Issue 14
1st Half 2006

Aug 31st , 2006

New York • Paris • London

Asset Management Focus

Freeman & Co. LLC

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Indices at 08/31/06:

DJIA	11,381
Nasdaq	2,184
S&P 500	1,304
FTSE 100	5.906
10 Year US Treasury Bond Yield	4.72%
USD per GBP	$1.90
USD per EUR	$1.28

Press Release:

Freeman & Co. Opens London Office

New York, NY - June 26, 2006 – Freeman & Co., LLC appoints James G. Hatchley as head of its new London office to spearhead growth in Europe.

Mr. Hatchley will act as MD & COO of Europe. James has over 14 years of investment banking and consulting experience and has advised a wide range of global financial services companies on M&A transactions and strategic development.

Déjà vu (All Over Again)

The first half of 2006 continued right where 2005 left off with robust activity and a continuation of large transformational deals, highlighted by BlackRock's acquisition of Merrill Lynch's Fund Unit ($539 Billion AUM) in exchange for a 49.8% stake in BlackRock.

Other continuing trends: alternatives becoming mainstream, divorce of distribution and product manufacturing, and innovation with products (ETFs) and distribution (TAMPs). Developing trends include: more opportunities for public listings (London AIM market), the rise of turn-key (TAMP) platforms and business realignments by large institutions that offer private equity buying opportunities.

Performance as of June 30, 2006

Index	Total Return 1H06	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	2.7%	8.6%	11.2%	2.5%
NASDAQ	-1.5%	5.6%	10.2%	0.1%
FTSE 100	6.0%	18.3%	16.8%	3.8%
LBGC*	-1.2%	-1.5%	1.6%	5.1%
HRFI FoF**	6.2%	13.9%	11.7%	8.7%
FTSE Hedge***	2.5%	5.6%	4.8%	4.9%

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

Summary:

- The first-half of 2006 saw 84 acquisitions and global assets acquired reached record heights of $797 Billion on the strength of the BlackRock/Merrill Lynch deal. AUM activity was centered in the US ($700 Billion); European deals totaled about $100 Billion
- The BlackRock/Merrill Lynch transaction is a further example of large supermarket firms divorcing product manufacturing from distribution, which we witnessed starting in 2005
- ETF products continued to grow rapidly, reaching over $450 Billion globally, with numerous new product developments among a small group of market leaders
- Private equity firm interest in the sector has increased, particularly as large institutions re-align their platforms and consider selling non-core or poorly positioned businesses
- Public listings of firms, particularly on the London AIM market, have expanded creating important new strategic opportunity sets for firms
- The alternative asset management business continues to mature, with many firms focused on differentiation and the development of specialized products. Transaction volume remains robust, accounting for approximately 25% of total deals

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Deal Activity

The start of the year has seen significant activity (97 total deals) edging out last year's first half totals. Activity was spread relatively evenly between the quarters with 44 acquisitions in the first quarter and 40 acquisitions in the second quarter. Regulatory issues, an increase in activity, and a return to core businesses through divesting off non-core segments have been some of the factors for the robust activity.

The two largest and most significant deals in the first-half of 2006 were:

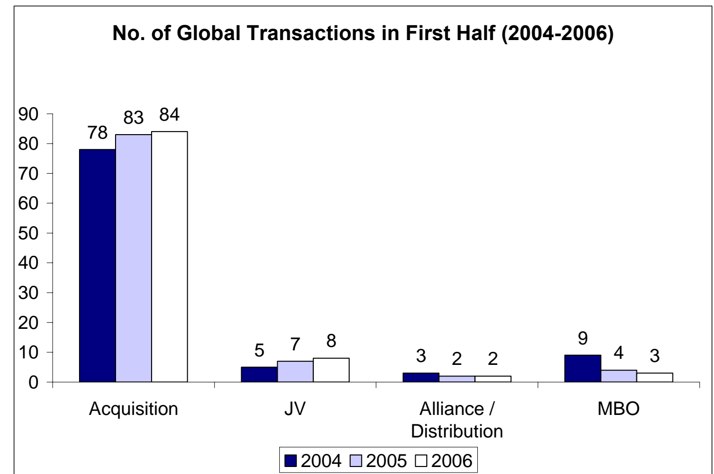
- BlackRock's purchase of Merrill Lynch Fund Management Unit ($539 Billion AUM)
- Hellman & Freidman and Gartmore Management MBO of Gartmore Investment Management ($47.0 Billion AUM)

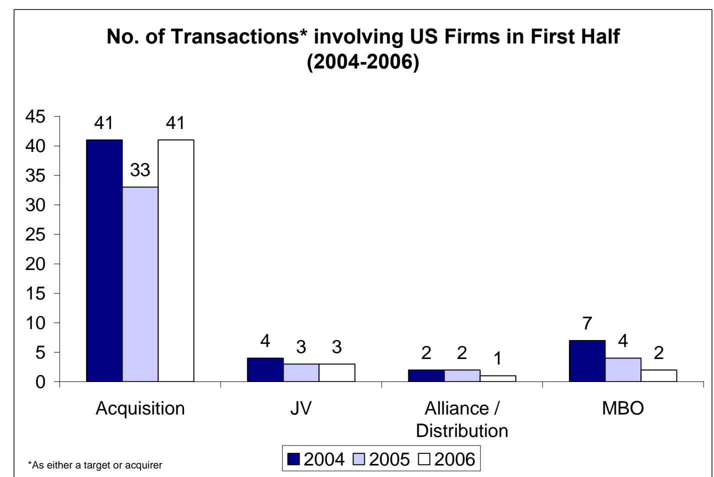
The BlackRock/Merrill Lynch deal exemplified the trend of financial conglomerates divorcing their product manufacturing from distribution (see Freeman & Co.'s 1H05 report "Changing Tides II"). In 2005 we saw Citigroup swap its asset management business ($437 Billion AUM) to Legg Mason in return for its brokerage network and Credit Agricole's acquisition of Banco Intesa's asset management business ($122 Billion). Furthermore, in 1H06 both ABN AMRO and BMO sold their US mutual fund businesses to Phoenix Companies and Highbury Financial, respectively. Looking forward, 2H06 has begun with Washington Mutual selling its asset management business to Principal Financial Group.

