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Asset Management Focus
Freeman & Co. LLC

Can a Third Shoe Drop?

Bear Stearns. Lehman. What's next? And what will its impact be on the asset management industry? Already AUM is down 20-50% at many managers, and compensation and operating costs are being cut. While this creates enormous stress, it is also creating great opportunities for firms to differentiate themselves: for FOFs to miss Madoff; for CLO managers to pick the best credits; for LBO firms to have structured the best deals; for stock and bond pickers to have gotten defensive early. These winners will emerge in an environment where many of their competitors will be struggling and this will lead to some significant strategic shifts in the industry landscape. That will be exciting, but now it's all about survival.

Inside this Issue:

Performance as of December 31, 2008

Index	Total Return 2H 2008	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	-25.1%	-37.0%	-8.4%	-2.2%
NASDAQ	-26.9%	-40.5%	-10.6%	-4.7%
FTSE 100	-17.5%	-28.3%	-4.2%	3.4%
BGC*	4.7%	5.7%	5.6%	4.6%
HFRI**	-17.5%	-18.7%	0.3%	3.8%
FTSE Hedge***	-13.1%	-19.8%	-14.2%	-9.6%

**Barclays Govt./Credit Index ** Hedge Fund Research Institute Fund Weighted Composite ***in US$ terms*

Indices at 12/31/08:

DJIA	8,776.39
Nasdaq	1,577.03
S&P 500	903.25
FTSE 100	4,434.20
10 Year US Treasury Bond Yield	2.24%
USD per GBP	$1.46
USD per EUR	$1.39

Summary:

- **Deal Activity:** There were 208 acquisitions in 2008, a slight decrease from 217 in 2007. Total deal AUM at $1.6 trillion was up from $1.3 trillion in 2007 and the number of transactions greater than $1 billion reached an all-time high.
- **Minority Deals:** However much of this activity was in minority deals. Nippon Life Insurance's 5% stake in Russell Investments ($211 billion AUM) and Mitsubishi UFJ Trust and Banking Corporation's 10% stake in Aberdeen Asset Management ($183 billion AUM) were two key highlights for 2008, making up approximately 25% of deal AUM. Weighting these deal AUM's by the ownership bought, would lead to a drop in industry activity of 23%.
- **Deleveraging:** US financial sector debt grew to 114% of GDP, up from 21% in 1980. A return to that level would require $14 trillion of debt to be repaid. Mortgage debt grew 10x since 1980, compared to 7x growth for other debt types (government, consumer credit, non-financial businesses), and would need to drop by $4 trillion to be in line with the historical growth of these other debtors.
- **Combo Deals:** With AUM and revenue plunging, firms have pursued "combination" deals, such as the merger of asset management units of Soc Gen and Credit Agricole. We have seen other deals by Aberdeen and GLG – we expect to see more.

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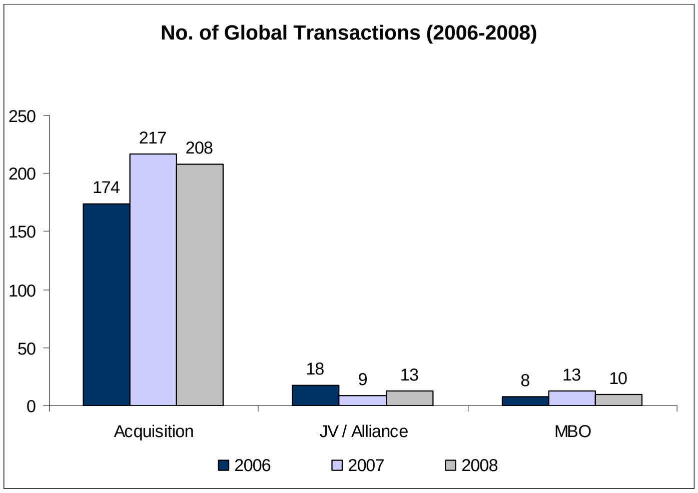
Deal Activity

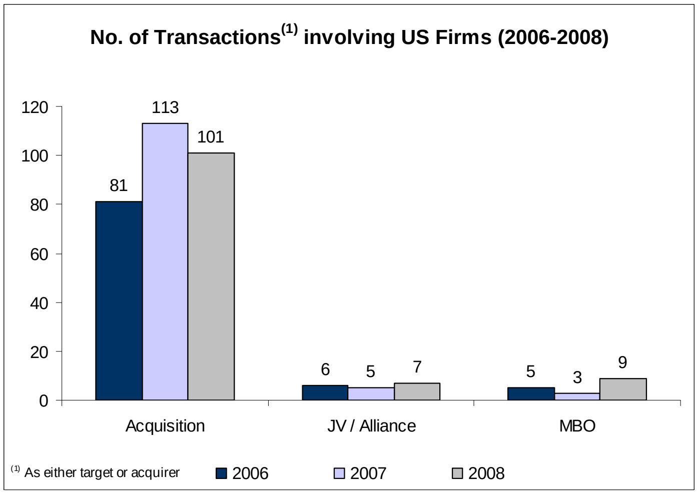
After a healthy start in 1H 2008, which had 2008 on pace for yet another record year despite problems arising in the credit markets, 2H 2008 told a completely different story. The number of global acquisitions decreased from 2007. In total, there were 208 acquisitions, 10 MBOs, and 13 JV / Alliances in 2008, compared to 217, 13 and 9 in 2007, respectively. Europe was the only region that showed increased activity in 2008 versus 2007. Deal volume saw a slight drop-off, but 2008 activity continued to move towards larger deals, although many were minority or distressed transactions.

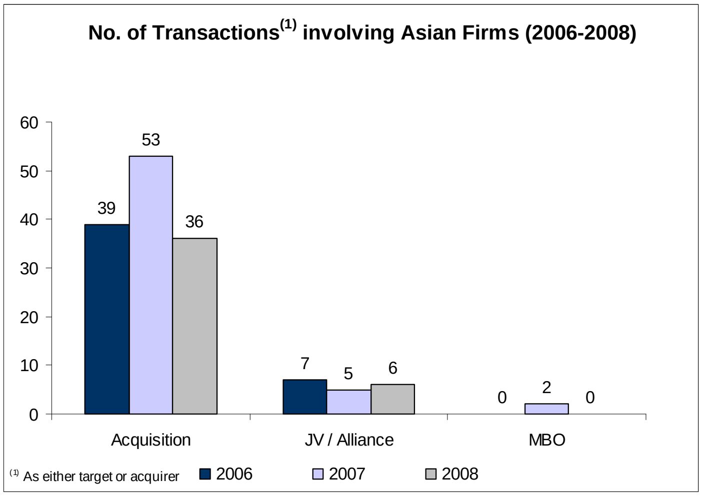


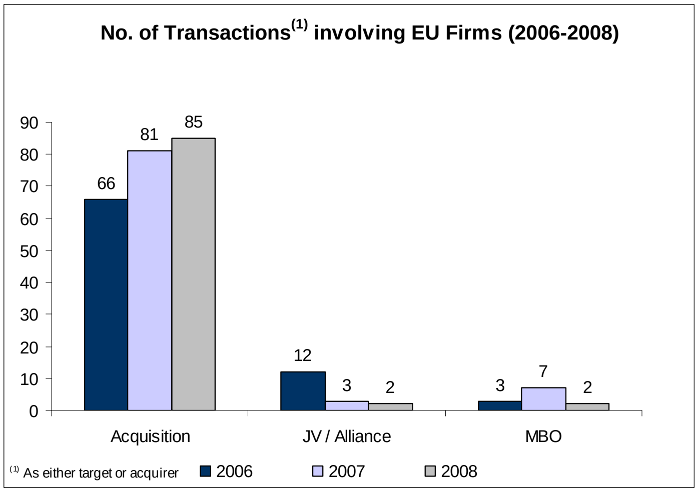
The three largest deals announced in 2008 were:

- Nippon Life Insurance's purchase of a 5% stake in Russell Investments ($211.0 billion)
- Mitsubishi UFJ Trust and Banking Corporation's acquisition of a 10% stake in Aberdeen Asset Management ($183.0 billion)
- Neuberger Berman's management buyout ($160.0 billion)

After experiencing record numbers of emerging market activity, deal volume experienced a drop-off in Asian firms. In 2008, deals involving Asian firms included 36 acquisitions, 0 MBOs, and 6 JV / Alliances compared to 53, 2, and 5 respectively for 2007. US firms recorded 63 acquisitions for 1H 2008 compared to 47 in 1H 2007, and activity began to plateau finishing the year with only 101 acquisitions, 9 MBOs and 7 JV / Alliances in 2008 compared to 113, 3, and 5 respectively for 2007. In Europe deal volume in 2008 was flat over 2007, however AUM transacted as a seller increased 138% from $265 billion in 2007 to $632 billion in 2008.





