Issue 10
1st Half 2004

August 31, 2004

Asset Management Focus
Freeman & Co.

Inside this Issue:

Indices at June 30, 2004:

DJIA	10,435
NASDAQ	2,048
S&P 500	1,141
FTSE 100	4,464
10 Year US Treasury Bond Yield	4.62%
Dollar to Euro	$1.22

Alternatives Go Mainstream, Move up the Charts

The first half of 2004 saw a continuation of a trend that started in the second half of 2003: an increase in M&A activity dominated by smaller deals. The increase was primarily due to a surge in acquisitions of alternative asset managers as alternatives gain acceptance as an asset class.

European activity has slowed down significantly in the first half of 2004. As in the US, the main drivers of M&A activity in Europe were alternatives. Private banking and wealth management sectors were also active.

We believe the second half of 2004 will see a continuation of robust deal activity. We expect alternative managers to continue to attract attention as buyers look to expand and diversify their product offerings in this sector.

Performance as of June 30, 2004

Index	Total Return 1H 2004	Total Return TTM	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	3.4%	19.1%	-0.7%	-2.2%
NASDAQ	2.2%	26.2%	-1.8%	-5.3%
FTSE 100	-0.3%	10.7%	-7.5%	-6.7%
LBGC*	-0.2%	-0.7%	6.7%	7.1%
HFRI FoF**	2.7%	13.0%	7.1%	9.0%
CSFB/Tremont***	2.9%	10.1%	7.8%	9.1%

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

Summary

- Seventy-nine acquisitions were announced in the first half of 2004, representing an increase of 10% over 72 acquisitions for the same period in 2003
- Globally, a total of $137 billion in AUM was acquired during the first half of 2004, a decline of 22% compared to $175 billion for the same period in 2003
- Deals keep getting smaller: the average deal size by AUM in 1H04 was $1.7 billion compared to $2.4 billion for 1H03, a 29% decline. Median deal size nearly matched average deal size in 1H04, signaling an absence of large deals
- Acquisitions involving US companies jumped from 30 in 1H03 to 41 in 1H04, with US AUM acquired surging from $45 billion to $82 billion
- European deal activity slowed from 32 acquisitions in 1H03 to 26 acquisitions in 1H04, and assets of European firms acquired plummeted to $34 billion in 1H04 from $111 billion in 1H03
- Alternative asset deals covered a wider spectrum than in the past: traditional hedge funds and fund of hedge funds deals were accompanied by structured products managers, private equity firms, and firms investing in real estate and natural resources

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Global Deal Activity

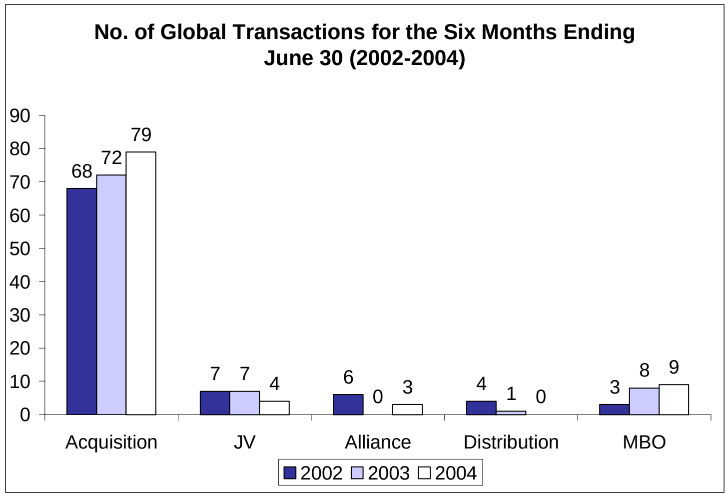
The demand for alternative investments was the primary driver for the increase in global deal activity in the first half of 2004, and we believe the trend will continue for the second half of the year.

Seventy-nine acquisitions were announced in the first half of 2004, 10% more than were announced in the first half of 2003. In contrast to 2003, which started slowly with only 29 acquisitions in the first quarter but had 43 acquisitions in the second quarter, 2004 saw a more uniform distribution, with 40 announced in 1Q04 and 39 in 2Q04.

The number of strategic partnerships (JVs, alliances, distribution arrangements) stayed relatively constant. There were 7 strategic partnerships announced in the first half of 2004 compared to 8 in the first half of 2003.

The number of MBOs in 1H04 (9) was about the same as 1H03 (8). Most (5 out of 9) of the MBOs this year have involved alternatives.

To match the total for 2003, deal activity in the second half of 2004 will have to exceed 1H04 by about 10%.

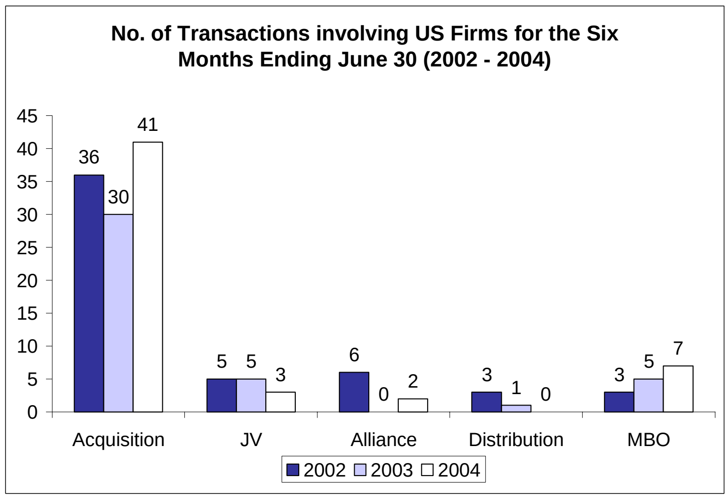


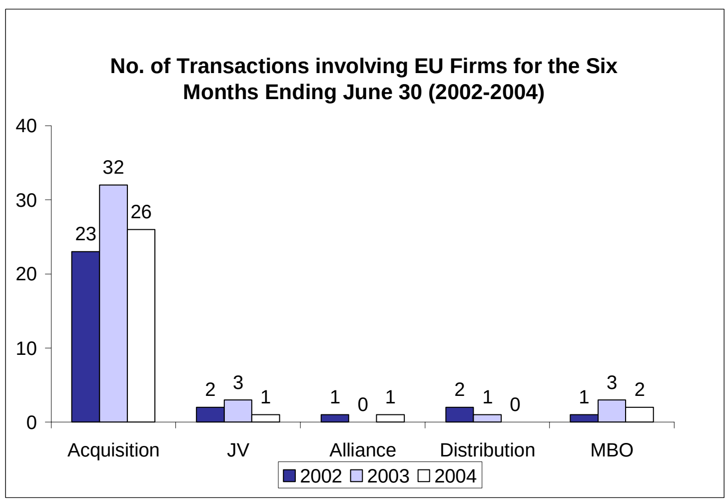
Regional Deal Activity

Acquisitions involving US companies (41) outnumbered those involving European companies (26) by 58% in 1H04, reversing the unusual situation in 1H03 which saw the number of European acquisitions exceed those involving US firms.