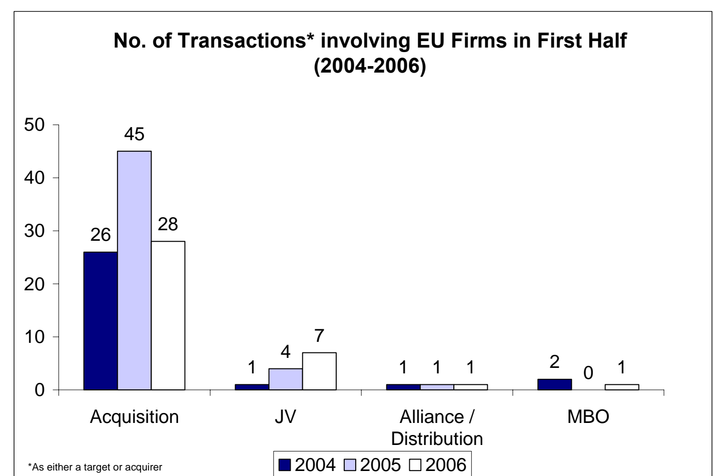
1H06 had 84 acquisitions in which 37 (44%) of the targets were US firms, followed by 23 European and 18 Asian firms. Joint venture (JV) numbers were consistent with past years, with most (five of eight) occurring in Asia. There were two alliance/distribution deals recorded in 1H06, highlighted by the strategic alliance between BMO's Harris Investment Management ($10.5 Billion) and the Phoenix Companies. The number of MBOs were slightly down from previous years, but 1H06 featured the largest management buyout (MBO) in asset management history when Private Equity firm Hellman & Freidman assisted management in the purchase of Gartmore Investment Management ($47 Billion AUM).

The number of acquisitions involving European firms fell off substantially in the 1H06 with a total of 28 acquisitions, a 38% drop from the five-year high of 45 deals in the 1H05.

Conversely, acquisitions involving Asian firms, as either a target or acquirer, were on the rise. There were 18 acquisitions recorded in 1H06, an increase of 13% over 1H05 and 50% over 1H04.



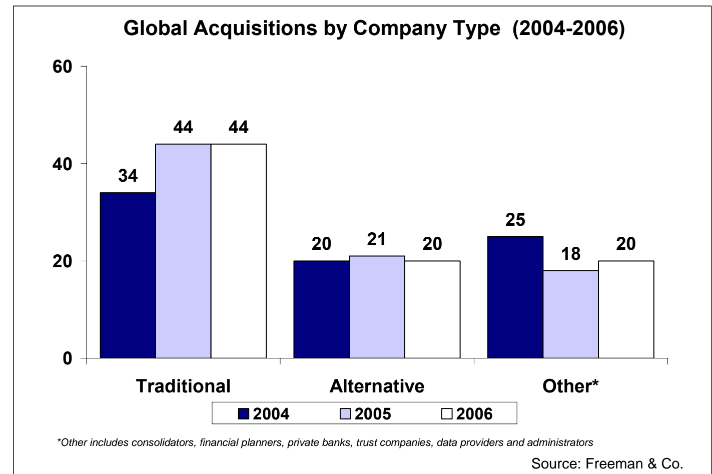




Source: Freeman & Co.

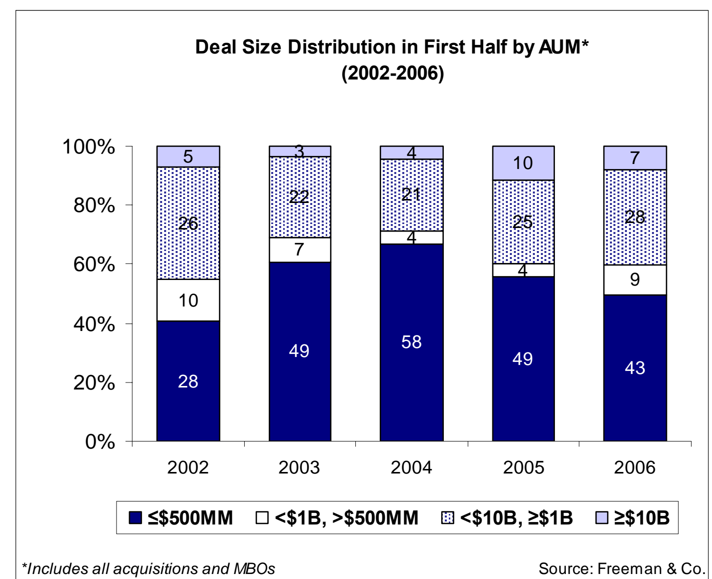
Transactions by Company Type

1H06 was very similar to 1H05 in the breakdown of deals by company type. Of the 44 deals involving traditional managers, 18 (40%) targets were located in the US while 11 (25%) and 15 (35%) were located in Europe and Asia, respectively.



Moreover, acquisitions involving alternative firms remained high with 20 recorded transactions. Pioneer Investments' purchase of Vanderbilt Capital Advisors ($13.0 Billion), a market leader in collateralized debt obligations (CDOs), was the largest alternative deal recorded in the 1H06. In the alternative space European targets outnumbered US targets eight to seven. Furthermore, there were three Asian alterative firms acquired, highlighted by Japan's Sparx Asset Management purchase of PMA Capital Management ($2.1 Billion), Asia's largest Hedge Fund Provider.

Acquisitions involving "Other" firms ("Other" includes: financial planners, trust companies, private banks and related firms), rose slightly to 20 deals; however, total AUM dropped substantially from $56 Billion recorded in 1H05 to $12 Billion in 1H06.



Deal Size

We saw a large number of sizable deals in the 1H06, headed by the Merrill/BlackRock deal ($539 Billion) which constituted the largest deal in asset management history. In total there were seven deals with AUM over 10.0 Billion and 35 deals with AUM over $1.0 Billion. Deals with AUM over $1.0 Billion accounted for a 40% of total number of deals, the same as 1H05 and greater than the 29% and 31% recorded in 1H04 and 1H03, respectively.

Significant Deals in the First Half of 2006:

- BlackRock Inc purchase of Merrill Lynch's Fund Management Unit ($539.0 Billion)
- Hellman & Freidman and Gartmore Management MBO of Gartmore Investment Management ($47.0 Billion)
- BNP Paribas 30% purchase of Fischer Francis Trees & Watts that it didn't already own ($40.0 Billion)
- Mellon Financial purchase of Walter Scott & Partners ($27.0 Billion)
- New York Life Investment Management purchase of Institutional Capital ($14.0 Billion)
- Credit Suisse Group 30% purchase of Woori Asset Management ($13.4 Billion)
- Pioneer Investments purchase of Vanderbilt Capital Advisors ($13.0 Billion)
- Guardian Life Insurance 65% purchase of RS Investments ($11.8 Billion)
- Phoenix Companies alliance with Harris Investment Management ($10.5 Billion)
- The Bank of New York* purchase of Urdang Capital Management, Inc. ($2.8 Billion)
- Schroders plc purchase of NewFinance Capital ($2.5 Billion)

**Freeman & Co. advised The Bank of New York*

Assets Acquired by Seller Region

Assets Acquired* by Seller Region for the First Six Months by Year ($MM)