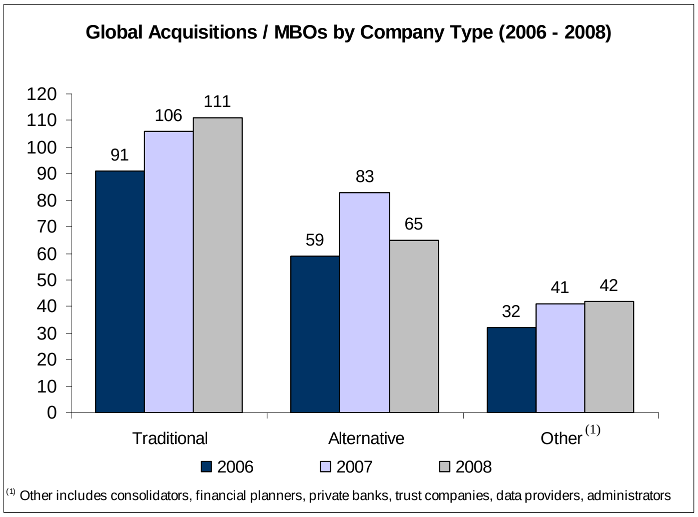


Source: Freeman & Co.

Transactions by Company Type

In 2008 alternative asset managers saw the biggest drop-off in deal activity, declining 22% from 2007, while the number of deals in the traditional and "other" (defined as financial planners, trust companies and private banks) categories more or less remained the same.

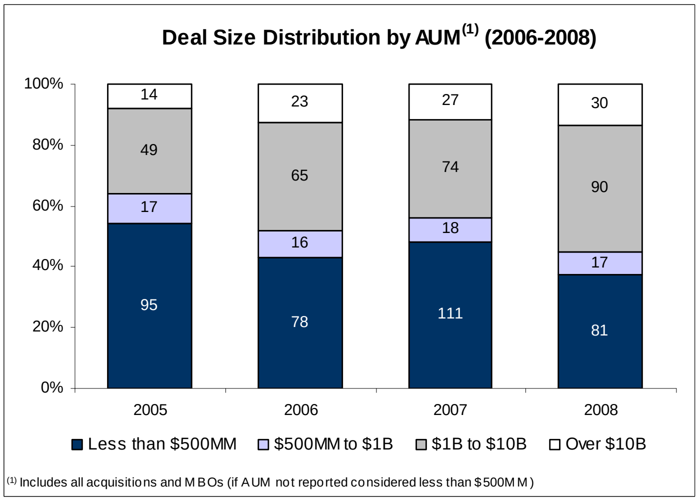
The decreased demand for alternative deals is being driven by a lack of liquidity and a record number of redemptions in the hedge fund industry. Hedge funds and fund of funds that were greatly exposed to structured investments have seen their AUM decline sharply. Rapid deleveraging and a lack of confidence induced by scandals such as Bernard Madoff's $65 billion Ponzi scheme have also added to the stress facing the alternative sector.



(1) Other includes consolidators, financial planners, private banks, trust companies, data providers, administrators

Deal Size

Big deals continued their pace from 2007, with 30 deals involving over $10 billion AUM. Deals ranging in size between $1 billion and $10 billion also saw a significant jump from 2007, increasing 22%. Smaller deals told a much different story with transactions involving AUM of less than $500 million falling from 111 reported deals in 2007 to 81 deals in 2008, a 27% drop-off. The current state of the financial sector has forced many of the larger asset managers to cut costs, consolidate operations and look for ways to gain size and scale through mergers or partnerships. In 2008 there were 14 transactions involving AUM greater than $20 billion, which emphasizes the size and scale trend that was prevalent throughout 2008.



(1) Includes all acquisitions and MBOs (if AUM not reported considered less than $500MM)

Significant Deals in 2008:

- Nippon Life Insurance's purchase of a 5% stake in Russell Investments ($211.0 billion)
- Mitsubishi UFJ Trust and Banking Corporation's 10% minority stake in Aberdeen Asset Management ($183.0 billion)
- Neuberger Berman's management buyout ($160.0 billion)
- Allianz Global Investors AG's purchase of COMINVEST Asset Management GmbH ($72.0 billion)
- Aberdeen Asset Management's purchase of Credit Suisse Fund Management ($71.0 billion)
- Royal Bank of Canada's acquisition of Phillips, Hager & North Investment Management, Ltd. ($69.0 billion)
- TPG Capital and Pharos Capital's purchase of a 90% stake in American Beacon Advisors ($65.0 billion)
- The Bank of Nova Scotia's 37% stake in CI Financial Income Fund ($55.9 billion)
- APG Groep NV majority investment in Cordares ($41.1 billion)
- Clessidra Capital Partners II, L.P, Clessidra SGR majority stake in Monte Paschi Asset Management SGR ($33.6 billion)
- Fortis Investment Management UK Limited 33% stake in Artemis Investment Management Ltd. ($29.4 billion)
- Co-operators Group Ltd. purchase of Addenda Capital ($29.0 billion)
- Harris Bankcorp Inc. minority stake in Virtus Investment Partners ($27.1 billion)
- Sal Oppenheim jr. & Cie. S.C.A acquisition of Collineo Asset Management Gmbh ($23.6 billion)

Source: Freeman & Co.

Assets Acquired by Seller Region

Assets Acquired[1] by Seller Region by Year ($MM)

Region	2004	2005	2006	2007	2008
Africa	4,500	6,970	55,050	4,300	5,600
Asia/Middle East	22,765	52,211	77,832	115,819	56,007
Canada	5,506	32,156	8,045	67,905	173,639
Europe	110,476	488,649	225,341	265,157	631,511
South America	6,432	2,800	7,600	35,150	6,433
US	297,730	549,132	1,842,515	861,261	724,811
Total[2]	**$447,409**	**$1,131,917**	**$2,220,583**	**$1,349,592**	**$1,600,401**
Acquisitions[3]	86	103	126	142	164
Average Size	5,202	10,989	17,624	9,504	9,759
Median Size[3]	1,615	1,470	2,600	2,950	2,800

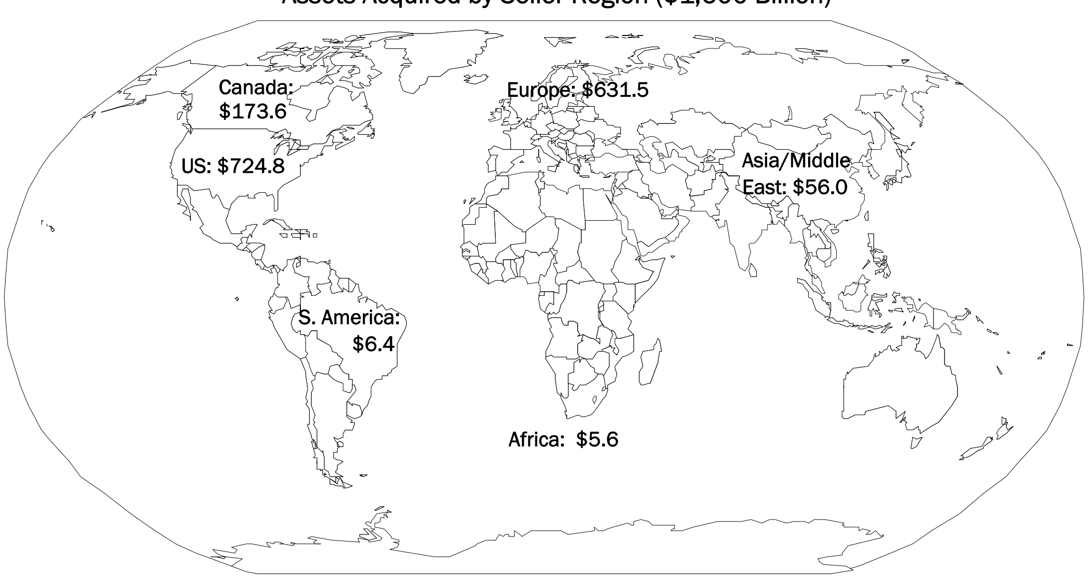
(1) Assets acquired through acquisitions and MBOs Source: Freeman & Co.

(2) Totals include assets acquired by offshore regions

(3) Acquisitions and median deal size calculated using only deals with reported AUM

A sell-side analysis of assets sold highlights some of the emerging developments in the industry. The most prolific jump is Europe's 138% increase in assets sold compared to 2007. Europe was active both as a buyer and as a seller in 2008 as it closed the gap on the US. While remaining the leader on both the buy-side and the sell-side, the US saw its lead quickly diminish as many deals fell through in 2H 2008 due to the deterioration of the credit markets. After reaching its peak in 2006 with $1.8 trillion in assets sold, US activity has been declining with $724 billion reported for 2008 compared to Europe's $632 billion. Canada also saw its sale of assets more than double from 2007 with $174 billion in 2008 and an increase of 815% over 2006. Canadian assets sold in 2008 included Royal Bank of Canada's acquisition of Phillips, Hager & North Investment Management, Ltd. ($69.0 billion), The Bank of Nova Scotia's 37% stake in CI Financial Income Fund ($55.9 billion) and Co-operators Group Ltd. purchase of Addenda Capital ($29.0 billion). A noteworthy drop in assets sold occurred in Asia/Middle East as it continued to move from a net seller of AUM to a net acquirer, going from approximately $116 billion to $56 billion, a 52% decrease from 2007. Sell-side activity in South America also decreased compared to a year prior going from approximately $35 billion to $6 billion, an 82% decline.

