative-based solutions to solve liability or cash flow mismatches, these firms are increasingly able to displace dedicated actuarial consultants. Acquisitions in this segment include HSBC Holdings plc's acquisition of Allianz Rentas Vitalicias, making HSBC a top-five player in the Mexican pension market, and Principal Financial Group's acquisition of ABN AMRO's pension and retirement business. Principal had sold its mortgage unit earlier in the year, as it focuses on insurance and retirement services.

Advice

Increasingly, pension plans are requiring pension consultants to include investment consulting as a central offering. For example, BNP Paribas acquired consulting firm Integrated Financial Ltd., a specialist in advising corporate management in evaluating and monitoring their company's risk budgeting associated with pension plans.

At the same time, increased regulation of financial advisers and pressure to invest in new technology have created higher costs for pure advice-driven financial planners, driving consolidation in the sector. An example is the acquisition by financial planner Millfield Group of Inter-Alliance Group plc, with its 1,250 advisers.

Conclusion

We believe the asset management industry in Europe is becoming polarized around three basic business propositions:

- Differentiated performance: providing customer utility through product benefits, design, and brand image;
- Low-cost: achieving efficiency through scale and market share; and
- Superior focus: offering customized products providing the best value proposition for a specific market segment.

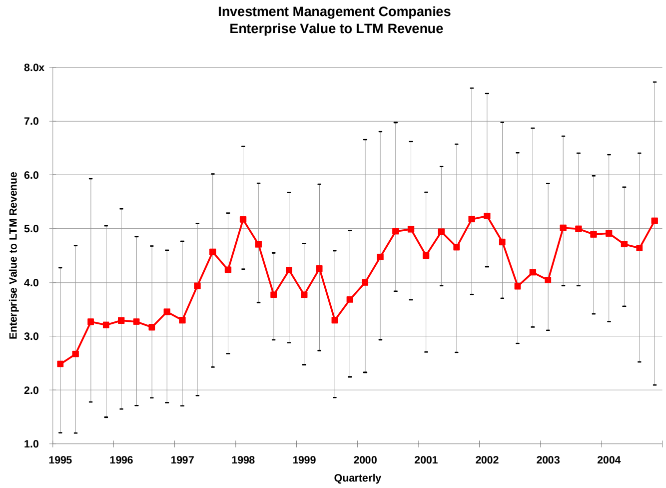
We believe that the market is migrating toward specialized products that meet specific client needs. Players caught in the middle—neither achieving superior costs (such as SSGA, BGI, Vanguard), nor offering superior benefits (Fidelity, PIMCO), nor demonstrating superior focus (UBS, AXA, BNP, SG)—should experience a progressive decline in shareholder value over time. Sub-scaled managers with out of favor or narrow product lines, reduced investment capacity, or non-captive distribution should be viewed as candidates for acquisition.

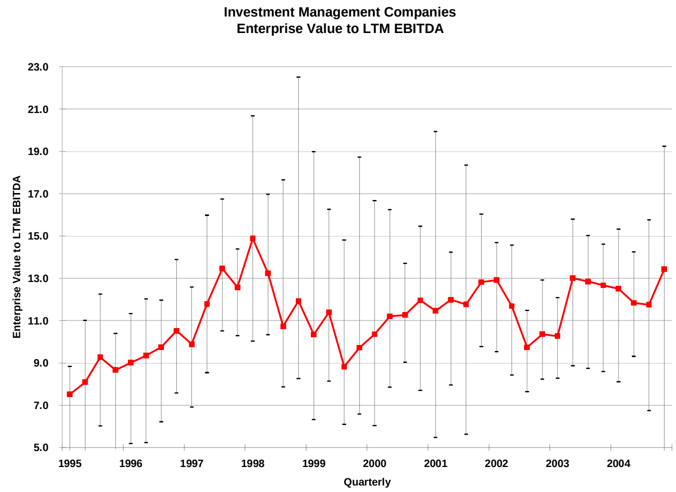
US Public Money Managers – Trading Multiples

The charts below illustrate historical trading multiples of US public money managers over the last ten years on a quarterly basis. The red line shows the peer group's average for each reporting period, and the vertical grey lines show the range of values for each quarter.