Region	2002	2003	2004	2005	2006
Africa	11,700	638	0	0	0
Asia	2,486	11,313	19,137	29,002	19,593
Canada	26,429	0	2,006	23,000	15
Europe	171,673	112,718	52,914	213,250	97,392
South America	3,421	7,890	0	0	0
US	61,826	49,344	94,063	519,427	678,510
Total	**$277,534**	**$181,903**	**$168,119**	**$784,679**	**$797,110**

	2002	2003	2004	2005	2006
Acquisitions**	51	47	41	48	61
Average Size	5,442	3,870	4,100	16,347	13,067
Median Size**	1,350	1,000	1,481	2,000	1,600

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

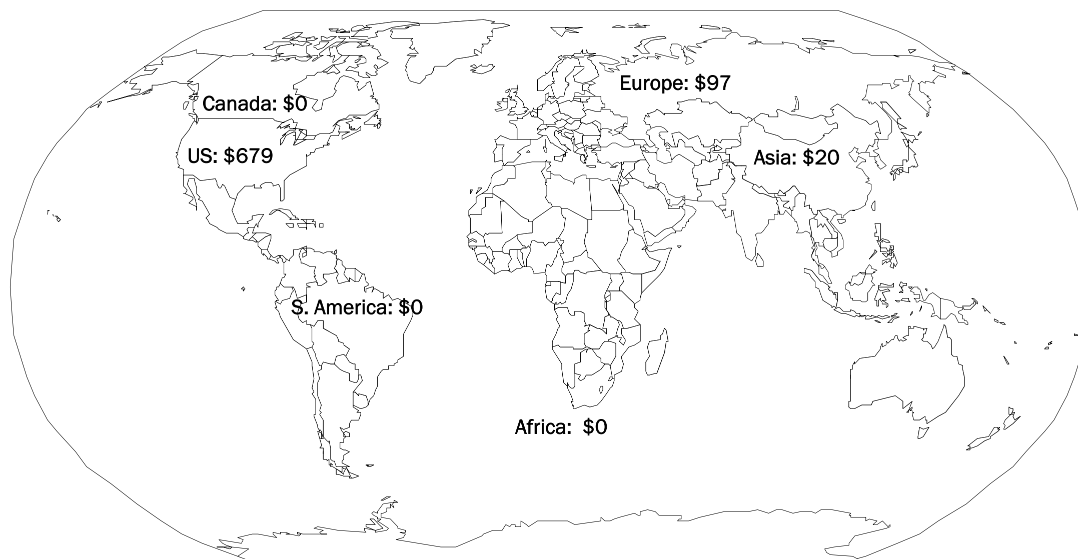
***Acquisitions and Median deal size calculated using only deals with reported AUM*

The amount of assets acquired in 1H06 reached a record level of $797 Billion. Driving the total was the mammoth BlackRock/Merrill deal at $539 Billion in assets, which accounted for 68% of the total AUM moved. Excluding the BlackRock/Merrill deal, there still was a further $254 Billion in assets that transferred hands in the 1H06, which still surpasses 1H04 and 1H03 numbers. The average transaction size was high, similar to 1H05, due to the large transactions that dominated each respective half (1H05 - Legg Mason's purchase of Citigroup Asset Management ($437 Billion) and Credit Agricole's purchase of Banca Intesa's Nextra unit ($122 Billion)).

From a global perspective, assets acquired in Europe were down notably from $213 Billion in 1H05 to $97 Billion in 1H06. The difference is largely due to the Credit Agricole/Banca Intesa Nextra deal ($122 Billion) in 1H05. Furthermore, the number of deals in Europe dropped 33% from 36 in 1H05 to 24 in 1H06.

Assets acquired in Asia at $20 Billion in 1H06 were down from $29 Billion in 1H05, (which featured Hana Bank's acquisition of Daehan Investment & Securities ($21 Billion)). Even though assets were lower, deal activity in Asia was still on the rise as the number of deals increased to 23 in 1H06 from 21 in 1H05. Nearly all of this activity was concentrated in Australia and China. The Australian deals all involved domestic buyers, while most of China's deals involved joint ventures with foreign firms seeking to access this huge market. Significantly, 1H06 produced the first fund management JV controlled by a foreign investor: Lord Abbett's joint venture with Changjiang Securities and Tsinghua Holdings, in which Lord Abbett has a controlling 49% interest.

Assets Acquired by Seller Region ($ Billions)



Source Freeman & Co.

Assets Acquired by Buyer Region

Assets Acquired* by Buyer Region for the First Six Months by Year ($MM)

Region	2002	2003	2004	2005	2006
Africa	11,700	638	0	0	0
Asia	4,730	10,313	537	24,816	19,490
Canada	31,109	9,000	2,006	26,000	15
Europe	181,989	35,588	23,720	189,101	108,195
South America	885	4,670	0	0	0
US	47,122	121,694	141,857	544,462	669,410
Total	**$277,534**	**$181,903**	**$168,119**	**$784,679**	**$797,110**

Acquisitions**	51	47	41	48	61
Average Size	5,442	3,870	4,100	16,347	13,067
Median Size**	1,350	1,000	1,481	2,000	1,600

**Assets acquired through acquisitions and MBOs*

Source: Freeman & Co.

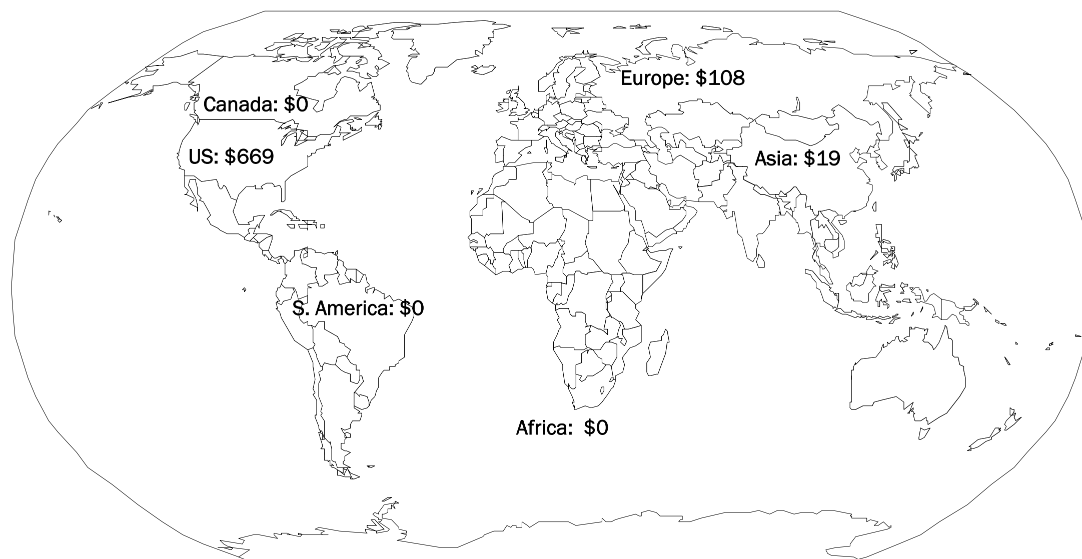
***Acquisitions and Median deal size calculated using only deals with reported AUM*

On the buy side, assets acquired by buyer region almost mirrored the assets acquired by seller region in 1H06. Excluding the BlackRock/Merrill deal, US buyers accounted for 40 acquisitions and a total of $130 Billion in assets. European buyers factored in on 26 deals for a total of $108 Billion and Asian buyers participated in 19 deals for a total of $19 Billion. Cross-border deals accounted for four (44%) of the nine deals greater than $10 Billion and nine (24%) of the 35 deals greater than $1 Billion.