Assets Acquired by Seller Region ($1,600 Billion)



Source: Freeman & Co. ($ in billions)

Assets Acquired by Buyer Region

Assets Acquired[1] by Buyer Region by Year ($MM)

Region	2004	2005	2006	2007	2008
Africa	22,880	6,970	55,050	8,500	8,100
Asia/Middle East	985	39,589	79,932	177,283	449,179
Canada	2,006	74,356	8,375	260,200	189,850
Europe	50,635	425,321	252,711	229,998	475,011
South America	0	1,800	0	950	0
US	370,904	583,582	1,824,515	672,661	475,261
Total[2]	**$447,409**	**$1,131,917**	**$2,220,583**	**$1,349,592**	**$1,600,401**

Acquisitions[3]	86	103	126	142	164
Average Size	5,202	10,989	17,624	9,504	9,759
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(1) Assets acquired through acquisitions and MBOs

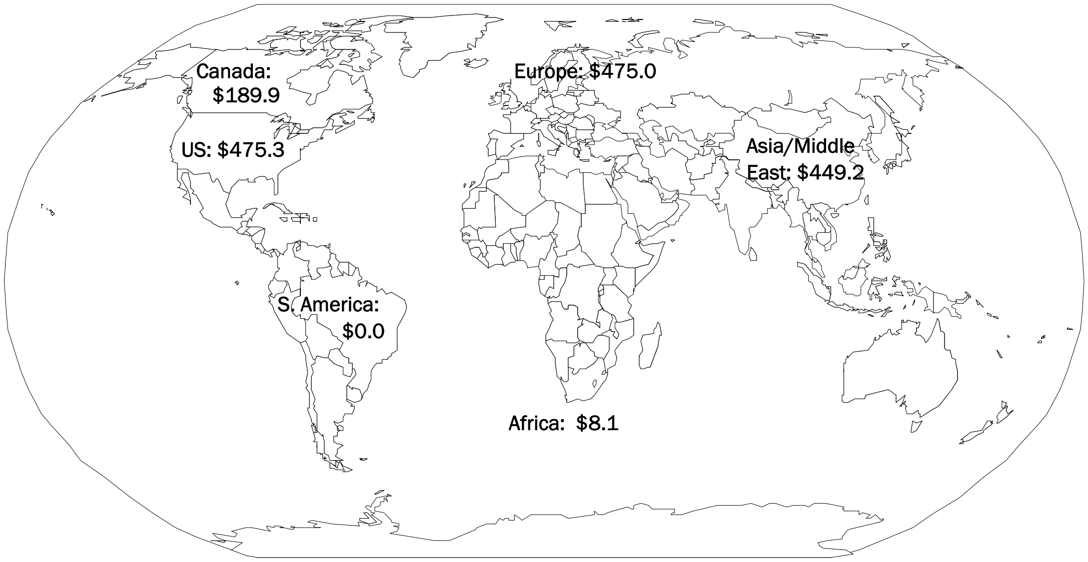
Source: Freeman & Co.

(2) Totals include assets acquired by offshore regions

(3) Acquisitions and median deal size calculated using only deals with reported AUM

Despite the slight drop-off in number of global transactions, 2008 surpassed 2007 in total AUM acquired with $1.6 trillion. Asia/Middle East and Europe saw the biggest improvement from a year prior increasing 153% and 107% respectively. Nippon Life Insurance's 5% stake in Russell Investments (**$211.0 billion**) and Mitsubishi UFJ Trust and Banking Corporation's 10% minority stake in Aberdeen Asset Management (**$183.0 billion**), both of which involved Asian buyers, accounted for 88% of AUM acquired in Asia/Middle East. Europe also saw several big transactions occur in 2008 which included Allianz Global Investors AG's purchase of COMINVEST Asset Management GmbH (**$72.0 billion**), Aberdeen Asset Management's purchase of Credit Suisse Fund Management (**$71.0 billion**) and Fortis Investment Management UK Limited's 33% stake in Artemis Investment Management Ltd. (**$29.4 billion**). These three deals accounted for 36% of the AUM acquired by European buyers. The US saw a drop in assets acquired from 2007, declining from $673 billion in 2007 to $475 billion in 2008. Median acquisition size for deals with reported AUM dropped slightly to $2.8 billion from last year's average of $3.0 billion.

Assets Acquired by Buyer Region ($1,600 Billion)

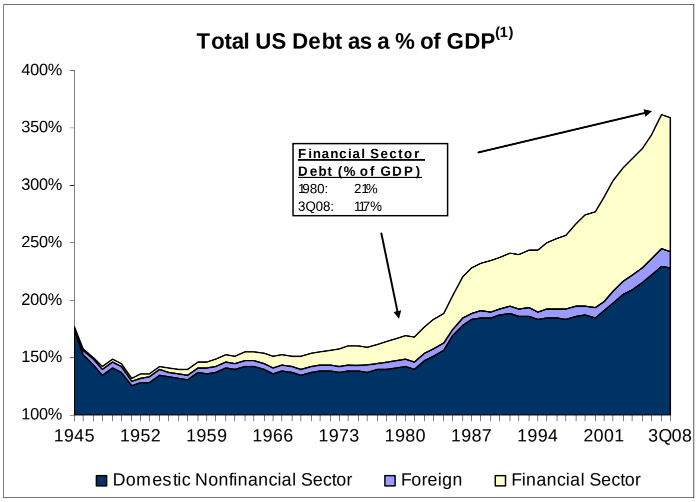


Source: Freeman & Co. ($ in billions)

Global Deleveraging

A Brief Recap

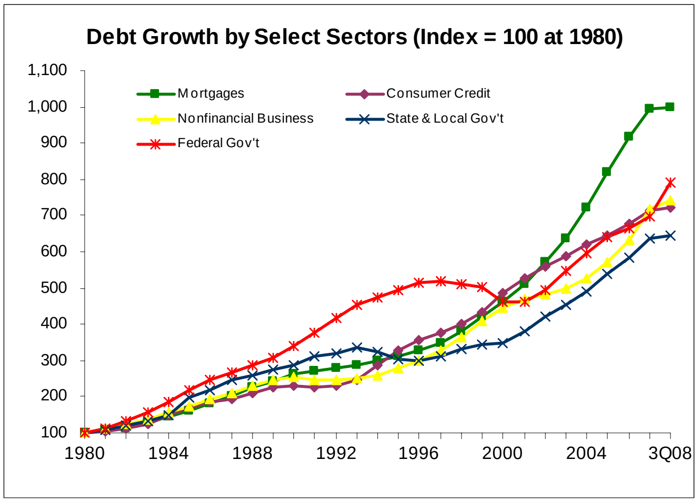
2008 was quite a year. The US financial industry is still reeling and is in the process of a vast reshaping. At the root of the problem was too much debt and leverage which was fueled by years of easy money, soaring housing prices, lax lending and an increasing appetite for risk. Debt as a % of GDP in the US had been climbing rapidly since the early 1980's. As shown in the first chart on the right, debt owed by financial sectors increased from 21% of annual GDP in 1980 to 117% of annual GDP as of the 3Q 2008. If the financial sector were to return to its 1980 Debt/GDP levels of 21%, outstanding leverage would need to drop by approximately $14 trillion. As shown in the second chart, mortgage debt owed has increased 10x from $1.5 trillion in 1980 to $15 trillion as of 3Q08. Mortgage debt levels would need to fall by $4 trillion to be in line with the other sectors that have grown at approximately 7x the levels of 1980.



(1) Total US Debt includes public and private debt

Source: Federal Reserve

The rest of the world did not fair any better than the US. In Europe, domestic debt levels mirrored those of the US and European banks applied more leverage than their US counterparts forcing many to be bailed out by their governments. In emerging markets, the decoupling that many thought would prevail has not come to fruition and many of these markets are suffering based on lower capital inflows, falling commodity prices, reduced export demand, credit contraction, and wealth destruction.

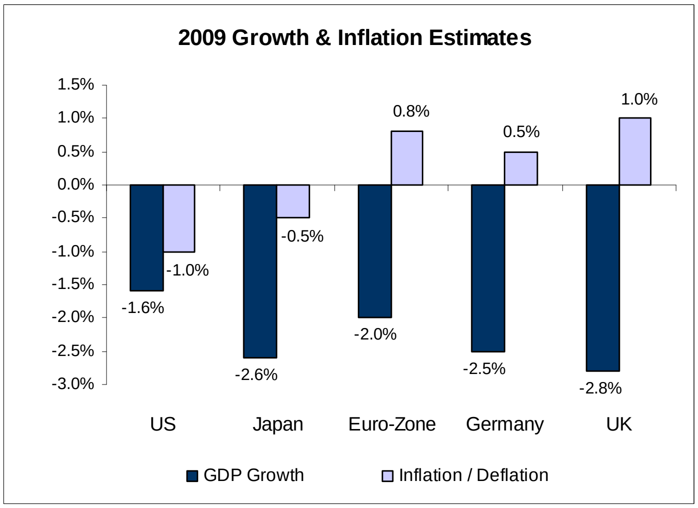


Source: Federal Reserve

As the world is in the process of deleveraging, the effect on developed economies will be slower economic activity and the risk of deflation. International Monetary Fund, as of January 28, 2009, predicts negative GDP growth estimates for the US, Japan, Euro Zone, Germany and UK in 2009.