The valuations for the US publicly traded asset managers have been rising over the last ten years. For example, the Enterprise Value to LTM revenue multiple more than doubled from approximately 2.5x in the beginning of 1995 to over 5x at the end of 2004. Similarly, the Enterprise Value to LTM EBITDA has increased from approximately 7.5x in 1995 to over 13x at the end of 2004. The EBITDA multiples closely followed the revenue multiples indicating that the margins of the asset management firms have stayed relatively constant over time.

Over a shorter term, we can see that the valuations have jumped significantly in the last quarter of 2004 after slowly declining for five consecutive quarters. Market recovery in 4Q04 and the lowest asset redemption rate for the year, contributing to positive net new flows in 4Q04 (after negative new flows in 2Q04 and 3Q04), played a role in an increased optimism regarding the prospects for the asset management industry and an increase in valuations. SEI and BlackRock traded at the top of the range, with Calamos, which went public in October, lagging behind along with Janus and Federated.





Includes: BLK, EV, FII, BEN, GBL, SEIC, JNS, TROW, WDR, JNC & CLMS

Source: SEC Filings, Freeman & Co.

US Public Money Managers – Valuations

(All figures in millions, except for per share data or unless otherwise noted)

Company Name	End AUM ($ bils)	Stock Price 1/31/05	Equity Value	Enterprise Value (a)	LTM (12/31/2004) Revenue	LTM (12/31/2004) EBITDA	LTM (12/31/2004) EPS	Enterprise Value as a Multiple of LTM Revenue	Enterprise Value as a Multiple of LTM EBITDA	PE Ratio LTM	Equity Value % AUM
Diversified (b)											
Blackrock	$ 341.8	$ 80.30	$ 5,173.6	$ 4,733.1	$ 725.3	$ 266.6	$ 2.70	6.5x	17.8x	29.8x	1.5%
Eaton Vance	94.3	25.03	3,544.4	3,539.5	661.8	229.2	1.00	5.3	15.4	25.1	3.8%
Federated Investors	179.3	29.38	3,173.5	3,269.7	847.6	361.6	1.80	3.9	9.0	16.3	1.8%
Franklin Resources	402.2	67.86	18,044.9	16,673.2	3,618.1	1,267.3	3.19	4.6	13.2	21.3	4.5%
Gabelli	28.7	47.85	1,426.5	1,457.9	255.2	100.5	2.07	5.7	14.5	23.1	5.0%
SEI Investments	120.4	37.36	4,031.3	3,870.1	692.3	222.4	1.58	5.6	17.4	23.7	3.3%
Janus Capital	139.0	14.83	3,450.6	3,058.2	1,010.8	311.2	0.59	3.0	9.8	25.1	2.5%
T Rowe Price	235.2	59.85	8,165.2	7,675.1	1,276.6	569.7	2.54	6.0	13.5	23.6	3.5%
Waddell & Reed	38.7	21.87	1,838.1	1,992.1	504.1	174.0	1.25	4.0	11.5	17.5	4.8%
Nuveen Investments	115.5	37.10	3,609.3	3,721.3	505.6	265.8	1.63	7.4	14.0	22.8	3.1%
Calamos Investments (c)	38.0	25.26	581.0	614.0	312.0	137.1	0.79	2.0	4.5	32.1	1.5%
TOTAL	**$ 1,732.9**		**$ 53,038.4**	**$ 50,604.2**			**AVERAGE**	**4.9x**	**12.8x**	**23.7x**	**3.2%**
							MEDIAN	**5.3**	**13.5**	**23.6**	**3.3%**
Holding Companies											
Affiliated Managers (d)	$ 129.8	$ 63.41	$ 2,045.9	$ 2,840.3	$ 660.0	$ 290.5	$ 2.03	4.3x	9.8x	31.3x	1.6%
Bank / Trust Companies (e)											
Boston Private Finl	$ 21.1	$ 27.84	$ 789.0	$ 789.0	$ 196.8	$ 68.4	$ 1.18	4.0x	11.5x	23.6x	3.7%
Wilmington Trust	36.5	34.77	2,346.5	2,346.5	565.5	245.6	2.11	4.1	9.6	16.5	6.4%
TOTAL	**$ 57.6**		**$ 3,135.5**	**$ 3,135.5**			**AVERAGE**	**4.1x**	**10.5x**	**20.1x**	**5.1%**
Limited Partnerships											
Alliance Capital	$ 538.8	$ 44.99	$ 11,520.9	$ 11,245.1	$ 3,026.9	$ 837.3	$ 2.83	3.7x	13.4x	15.9x	2.1%
Overall **TOTAL**	**$ 2,459.1**		**$ 69,740.7**	**$ 67,825.1**							
							HIGH	7.4x	17.8x	32.1x	6.4%
							AVERAGE	4.7	12.3	23.2	3.3%
							MEDIAN	4.3	13.2	23.6	3.3%
							LOW	2.0	4.5	15.9	1.5%