Compared to the slow first half of 2003, the first half of 2004 saw a surge in US deal activity. The number of acquisitions involving US companies jumped from 30 in 1H03 to 41 in 1H04, an increase of 37%. This number matches the number of deals in 2H03, continuing the trend. The number of MBOs involving US firms has also increased from 5 to 7. Strategic partnership activity stayed relatively constant. Although we believe the M&A prospects for the US continue to be strong, we are not sure that the second half will be quite as robust as the first.

European deal activity was light compared to 1H03. The number of acquisitions involving European firms declined by 19% from 32 in 1H03 to 26 in 1H04. However, the number of acquisitions in 1H04 is still higher than that in 1H02. We expect M&A activity in Europe to recover in the second half of the year, as European banks and insurance companies divest their asset managers to focus on distribution and US firms seek entry into the European market through acquisition.



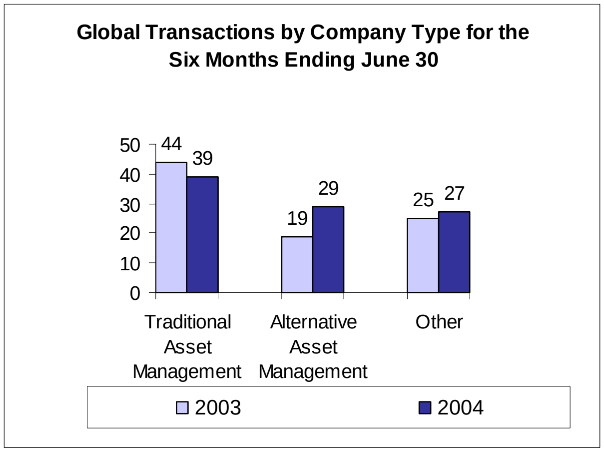


Source: Freeman & Co.

Transactions by Company Type

The growth in the number of transactions in 1H04 was driven by the demand for alternative investments. The number of deals involving alternatives surged over 50% from 19 in 1H03 to 29 in 1H04, and the variety of alternative transactions went beyond hedge funds and funds of funds. In contrast, the number of deals involving traditional asset managers decreased 11% from 44 in 1H03 to 39 in 1H04.

Other sectors seeing transactions included fund administrators (2), outsourcing/third party service providers (4), private client and financial planning firms (13), and trust companies (8). The number of transactions among these companies increased 8% from 25 in 1H03 to 27 in 1H04, with the largest increase (from 3 to 8 deals) among trust companies.

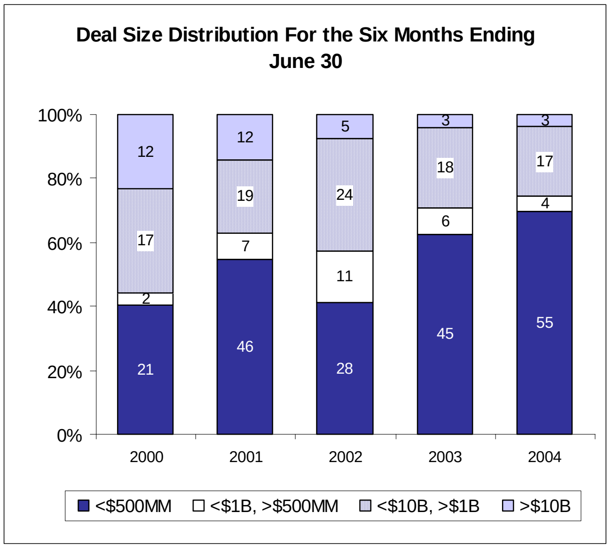


Source: Freeman & Co.

Deal Size

There were only 3 announced acquisitions in the $10+ billion AUM range in 1H04, led by the forced sale of Strong Capital. This number is on par with 1H03. Acquisitions involving companies between $1 billion and $10 billion in AUM stayed about the same: 18 in 1H03 and 17 in 1H04. Acquisitions involving companies with more than $500 million in AUM but less than $1 billion in AUM decreased from 6 in 1H03 to 4 in 1H04. The only increase came in acquisitions of companies with less than $500 million in AUM. The number of such deals increased 22%, jumping from 45 in 1H03 to 55 in 1H04, and accounting for approximately 70% of the total announced acquisitions.

While there will be more large deals completed in 2004 (including BlackRock's acquisition of State Street Research, announced early in the second half), we expect smaller deals to continue dominating M&A activity as buyers pursue tactical fill-ins (including alternatives) or distribution extensions.



Source: Freeman & Co.

MBOs

Management buyout activity was robust in the first half of both 2003 and 2004, with 9 MBOs announced in 1H04 and 8 in 1H03. The majority (5 out of 9) of MBOs involved alternatives, including:

- Octagon Credit Investors, a CDO manager formerly held by JP Morgan Partners
- Skylands Capital, the former hedge fund business of Strong Capital Management
- Wayzata Advisers, formerly a distressed debt management unit of Cargill
- Columbia Management Group, a fund of funds business
- Banexi, a private equity group spun off from BNP (made necessary by new regulatory capital requirements affecting European banks)

MBOs for the Six Months Ending June 30, 2004

Month	Company	Type	Country
6	Stenham Group Limited	Other	Africa
6	Banexi Capital Partnaires	Alternative Investments	France
5	CFSC Wayland Advisers Inc.	Alternative Investments	US
5	Sage Advisory Svcs Ltd. Co.	Traditional	US
5	Octagon Credit Investors	Alternative Investments	US
4	Strong Hedge Funds	Alternative Investments	US
4	Progress Inv. Mgmt. Co.	Alternative Investments	US
4	Delaware Int'l Advisors Ltd.	Traditional	UK
3	1838 Investment Advisors	Traditional	US

Source: Freeman & Co.