What's Next for the Economy?

The US economy, now awaiting a gigantic economic stimulus package and with the assistance of the Fed's Term Asset-Backed Securities Loan Facility, or TALF, is expected to recover faster than the global economy. With interest rates near zero and federal government bodies deeply involved in the financial system, well-capitalized companies as well as those with direct access to government funds or guarantees are expected to reap the benefits in the near to medium term. However, we expect the recovery to be slow, long and difficult as the past excesses are worked out of the system.



Source: IMF (Jan 28, 2009) & UBS WM Research (Jan 26, 2009)

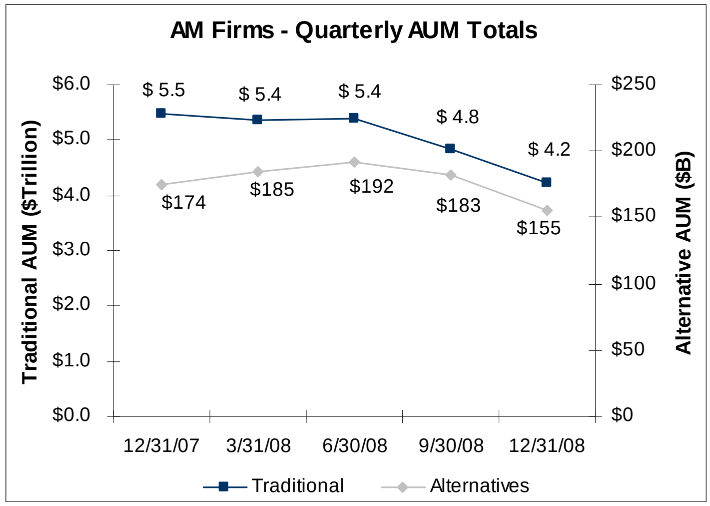
Effects of Global Deleveraging on the AM industry

Overview

While asset management firms don't have the balance sheet problems of the banks, they still felt the pain of diminished AUM from market decline and redemptions. As shown on the right, a basket of public US traditional managers have lost approximately $1.3 trillion of AUM in the past year (23% of 12/31/07 totals), which represents $7.2 billion of revenues at 55 bps of average fees. Of the 14 US companies included in the traditional basket only Federated Investors increased its AUM (up 35% from 12/31/07) fueled by demand for its money market funds and fixed-income investments. Excluding Federated Investors, traditional US managers lost an average of 33% of their AUM for the year, and we estimate bank and life insurance owned firms had similar results.

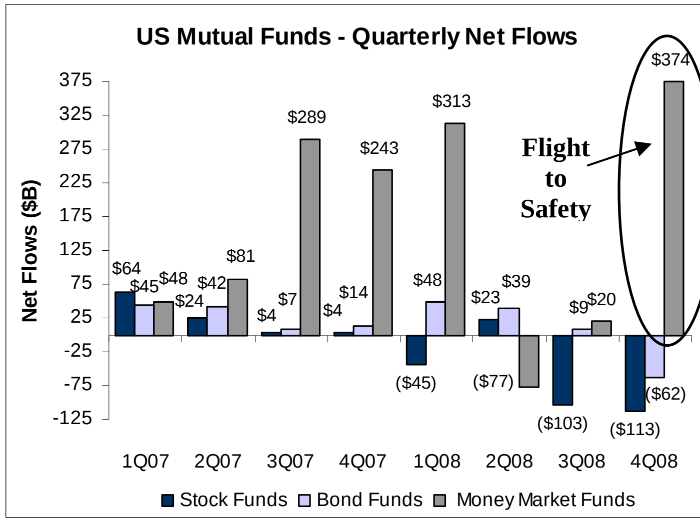
This drop in AUM levels puts a great deal of pressure on costs and P&Ls. The average public company yields 55 bps on AUM, has compensation/revenue costs of 30%, and operating margins of 35%. A 30% drop in AUM, and hence revenue, means that firms are faced with tough choices. To keep margins at 30% (down from 35%), the average firm needs to cut compensation by 30% and other costs by 20%. Those are big cuts – and margins are still down in this case.

The basket of US alternative companies didn't fair much better than the US traditional companies. While three of the four companies saw their AUM drop between 20%-40% over the course of 2008, Blackstone bucked the trend, increasing its AUM 9%. In total the basket of US alternative companies lost over $19 billion worth of assets or 11% from 12/31/07 levels, and $37 billion, or 19%, from peak AUM levels on 6/30/08. The decline in the last quarter of 2008 coincided with the severe disruptions across all capital markets as well as assets being marked to market.



Traditional Long Index: Affiliated Managers, AllianceBernstein, Blackrock, Calamos, Cohen & Steers, Eaton Vance, Federated Investors, Franklin Resources, Gamco, Janus Capital, Legg Mason, SEI Investments, T Rowe Price, Waddell & Reed
Alternative Index: Blackstone, Fortress (12/31/08 AUM as of 1/1/09), GLG Partners, Och-Ziff (12/31/08 AUM as of 1/1/09)

Source: Publicly available SEC filings, Company Press Releases

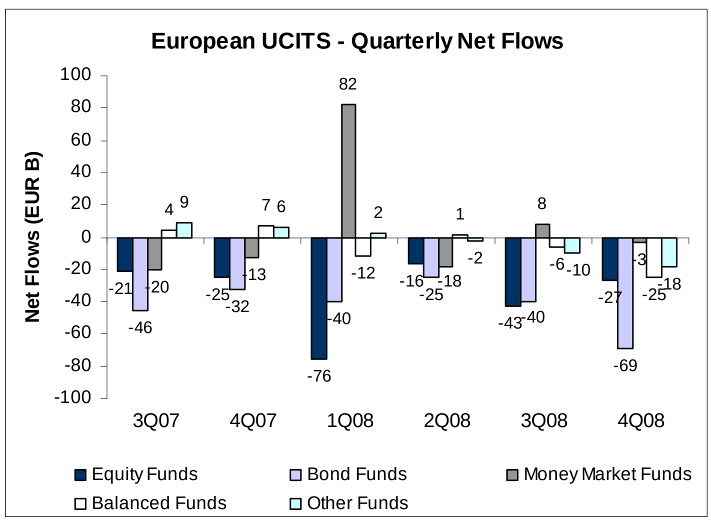


Source: ICI

Resilience of the US AM Industry

Mutual fund investors in the US began pilling into money market funds two quarters earlier than European investors, underscoring a flight to safety that was undertaken earlier in the US than the in Europe.

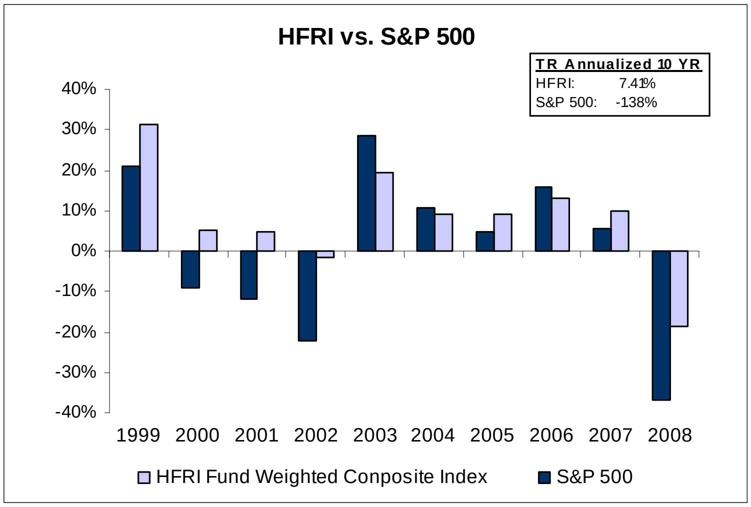
In addition, a closer look at the two charts to the right shows that, beginning in the second half of 2007, European UCITS have seen only negative net flows versus their US counterparts that experienced negative flows in only two quarters of 2008. This leads us to believe that European investors have opted for bank or cash deposits more often than US investors. The US mutual fund market also benefits from the continual inflows of 401(k) plans.



Source: efama

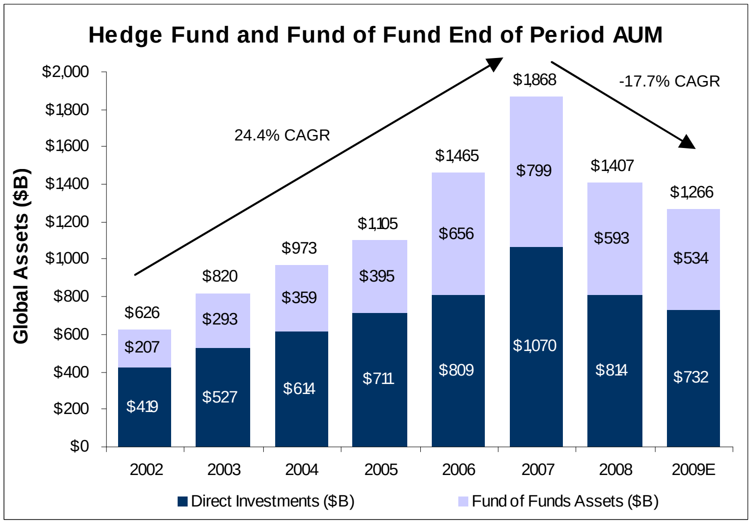
Effect on Alternatives

Hedge Funds – As an industry, hedge funds performed considerably better than the broad market in 2008, down 18.3% for the year according to the HFRI Fund Weighted Composite Index versus 37% recorded by the S&P 500. This did little to mitigate the damage experienced by an industry which lost over 25% of its assets in 2008 (withdrawals + market losses). Our estimates are that close to 1,000 funds went out of business in 2008 compared to an average of 700 per year over the past three years. At the end of 2008 there were over 6,800 hedge funds, and we estimate that by year end 2009 there will be less than 5,000, a drop of 26%, and down 34% from the peak of 7,600 in 2007.

