Issue 19
1st Half 2009

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New York • London

Asset Management Focus
Freeman & Co. LLC

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Indices at 6/30/09:

DJIA	8,447
Nasdaq	1,835
S&P 500	919
FTSE 100	4,249
10 Year US Treasury Bond Yield	3.52%
USD per GBP	$1.66
USD per EUR	$1.41

Humpty Dumpty Had a Big Fall

While all the king's men have been repairing the global financial system, the asset management sector has been going through two major changes. The first change has been a spike in very large, transformational deals driven by capital or consolidation needs. Examples include the BlackRock/BGI and SocGen/Credit Agricole asset management deals. The second has been a significant drop of 30-40% in the number of acquisitions as most firms focus on stabilizing their businesses. The extreme volatility in market returns and asset flows makes it difficult to form confident projections about the future of asset managers and hence their valuations. The return of M&A activity in late 2009 and in 2010 is likely to track the stabilization in market volatility, asset flows and the return of confidence.

Performance as of June 30, 2009

Index	Total Return 1H 2009	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	3.2%	-26.2%	-8.2%	-2.2%
NASDAQ	16.4%	-19.6%	-5.5%	-2.2%
FTSE 100	-4.2%	-24.5%	-10.0%	-1.0%
BGC*	0.6%	5.3%	6.2%	4.8%
HFRI**	9.5%	-10.1%	1.2%	5.0%
FTSE Hedge***	-7.8%	-20.8%	-8.3%	-4.0%

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

Summary:

- **Deal Activity / M&A:** There were 74 acquisitions of asset managers in 1H 2009, a 38% decrease from 119 in 1H 2008. The number of transactions with AUM greater than $10 billion also dropped, falling 36% to 9 in 1H 2009 from 14 in the same period last year. However, total deal AUM increased to $2.7 trillion from $1.7 trillion in FY 2008 driven by Blackrock's acquisition of Barclays Global Investors ($1.5 trillion AUM).
- **Fund Flows:** Flows into equity mutual funds have turned positive in 1H 2009, reflecting a return to riskier assets; hedge fund flows are still negative (but were -$43 billion in 2Q 2009 compared to -$152 billion in 4Q 2008); in illiquid products, capital raising fell precipitously with PE AUM raised in 1Q 2009 of only $45 billion compared to $472 billion in FY 2008.
- **Retail & Retirement Savings:** US households have lost about $12 trillion, or 20%, of net worth, with 1/3 of losses linked to real estate, 1/3 linked to equities and the remainder in other investments. Individuals will need to increase savings rates and consider other sources of retirement funding such as reverse mortgages and life settlement products.

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Deal Activity

Deal activity continued to decrease in 2009 as the number of global asset management transactions declined approximately 38% from a year ago. In total, there were 74 acquisitions, 7 MBOs, and 4 JV / Alliances in 1H 2009, compared to 119, 5 and 9 respectively in 1H 2008. The decrease in M&A activity was not concentrated in any one region, with the first half of the year seeing a universal drop in transactions for European, US, and Asian firms. The number of acquisitions with AUM greater than $1 billion was down significantly, with a decline of 54% from last year.

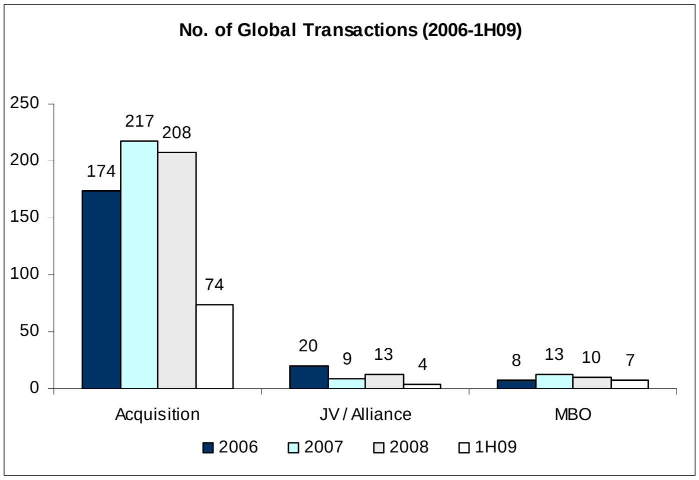
The three largest deals announced in 1H 2009 were:

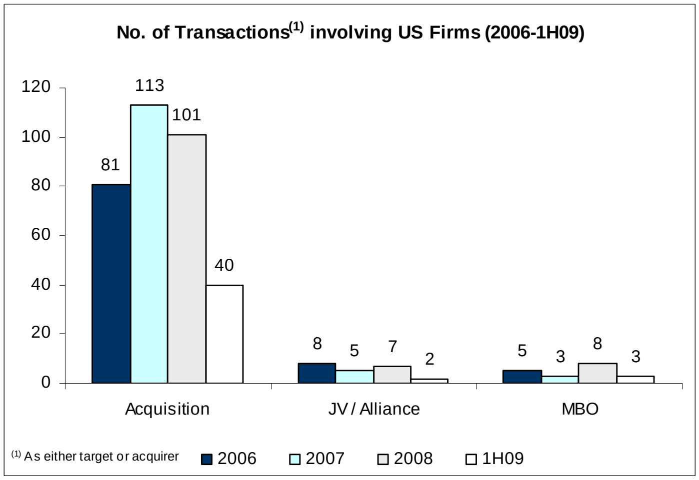
- BlackRock's purchase of Barclays Global Investors (~$1,500 billion)
- Credit Agricole Asset Management's merger with Societe Generale Asset Management ($808 billion)
- Sumitomo Mitsui Banking Corp's purchase of a 25% stake in Sumitomo Mitsui Asset Management Co. Ltd. ($110 billion)

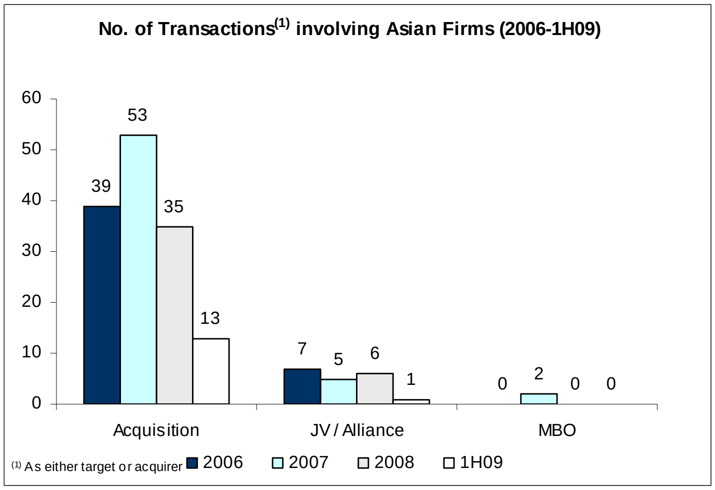
US firms recorded 45 transactions during 1H 2009 compared with 74 in 1H 2008, a decline of 39%. This included 40 acquisitions, 3 MBOs and 2 JV / Alliances compared with 63, 5 and 6 respectively in 1H 2008.