Assets Acquired by Seller Region

Assets Acquired by Seller Region by Year for the Six Months Ending June 30 ($MM)

Region	2000	2001	2002	2003	2004
Africa			11,700	638	
Asia	7,332	16,101	2,486	11,313	19,137
Canada	35,009	27,200	26,429		2,006
Europe	374,677	64,395	169,673	110,818	33,702
South America	2,122		3,421	7,890	
US	587,763	319,620	60,826	44,542	81,917
Total	**$1,006,903**	**$427,316**	**$274,534**	**$175,201**	**$136,761**

No. of Acquisitions	52	84	68	72	79
Average Size	19,364	5,087	4,037	2,433	1,731
Median Size*	3,000	1,550	1,350	1,000	1,456

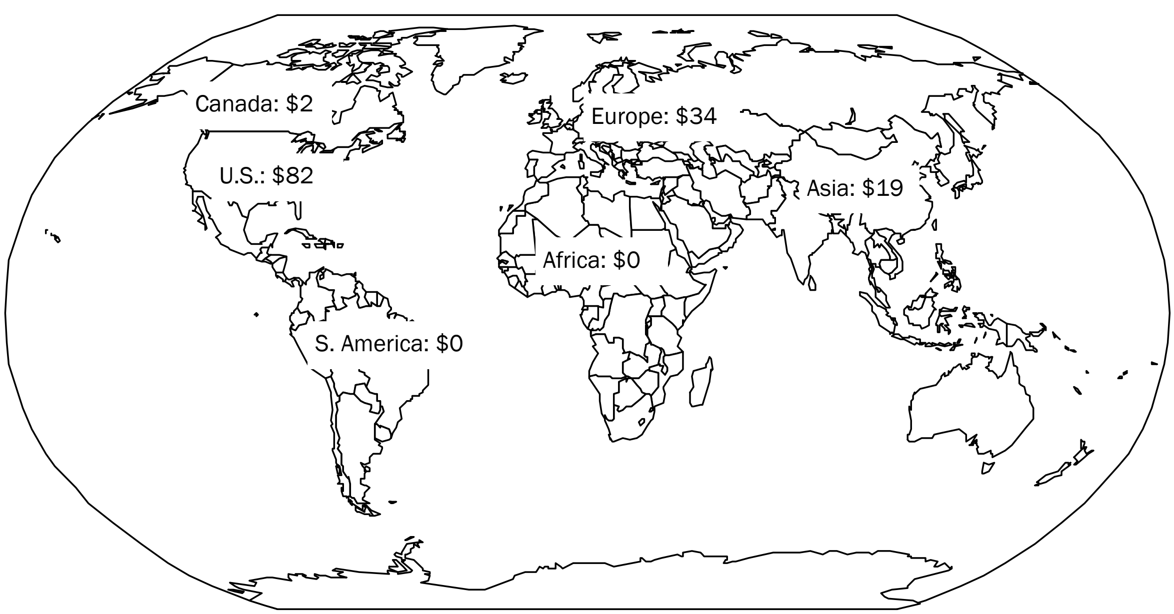
**Median deal size calculated using only deals with reported AUM*

Source: Freeman & Co.

Total AUM acquired globally in the first half of 2004 was $137 billion, a decline of 22% from $175 billion in 1H03. The reason was not lack of deals, but smaller deal size: the average deal size by AUM in the first half of 2004 was $1.7 billion versus $2.4 billion for the same period of 2003, a decline of 29%. The median deal size of $1.5 billion in AUM is the closest to the average it has been in the last five years, indicating fewer large outliers that pull the average deal size up.

The US was the largest seller of assets for the first half of 2004, with Europe trailing behind. This is a reverse of the trend we observed in the first half of 2002 and 2003, when US deal activity slowed significantly. US assets acquired jumped from $45 billion in 1H03 to $82 billion in 1H04, an 84% increase. European assets acquired, on the other hand, plummeted to $34 billion from $111 billion in 1H03. Not only were there few large deals in Europe, there were fewer deals overall.

Total Asian AUM acquired increased by 69% from $11 billion in 1H03 to $19 billion in 1H04. The increase was primarily due to Principal Financial's acquisition of Dao Heng Fund Management Limited, a subsidiary of Guoco Group Limited, with AUM of approximately $13 billion for retail and institutional clients.



Assets Acquired by Buyer Region

Assets Acquired by Buyer Region by Year for the Six Months Ending June 30 ($MM)

Region	2000	2001	2002	2003	2004
Africa			11,700	638	
Asia	4,994	221	4,730	10,313	537
Canada	3,609	46,240	31,109	9,000	2,006
Europe	501,915	212,736	181,989	33,688	23,508
South America	122	1,400	885	4,670	
US	496,263	166,720	44,122	116,892	110,711
Total	**$1,006,903**	**$427,316**	**$274,534**	**$175,201**	**$136,761**

No. of Acquisitions	52	84	68	72	79
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Median Size*	3,000	1,550	1,350	1,000	1,456