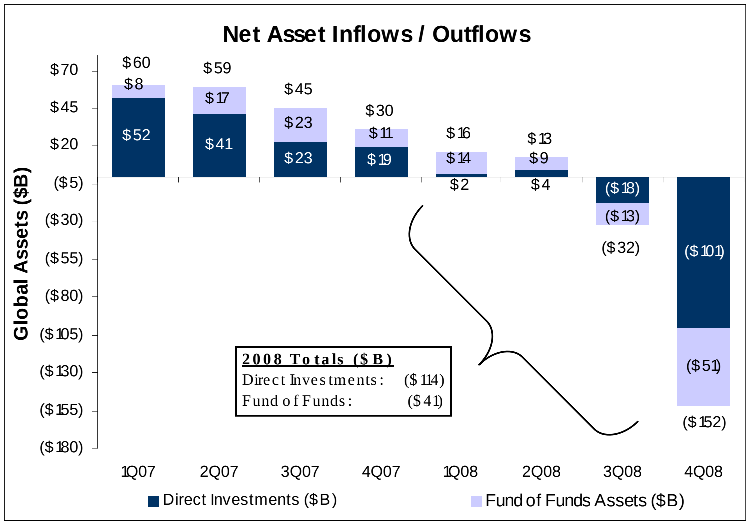


Source: Hedge Fund Research, Morningstar

Fund of Funds – The FOF industry suffered less asset outflows than the direct hedge fund industry in 2008. The third chart on the right shows that FOFs had outflows of $41 billion in 2008 versus $114 billion by hedge funds. Despite the lower outflows, the FOF industry is at a crossroads. Investors are expecting more from FOFs: transparency, risk management and operating infrastructure. These client demands place a premium on size and scale for FOF businesses – many smaller firms may not be able to make or afford the investments in their businesses that clients will be demanding. This will certainly lead to increasing market share concentration among the larger firms. Whether it leads to M&A consolidation depends more on the human element of merging/acquiring entrepreneurial owned businesses. Lastly, Madoff has triggered increased demands for robust risk and operational due diligence capabilities – and firms that invested with Madoff may find it to be their death sentence.



Source: Hedge Fund Research



Source: Hedge Fund Research

Key Issues for HF/FOFs	Impact on Business
• Appreciation for liquidity • Desire for transparency • Risk management • Depth of resources • Pressure on fees • Deferred compensation terms • Regulatory and compliance pressure • Decreased access to leverage	• Increased product development and segmentation • Increased preference for separate accounts • Scale necessary to support desire for more resources • Decreased manager profitability • Continuous threat of consolidation

Private Equity – With the disappearance of easy credit, the LBO boom seen during 2004-2007 has come to a complete halt. Furthermore, many buyouts of the past few years are seeing their equity investments nearly wiped out. This drop in value is made evident by the following facts:

- Bonds issued by highly leveraged companies are trading at less than 50 cents on the dollar
- Publicly traded investment vehicles run by Apollo and Kohlberg Kravis Roberts (KKR) are trading below 20% of their NAVs
- Pension funds and endowments looking to exit investments in private equity funds via the secondary market are seeing offers as low as 20 cents on the dollar

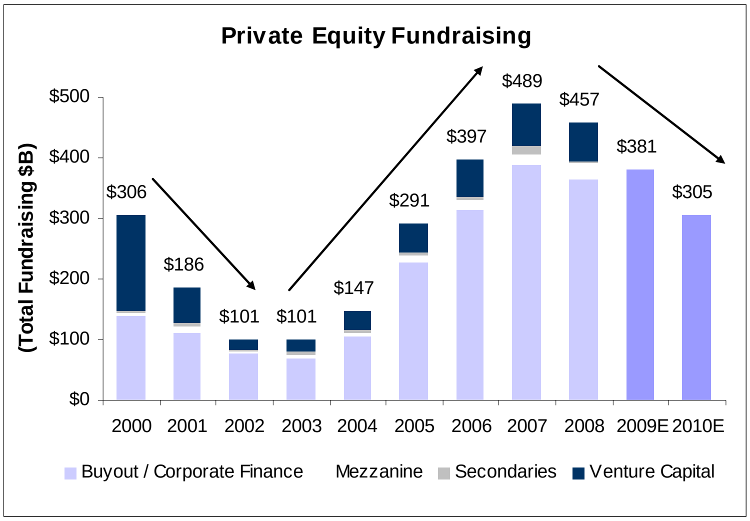
These private equity changes are impacting firms in a number of ways:

PE Firms: the flow of capital to new funds will drop as it did in the 2000-2002 period; prices for companies will stay low as PE firms lack leverage to reach their IRR targets, and deal making may remain slow as many LPs press their managers to delay capital draws.

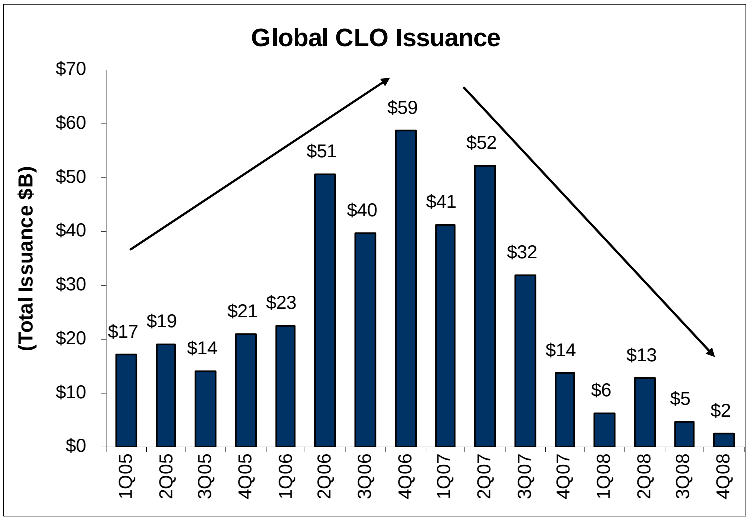
CLO Managers: during the leverage boom numerous firms started up and were able to gain distribution from Wall Street. Many firms will not survive due to poor performance or an inability to build distribution to diversify and survive.

Asset Manager LBOs: a number of asset managers opted for MBOs or LBOs using leveraged loans during the boom. One example is the Nuveen LBO by Madison Dearborn. Many of these deals will need to be restructured as it was never anticipated that the companies could see their revenue drop by 30-40%.

Distressed Managers: these managers will have great opportunities over the next 2-4 years. Many managers in the private equity and mezzanine spaces will push into the distressed space as well, often recruiting the investment bankers who structured the deals in the first place.



Source: Thompson Financial & Freeman & Co.



Source: Securities Industry and Financial Markets Association

Select Private Equity Transactions involving Asset Managers

Year	Acquirer	Target	Deal AUM ($MM)
2007	Madison Dearborn Partners	Nuveen Investments	166,000
2008	TPG Capital and Pharos Capital	American Beacon Advisors	65,000
2006	Hellman & Friedman	Artisan Partners	50,000
2006	Hellman & Friedman & Mgmt.	Gartmore Investment Management	47,000
2007	TA Associates & Mgmt.	Jupiter Asset Management	37,670
2008	Clessidra Capital Partners	Monte Paschi Asset Management	33,600
2006	Crestview Partners & Mgmt.	Munder Capital Management	25,100
2007	Hellman & Friedman	Grosvenor Capital Management	24,000
2008	TA Associates	Keeley Asset Management	10,000
2005	Bridgepoint Capital & Mgmt.	Tilney Holdings Ltd.	9,400
2003	Putnam Lovell Equity Partners	Atlantic Asset Management	9,000
2007	3i Group	Bestinvest	7,600
2004	TA Associates	Numeric Investors	7,500
2006	Circle Peak Capital	WealthTrust Inc.	6,500
2007	Vulcan Capital	Silvercrest Asset Management	6,000
2002	TA Associates	Clinton Group, Inc.	5,800
2007	**TA Associates**	**K2 Advisors**	**5,500**

Source: Freeman & Co. research
Freeman & Co. Represented K2 Advisors

History of Valuations – Stock Prices

Over the past year public asset managers have seen their share prices drop anywhere between 30% to 90+%. Compared to the S&P 500, which was down 37% on the year, an equally-weighted index of public traditional long-only managers was down 50%, an index of FOF managers was down 66%, and an index of alternative managers was down 77%.