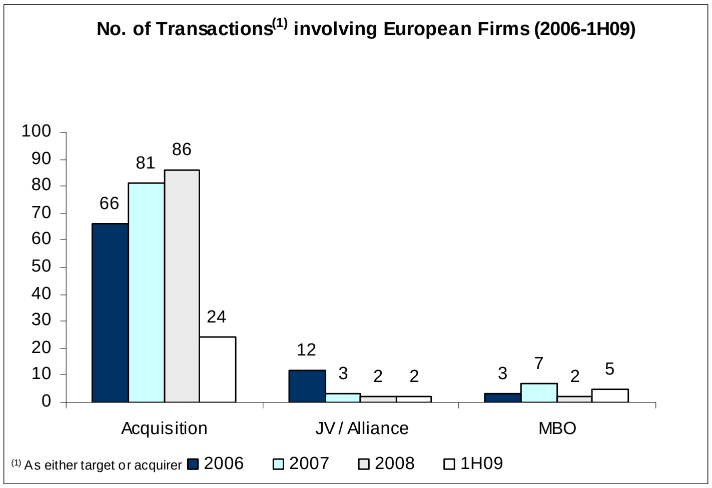
Deal making also posted a drop in Europe with acquisitions falling from 44 to 24, a decline of 45%. European JV / Alliances held steady at 2, while MBOs jumped from 0 in 1H 2008 to 5 in the first half of this year.

Asia-related transactions saw a 50% drop, with 13 completed acquisitions, 1 JV / Alliance and no MBOs in the first six months of 2009 compared to 24, 4 and 0 respectively for 1H 2008.









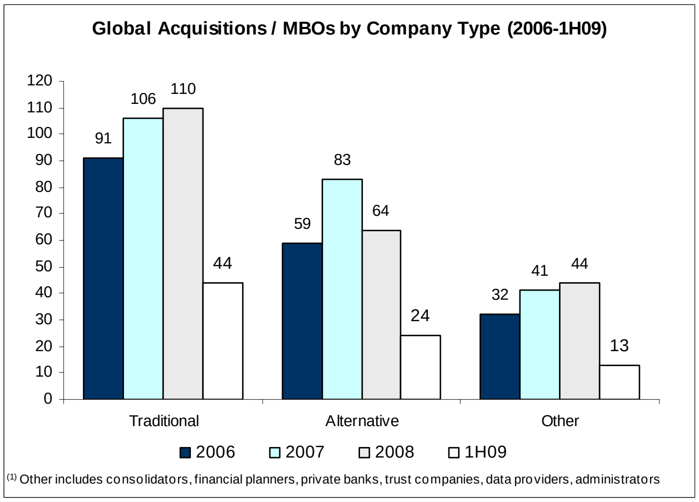
Source: Freeman & Co.

Transactions by Company Type

In 1H 2009 traditional asset managers, alternative asset managers and "other" firms (including financial planners, trust companies, administrators and private banks) all saw a significant drop in M&A activity.

44 transactions involving traditional asset managers were announced in 1H 2009, a 24% decrease from 58 in 1H 2008.

In the same period, alternative manager transactions dropped 35% to 24 from 37 in 1H 2008. Firms categorized as "other" recorded 13 transactions, a 46% decrease from 24 in 1H 2008. With valuations on the rebound and financial markets regaining stable footing, we expect increased asset management M&A activity from current market levels over the next twelve months as larger companies continue to divest non-core units and independent firms resume consolidation strategies (see comments starting on p. 6).

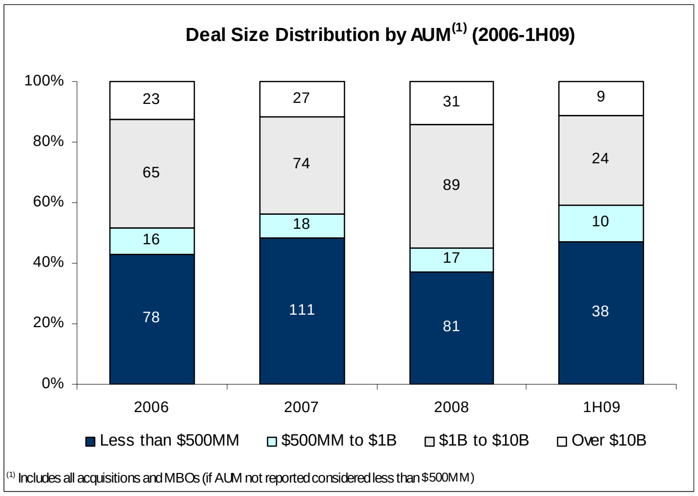


Deal Size

Deals with AUM greater than $1 billion saw the biggest decline, falling 54% to 33 in 1H 2009 from 72 deals in 1H 2008.

Deal-making held up between smaller firms in 1H 2009 with the number of transactions between $500 million and $1 billion in AUM on pace to match 2008 numbers. Deals with AUM of less than $500 million saw a slight decline from 1H 2008, decreasing 12% from 43 transactions to 38 in 1H 2009.

Average and total AUM acquired in 1H 2009 were skewed by a few large transactions as highlighted in the table at right. In 1H 2009, the top 15 deals accounted for 98% of the Total AUM acquired, compared to 64% in 2008.



Top 15	2008 (AUM $MM)	1H09 (AUM $MM)
Top 15 Total	$1,080,753	$2,657,521
Average	$72,050	$177,168
Median	$55,900	$21,000
% of Total AUM	64%	98%
Total AUM Acq.	$1,677,101	$2,709,359

Significant Deals in First Half 2009:

- BlackRock's purchase of Barclays Global Investors (**$1,500.0 billion**)
- Credit Agricole Asset Management merger with Societe Generale Asset Management (**$808.0 billion**)
- Sumitomo Mitsui Banking Corp.'s purchase of 25% of Sumitomo Mitsui Asset Management Co. Ltd. (**$110.0 billion**)
- Aquiline Capital Partners' acquisition of Swiss Re's subsidiary Conning & Company (**$70.0 billion**)
- GIC Special Investments and Australian Pension Plan's purchase of an 8% stake in Apax Partners Worldwide (**$40.0 billion**)
- ICI Capital and Municipal Employees Retirement System of Michigan's purchase of a minority stake in the PFM Group (**$35.0 billion**)
- BTG Investments' acquisition of Banco UBS Pactual (**$25.2 billion**)
- JPMorgan Chase & Co.'s purchase of the remaining 23% of Highbridge Capital (**$21.0 billion**)
- Henderson Group Plc.'s acquisition of New Star Asset Management Group Plc. (**$14.4 billion**)
- GAM Holding AG's purchase of Augustus Asset Managers Ltd. (**$7.6 billion**)
- Nomura's purchase of 18% of LIC Mutual Fund (**$6.0 billion**)
- Coller Capital's purchase of 24% of SVG Capital Plc. (**$5.8 billion**)