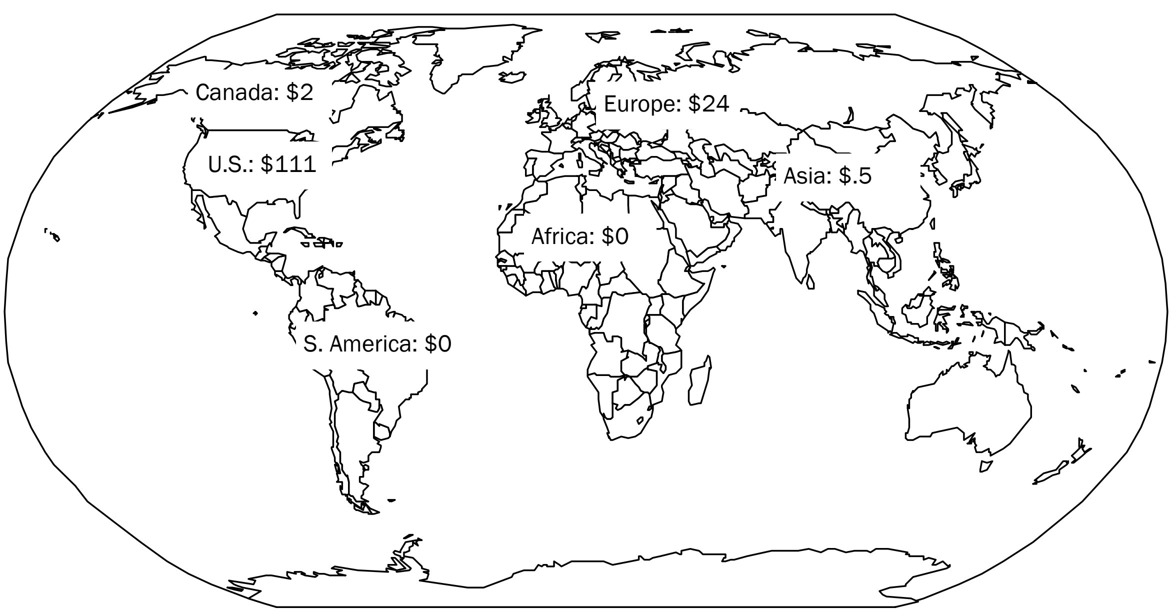
**Median deal size calculated using only deals with reported AUM*

Source: Freeman & Co.

As in the first half of 2003, the US was a net buyer in 1H04, far outpacing other regions in terms of acquisition activity. AUM of firms acquired by US buyers totaled $111 billion or 81% of the total assets acquired. This is 35% higher than the $82 billion for US sellers, or 60% of total AUM sold during this period. Europe, on the other hand, was a net seller, with European assets sold exceeding assets bought by $10 billion. AMG's acquisition of Genesis Holdings contributed approximately 70% of this difference. A decline in the number of deals as well as in the deal size drove AUM acquired by European firms down by 30% from $34 billion in 1H03 to $24 billion in 1H04.

There have been no cross-border deals with Canadian companies so far in 2004—all eight Canadian acquisitions involved a Canadian seller and buyer. These deals were small. Total AUM acquired by Canadian companies in 1H04 was less than one-fourth the total in 1H03 ($2 billion in 1H04 compared to $9 billion in 1H03). The decrease occurred despite a doubling in the number of deals (8 in 1H04 versus 4 in 1H03). The largest Canadian deal in 1H04 was AGF Management's acquisition of Cypress Capital Management, a private client firm with approximately $1.5 billion in AUM. The largest Canadian deal in 1H03, Fahnestock Viner Holdings's acquisition of the Oppenheimer Asset Management Division of HSBC World Markets, involved AUM of $8 billion.

We expect total assets acquired in 2004 to be approximately in line with or less than total assets acquired in 2003 as smaller deals continue to dominate.



US Companies Acquired in 1H04

In the US, 9 acquisitions involving companies with AUM of $1 billion or greater were announced in the first half of 2004. Most of these occurred in the second quarter. Of 40 acquisitions in 1Q04, only one involved a company with AUM of more than $1 billion (Silvercrest Asset Management's purchase of James C. Edwards, a high net-worth firm). In the second quarter, however, 8 of 39 acquisitions involved companies with AUM of more than $1 billion including two with AUM of more than $10 billion.

Acquisitions of U.S. Companies with $1B or greater in AUM for the Six Months Ending June 30, 2004

Month	Target	Acquirer	Total Deal AUM ($MM)
5	Strong Financial Corporation	Wells Fargo	34,000
4	Seix Investment Advisors	SunTrust Banks	17,000
6	Deerfield & Company	Triarc Companies	8,100
5	Numeric Investors	TA Associates	7,500
6	Evaluation Associates	Mellon Financial	4,500
4	Bank Loan AM Business of Columbia	Highland Capital Mgmt.	2,700
6	DB's Scudder Private Counsel Boston Office	Eaton Vance	2,500
2	James C. Edwards	Silvercrest Asset Mgmt.	1,000
4	Evergreen Timberland Investment Mgmt.	Regions Bank	1,000

Source: Freeman & Co.

The largest transaction of the first half of 2004 was Wells Fargo's acquisition of Strong Capital Corporation, with AUM of approximately $34 billion. This transaction, made necessary by the investigation into Dick Strong's personal trading, represented over 40% of the assets acquired in the US and 25% of assets acquired globally, and was twice as large as the next largest deal on an AUM basis. Wells Fargo intends to consolidate Strong's funds into its Wells Capital Management Division.

It is worth noting that of the 9 largest acquisitions in the first half of the year, more than half involved alternatives. These included two acquisitions of CDO managers (Triarc's acquisition of a majority interest in Deerfield and Highland's acquisition of the Bank Loan Asset Management Business of Columbia Management Advisors), a quantitative manager (TA's recapitalization of Numeric Investors), a fund of hedge funds manager (Mellon's Acquisition of Evaluation Associates), and a timber deal (Regions Bank's acquisition of Evergreen Timberland Investment Management).

European Companies Acquired in 1H04

European acquisitions slowed in the first half of 2004, and the deal size declined. Only 7 acquisitions involved companies with AUM of $1 billion or greater, with 4 announced in the first quarter and 3 in the second. The largest company acquired, Laing & Cruickshank Investment Management Ltd., a UK-based private banking business, had AUM of less than $9 billion. UBS bought L&C to expand its private banking business in the UK, Germany, Spain, Italy and France. This transaction followed UBS's acquisition of Scott Goodman Harris, a UK-based financial planner acquired in February.

Acquisitions of European Companies with $1B or greater in AUM for the Six Months Ending June 30, 2004

Month	Target	Acquirer	Total Deal AUM ($MM)
2	Laing & Cruickshank Investment Management	UBS	8,900
4	Aberdeen Property Investment International	Arlington Securities Limited	7,830
1	Genesis Holdings International	Affiliated Managers Group	7,000
4	Virgin Money	Virgin Group	3,764
6	Intertrust Mutual Fund Management	EFG Eurobank Ergasias	2,700
3	Duke Street Capital Debt Management	David L. Babson & Co.	1,820
3	Atlantic Wealth Management	Singer & Friedlander	1,481

Source: Freeman & Co.