The companies with the biggest losses were the alternative managers which saw their stock prices plummet as much as 94%. Some of the biggest drops are below:

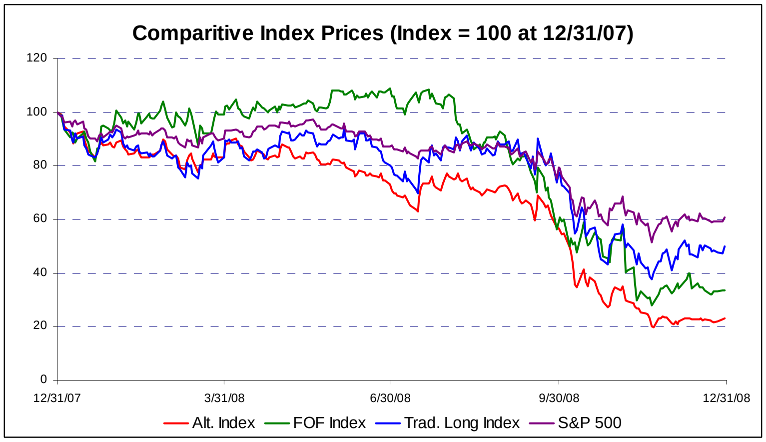
	Stock Prices			YOY %
	12/31/07	6/30/08	12/31/08	Change
Fortress	$ 15.58	$ 12.32	$ 1.00	-93.6%
Charlemagne Capital	£ 0.74	£ 0.44	£ 0.08	-89.2%
RAB Capital	$ 0.88	$ 0.48	$ 0.11	-87.5%
GLG	$ 13.60	$ 7.80	$ 2.27	-83.3%
Och-Ziff	$ 26.28	$ 19.01	$ 5.15	-80.4%
BlueBay	£ 3.55	£ 2.25	£ 0.70	-80.3%
Blackstone	$ 22.13	$ 18.21	$ 6.53	-70.5%

Traditional asset managers have historically displayed similar volatility to the broad market as measured by beta, however in this cycle their stock prices have been down 150% to 200% of the market's decline. AUM flows had little impact on share price as Federated Investors, which increased its AUM 35% from 12/31/07 to 12/31/08 fueled by demand for its money market funds and fixed-income investments, saw its stock price drop nearly 60% over that time period.

	Stock Prices			YOY %
	12/31/07	6/30/08	12/31/08	Change
Janus Capital	$ 32.85	$ 26.47	$ 8.03	-75.6%
Legg Mason	$ 73.15	$ 43.57	$ 21.91	-70.0%
Federated Investors	$ 41.16	$ 34.42	$ 16.96	-58.8%
INVESCO	$ 31.38	$ 23.98	$ 14.44	-54.0%
Eaton Vance	$ 45.41	$ 39.76	$ 21.01	-53.7%
Franklin Resources	$ 114.43	$ 91.65	$ 63.78	-44.3%
T Rowe Price	$ 60.88	$ 56.47	$ 35.44	-41.8%
Blackrock	$ 216.80	$ 177.00	$ 134.15	-38.1%
Schroders	£ 13.02	£ 9.14	£ 8.58	-34.1%

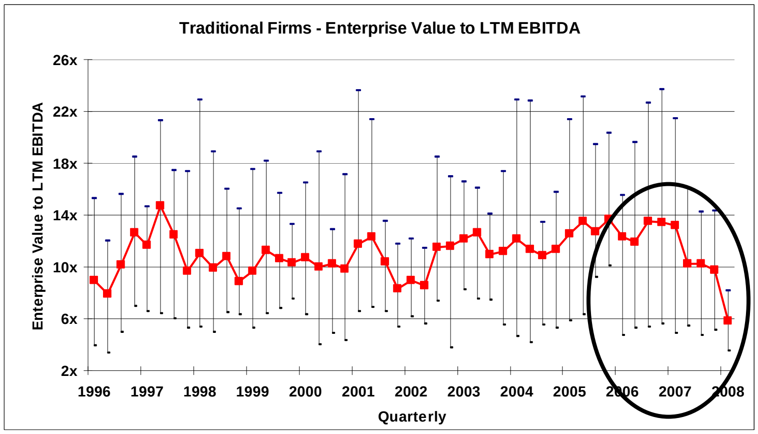
EBITDA Multiples

Multiples based upon enterprise value to last-twelve-months (LTM) EBITDA continue to be suppressed to record lows as investors try to sort out what future cash flows the public asset managers will be able to generate. About half of the drop represents a fall in run-rate EBITDA and about half is due to multiple compressions.



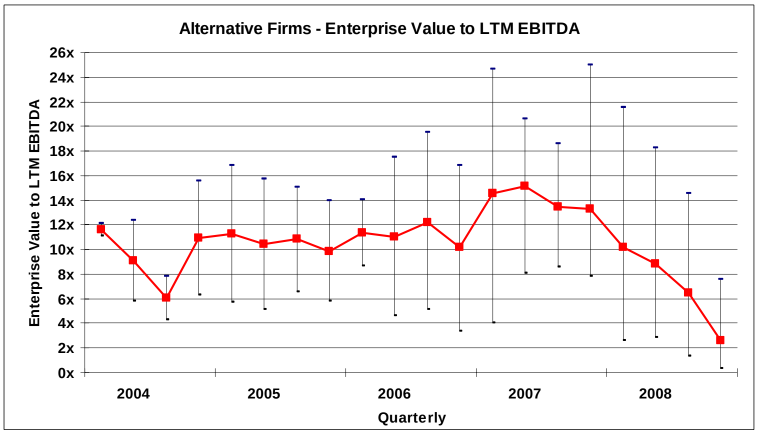
Traditional Long Index: Blackrock, Eaton Vance, Federated Investors, Franklin Resources, INVESCO, Janus Capital, Legg Mason, Schroders, T Rowe Price
FOF Index: Man Group, Partners Group
Alternative Index: Absolute Capital, Blackstone, BlueBay, Charlemagne, Fortress, GLG Partners, Och-Ziff, RAB Capital
Note: The above are all equally weighted indexes

Source: Capital IQ



Traditional Firms: Blackrock, Calamos, Cohen & Steers, Eaton Vance, Federated Investors, Franklin Resources, Gamco, INVESCO, Janus Capital, Legg Mason, Schroders, SEI investments, T Rowe Price, Waddell & Reed

Source: Publicly available SEC filings, Capital IQ, Freeman & Co.



Alternative Firms: Ashmore, Blackstone, BlueBay, Charlemagne Capital, Fortress, GLG Partners, Gottex, HFA Holdings, Man Group, Och-Ziff, Partners Group, Rab Capital

Source: Publicly available SEC filings, Capital IQ, Freeman & Co.

Black Swans and Fat Tails – Unexpected Sources of Risk

New Risks

Traditional risk management systems focus on answering questions such as: What is my VaR? What if the S&P 500 drops 10%? Or 20%? Or credit spreads double? What if we relive the dot com burst, the Asian currency crisis or the Russian debt default?

These risks are generally quantifiable in nature and relatively well defined. The questions not asked above, however, have been among the most relevant over the last 18 months: What if my investments are good, but my prime broker fails? Or I can't hedge my risks properly because of a ban on short selling, my swap counterparty failed, or my insurer is bankrupt? What if my fellow LPs are defaulting on their capital calls putting my private equity investments at risk?

The table to the right highlights some of the unpredictable events over the last 18 months.

Caveat Emptor

Risk management systems are inherently backward looking and even the most sophisticated systems were never conceived to assess all types of risk. We expect investors to approach new asset classes and complex financial products with significantly more humility over the medium term. These events have highlighted the limitation of many traditional risk management systems due to their inability to foresee certain market and liquidity risks. Users will be more careful not to become overconfident on their risk systems, and will need to be aware that many risks can't be modeled easily, if at all.