Source: Freeman & Co

Assets Acquired by Seller Region

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

Region	2005	2006	2007	2008	1H09
Africa	6,970	55,050	4,300	5,600	200
Asia/Middle East	52,211	77,832	115,819	56,007	124,269
Canada	32,156	8,045	67,905	173,639	112
Europe	488,649	225,341	265,157	705,511	895,836
South America	2,800	7,600	35,150	6,433	26,570
US	549,132	1,842,515	861,261	727,511	1,662,372
Total(2)	**$1,131,917**	**$2,220,583**	**$1,349,592**	**$1,677,101**	**$2,709,359**
Acquisitions(3)	103	126	142	164	59
Average Size	10,989	17,624	9,504	10,226	45,921
Median Size(3)	1,470	2,600	2,950	2,800	1,500

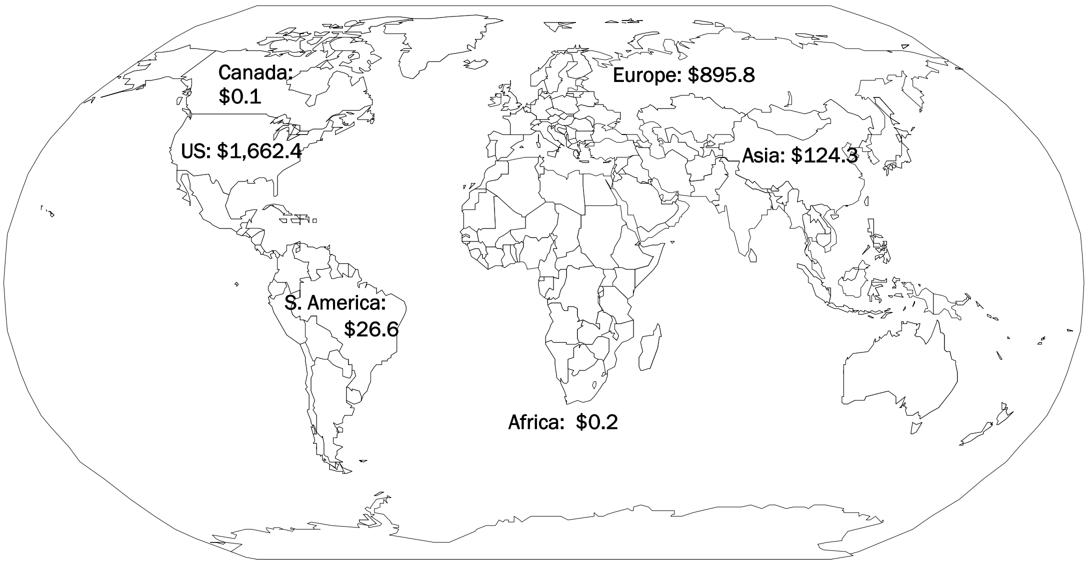
(1) Assets acquired through acquisitions and MBOs Source: Freeman & Co.

(2) Totals include assets acquired by offshore regions

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

A geographical analysis of assets sold highlights a pattern of significantly decreased overall deal flow despite a handful of blockbuster transactions. In the US, assets sold leaped to $1,662 billion from $475 in 1H 2008 almost completely because of BlackRock's acquisition of Barclays Global Investors ($1,500 billion). The story was similar across the Atlantic--total European assets acquired surged to $895 billion, but Credit Agricole's acquisition of Societe Generale Asset Management accounted for more than 90% of this figure. Increases in Asian and South American deals also resulted from the occurrence of a single large transaction in each area. In Asia, total assets acquired were bumped up by Sumitomo Mitsui Banking Corp.'s purchase of 25% of Sumitomo Mitsui Asset Management Co. Ltd. ($110 billion), while South America saw assets acquired increase by $25 billion over 1H 2008 as a result of BTG Investments' acquisition of UBS Pactual ($25 billion). In Africa and Canada, assets acquired fell sharply from the same period last year to under $1 billion in each region.

Assets Acquired by Seller Region ($2,709 Billion)



Source: Freeman & Co. ($ in billions)

Assets Acquired by Buyer Region

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

Region	2005	2006	2007	2008	1H09
Africa	6,970	55,050	8,500	8,100	200
Asia/Middle East	39,589	79,932	177,283	449,179	162,765
Canada	74,356	8,375	260,200	189,850	112
Europe	425,321	252,711	229,998	553,811	859,471
South America	1,800	0	950	0	26,570
US	583,582	1,824,515	672,661	473,161	1,660,241
Total(2)	**$1,131,917**	**$2,220,583**	**$1,349,592**	**$1,677,101**	**$2,709,359**
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(1) Assets acquired through acquisitions and MBOs Source: Freeman & Co.

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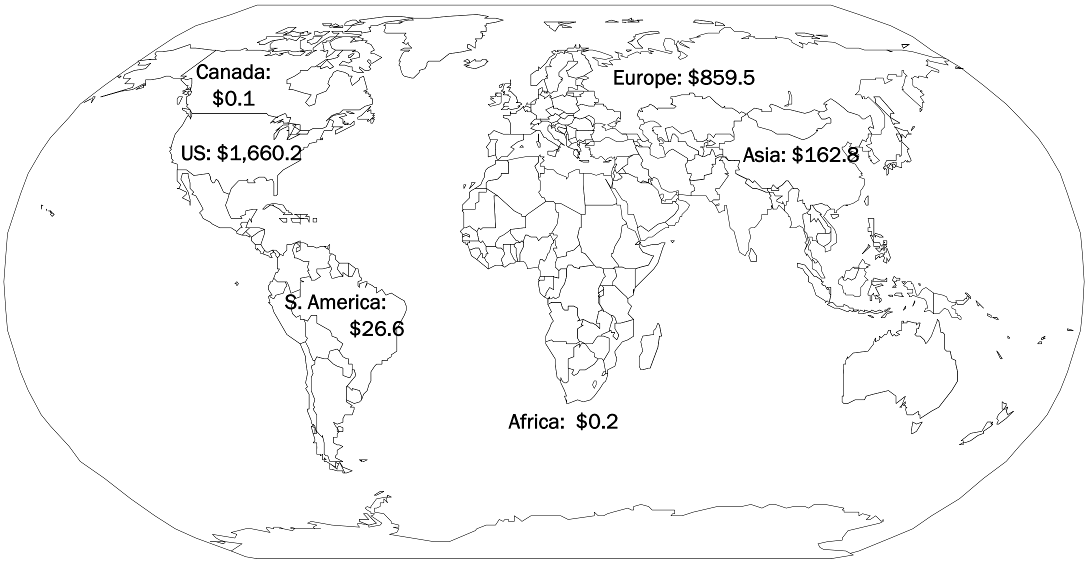
(3) Acquisitions and median deal size calculated using only deals with reported AUM