As in the US, one of Europe's largest deals was driven by legal and regulatory issues. The second largest transaction in Europe was Aberdeen's sale of its UK and Dutch real estate units with AUM of $7.8 billion to Arlington Securities, a UK-based real estate manager. Aberdeen is under investigation by the UK Financial Services Authority after two of its split-capital investment trusts collapsed in 2001.

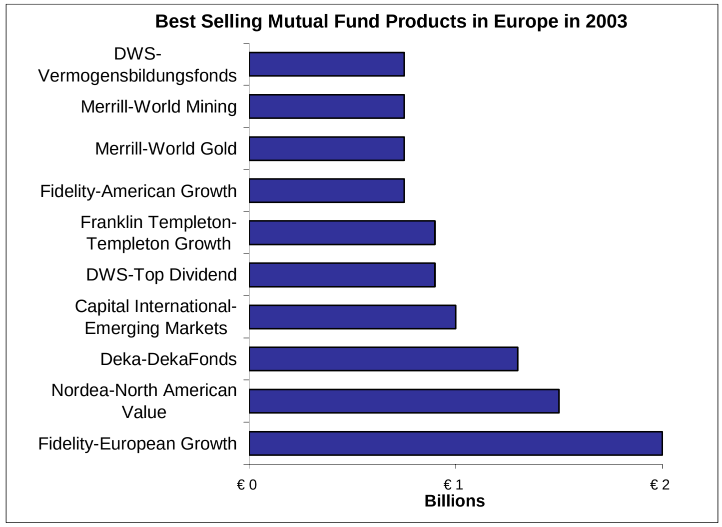
Another transaction worth noting is AMG's acquisition of Genesis Holdings International, a UK-based institutional manager focused on emerging-market equities. Although two of AMG's affiliates—Tweedy, Browne Co. and First Quadrant LP—each have offices in London, the acquisition of Genesis marks the first non-US acquisition for AMG.

In another acquisition of a UK manager by a US firm, David L. Babson acquired Duke Street Capital Debt Management. Duke Street Capital Debt Management is one of the largest managers of CLOs in Europe with AUM of approximately $1.8 billion. The acquisition helps Babson build its alternative asset business by giving it access to the European leveraged loan market.

European Trends

With a strong consensus in the market that the high returns enjoyed in the late 1990s will not be back for a while, disillusioned investors have begun to question the wisdom of paying high fees to fund managers who are unable to reliably outperform their benchmarks. During the bull market, when share prices seemed intent on defying gravity, individual and institutional investors were complacent. But in today's markets, when share prices have shown that they can go down as well as up, investors expect more.

As a result we are seeing a polarization of investment strategies around alpha and passive beta strategies. The traditional balanced-management approach is going out of fashion. Instead of relying exclusively on large diversified managers, European investors are dividing their money among specialist managers.



Does not include Belgium and Sweden Source: Feri Fund Market Information

European managers have changed their business models in order to respond to the new investment climate. Managers are exploring high alpha strategies including alternative investments. At the same time, they are striving to manage their distribution and sales effectiveness by continuing to focus strongly on wealth management and by fine-tuning their distribution channels.

Recent M&A activity reflects these initiatives. There were 26 European acquisitions in 1H04. Among them were 6 product-related acquisitions in the alternative space, 8 acquisitions in the high net-worth sector, and 4 distribution-related acquisitions.

Acquisitions of European Alternative Managers for the Six Months Ending June 30, 2004

Month	Target	Acquirer	Focus
4	Javelin Fund of Hedge Funds (1)	BNP Paribas	Funds of Hedge Funds
4	Aberdeen Property Investors Int'l. Ltd.	Arlington Securities Ltd.	Real Estate
3	Duke Street Capital Debt Mgmt. Ltd.	David L. Babson & Co.	CLOs
3	Tyrell Green Ltd.	Titanium Capital	Commodity Hedge Funds
1	Real Return Holdings Co. Ltd.	Veritas Asset Mgmt.	Hedge Funds
1	Baring Capital Partners	ING Real Estate	Real Estate

(1) Freeman & Co. served as financial advisor to Zurich Capital Markets Source: Freeman & Co.

Alternative and specialist strategies continue to attract the interest of European buyers, with 9 transactions in 1H04 (7 acquisitions, 1 MBO and 1 distribution alliance). The number of acquisitions increased from 5 in 1H03, but the overall number of transactions decreased slightly (there were 11 in 1H03). Nearly half the transactions in 1H03 involved traditional hedge funds and funds of hedge funds (FOHFs), but this year's activity has been concentrated on a range of specialty investment strategies including real estate, CDOs and emerging markets.

Demand for various alternative investment strategies has been driven mainly by two factors:

- As many European banks focus their asset management units on their core capabilities, yet seek to offer more choices to their private banking clients, there is more shelf space available for well-performing specialty managers
- Asset liability management and diversification are asserting their dominance in pension fund and institutional thinking, and investors have been given a sharp lesson in portfolio concentration risk. Institutional portfolios increasingly are built around a core of low tracking error instruments (index, enhanced index, ETFs, etc.), supplemented by investments offering alpha and greater diversification

Acquisition activity continues to be strong in the private banking and wealth management sector, reflecting both consolidation among European private banks (4 acquisitions), and the desire by European asset managers to diversify distribution and to better reach high net-worth clients (4 acquisitions).

Acquisitions of European High Net Worth Firms for the Six Months Ending June 30, 2004

Month	Target	Type	Acquirer
6	Horder & Company	Financial Planning	Ashcourt Asset Mgmt.
6	Integrated Finance Ltd.	Data Provider	BNP Paribas
3	Puilaetco Bankers	Private Bank	Almanij Group
3	Atlantic Wealth Management	Private Bank	Singer & Friedlander Grp.
2	Tempus Privatbank AG	Private Bank	M.M. Warburg
2	Laing & Cruickshank Inv. Mgmt. Ltd.	Private Bank	UBS
2	Scott Goodman Harris	Financial Planning	UBS
1	Lusogest and Lusopensiones	Diversified	Banco Espirito Santo

Source: Freeman & Co.