Event	Effect
Prime Broker & Counterparty Risk	
JP Morgan acquires Bear Stearns with the back-stop of the Federal Reserve (3/2/08)	- $30bn line of credit pushed the Fed's authority into new territory - Preserved CDS and other derivative counterparties, but created political headwind that later contributed to no bailout for Lehman
Prime brokers / hedge funds lose access to "easy money"	- Hedge funds got squeezed between falling markets and panicky redemptions as well as prime-broker credit lines reductions
Lehman Brother's bankruptcy (9/15/08)	- Largest bankruptcy in US history with $640bn in assets - Common shareholders wiped-out, uninsured debt holders received 8.6 cents for each dollar of face value - Funds using Lehman Brothers as their prime broker became unsecured creditors and lost the bulk of their assets after the bankruptcy
AIG - $180bn bailout (9/16/08 - current)(1)	- Rating cuts by S&P and Moody's triggered massive CDS contract terminations and collateral calls from counterparties - Largest government bailout in US history. Common shareholders almost completely wiped-out (lost over $200bn in market cap) - Insurance and CDS counterparties saved (AIG had CDS on over $500 billion worth of securities)
Regulatory & Rating Risk	
Fannie Mae & Freddie Mac placed in conservatorship (9/7/08)	- Common stock and preferred stock almost completely wiped-out for pre-conservatorship holders - Added close to $2T in liabilities to the US Governments balance sheet
SEC/FSA ban on short selling US: (9/19/08 - 10/2/08) UK: (9/18/08 - 1/16/09)	- Considerable impact on short and hedging strategies - Increased trading costs and delayed market-based adjustment of prices for certain equities
New US government administration	- Significant shift in a wide range of policies, including increased push towards expansive regulation and a massive stimulus package (effects on economy TBD) - Leadership change at Treasury and regulatory bodies
Potential ban of CDS trading(2) (proposed date: 1/29/09)	- Galvanized central counterparty clearing - Increased likelihood of regulatory framework
Moody's erroneous rating of CPDOs (5/21/08)	- While CPDOs are only a small part of the structured credit market, the error highlights the complexity and opacity of the structured credit market
Key Man & Business Model Risk	
GLG Capital – Greg Coffey Departs (4/22/08)	- GLG's asset drop from $24bn on 4/22/08 to $15bn on 12/31/08 - GLG posts 64% decrease in profits in the quarter following departure
Quadrangle – Steve Rattner leaves to be Car Czar (2/23/09)	- Any effect on asset redemptions still to be determined (NYC Mayor Michael Bloomberg states that he will keep his assets with Quadrangle)
HRJ Capital (12/16/08)	- PEFOF overcommitment strategy leads to managers or funds possible bankruptcy
Primary Reserve Fund (PRF) breaks the buck (9/16/08)	- PRF, the country's oldest money market fund, fell below $1/share. Within three days $200bn in capital was pulled out of both the money market fund and the prime fund markets
Fraud	
Madoff $65bn Ponzi Scheme (12/11/08)	- Undermined investors' confidence in hedge funds, regulators and the broader market, accelerating the onset of heavy regulation and triggering additional industry redemptions. Liquidity, transparency and due diligence become key issues for the hedge fund industry.
Other Fraudulent Schemes	- More than 40 Ponzi-like and other fraudulent operations (18 in 2009 YTD) have been uncovered since the onset of the financial crisis

(1) 9/16/08: The government extends AIG a two-year loan of up to $85 billion, and gets a 79.9% stake in return.
10/8/08: Bailout loans increase to nearly $123 billion due to problems in AIG's securities-lending program.
11/9/08: The rescue package increases to $150 billion, including a new $40 billion federal investment.
3/1/09: The government makes $30 billion in TARP money available and cuts the loans to up to $25 billion.

(2) Legislation proposed by Rep. Collin Peterson (D-MN)

Focus on Europe – Will More Financial Institutions be Willing to Part with their Asset Management Subsidiaries?

Following our piece in the last issue of the Asset Management Report on potential divestitures by US banks there have been some meaningful transactions and developments in Europe which we believe are worthy of note.

The three most notable transactions announced in Europe in recent months in line with this theme are GLG's acquisition of Société Générale's (Soc Gen) UK asset management subsidiary SGAM UK (**$8.2 billion AUM**, announced 12/19/2008), Aberdeen Asset Management's acquisition of the vast majority of Credit Suisse's Global Investors business (**$71 billion AUM**, announced 12/31/2008), and the merger of the asset management arms of Soc Gen and Crédit Agricole (**$808 billion combined AUM**, announced 1/26/2009).

Key terms/features of these deals included:

- **Use of equity consideration** - Both the Crédit Agricole / Soc Gen merger and Aberdeen's purchase of Credit Suisse's Global Investors involved pure equity consideration. Crédit Agricole and Soc Gen will own 70% and 30% of the new entity, respectively. Aberdeen will cede up to a 24.9% stake of its enlarged share capital to Credit Suisse, which is subject to both a three year lock-up and a three year standstill on increasing its stake in Aberdeen
- **Continuing distribution arrangements with the selling institutions** – The terms of each of the above transactions included stipulations to continue and expand the coverage of any existing distribution arrangements between the two parties
- **Enhanced geographic coverage** – Both the Crédit Agricole / Soc Gen merger and Aberdeen / Credit Suisse transaction involved the transfer of global asset management franchises. The combined French powerhouse brings together the entirety of the CAAM group, the European and Asian activities of SGAM, as well as 20% of TCW (Soc Gen's asset management subsidiary in the United States). Aberdeen in turn broadens its presence in Europe, the US, and Asia Pacific markets
- **Cost synergies** – Both Crédit Agricole and Aberdeen cite significant cost synergies as a major driver in their transactions and project their acquired/merged businesses to operate at marginal cost/income ratios below 50%. Increased operating efficiency resulting from utilizing existing resources and third party administration will likely continue to be relevant

While 'one swallow does not make a spring', three 'swallows' certainly suggest we are shifting to a new 'season' in terms of a core theme for the future of the asset management industry in Europe, and globally as well. This is particularly the case if one considers the bank divestiture theme as well as the possibility that several European insurance companies might also reconsider some of their asset management ownership positions in the coming months, even if their capital dynamics and/or the government bailout dynamics are different (in insurance compared to banking).

The sad fact is that government-backed bank recapitalization has become a common breed across most of the developed nations in Europe. While any such ownership or assistance is in some cases small and always considered temporary in nature, it will - in our view - potentially alter the mindset of some Bank boards' strategy in the asset management business.

Why? Three main reasons:

- As regards 'culture' and 'incentive arrangements', retail-oriented banks and asset management businesses are potentially viewed, even at the best of times, as uncomfortable bedfellows. The focus on banks' bonus pools is not going to help this dynamic
- The core focus for those institutions who have received the largest injections of capital will be on seeking to resume normal core banking activities and focusing on fixing their core domestic franchises. Asset management may be relegated to the periphery for some time to come
- Strategically, the argument goes that 'you don't have to own the cow to milk it' and asset management businesses still have real value today (unlike a number of credit intensive operations at this point in the cycle). Institutions focused on rebuilding capital may well consider asset management subs as a source of exceedingly scarce capital

Further, there are equally interesting drivers from the independent asset management side of the equation:

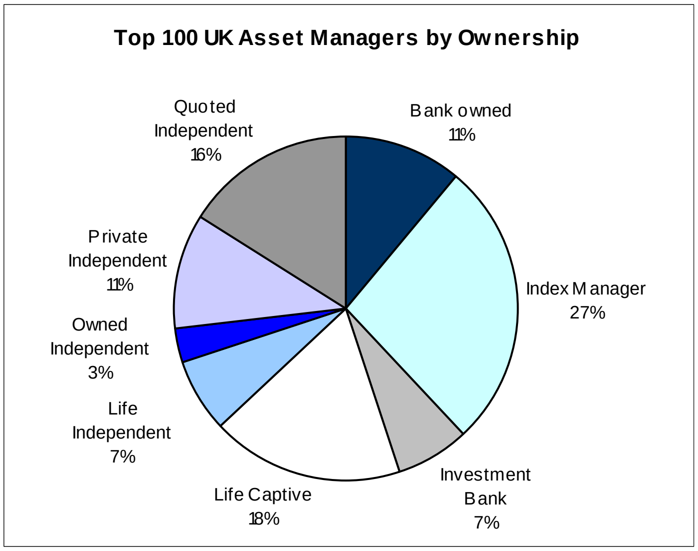
- Diversification and scale are increasingly important and consolidation is likely to provide a great way of protecting earnings downside
- Key person risks are more manageable against this market backdrop
- Alternative firms are beginning to see the attractions of diversification into long-only franchises at this point
- Generally there is still a universe of buyers for assets from European companies, global firms and from the private equity community

Of course, there are exceptions and we could name a good number of global and local financial institutions that make great owners of asset management businesses and will probably stay that way: Deutsche Bank and BNP Paribas are examples in Europe that immediately spring to mind, each for different reasons. Similarly European insurers are potentially core holders: AXA and Allianz being the poster boys of the segment in terms of core focus on asset management.

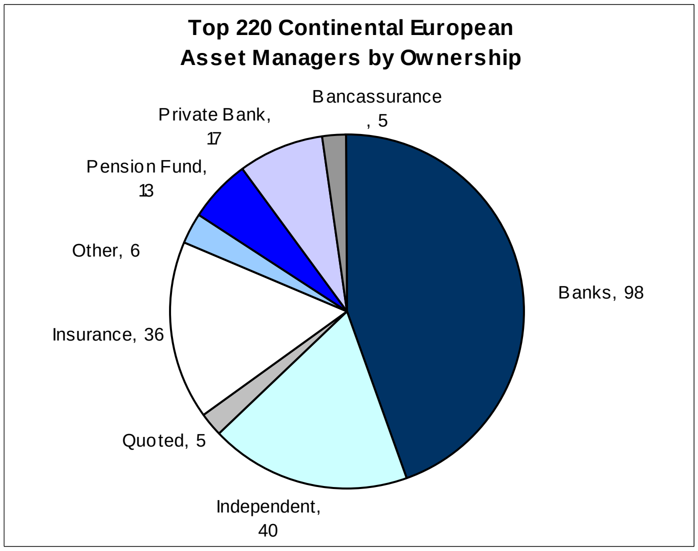
What we are saying is that a bank or insurer's willingness to consider divestitures is more likely if a number of the following conditions are prevalent:

- An asset management subsidiary carries a separate brand, identity, and management team
- It is more specialist than core in orientation
- It is not headquartered in the same country as the parent institution
- It is small relative to the earnings of the division to which it is part of as well as in relation to its parent
- It was acquired rather than home-grown

Rather than name names (which we were always told not to at school) we have mapped the European asset management segment by institutional ownership and proved to ourselves that the possibilities are endless. The graphs below set out the nature of the ownership of the European asset management sector.