A breakdown of AUM purchased by buyer region shows that some of the trends over the past few years have continued, albeit at a tempered pace, while others have essentially ground to a halt. Assets acquired by Asian firms, while down significantly from 1H 2008, continued to outpace assets sold in the region suggesting that Asian managers are continuing to hunt for AUM abroad. However, the gap between assets bought and sold in the region has shrunk considerably from 2008 when Asian managers purchased $449 billion in AUM while selling only $56 billion. Conversely, European managers continue to be net sellers of assets, purchasing $859 billion in assets vs. sales of $895. Here too, the gap has closed since last year when European asset managers sold $706 billion and purchased $553. After two years of being a net seller of AUM, the US saw purchased assets fall almost exactly in line with assets sold, meaning the majority of US deals were between domestic parties. Aside from Brazil-based BTG Investments' acquisition of UBS Pactual ($25 billion), there was very little buying activity in South America, Canada or Africa in 1H 2009.

Assets Acquired by Buyer Region ($2,709 Billion)



Source: Freeman & Co. ($ in billions)

Divestitures & Market Consolidation

Brief Recap of US Market Activity

Divestitures drove a significant portion of deal activity in the first half of the year as diversified financials parted ways with asset manager stakes in order to raise capital and refocus on core businesses. In addition to Barclays' disposal of BGI, the sector saw several other examples of this theme including SocGen Asset Management's merger with Credit Agricole Asset Management, Citigroup's sale of Nikko AM, Swiss Re's divestiture of Conning & Company and UBS' sale of its UBS Pactual units. Healthier strategic and financial buyers took advantage of unique opportunities to acquire assets and strong brands.

1H 2009 Notable Asset Manager Divestitures and Joint Ventures

Target	Acquirer	Seller	Total Deal AUM ($MM)
Barclays Global Investors	BlackRock	Barclays	$1,500,000
Societe Generale Asset Management	Credit Agricole Asset Management	Societe Generale	808,000[1]
Sumitomo Mitsui Asset Management	Investors Group	Mitsui Life Insurance	110,000
Conning & Company	Aquiline Capital Partners	Swiss Reinsurance	70,000
Banco UBS Pactual	BTG Investments	UBS	25,200
Lehman Brothers Merchant Banking Business	Management & Reinet Investments	Lehman Brothers	4,500
Standard Chartered Fund Distribution Business	Threadneedle Asset Management	Standard Chartered	2,380
Regions Mutual Fund Business	Pioneer Investment Management	Regions Financial	2,000
50 Wealth Management Branches	Stifel, Nicolaus & Company	UBS	N/A

Includes joint ventures
(1) Total deal AUM is for combined entity

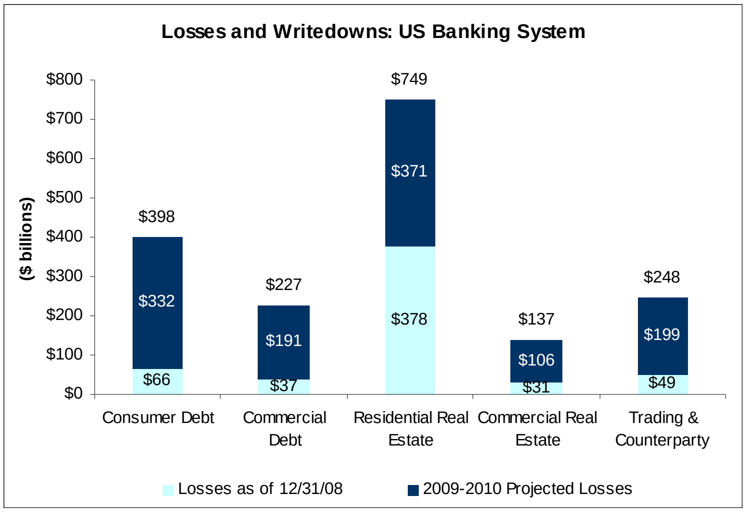
Source: Freeman & Co. Analysis

What's Next for the Asset Management Industry?

Writedowns and Credit Losses Persist

Increasing confidence in the US financial system and a thawing of credit markets suggest the financial sector may have weathered the worst of the storm. Yet, in spite of such positive developments, most economists believe that growing losses on consumer debt and commercial real estate loan portfolios will persist into next year and take an additional toll on banks' capital.

The Federal Reserve warns that US financial firms may have to recognize additional credit losses of up to $1.2 trillion in fiscal years 2009 and 2010. About $140 billion of these losses have already hit the banks' balance sheets in the first half of 2009, and with the performance of consumer credit closely tied to the unemployment rate a drawn-out recovery may result in even steeper losses.



Source: Bloomberg WDCI, US Federal Reserve, Freeman & Co. Analysis

Bank holding companies with significant exposure to these assets will continue exploring divestitures as an alternative to raising capital in public markets. Better capitalized banks (such as those who have repaid or are planning to soon repay TARP funds), private equity firms and pure-play asset managers are likely to take advantage of dislocation in the market and acquire the spun-off asset management businesses of their less-healthy competitors. This consolidation may result in the addition of several new large-scale players to the landscape as the strong continue to grow stronger.

Pressure on Insurers

Further credit losses also pose problems for insurers since additional general account impairments can result in ratings downgrades and insufficient regulatory capital levels for thinly capitalized firms. Insurance companies with asset management subsidiaries may find divestitures the best way to raise new capital. This development will create more opportunities for acquirers looking to buy assets from distressed sellers and drive additional consolidation in the sector.

Select Banks / Insurance Companies with Asset Management Arms

Firm	Market Cap ($B)	Stock Price 6/30/08 - 6/30/09	Name of AM Unit	AUM ($B)
PNC Financial	$16.8	(32%)	Allegiant Asset Mgmt	$26
AIG	1.8	(96%)	AIG Investments; Brazos Capital Mgmt	47
Citi	16.6	(82%)	Citibank (China) Co. Ltd.	N/A
Fifth Third Bancorp	5.6	(30%)	Fifth Third Asset Mgmt	19
Bank of America	102.1	(45%)	Columbia Asset Mgmt; First Republic	341
Lehman Brothers	<1	(100%)	Minority stakes in alt. managers	N/A
Key Corp.	2.6	(52%)	Victory Capital Mgmt	62
RBS	35.3	(81%)	RBS Asset Mgmt Ltd.	44
SunTrust	7.5	(55%)	Trusco	74
Wells Fargo	117.6	2%	Wells Fargo Investments	5
US Bancorp	34.1	(36%)	FAF Advisors	97
Hartford Financial	3.9	(82%)	Hartford Investment Mgmt	135
Principal Financial	6.1	(55%)	Principal Global Investors	189
Old Mutual	7.4	(13%)	Dwight Asset Mgmt	77
MBIA	0.9	(1%)	MBIA Asset Mgmt	43
Genworth Financial	3.0	(61%)	Genworth Financial Wealth	14
Hanover	N/A	N/A	Opus Investment Mgmt	7

Source: Freeman & Co. Analysis

Potential Buyers

Several types of buyers will make acquisitions of asset managers in the next year with large independent managers and well-capitalized bank holding companies leading the pack. Tight credit markets will continue to put a damper on private equity activity, but divesting firms may be willing to provide deal financing as Barclays agreed to do for BlackRock. In addition to private equity funds, non-traditional financial buyers, such as family offices and sovereign wealth funds, have acquired and will continue to opportunistically acquire asset manager stakes. A summary of financial buyers with recent investments in the sector is provided in the table at right.