Significant Cross-Border Deals in the first half of 2006

- Hellman & Freidman (US) and Gartmore Management MBO of Gartmore Investment Management (UK) **($47.0 Billion)**
- BNP Paribas (France) 30% purchase of Fischer Francis Trees & Watts (US) that it didn't already own **($40.0 Billion)**
- Mellon Financial (US) purchase of Walter Scott & Partners (Scotland) **($27.0 Billion)**
- Credit Suisse Group (Switzerland) 30% purchase of Woori Asset Management (South Korea) **($13.4 Billion)**
- DB Zwirn & Co. (US) purchase of INVESCO Asset Management (German) **($6.6 Billion)**
- AMVESCAP PLC (UK) purchase of PowerShares Capital Management LLC (US) **($3.5 Billion)**
- Sparx Asset Management Co. Ltd.(Hong Kong) purchase of PMA Capital Management Ltd (China) **($2.1 Billion)**

Assets Acquired by Buyer Region ($ Billions)



Source: Freeman & Co

ETFs & Structured Products

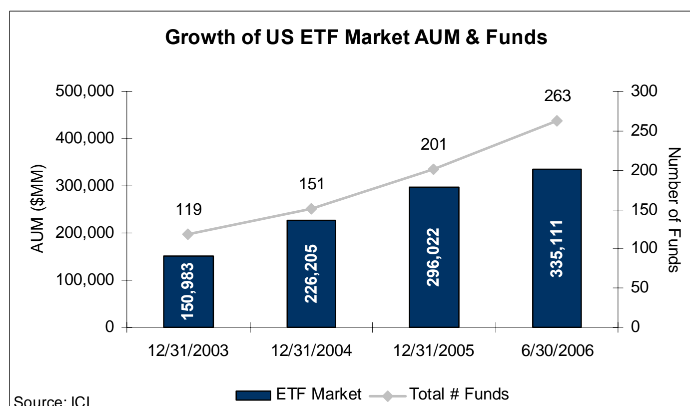
Exchange-traded funds (ETFs), historically passive investment vehicles, are expected to grow to $2 Trillion in assets by 2010 by some estimates. This represents 33% annual growth from today's $469 Billion in the global capitalization of ETFs. Combining this growth with new innovative strategies and products from established and new players in the space, those figures could prove to be conservative.

Today, there are a total of 12 ETF managers in the U.S. However, as witnessed by recent news releases, many companies have been created or have formed alliances to take advantage of the growth in indexing and the maturation of ETFs as the preferred vehicle to invest in the equities markets.

And although fees have fallen from as high as six percent to the current range of 25 to 100 basis points, it does not seem to have affected the recent emergence of new ventures in the space. Increased competition could continue to affect these fees but given their performance history, low risk and cost profiles and diversification aspects, ETFs could continue to provide an attractive investment option and could surpass the asset size of the growing $1 Trillion hedge fund market.

Major Players	
Barclays	#1 share (48%); 145 ETFs
State Street	#2 share (25%); 55 funds
S&P	SPDRs; alliance w/ Citi
PowerShares	XTFs; AUM: $6.0 billion
Rydex	AUM: $13.7 billion
ProFunds	AUM: $7.7 billion
Vanguard	New VIPERs (07/07/06)

Select Recent Announcements	
6/26	Rydex announces six new currency-based ETFs
6/22	State Street announces six new industry specific ETFs
6/16	Wisdom Tree announces 20 dividend-based ETFs
5/31	ProFunds announces the launch of its "ultra" ProShares - employing leverage and incorporating short positions
5/30	Financial News reports Barclays plans enhanced ETF funds

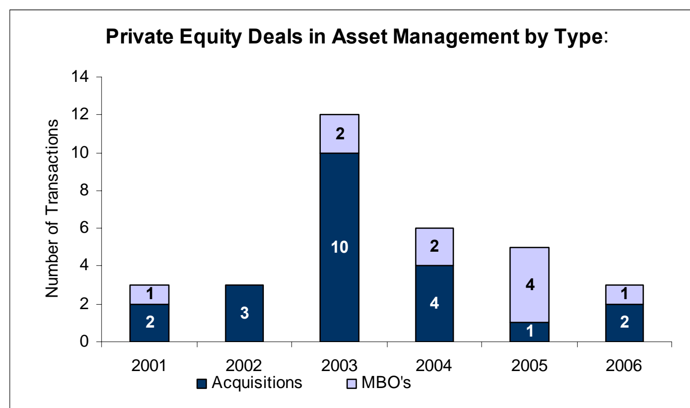


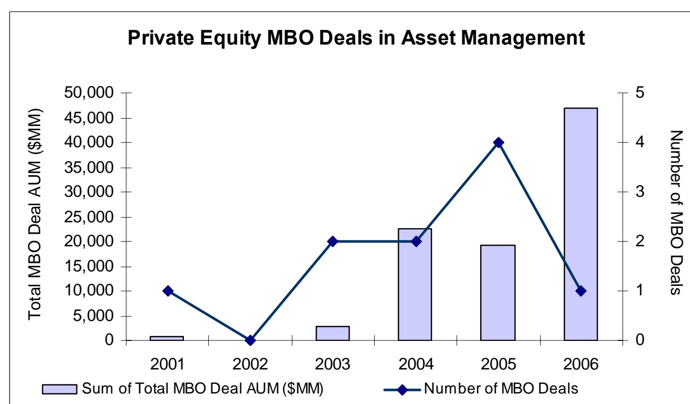
Private Equity & Asset Management

Over the past five and a half years, there have been 32 transactions completed by private equity firms in the asset management space – with the peak of deals in 2003. Of these, 22 (69%) were acquisitions, while ten were private equity-backed management buyouts (MBOs).

Of the two types, private equity-backed MBOs appear to have become more popular and significant since 2002. Two of the larger transactions were completed by Hellman & Friedman, LLC (H&F) – Mondrian Investment Management (AUM $19 Billion) for $199 Million in 2004 and more recently, of Gartmore Investment Management (AUM $47 Billion) for $936 Million in 2006. Other major deals include Rosemont Investment Partners' investment in Cadence Capital Management (AUM $6 Billion) and Bridgepoint Capital's investment in Tilney Holdings (AUM $9.4 Billion) in 2005.