Source: IP&E



Source: IP&E

The reality in terms of future M&A activity in Europe at this point in the cycle is uncertain. Moreover, there are always little details that get in the way of a good story - due diligence and inertia are two especially common ones. All we want to say is that when we run a theme two editions in a row (albeit with a different geographical focus) you know we think it has some traction out there!

Public US Money Managers – Valuations

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

	Summary Financials							LTM 12/31/08 Valuation Metrics			
		3/23/2009			LTM (12/31/2008)			Enterprise Value /			Market
Company Name	End AUM ($ bils)	Stock Price	Market Cap	Enterprise Value [a]	Revenue	EBITDA [b]	EPS	Revenue	EBITDA	PE Ratio	Cap % AUM
Diversified [c]											
Blackrock	$ 1,307.2	$ 133.96	$ 16,014.1	$ 15,128.1	$ 5,064.0	$ 2,161.3	$ 6.27	3.0x	7.0x	21.4x	1.2%
Eaton Vance	121.9	22.36	2,697.0	2,928.6	1,015.5	333.0	1.39	2.9x	8.8x	16.1x	2.2%
Federated Investors	407.3	22.25	2,276.9	2,419.6	1,223.7	394.6	2.29	2.0x	6.1x	9.7x	0.6%
Franklin Resources	416.2	54.01	12,634.6	10,286.6	5,316.1	1,941.3	5.06	1.9x	5.3x	10.7x	3.0%
Gamco	20.7	35.39	983.3	848.8	245.0	88.1	0.92	3.5x	9.6x	NM	4.8%
SEI Investments	134.3	11.88	2,275.4	1,883.0	1,247.9	414.1	0.71	1.5x	4.5x	16.7x	1.7%
Janus Capital	123.5	7.04	1,113.2	1,958.6	1,037.9	359.0	0.85	1.9x	5.5x	8.3x	0.9%
T Rowe Price	276.3	29.40	7,535.8	6,916.7	2,116.3	910.2	1.81	3.3x	7.6x	16.3x	2.7%
Waddell & Reed	47.5	19.11	1,623.0	1,612.7	919.1	202.7	1.32	1.8x	8.0x	14.5x	3.4%
Calamos Investments	24.0	4.57	441.0	506.6	391.6	171.3	(1.24)	1.3x	3.0x	NA	1.8%
Legg Mason	698.2	15.95	2,277.7	3,691.2	3,809.3	1,026.4	(3.12)	1.0x	3.6x	NA	0.3%
Cohen & Steers	15.1	11.18	464.9	353.7	185.8	62.9	0.68	1.9x	5.6x	16.5x	3.1%
TOTAL	**$ 3,592.2**		**$ 50,336.9**	**$ 48,534.1**			**AVERAGE**	**2.2x**	**6.2x**	**14.4x**	**2.1%**
							MEDIAN	**1.9x**	**5.9x**	**16.1x**	**2.0%**
Alternatives											
Fortress	$ 29.5	$ 2.09	$ 850.0	$ 1,315.7	$ 535.0	$ 216.0	$ (0.21)	2.5x	6.1x	NA	2.9%
Blackstone	91.0	7.81	8,527.8	8,411.9	(442.1)	(1,330.0)	(0.71)	NA	NA	NA	9.4%
GLG	15.0	2.84	697.9	911.7	495.0	177.0	0.27	1.8x	5.2x	10.5x	4.6%
Och-Ziff	27.0	6.31	2,248.3	2,931.8	587.0	349.8	0.47	5.0x	8.4x	13.3x	8.3%
TOTAL	**$ 162.5**		**$ 12,323.9**	**$ 13,571.1**			**AVERAGE**	**3.1x**	**6.5x**	**11.9x**	**6.3%**
Holding Companies											
Affiliated Managers	$ 170.1	$ 46.88	$ 1,926.7	$ 3,001.8	$ 1,158.2	$ 281.5	$ 0.54	2.6x	10.7x	NM	1.1%
AllianceBernstein	462.0	15.50	4,053.2	3,785.4	3,514.2	994.9	3.17	1.1x	3.8x	4.9x	0.9%
TOTAL	**$ 632.1**		**$ 5,979.9**	**$ 6,787.2**			**AVERAGE**	**1.8x**	**7.2x**	**4.9x**	**1.0%**
Bank / Trust Companies [d]											
Boston Private Finl	$ 27.7	$ 3.89	$ 249.3	$ 249.3	$ 220.0	$ (109.0)	$ (3.97)	1.1x	NA	NA	0.9%
Wilmington Trust	45.7	11.28	779.6	779.6	534.6	72.7	0.25	1.5x	10.7x	NM	1.7%
TOTAL	**$ 73.4**		**$ 1,028.9**	**$ 1,028.9**			**AVERAGE**	**1.3x**	**10.7x**	**NM**	**1.3%**
Overall TOTAL	**$ 4,460.1**		**$ 69,669.6**	**$ 69,921.3**							
							HIGH	5.0x	10.7x	21.4x	9.4%
							AVERAGE	2.2x	6.6x	13.2x	2.8%
							MEDIAN	1.9x	6.1x	13.9x	2.0%
							LOW	1.0x	3.0x	4.9x	0.3%

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) EBITDA is shown net of minority interest.

(c) EV, BEN and LM fiscal year end of October, September and March have been calendarized.

(d) Enterprise Value calculated as equal to Equity Value

Public European Money Managers – Valuations

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

	Summary Financials							LTM 12/31/08 Valuation Metrics			
		3/23/2009			LTM (12/31/2008) [a]			Enterprise Value /			Market
Company Name	End AUM (£ bils)	Stock Price	Market Cap	Enterprise Value [b]	Revenue	EBITDA [c]	EPS	Revenue	EBITDA	PE Ratio	Cap % AUM
Traditional											
Schroders	£110.2	£7.90	£1,790.7	£723.1	£725.7	£257.4	£0.67	1.0x	2.8x	11.8x	1.6%
F&C Asset Management	£98.6	0.64	316.3	387.2	229.9	61.1	0.00	1.7x	6.3x	NA	0.3%
Henderson Group	£49.5	0.76	606.3	638.7	273.1	95.1	0.10	2.3x	6.7x	7.6x	1.2%
Liontrust	£3.5	0.99	33.3	21.4	42.4	16.0	0.39	0.5x	1.3x	2.6x	1.0%
Aberdeen	£111.1	1.39	1,007.1	1,109.3	430.1	103.1	0.09	2.6x	10.8x	14.9x	0.9%
TOTAL	**£372.9**						**AVERAGE**	1.6x	5.6x	9.2x	1.0%
							MEDIAN	1.7x	6.3x	9.7x	1.0%
Alternatives											
RAB Capital	£3.3	£0.11	£53.6	£10.3	£121.2	£38.3	£0.04	0.1x	0.3x	2.5x	1.6%
MAN Group	£38.0	2.13	3,637.8	3,225.0	1,627.7	940.7	0.42	2.0x	3.4x	5.1x	9.6%
Ashmore Group	£16.9	1.53	1,076.7	774.9	221.0	161.4	0.18	3.5x	4.8x	8.6x	6.4%
Charlemagne Capital	£1.5	0.08	22.5	3.2	23.6	8.9	0.03	0.1x	0.4x	3.0x	1.5%
BlueBay	£11.5	1.23	237.8	176.2	109.4	40.1	0.13	1.6x	4.4x	9.6x	2.1%
Polar Capital	£1.6	0.32	22.9	4.3	45.2	13.0	0.11	0.1x	0.3x	3.0x	1.4%
Partners Group	£12.2	CHF 68.20	CHF 1,820.9	CHF 1,740.3	CHF 327.9	CHF 240.0	CHF 8.39	5.3x	7.3x	8.1x	7.3%
HFA Holdings [d]	£4.3	AUD 0.12	AUD 55.3	AUD 193.8	AUD 131.2	AUD 70.9	-AUD 0.28	1.5x	2.7x	NA	0.6%
TOTAL	**£89.3**						**AVERAGE**	1.8x	2.9x	5.7x	3.8%
							MEDIAN	1.5x	3.1x	5.1x	1.8%
Overall TOTAL	**£462.2**										
							HIGH	5.3x	10.8x	14.9x	9.6%
							AVERAGE	1.7x	4.0x	7.0x	2.7%
							MEDIAN	1.6x	3.4x	7.6x	1.5%
							LOW	0.1x	0.3x	2.5x	0.3%

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

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

(a) Man Group, Liontrust , Aberdeen and Polar Capital reflect LTM financials as of 9/30/2008; RAB Capital as of 6/30/2008

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

(c) EBITDA is shown net of minority interest.

(d) Based in Australia and trades on Australian Stock Exchange

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