Selected Recent Private Equity Buyers

	Investments (2005-1H09)	
Acquirer	# of Transactions	Est. AUM Acquired ($MM)
Rosemont Investment Partners	7	$12,199
TA Associates	5	81,654
Summit Partners	5	11,353
Lovell Minnick Partners	3	7,170
Hellman & Friedman	3	107,722
Stone Point Capital	3	16,432
American Capital	2	N/A
Carlyle Group	2	28,800
Corsair Capital	2	N/A
Guggenheim Partners	2	N/A
XL Capital Investment Partners	2	51,000[1]

(1) Includes $50 bn of assets under administration

Source: SEC Filings, Freeman & Co. research

European Perspective

Divestitures and Consolidation

In our last asset management report we asked the question: "Will more financial institutions in Europe be willing to part with their asset management subsidiaries?" At that time, a number of specific transactions that had caught our eye suggested the possibility of an emerging trend. A number of these are mentioned above.

Six months on it is clear that this trend has even greater traction and is likely to remain a core theme in the European asset management industry over the coming months. In 1H 2009, divestitures were a key driver in a significant portion of M&A activity in terms of both number of transactions and AUM transacted, and divestitures are altering the competitive landscape of the sector in multiple ways. A continuing trend of divestitures will both cement the position of a small number of leviathan players such as the combined Blackrock/BGI and further strengthen Europe's independent sector as formerly bank-owned asset management subsidiaries are spun off either through MBOs, corporate or private equity sales or, once markets recover further, IPOs. Notably we think private equity is going to increase its intensity of activity in the sector having seemingly been out maneuvered by a number of highly experienced trade buyers in recent months (this has been more apparent in Europe relative to the US). These transactions will help reinforce the delineation between relative 'winners' and 'losers' of the credit crisis as the 'winners' are able to add to their product and geographical offerings through acquisition.

The most notable divestiture transaction announced in 1H 2009 have been:

- Barclay's sale of Barclays Global Investors (BGI) to Blackrock ($1,500 billion)
- The merger of Credit Agricole and Societe Generale's asset management arms ($808 billion)
- Citigroup's sale of Quilter to Morgan Stanley Investment Management ($9 billion)
- Standard Chartered's sale of its Global Investment Distribution business, including Standard Chartered Investments (Luxembourg) S.A., to Threadneedle Asset Management

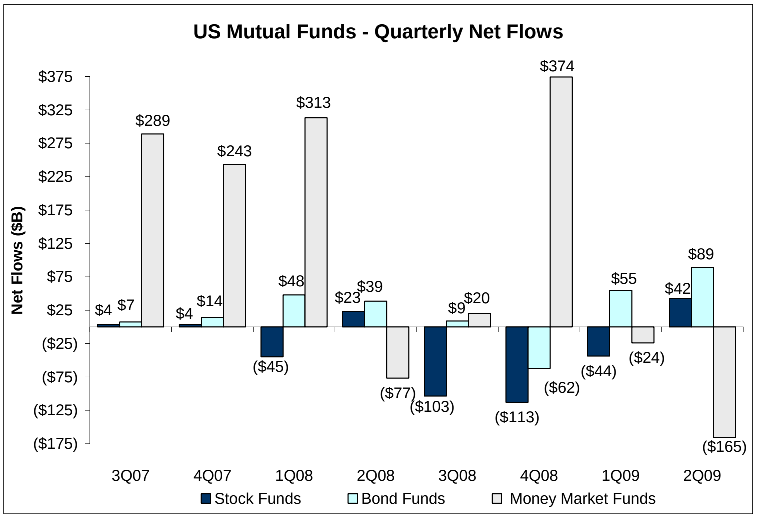
A glance at recently announced and rumored M&A activity to date in 2H 2009 further reinforces the continuing relevancy of divestiture transactions. In August, Lloyds TSB sold Insight Investment Management, the former asset management division of HBOS, to The Bank of New York Mellon ($132 billion AUM) and it is rumored that Royal Bank of Scotland (RBS) is close to putting its asset advisory business up for sale ($50 billion AUA). We have little doubt that other divestiture transactions will follow as governments and cash-strapped parent institutions evaluate their holdings.

Furthermore, we expect a number of independent firms to begin to contemplate potential strategic transactions as the benefits of scale, brand and performance continue to allow relatively few to enjoy what inflows are emerging. Not all of these are going to be plain vanilla transactions—more likely is a mix of strategic equity merger of equals and other partnerships across asset classes. The merger of long only players and alternatives is one type of combination which offers diversification for both parties with little negative synergy or people issues; many others are possible. These, together with the rising equity markets, the emergence of inflows and the divestiture themes mean that 2H 2009 and beyond are likely to show an increased level of activity.

Where's the AUM going? – Asset Flows

Traditional Long-Only

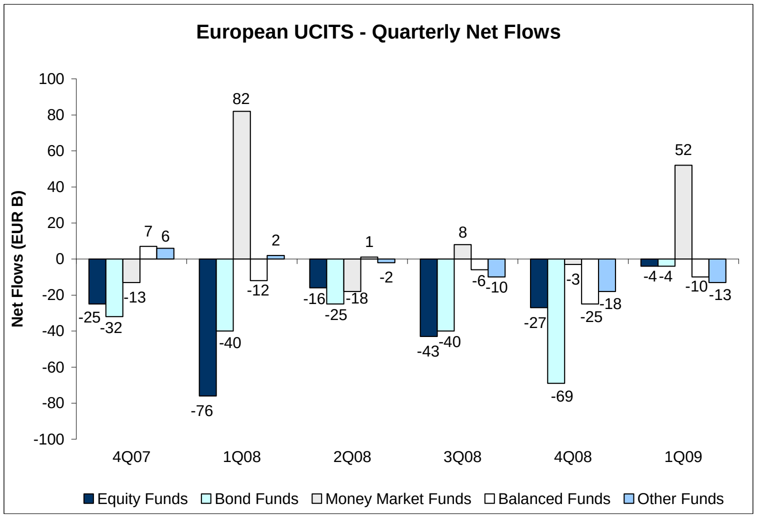
In the wake of a strong performance by global financial markets in the second quarter, flows to US mutual funds have turned positive in Q2 2009 as risk appetite picks up and investors cautiously begin re-allocating to equities. Net flows to stock funds remain slightly negative year to date but are on pace to turn positive in Q3 2009. In 1H 2009 money market fund outflows of more than $189 billion also suggest renewed optimism as investors begin to reverse last year's $300 billion net inflow. While net flows to stock & bond funds seem poised to come off the lows of last year, the suspension or cancellation of corporate 401(k) retirement matching programs by some employers threatens to sap a historically dependable source of new assets for the industry. Lower fees are also putting pressure on mutual fund managers as investors continue to use less expensive products such as ETFs.