On the acquisition side, a recent notable deal was TA Associates' acquisition of 50% of Numeric Investors LP (AUM $7.5 Billion) for $240 Million. Additionally, in May 2006, there were reports that H&F invested more then $500 Million in Artisan Partners LP for approximately 20-30% of the firm.





AIM Market/Trend of IPO vs. Acquisition

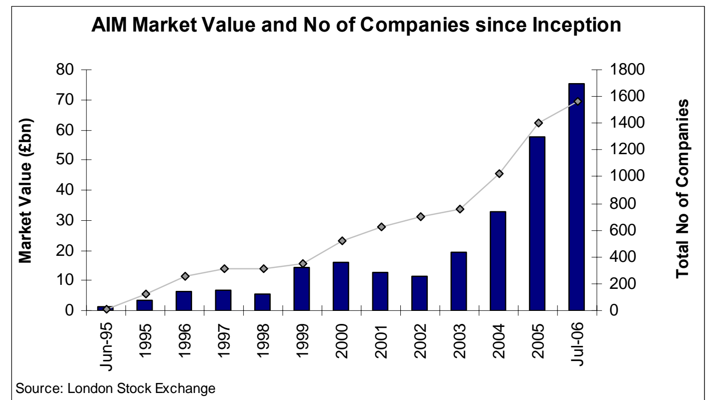
We feel that we can remain silent no longer on the way the success of the LSE's AIM market has altered the opportunity set for asset management firms.

For those of you not familiar with the story, AIM has exploded as a stock market for growth companies since it was formed in 1995. Over 2,400 companies have joined AIM and raised over £30 Billion in the process. This growth has been most pronounced in recent years as capital has been relatively easily available and valuation benchmarks have risen and at times seriously challenged M&A and main market pricing. In addition, there are attractive capital gains and inheritance tax advantages of a listing on AIM for UK individuals; particularly important in an industry which has a high percentage of owner managers. Finally, many believe having a listed currency is an advantage in executing further strategic options and remunerating and attracting new staff.

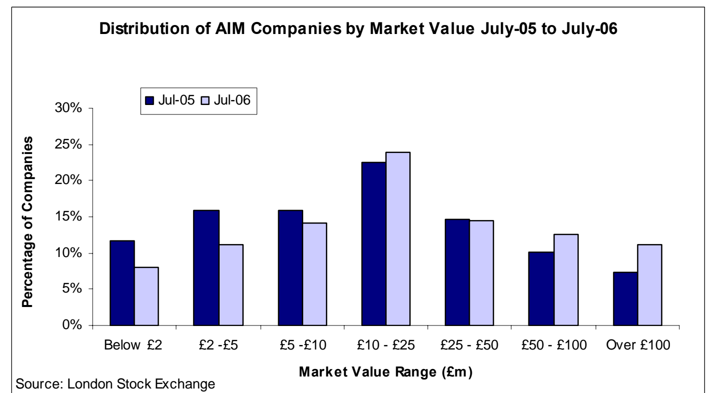
All this has meant that barely a day goes by without a mention of a prospective listing on AIM by an asset management company. New Star Asset Management set the benchmark for the more traditional asset management firms in November 2005 and as of July 2006 was the 5th largest company in the AIM index with a market capitalization of over £1 Billion. RAB Capital proved in March 2004 that AIM was also open to hedge fund focused firms.

RAB has recently been joined in the first half of 2006 by others including Absolute Capital Management, Charlemagne Capital and a raft of specialist investment funds, including Caliber Global Investments managed by Cambridge Place Investment Management.

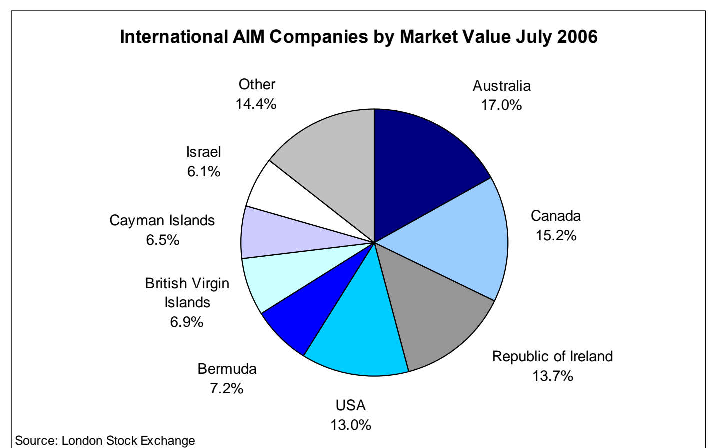
So why focus on this trend in the context of this M&A review? There are a number of reasons. Firstly, it is pretty clear to us that the success of AIM has extended the options available to the managers of asset management firms when considering strategy.



Source: London Stock Exchange



Source: London Stock Exchange



Source: London Stock Exchange

Secondly, we have seen more firms running or considering parallel sale processes with consideration of trade partners being benchmarked against a potential AIM listing. Thirdly, we think the existence of AIM has allowed the private equity industry to be more aggressive in considering investments in the asset management space as their confidence levels on exit have increased materially.

It is also worth mentioning the increasing international importance of AIM. As of July 2006, 220 of the 1399 firms listed on AIM were international (compared to 31 and 493 respectively in 2000). It will not be too long before we see a US asset management firm listed on AIM. The cost of Sarbanes Oxley compliance has been and continues to be widely discussed. We are aware of a number of US based firms that have at least considered AIM as a real strategic alternative. Trade buyers on both sides of the Atlantic therefore need to keep track of events on AIM and the associated valuation benchmarks being set.

Finally, we thought it was worth commenting on some of the views we hear being expressed about the disadvantages of the listing route. Some management teams would never consider it – the limelight (both corporate and personal) and the prospect of explaining your strategy to a roomful of sell-side analysts on a regular basis is too much for some! Others mention the inconsistency of the valuation cycle and the lack of real commercial synergies as good enough reasons to favor trade combinations over the market route. Finally, it is worth mentioning that trees don't grow to the sky and the AIM market and associated valuation benchmarks have declined in recent months.

Whatever the balance of the debate, we feel AIM is here to stay and will continue to be worthy of discussion.

Alternatives – Business Models

A debate over the "winning" business model has been brewing in the alternative sector that pits (1) hedge funds of funds, (2) multi-strategy hedge funds and (3) single strategy hedge funds against one another. Often the discussion makes it seem as if one model is headed the way of the dinosaurs. We tend to disagree with this description, and quote a friend of ours in the industry who responds to the competition from different business models with, "jump on in, the water's fine". The point being that the size and scope of the industry is large enough, with enough investors each with different levels of sophistication, goals and objectives, that we believe all three models will continue to be successful.