European Trends

We are seeing a polarization between niche private banks with strong positions in their local markets and the very large international banks, which are building large onshore private banking platforms. Technology investment and compliance burdens have become onerous for some of the smaller players, many of which have been hit hard by the cycle. Acquisitions driven by these structural difficulties include M.M. Warburg's acquisition of Tempus and the purchase of Puileatco by KBL. Domestic deals like these enable these players to achieve cost synergies and to cross-sell products across a wider customer base.

The increasing regulatory pressures on offshore operations related to money laundering rules, the EU savings directive, and demands for increased transparency are pushing the large players to focus on building up their onshore private banking operations. This strategy was in evidence last year, with the acquisition by UBS in May of Lloyds TSB's €1.05 billion French fund management and private banking business. UBS followed this in October with the acquisition of Merrill Lynch's private client business in Germany, which added €1.18 billion of invested assets. And February of this year saw the first acquisition in the upmarket world of UK private client brokers with the £160 million purchase of Laing & Cruickshank, which added €7.62 billion of invested assets.

The private client sector has been among the most active areas for asset management M&A, and we expect this to continue. Managers are willing to look beyond their own products for client solutions, as evidenced by 4 acquisitions involving financial planners in the first half of 2004.

Despite the attention on manufacturing, European managers are also increasingly looking to improve profitability by expanding their distribution reach through acquisitions. High fee retrocession levels (50%-70% of gross management fees) are continuing to pressure managers to bring distribution in-house to avoid this cost.

Distribution-focused deals in 1H04 include:

- Societe Generale acquired Japan-based Resona Asset Management, which further strengthened SG's market position in the region through an alliance with Industrial Bank of Korea
- Aegon UK acquired IFA Aurora Financial Group, with the intention of merging its five wholly-owned IFAs (Advisory & Brokerage Services, Wentworth Rose, Aurora Financial Group, Momentum Financial Services and Elliott Bayley) into a single firm, to be called Origen

European Distribution Transactions for the Six Months Ending June 30, 2004

Month	Target	Acquirer	Transaction Type
4	SG Asset Management	Industrial Bank of Korea	JV
4	Virgin Money	Virgin Group	Acquisition
3	Resona Asset Management	Societe Generale (Tokyo)	Acquisition
1	Japanese unit of WestLB AG	Fortis	Acquisition
1	Banco Simeon (Caixa)	Banco Espirito Santo SA	Alliance
1	Aurora Financial Group	Aegon NV	Acquisition

Source: Freeman & Co.

While some companies are expanding their distribution reach, however, others are pulling back from markets where they cannot compete effectively:

- Delaware Investments sold its UK-based fund management unit Delaware International Advisers (to be rebranded Atlantic Value Partners) to a management group backed by Hellman & Friedman
- Putnam Investments has sold its 20% stake in Italy's asset manager Fineco Gestioni Sgr to FinecoGroup (a subsidiary of Capitalia) and signed a framework agreement which redefines their partnership through 2005. Putnam will transfer the management of a number of asset classes to Fineco Asset Management
- Banco Comercial Portugues sold its Greek fund management business Intertrust Mutual Fund Management (the fifth largest player in Greece) for an increased shareholding in Dutch-based insurance group Eureko

The move towards alternative investment products continues to reflect changing risk appetites of clients in different sectors. Competition among existing investment managers will only intensify as existing suppliers chase more investment aware and fee conscious customers. The resulting challenge to their profitability will require asset management firms to craft their business strategy with increasingly high precision.

Alternative Investments

Growth in the alternative investment sector continues to challenge forecasters to keep pace. As noted in our March 31 *Asset Management Focus*, hedge fund AUM is growing at a compound annual growth rate of 29%, and FOHF AUM reached $260 billion at the end of 2003, two years earlier than expected.

Will this growth continue? We believe the rapid pace of growth reflects increasing acceptance—particularly by institutional investors—of hedge funds and other alternative investments as a fundamental asset class. No longer exotica, these products are beginning to occupy a permanent role in portfolio management and are likely not a bear market phenomenon. Although the real test may be the next LTCM-like market dislocation, we believe interest in these products will continue.

If alternatives are indeed here to stay, the need for companies to develop this capability quickly can be expected to fuel additional M&A activity. Focused firms with adequate scale, an institutionalized investment process and an established "edge" will be in demand. We expect to see continued interest in funds of hedge funds managers, but also expect more firms to develop their own multi-strategy capabilities to compete with funds of hedge funds. In particular, we would expect firms to seek to acquire a broad range of strategies, diversifying beyond traditional long/short or fixed income arbitrage hedge funds into new sectors.

Activity in the first half of 2004 reflected this overall trend. This period saw a total of 29 transactions involving acquisitions of or significant minority investments in alternative investment management firms (including MBOs). This number is over 50% larger than the first half of 2003, continuing the trend that began in the second half of 2003.

Alternative fund manager transactions in 1H04 included 7 FOHF deals and 3 traditional hedge fund deals. Complementing these transactions, however, were 6 private equity deals and several transactions involving other non-hedge fund alternatives. The products managed by these firms represent a specialized category within the alternative universe, and from an acquisition standpoint may be seen as "alternative alternatives".

CDO Transactions for the Six Months Ending June 30, 2004

Target	Acquirer	Asset Class	Total AUM $MM
Deerfield & Company	Triarc Companies	Bank Loans, IG, Asset-backed	8,100
Bank Loan AM Bus. of Columbia	Highland Capital Mgmt.	Bank Loans	2,700
Octagon Credit Investors LLC	MBO	Leveraged Loans, High-Yield	2,500
Duke Street Capital	D.L. Babson	Leveraged Loans, High-Yield	1,817

Source: Freeman & Co.

Historically, there has been relatively little acquisition activity involving CDO[1] managers. Reasons for this vary, but their complexity and esoteric nature certainly play a part. However, in the first half of this year four CDO managers changed hands. These acquisitions reflected a very active period of CDO issuance. Moody's expects the dollar value of CDOs issued to rise 20%-25% above last year's total of $57 billion following a second quarter in which the dollar value of CDOs rated by Moody's was 43% higher than the second quarter of 2003.