Source: ICI

European Perspective

Similar to the US, strong market performance in Europe in Q2 2009 has helped calm investors and restore investor confidence in active managers. Recent figures released by Lipper FMI show net inflows into both long-term equity and bond funds in both May and June. Flows into UK fund managers particularly reflect investor's recovery of risk appetite in Europe, receiving over €4 billion of inflows in June – more than at any point since the early months of 2007 – increasing UK net inflows for 1H 2009 to over €17 billion. Redemptions of money market funds in 2Q 2009 also signal a return of investor appetite.

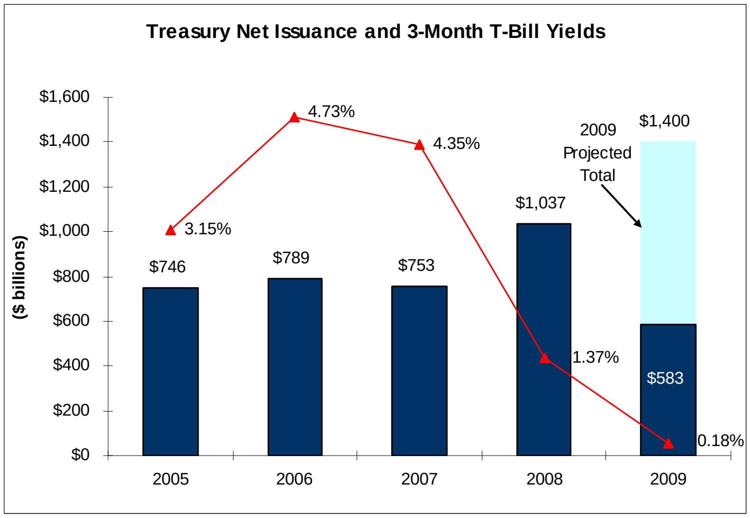


Source: efama

Flight to Safety

Despite rebounds in several riskier asset classes, investors are still favoring the safe harbors of US debt. T-Bill yields have declined from a high of 4.73% in 2006 to 0.19% on June 30 of this year suggesting that demand remains high despite record new net issuance. It remains to be seen whether this demand will persist with the potential threat of inflation in the future.

For now, foreign governments who have historically invested their countries' trade surpluses in Treasuries appear willing to continue meeting supply in the short term, although many major buyers have voiced concern over the US' growing national debt.



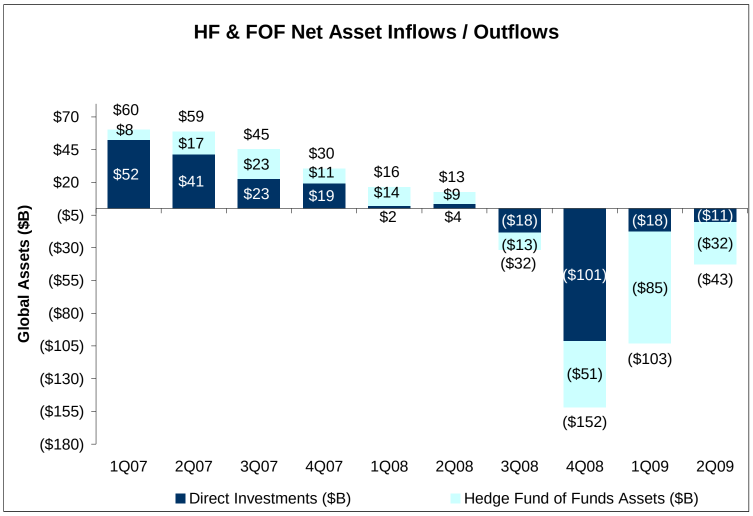
Source: SIFMA

Alternatives

Hedge Funds

Despite a few noted blow-ups, hedge fund returns handily beat the S&P 500 and other major indices throughout the crisis. While net flows to hedge funds were down in 1H 2009, redemptions slowed dramatically in the first and second quarters suggesting that AUMs may start climbing again by the end of the year as pension funds and other allocators begin deploying assets to the sector. Yet, managers still face major challenges on several fronts:

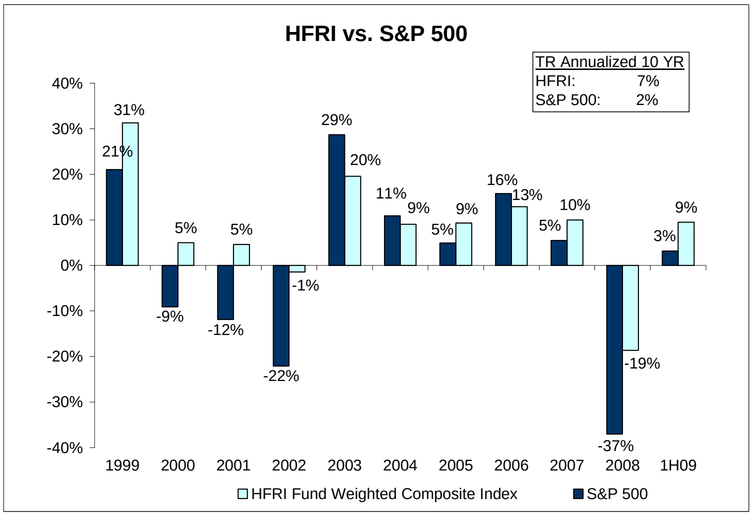
- Government regulation poses a significant threat to the industry as regulators mull controls on everything from how hedge funds are allowed to invest to how managers are compensated and taxed.
- Pressure on fees is building from investors unwilling to continue paying "2 and 20" for beta performance and many funds will have to lower fees in order to preserve capital and appease institutional investors.
- Finally, the number of funds will shrink as sub-scale funds and businesses are shut-down due to lack of scale or marketability.