	HFOF	Multi-Strategy	Single Strategy
Styles	Multiple	Multiple	Single
Ability to Shift $ Daily	No	Yes	Yes
Risk Management	Daily to Monthly	Daily	Daily
Independent Oversight	Yes	No	No
Added Fiduciaries	2 (FOF + managers)	1 (manager)	1 (manager)
Fee Layers	Two	One	One
Fee Layer @ $200MM	$1.75-2.00 Million	n.a.	n.a.
Cost for added Staff to Pick Direct Hedge Funds	n.a.	$2-5+Million	$2-5+Milion

Practical Differences

While the business model debate continues, it is worthwhile to discuss the practical examples of the strengths and weaknesses of each approach. For example, HFOFs are criticized for their second layer of fees of perhaps 75-100 bps for large institutional accounts. While the criticism has been on the level of fees, for most investors this fee for the expertise HFOFs bring is well justified and a good value. An investor with $1 Billion and a 10% allocation to hedge funds would not be able to replicate the level of service and due diligence of the HFOF for the same $1 Million cost. It is only when investors have over $5 Billion that they may be able to replicate the team and its expertise for less money that HFOF fees for a 10% allocation of funds.

Market Movements

Other areas of debate on the business models are risk management and the ability/timeliness for managers to react to the market. It is often argued that multi-strategy managers have the best risk management due to their ability to see the positions of all their traders and to allocate capital amongst them on a daily basis to capture market inefficiencies. While this may be true, the end pension fund investor won't get daily transparency of the risk management and probably won't get summary reporting on other than a monthly basis. Today, many HFOFs have significantly improved the transparency they receive from managers and their risk management systems. In addition, many HFOFs are adopting separate accounts so that they have the same risk transparency capabilities over many of their mangers that multi-strategy funds have over their traders. Lastly, an argument can be made about asset allocation and risk. The large pension fund that allocates all its hedge fund assets to multi-strategy managers has a fundamentally different asset allocation and risk management profile than one that allocates to a HFOF that picks style-specific managers with tight investment themes. The multi-strategy approach runs the risk that all the managers chase the same trades simultaneously causing significant skews in the portfolio, compared to the asset allocation approach taken by the HFOF. In the end, is one approach better than the other? Not necessarily, but it does depend on the investor's goals, objectives, risk profile, sophistication, resources and the size of its alternative program.

Alternative Investment Transactions for the Six Months Ending June 30, 2006

Month	Target	Acquirer	Product 1	Product 2	Ownership %	Total Deal AUM ($MM)
April	Vanderbilt Capital Advisors	Pioneer Investments	CDO's		100	$13,000
June	ARCap Investors, LLC	CharterMac	Real Estate	CMBS	100	2,800
January	**Urdang Capital Management, Inc.**	**The Bank of New York[1]**	**Real Estate**		**100**	**2,800**
January	International Asset Management	ABN Amro Holding NV	Fund of Funds	Hedge Funds	100	2,600
February	NewFinance Capital	Schroders plc	Fund of Funds	Hedge Funds	100	2,500
March	Liberty Ermitage Jersey Limited	Caledonia Investments and Management	Fund of Funds	Hedge Funds	100	2,400
March	PMA Capital Management Ltd	Sparx Asset Management Co Ltd	Hedge Funds		100	2,100
February	Capital Management Advisors	EFG International	Fund of Funds	Hedge Funds	100	1,600
April	Berrington Parties (Berrington and Strategis)	The Medical Property Investment Fund Limited	Real Estate	Close-Ended & Medical Properties	100	947
January	Austin Capital Management, Ltd.	Victory Capital Management	Fund of Funds	Hedge Funds	100	900
February	Aspect Capital Ltd	AIG Financial Products Corp	Hedge Funds	Multi-Product	4	800
April	ORN Capital LLP	Morley Fund Management Ltd.	Hedge Funds	European-Focused	56	600
May	Attica Holding (UK) Ltd	Integrated Asset Management	Hedge Funds	Fund of Funds	50	400
January	Baring Corilius Private Equity	Societe Generale SA	Private Equity	European Takeover Fund	100	106
February	Harpoon Equity Management LLC	Quadrangle Group LLC	Hedge Funds		100	100
June	Oxhead Capital Management	Morgan Stanley	Hedge Funds	Equity Quant Strategy Fund	0	100
February	Axis Capital Corporation	B.E.S.T. Capital Management Limited	Venture Capital	Start-up Tech Companies	100	15
February	Ascalon Capital Managers Ltd.	Kaplan Equity Limited	Private Equity		50	
April	Conquest Capital Management LLC	Avondale Partners	Hedge Funds	Long/Short Equity	50	
June	Paul Capital Partners[2]	Bank of Ireland[2]	Alternative Investments	Private Equity Fund of Funds	0	
March	Shanghai Huiheda Investment Management	Xinjiang Tianfu Thermoelectric	Venture Capital		20	
March	Vega Asset Management[2]	BBVA[2]	Hedge Funds		0	
June	Arundel Partners[3]	Guinness Family[3]	Fund of Funds	Hedge Fund	0	

[1] Freeman & Co. advised The Bank of New York

[2] Joint Venture, [3] Alliance

Source: Freeman & Co.

Credit and CLOs –Outlook Still Favorable, but Some Clouds on the Horizon

Global debt underwriting has been running at a record pace, with U.S. investment grade and high yield issuances up more than 30% from last year. Loan volume has also been at record levels, reaching $244 Billion from $158 Billion in 1H05. Much of the increase has been the result of surging M&A activity, driven in large part by private equity firms financing ever-larger deals in order to deploy their enormous reserves of capital.

CDO issuance was also up. First half CDO issuance was nearly $160 Billion, a 60% increase over the first half of last year. Over $40 Billion of the new issuance was from CLOs, up from $10 Billion in the first half of 2005. CLO issuance has benefited from the fact that loan default rates, although higher than a year ago, are still well below historical norms. Yet despite this activity there was only one acquisition of a CDO/CLO manager in 1H06 (Pioneer's purchase of Vanderbilt Capital in April), and not many in structured products or high yield. Why?

The strong market environment has a lot to do with it. Established managers seem to be able to issue CDOs (almost) at will. Rather than buy managers, new entrants are looking at lifting out CDO teams. Managers can build their AUM quickly without making acquisitions. For CLO managers, the main challenge seems to be in accessing collateral.

Will it continue? Observers are increasingly concerned, and many believe the market is transitioning to a less issuer-friendly posture. A correction in the high yield market may be overdue. Economic uncertainty associated with geopolitical issues, energy prices, and the drop in the housing market are all real worries. Also, the favorable environment has encouraged riskier credit structures, with weaker covenants and higher leverage.