The largest deal, Triarc Group's acquisition of a 64% interest in Deerfield Capital Management (announced in June), involved over $8 billion of AUM (most of which is in CDOs) and an implied enterprise value of $145 million. In terms of AUM transacted, the Triarc/Deerfield deal was the third largest in the first half of this year.

Bank loans clearly were the asset class of choice for this period. Deerfield manages six CLOs totaling nearly $2.3 billion in AUM. The other acquirees all specialize in managing bank loans: The Highland/Columbia Management Advisors transaction involved specifically the bank loan team; Duke Street Capital is one of the largest CLO managers in Europe; and Octagon manages $2.5 billion in CLOs.

Another factor contributing to the appearance of CDO deals in 2004 is resolution of some of the uncertainty surrounding FIN 46.[2] Since it first made its appearance in January 2003, FIN 46 has taken a number of classes of potential acquirers of CDO managers out of the market. Although CDOs were not the focus of the rule, in its original incarnation the rule would have required CDO managers to consolidate onto their balance sheets assets of many of the CDOs they manage. Not such a problem for independent managers, consolidation could prove costly for banks, insurance companies and other publicly held asset management firms.

However, following extensive commentary and debate, in early 2004 the FASB revised the conditions for consolidation. Included in the revision (designated FIN 46R) are a number of changes that make it less likely that a CDO manager will be required to consolidate its CDOs if certain conditions are met. It is too early to tell, but the change should have positive implications for CDO M&A volume, as parties formerly relegated to the sidelines become eligible buyers once more.

[1] For purposes of this discussion we have used the term "CDO" to also include CLOs, CBOs and other similar vehicles.

[2] First issued in January 2003, FIN 46 is an interpretation of ARB No. 51 relating to consolidation of variable interest entities.

Alternative Investments

Other "alternate alternatives" sectors receiving attention in 1H04 were natural resources, real estate and commodities. Two acquisitions in the natural resources area were announced in this period. Jovian Capital of Canada acquired DeltaOne Capital Partners, a provider of advisory services to hedge funds in the energy sector, and Regions Bank bought Evergreen Timberland Investment Management from Wachovia.

Three deals for real estate managers were completed despite the significant REIT correction (over 24% over a five week period) that occurred in the beginning of the second quarter, as buyers looked to add this asset class to their existing platforms.

To obtain a commodity trading expertise, Titanium Capital Partners LLP acquired commodity fund manager Tyrell Green Ltd. This acquisition adds a new capability to Titanium's existing event driven and emerging markets strategies.

In the case of CDOs, deals were completed in part because the sellers found buyers who were willing and able to contribute strategic capital to fund growth. For structured products like these as well as for hedge funds and FOHFs, capital to seed new funds or to provide equity is truly a strategic asset, as important to future growth as distribution, operational synergies or other resources that we typically associate with "strategic" buyers. We would expect private equity firms and other financial buyers to continue to take advantage of this opportunity to participate meaningfully as acquirers in specialized areas of the asset management sector.

A related phenomenon is the headlong rush to file new Business Development Companies that occurred in April and May. The BDC structure has been around since 1980, but until recently it has not been widely used. At the beginning of 2004 there were only a few established BDCs, led by Allied Capital Corp and American Capital Strategies. In the first half of this year alone, however, registrations were filed for 14 BDCs. Most have been sponsored by private equity firms seeking to tap the retail investor or to add a mezzanine capability.

It is not difficult to see why BDCs are attractive for their sponsors. As public vehicles, they offer rapid access to permanent capital and reach an untapped class of investors (retail). These vehicles also pay very attractive fees to their investment managers and to the underwriters who take them public.

Business Development Company Filings for the Six Months Ending June 30, 2004

Name	Filing Date	Size at Initial Filing ($)	Amended Size Where Applicable ($)
Apollo Investment Corp. (1)	2/6/2004	575,000,010	960,000,000
KKR BDC	4/12/2004	750,000,000	N/A
Porticoes Investment Mgmt.	4/14/2004	575,000,000	230,000,010
Blackridge Investment Corp.	4/14/2004	850,000,000	650,000,000
Evercore Investment Corp.	4/14/2004	460,000,000	240,000,000
Blackrock Kelso Capital	4/15/2004	750,000,000	N/A
Prospect Street Energy Corp. (2)	4/16/2004	207,000,000	105,000,000
Marathon Capital Finance Corp.	4/16/2004	200,000,000	N/A
Triarc Deerfield Investment Corp.	4/19/2004	750,000,000	500,000,000
Ares Capital Corp.	4/20/2004	450,000,000	N/A
Orchard First Source, Inc.	4/20/2004	460,000,000	N/A
THL Investment Capital Corp.	5/4/2004	500,000,000	N/A
Gores Investment Corp.	5/6/2004	250,000,000	N/A
Gleacher Investment Corp.	5/11/2004	500,000,000	N/A

(1) IPO size on April 5, 2004
(2) IPO size on July 27, 2004

Source: SEC Filings

Based on initial filings, these companies would add over $6.5 billion to the supply of mezzanine capital, or nearly 1.8 times the total raised in all of 2003 for mezzanine-focused funds operating in the US. And if this potential oversupply weren't enough, these deals face other serious challenges. Investors are being asked to invest in blind pools, and the high underwriting and management fees ensure that their shares will trade down following the offering. Apollo Investment Corp. traded down almost 17% in just over a month before recovering and even Prospect Street (whose offering was nearly cut in half) declined 4% in its first two weeks.

As a result, it is not clear how many of these deals will get done at all. The offerings for Porticoes, Blackridge, Triarc Deerfield, Prospect Street and Evercore have all been downsized and/or postponed. Evercore and Triarc Deerfield have been forced to modify their fees (at least for the first couple of years), and underwriters have faced pressure to reduce their discounts as well. Goldman Sachs and Morgan Stanley have refused to underwrite any more BDCs at all. We are not giving up on BDCs completely, and we note that Congress is looking to expand their role by widening the range of BDC-eligible investments.[3] Nevertheless we do believe that the competition for investor dollars and for good portfolio companies will drive both to the better known names with more established track records and particularly strong market niches.

[3] Increased Capital Access for Growing Businesses Act — September 23, 2004.