Source: Publicly available SEC filings, Bloomberg and IBES estimates.

Note: All figures have been adjusted for extraordinary and non-recurring items.

(a) Enterprise Value calculated as Equity Value plus Net Debt (Total Debt less Cash & Cash Equivalents).

(b) EV and BEN fiscal year ends of October and September and have been calendarized.

(c) EBITDA excludes minority interest expense of $100,902.

(d) EBITDA excludes minority interest expense of $115,524.

(e) Enterprise Value excludes cash.

US Public Money Managers – AUM Analysis

ENDING AUM ($ in billions)

Quarter Ending	3/31/2003	6/30/2003	9/30/2003	12/31/2003	3/31/2004	6/30/2004	9/30/2004	12/31/2004
Diversified								
Blackrock	$ 273.6	$ 286.3	$ 293.5	$ 309.4	$ 320.7	$ 309.7	$ 323.5	$ 341.8
Eaton Vance	57.9	64.3	75.0	83.6	85.1	89.4	94.3	94.3
Federated Investors	195.7	202.4	194.1	197.9	193.9	183.8	177.6	179.3
Franklin Resources	252.4	287.0	301.9	336.7	351.6	350.8	361.9	402.2
Gabelli	20.1	22.5	23.2	27.6	28.2	28.2	27.2	28.7
SEI Investments	78.2	85.7	87.4	90.6	96.1	100.1	109.8	120.4
Janus Capital	132.7	149.8	146.5	151.5	145.0	135.4	130.2	139.0
T Rowe Price	139.9	161.2	168.9	190.0	201.0	206.8	212.0	235.2
Waddell & Reed	27.5	31.7	32.9	36.6	37.0	36.4	35.1	38.7
Nuveen Investments	81.4	88.3	90.1	95.4	100.9	101.9	106.9	115.5
Calamos Investments	NA	NA	NA	NA	NA	NA	33.2	38.0
TOTAL	**$ 1,259.4**	**$ 1,379.1**	**$ 1,413.4**	**$ 1,519.2**	**$ 1,559.5**	**$ 1,542.4**	**$ 1,611.8**	**$ 1,732.9**
Holding Companies								
Affiliated Managers	$ 68.4	$ 77.3	$ 81.9	$ 91.5	$ 94.8	$ 102.2	$ 101.0	$ 129.8
Bank / Trust Companies								
Boston Private Finl	$ 6.8	$ 8.3	$ 9.4	$ 10.4	$ 14.9	$ 15.4	$ 15.1	$ 21.1
Wilmington Trust	22.6	30.9	30.7	32.3	32.7	32.9	33.3	36.5
TOTAL	**$ 29.4**	**$ 39.2**	**$ 40.1**	**$ 42.7**	**$ 47.6**	**$ 48.3**	**$ 48.4**	**$ 57.6**
Limited Partnerships								
Alliance Capital	$ 386.3	$ 426.2	$ 473.8	$ 474.8	$ 483.6	$ 480.6	$ 487.0	$ 538.8
OVERALL TOTAL	**$ 1,743.5**	**$ 1,921.8**	**$ 2,009.2**	**$ 2,128.2**	**$ 2,185.5**	**$ 2,173.5**	**$ 2,248.2**	**$ 2,459.1**
% Change	*(1.0)%*	*10.2%*	*4.6%*	*5.9%*	*2.7%*	*(0.5)%*	*3.4%*	*9.4%*

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