In a development that parallels the growing interest by asset managers in the AIM market, Washington Square Investment Management has launched the first publicly-traded closed-end CDO equity fund. The fund, called Carador, began trading on the LSE in April. The fund will invest in equity and mezzanine tranches of CDOs with a variety of underlying collateral types.

Regulatory Developments – SEC Hedge Fund Rule Struck Down

As hedge funds and other alternative investments become more mainstream, there has been increasing concern about such a large and influential segment of the financial services industry being essentially unregulated. In light of past events such as the 2003 market timing scandal, LTCM and other headlining hedge fund failures, calls have emerged from multiple fronts for more direct government oversight of hedge funds and their managers.

In response, in February the SEC issued a new rule that would require virtually all hedge fund managers to register under the Advisers Act. But the DC Court of Appeals struck down the new rule in June. The SEC will not appeal, and instead is expected to introduce new anti-fraud rules and possibly to raise the minimum investment in hedge funds. The SEC is also looking at measures designed to encourage voluntary registration by hedge fund managers. Many firms that registered under the rule are expected to maintain their registrations; a move they believe will help attract institutional clients. Even if they don't maintain their registrations, for most firms the upgraded compliance processes and increased staffing are expected to remain in place.

Despite these measures some still see a gap in hedge fund regulation that someone will step in to fill. It might be state attorneys general (which could be worse for hedge funds than SEC regulation) or the Fed (although Chairman Bernanke doesn't support the idea). Other candidates that have been put forward include the CFTC and the Treasury Department.

Of course, the SEC already has the ability to access information on hedge funds through trading records and prime brokers, and it has always had authority to police hedge funds for fraud. The SEC is also working to expand existing regulations to guard against abuses in short selling.

On the plus side for hedge funds, Congress has passed the Pension Protection Act of 2006. When enacted, the bill will permit hedge funds to accept pension fund assets beyond the current cap of 25% of total assets without becoming subject to ERISA fiduciary obligations and prohibited transaction rules. Pension fund assets invested in hedge funds exceed $70 Billion (up from $13 Billion ten years ago), and this change will likely increase that total significantly.

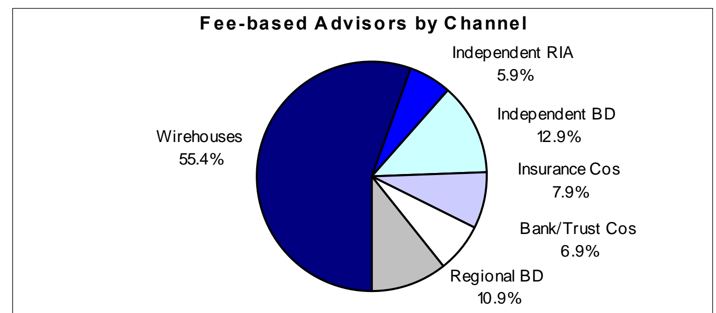
TAMPs – Driving Growth of Fee-Based Asset Management

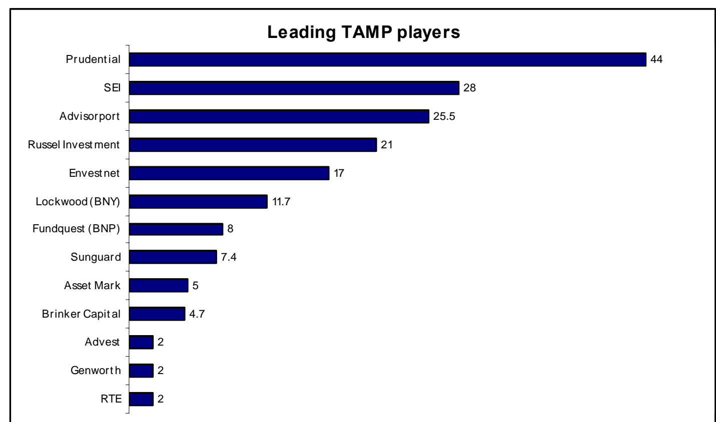
Growth of Turn-key Asset Management Platforms ("TAMPs") continues to outpace the broader market, as advisors embrace the merits of a low cost, fully-integrated technology solution to provide best-of-breed products to their clients.

The growth of TAMPs reflects (and helps drive) several key trends in asset management:

- The rise of open architecture, as managers look beyond their in-house products to meet the needs of their clients
- Growth in the separately managed account (SMA) market and the consultative business model
- Increasing client sophistication
- Desire for low-cost, comprehensive solutions

TAMPs' share of overall fee-based assets has risen from 11% in 2002 ($90 Billion out of a total of over $800 Billion) to over 15% in 2005 ($200 Billion out of more than $1.2 Trillion). Assets are projected to reach over $600 Billion by 2010. While TAMPs have traditionally focused on the RIA market, we see enormous opportunity with trust banks and other financial institutions.





TAMPs combine investment management services and advanced technology, offering a full set of wealth management functions on a web-based open architecture platform:

- Access to a broad set of leading asset managers
- Institutional quality investment management services: customized portfolio construction, implementation and monitoring,
- Customized marketing support and online reporting and account access for advisors and clients
- A customizable technology platform including private label web sites with the advisor's look and feel

By giving investment advisors access to best-of-breed products, combined with customized advisory solutions and services that were previously available only through the largest and most well capitalized investment advisory firms (Goldman Sachs, Morgan Stanley, etc.), TAMPs enable small to mid-sized financial institutions and distributors to compete.

TAMPs capitalize on the transformation of financial services distribution to a consultative business model; enabling financial advisors build their fee-based programs and bring them to market at unparalleled speed. This leaves them more time to focus on their core business of asset gathering.

"Advice" is a growth business and will be driven, like other trends, by the aging baby boomer generations which are entering their pre-retirement phase and fueling the growth of the mass-affluent market segment. TAMPs respond to their needs by facilitating what we believe is a key distribution challenge over the next 5 years: to develop long-term savings solutions that move these clients from the more speculative culture of lump sum investments to regular savings plans that are liability-driven.

TAMPs are highly cost-effective, and for the mass-affluent market segment (investable assets of $100,000 - $1 Million) have become the low-cost providers of managed accounts and wealth management services. This advantage increases with scale, and as a result we are seeing accelerating consolidation in this area, from last year's acquisition of FundQuest by BNP to Genworth Financial's purchase of AssetMark in June of this year.

Outside the US, we believe the opportunities are huge for banks in Europe and Asia that will roll out advisory services in their branches, placing the provision of quality retail financial services as a central part of their customer service and product propositions. The challenge for advice-based distributors will be to create standardized and repeatable processes to sustain profitability at the highest level of service to affluent investors. Firms that can deliver a full range of wealth management products with comprehensive advice and planning in a cost effective manner will be well positioned to take advantage of these structural trends.