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 8/31/04	Equity Value	Enterprise Value [a]	LTM (6/30/2004) Revenue	LTM (6/30/2004) EBITDA	LTM (6/30/2004) 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	$ 309.7	$ 73.09	$ 4,702.9	$ 4,415.2	$ 677.2	$ 285.9	$ 2.81	6.5x	15.4x	26.0x	1.5%
Eaton Vance	89.4	40.15	2,787.5	2,776.4	631.6	213.4	1.85	4.4	13.0	21.7	3.1%
Federated Investors	183.8	28.85	3,138.8	3,263.0	915.5	375.2	1.91	3.6	8.7	15.1	1.7%
Franklin Resources	350.8	53.27	13,430.7	12,415.4	3,265.5	1,126.5	2.80	3.8	11.0	19.1	3.8%
Gabelli	28.2	40.71	1,216.4	1,177.6	237.2	93.0	2.02	5.0	12.7	20.1	4.3%
SEI Investments	100.1	32.68	3,508.2	3,374.5	668.4	220.6	1.42	5.0	15.3	23.0	3.5%
Janus Capital	135.4	13.74	3,312.5	2,504.9	1,041.8	414.7	0.78	2.4	6.0	17.5	2.4%
T Rowe Price	206.8	46.22	6,194.6	5,799.4	1,154.0	507.6	2.22	5.0	11.4	20.8	3.0%
Waddell & Reed	31.7	21.74	1,820.4	1,976.9	489.9	176.9	1.24	4.0	11.2	17.5	5.7%
Nuveen Investments	101.9	28.50	2,744.0	2,881.9	484.5	266.4	1.60	5.9	10.8	17.8	2.7%
TOTAL	**$ 1,537.7**		**$ 42,855.9**	**$ 40,585.2**			**AVERAGE**	**4.6x**	**11.6x**	**19.9x**	**3.2%**
							MEDIAN	**4.7**	**11.3**	**19.6**	**3.1%**
Holding Companies											
Affiliated Managers	$ 102.2	$ 49.05	$ 1,503.0	$ 2,172.1	$ 578.3	$ 260.2	$ 2.22	3.8x	8.3x	22.1x	1.5%
Bank / Trust Companies [c]											
Boston Private Finl	$ 15.4	$ 24.36	$ 687.9	$ 687.9	$ 158.7	$ 52.4	$ 1.09	4.3x	13.1x	22.4x	4.5%
Wilmington Trust	32.9	37.14	2,496.6	2,496.6	546.1	247.2	2.15	4.6	10.1	17.2	7.6%
TOTAL	**$ 48.3**		**$ 3,184.5**	**$ 3,184.5**			**AVERAGE**	**4.5x**	**11.6x**	**19.8x**	**6.0%**
Limited Partnerships											
Alliance Capital	$ 480.6	$ 34.27	$ 8,748.0	$ 8,464.5	$ 2,950.3	$ 855.5	$ 2.34	2.9x	9.9x	14.6x	1.8%
Overall **TOTAL**	**$ 2,168.8**		**$ 56,291.4**	**$ 54,406.3**							
							HIGH	6.5x	15.4x	26.0x	7.6%
							AVERAGE	4.4	11.2	19.6	3.4%
							MEDIAN	4.4	11.1	19.6	3.1%
							LOW	2.4	6.0	14.6	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 end of October and September and have been calendarized.
(c) Enterprise Value excludes cash.

US Public Money Managers— AUM Analysis

ENDING AUM ($ in billions)

Quarter Ending	9/30/2002	12/31/2002	3/31/2003	6/30/2003	9/30/2003	12/31/2003	3/31/2004	6/30/2004
Diversified								
Blackrock	$ 245.9	$ 272.8	$ 273.6	$ 286.3	$ 293.5	$ 309.4	$ 320.7	$ 309.7
Eaton Vance	55.6	55.8	57.9	64.3	75.0	83.6	85.1	89.4
Federated Investors	180.9	195.4	195.7	202.4	194.1	197.9	193.9	183.8
Franklin Resources	247.8	257.7	252.4	287.0	301.9	336.7	351.6	350.8
Gabelli	20.2	21.2	20.1	22.5	23.2	27.6	28.2	28.2
SEI Investments	72.2	78.0	78.2	85.7	87.4	90.6	96.1	100.1
Janus Capital	139.0	138.4	132.7	149.8	146.5	151.5	145.0	135.4
T Rowe Price	131.6	140.6	139.9	161.2	168.9	190.0	201.0	206.8
Waddell & Reed	25.6	28.1	27.5	31.7	32.9	36.6	37.0	31.7
Nuveen Investments	76.9	79.7	81.4	88.3	90.1	95.4	100.9	101.9
TOTAL	**$ 1,195.7**	**$ 1,267.8**	**$ 1,259.4**	**$ 1,379.1**	**$ 1,413.4**	**$ 1,519.2**	**$ 1,559.5**	**$ 1,537.7**
Holding Companies								
Affiliated Managers	$ 68.5	$ 70.8	$ 68.4	$ 77.3	$ 81.9	$ 91.5	$ 94.8	$ 102.2
Bank / Trust Companies								
Boston Private Finl	$ 6.0	$ 6.4	$ 6.8	$ 8.3	$ 9.4	$ 10.4	$ 14.9	$ 15.4
Wilmington Trust	29.1	28.9	22.6	30.9	30.7	32.3	32.7	32.9
TOTAL	**$ 35.1**	**$ 35.3**	**$ 29.4**	**$ 39.2**	**$ 40.1**	**$ 42.7**	**$ 47.6**	**$ 48.3**
Limited Partnerships								
Alliance Capital	$ 368.7	$ 386.6	$ 386.3	$ 426.2	$ 473.8	$ 474.8	$ 483.6	$ 480.6
OVERALL TOTAL	**$ 1,668.0**	**$ 1,760.4**	**$ 1,743.5**	**$ 1,921.8**	**$ 2,009.2**	**$ 2,128.2**	**$ 2,185.5**	**$ 2,168.8**
% Change	*(3.3)%*	*5.5%*	*(1.0)%*	*10.2%*	*4.6%*	*5.9%*	*2.7%*	*(0.8)%*

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