Source: Hedge Fund Research

Hedge Fund of Funds

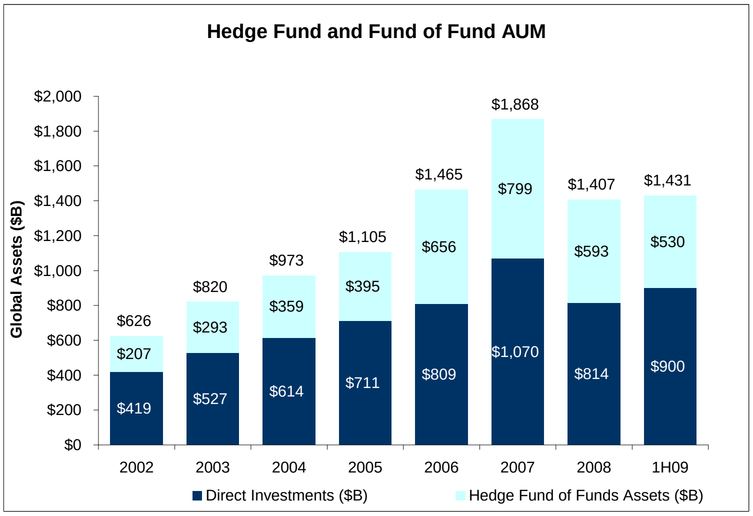
Hedge fund of funds will confront the same challenges outlined above as well as a few others unique to the space. HFOF withdrawals outpaced those of direct hedge funds in the first two quarters of the year with outflows totaling $117 billion. To provide additional value, HFOFs will need to provide the improved transparency, risk management and communication investors are now demanding. The high costs of adding such services will put a premium on scale, making consolidation a matter of survival for smaller players. HFOFs will also need to make sure they have the appropriate due diligence and risk management resources necessary to meet clients' new expectations.



Source: Hedge Fund Research, Morningstar

Hedge Fund of Funds Outsourcing Management

Some banks anxious to pare-down noncore businesses have hired independent managers to run their HFOF groups. ING hired SAIL Advisors to manage their captive fund of funds, while JP Morgan announced that Arden Asset Management would take over daily operations of their investment bank's HFOF. Others with sub-scale businesses will either sell off assets or simply shut-down their HFOF groups.



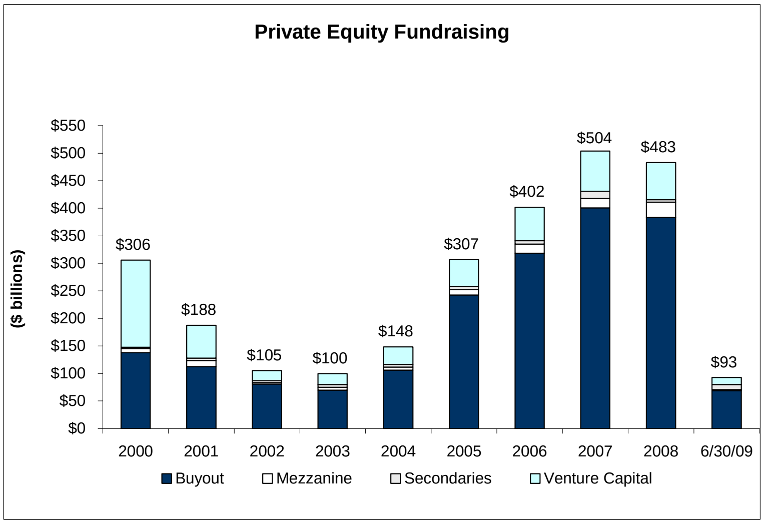
Source: Hedge Fund Research

Alternatives Focus - Trends in the Alternatives Space

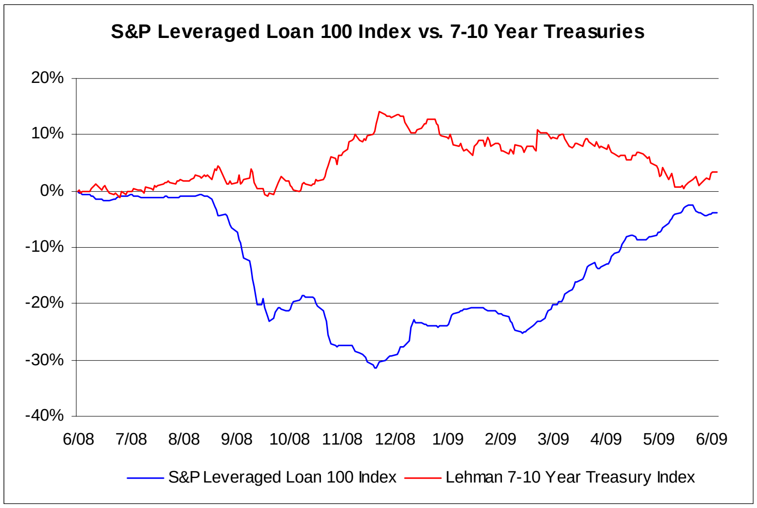
Private Equity

While PE-backed transactions have diminished since their peak in 2007, it's doubtful that the $400 billion of unspent private equity capital will sit on the sidelines for much longer. In a sign that buyout lending could resume sometime in the next year, the S&P Leveraged Loan Index rallied sharply from its lows in Q4 2008. But private equity is still a long way from a full recovery—more than 50 portfolio companies filed for bankruptcy in the first half of the year and there is little sign the pace is slowing. Financial sponsors have already taken significant equity markdowns on many of their positions, and even profitable investments will be difficult to exit in the current deal making climate.

One topic that has been discussed at length in the past few months is the role of private equity in the banking sector. Sporadic "club deals" highlighted by the BankUnited and IndyMac buyouts illustrate PE's interest in the space, but the FDIC's sluggish response to calls for changes to bank ownership rules prevented a meaningful amount of capital from entering the system. The new regulations announced in late August ease the requirements for PE firms to own banks, but are still more constricting than many firms would like. Some of the provisions considered unfriendly by PE firms include a 10% tier-1 capital ratio (vs. 5% for regular banks), a 3-year minimum holding period and a "cross guarantee" provision for firms owning more than one depository institution. Financial buyers will undoubtedly continue to express interest in the space, but the jury is still out on whether the latest round of attenuated regulations is enough to encourage actual investment in the space.



Source: Thompson Financial & Freeman & Co.



Source: Bloomberg

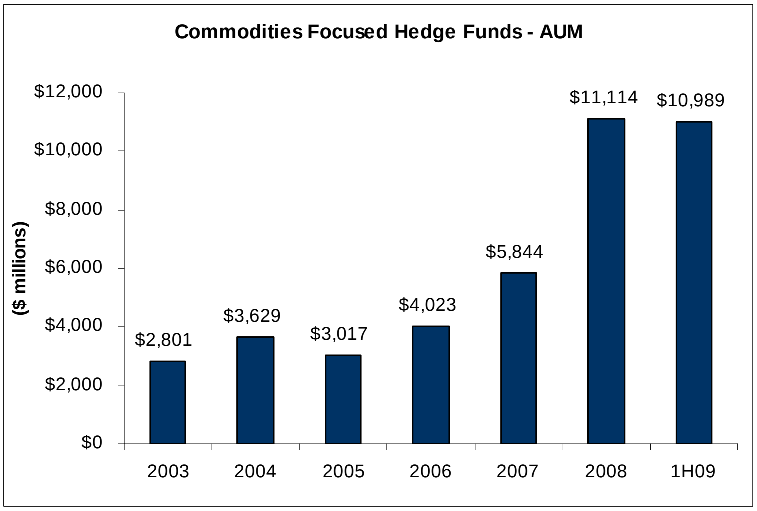
Commodities

Massive swings in commodity prices over the past two years have earned the attention of governments that are intent on preventing "speculators" from moving markets. Regulations proposed by the CFTC would limit the size of positions certain investors can take. Industry sources believe that if passed, these rules would lead to an increase in the number of commodities-focused products as assets will simply be spread across multiple entities.