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 8/31/06	Equity Value	Enterprise Value (a)	LTM (06/30/2006) Revenue	LTM EBITDA (b)	LTM EPS	Enterprise Value as a Multiple of LTM Revenue	Enterprise Value as a Multiple of LTM EBITDA	PE Ratio LTM	Equity Value % AUM
Diversified (c)											
Blackrock	$ 464.1	$ 130.15	$ 8,448.1	$ 8,332.6	$ 1,426.3	$ 522.0	$ 4.95	5.8x	16.0x	26.3x	1.8%
Eaton Vance	118.8	26.59	3,557.7	3,475.6	806.7	266.9	1.18	4.3x	13.0x	22.5x	3.0%
Federated Investors	210.5	33.48	3,524.5	3,539.6	957.3	357.1	1.90	3.7x	9.9x	17.6x	1.7%
Franklin Resources	490.1	98.41	25,796.0	23,231.8	4,916.7	1,869.6	4.31	4.7x	12.4x	22.9x	5.3%
Gabelli	26.8	38.33	1,094.5	1,209.9	257.4	90.7	2.47	4.7x	13.3x	15.5x	4.1%
SEI Investments	161.7	51.04	5,244.7	5,155.5	959.4	371.8	2.11	5.4x	13.9x	24.1x	3.2%
Janus Capital	153.4	17.78	3,672.9	3,710.7	995.5	226.8	0.60	3.7x	16.4x	29.9x	2.4%
T Rowe Price	293.7	44.06	11,798.4	10,983.9	1,666.2	781.9	2.70	6.6x	14.0x	16.3x	4.0%
Waddell & Reed	44.9	23.22	1,921.8	1,931.1	695.3	170.5	1.05	2.8x	11.3x	22.1x	4.3%
Nuveen Investments	149.0	47.74	3,967.7	4,484.2	647.7	329.4	2.15	6.9x	13.6x	22.2x	2.7%
Calamos Investments	45.8	26.22	607.3	509.7	466.3	52.8	1.48	1.1x	9.7x	17.8x	1.3%
Legg Mason	854.7	91.26	13,059.7	13,116.5	2,689.5	888.7	3.76	4.9x	14.8x	24.3x	1.5%
Cohen & Steers	23.2	28.61	1,138.8	1,105.8	153.8	57.6	0.83	7.2x	19.2x	34.5x	4.9%
TOTAL	**$ 3,036.7**		**$ 83,832.0**	**$ 80,786.9**			**AVERAGE**	**4.8x**	**13.7x**	**22.8x**	**3.1%**
							MEDIAN	**4.7x**	**13.6x**	**22.5x**	**3.0%**
Holding Companies											
Affiliated Managers	$ 202.3	$ 92.53	$ 3,289.6	$ 4,102.6	$ 1,067.8	$ 250.8	$ 3.30	3.8x	16.4x	28.1x	1.6%
Mellon Bank	870.0	37.23	15,316.8	15,992.8	4,654.0	909.0	2.04	3.4x	17.6x	18.2x	1.8%
TOTAL	**$ 1,072.3**		**$ 18,606.4**	**$ 20,095.4**							
Bank / Trust Companies (d)											
Boston Private Finl	$ 24.1	$ 24.96	$ 909.2	$ 909.2	$ 303.0	$ 103.4	$ 1.48	3.0x	8.8x	16.8x	3.8%
Wilmington Trust	39.1	44.05	3,061.4	3,061.4	664.3	304.4	2.62	4.6x	10.1x	16.8x	7.8%
TOTAL	**$ 63.2**		**$ 3,970.6**	**$ 3,970.6**			**AVERAGE**	**3.8x**	**9.4x**	**16.8x**	**5.8%**
Limited Partnerships											
Alliance Capital	$ 625.2	$ 66.70	$ 17,348.5	$ 16,946.1	$ 3,564.3	$ 1,146.2	$ 3.79	4.8x	14.8x	17.6x	2.8%
Overall TOTAL	**$ 4,797.4**		**$ 123,757.5**	**$ 121,799.0**							
							HIGH	7.2x	19.2x	34.5x	7.8%
							AVERAGE	4.5x	13.6x	21.9x	3.2%
							MEDIAN	4.7x	13.7x	22.2x	2.9%
							LOW	1.1x	8.8x	15.5x	1.3%

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 and BEN fiscal year end of October and September and have been calendarized.

(d) Enterprise Value excludes cash.

UK Public Money Managers – Valuations

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

Company Name	End AUM ($ bils)	Stock Price 8/31/2006	Equity Value	Enterprise Value (b)	LTM (6/30/2006) (a) Revenue	LTM EBITDA ©	LTM EPS	Enterprise Value as a Multiple of LTM Revenue	Enterprise Value as a Multiple of LTM EBITDA	PE Ratio LTM	Equity Value % AUM
Traditional											
Amvescap	£221.1	£5.42	£4,265.6	£5,998.1	£1,207.6	£415.1	£0.15	5.0x	14.5x	36.5x	1.9%
Schroders	122.3	9.09	2,647.1	2,142.3	745.3	£229.8	0.33	2.9x	9.3x	27.3x	2.2%
F&C Asset Management	112.0	2.02	1,023.4	1,028.8	302.0	£141.8	0.03	3.4x	7.3x	71.2x	0.9%
Henderson	63.1	0.91	1,053.6	503.4	267.5	£103.0	0.04	1.9x	4.9x	24.2x	1.7%
Azimut Holding Spa	€ 11.1	€ 8.70	€ 1,256.3	€ 1,320.0	€ 235.0	€ 95.6	€ 0.40	5.6x	13.8x	21.8x	11.4%
New Star Asset Management	£16.8	£3.43	£1,033.9	£1,030.4	£99.6	£46.7	£0.07	10.3x	22.1x	49.2x	6.2%
Liontrust Asset Management	8.2	3.56	117.1	75.0	45.9	18.1	0.38	1.6x	4.1x	9.3x	1.4%
Aberdeen	74.4	1.58	987.5	1,031.2	239.5	56.0	0.04	4.3x	18.4x	44.2x	1.3%
Alternative											
RAB Capital	£4.0	£0.98	£495.0	£407.5	£72.7	£22.2	£0.02	5.6x	18.4x	52.4x	12.4%
MAN Group	28.8	4.22	8,765.8	15,264.2	1,270.1	766.2	1.76	12.0x	19.9x	2.4x	30.5%
Overall TOTAL	**£658.2**		**£21,252.2**	**£28,384.0**							
							HIGH	12.0x	22.1x	71.2x	30.5%
							AVERAGE	5.3x	13.3x	36.6x	7.0%
							MEDIAN	4.6x	14.1x	36.5x	2.0%
							LOW	1.6x	4.1x	2.4x	0.9%

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

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

(a) Liontrust, Aberdeen and Man Group LTM (3/31/2006); Azimut and New Star LTM (12/31/2005)

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

(c) EBITDA is shown net of minority interest.

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