Alternative Manager Minority Stake Purchases Continue

Despite the difficult market environment, there were a number of deals between alternative asset managers, including three minority deals with private equity related managers (Apax Partners, SVG Capital and Northern Lights):

- JP Morgan's purchase of an additional 25% stake in Highbridge Capital Management
- GIC and Australian Pension Plan's 8% permanent capital investment in Apax Partners
- Coller Capital's 24% stake in SVG Capital
- BNP's Investment in Northern Lights Ventures



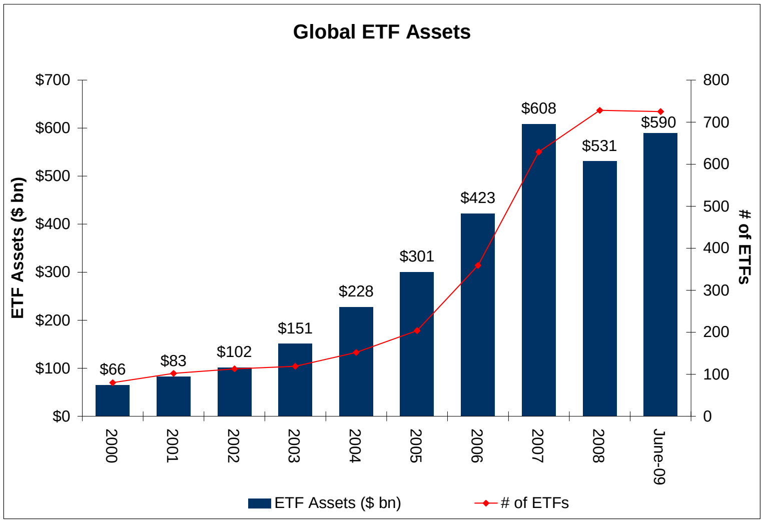
Source: HFR

Product Focus - Expanding Product Areas

ETFs

Exchange Traded Funds continue to grow in popularity as investors shift away from high cost actively-managed products that provide similar performance. Total assets are down slightly from their peak in 2007, but this decline is a result of a drop in asset value and not investor outflows. Larger managers who lack ETF products will weigh buy vs. build strategies as a means of moving into the space, and this will further intensify consolidation.

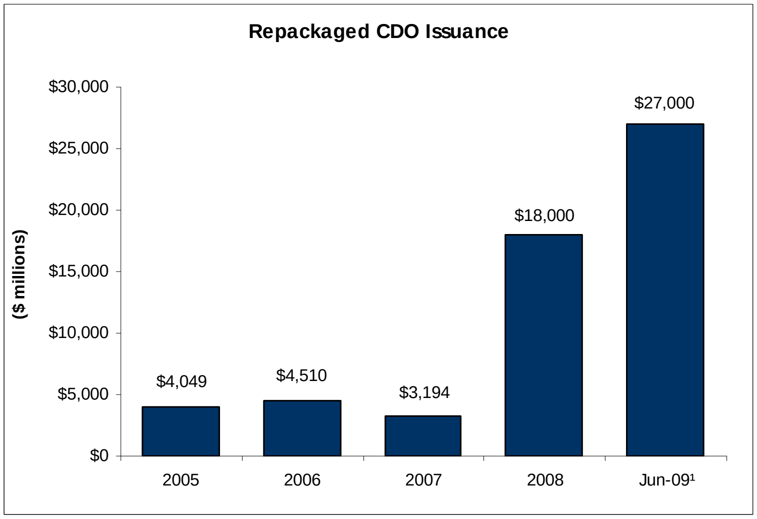
While traditional long ETFs will continue to gain popularity, many of the more exotic leveraged products that have been developed in recent years are starting to earn the ire of investors and regulators alike. Leveraged ETFs often provide returns that diverge significantly from those of the underlying index over long time periods, and are generally meant to be held for less than one day. The concerted pressure from regulators and distributors alike is likely to put a significant dent in the growth of such products.



Source: ICI

Re-REMIC and Repackaged CDO Issuance Surging

The issuance of new structured credit products remains essentially non-existent compared with the levels of the past few years. In the meantime, some firms have found a new way to attract investors in a tough environment by restructuring and reselling existing mortgage-backed assets. Repackaged CDOs and Re-REMICs are created by carving up existing securities into new equity and debt tranches and adding supplementary credit enhancements. The new vehicles can now receive new, higher ratings, and be sold to investors at more attractive valuations. Repackaged products are usually backed by fewer mortgage bonds than the original issue which allows investors to better understand and evaluate the underlying collateral of the issue.

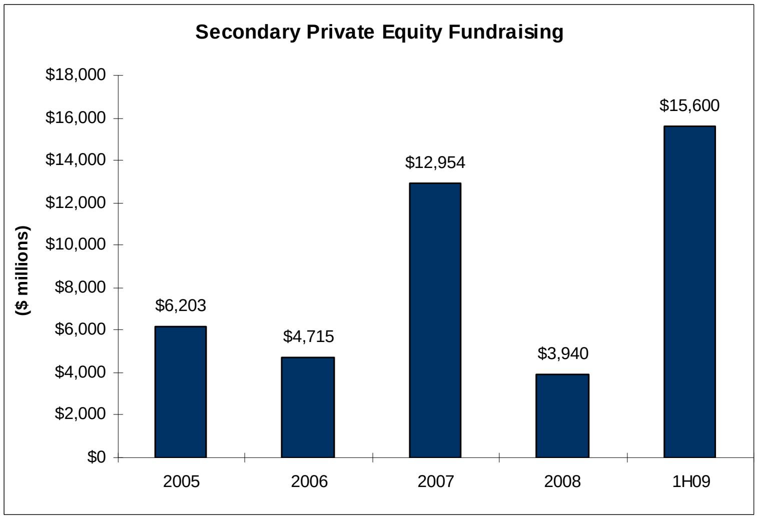


(1) According to BoA / ML report published 6/12/2009

Source: Bloomberg, BoA / ML

LP Liquidity Issues and Secondary Markets

In the past year, hedge fund and private equity investors learned that their investments were not as liquid as they originally believed. Investors scrambling to pull cash out of hedge funds found that many fund managers couldn't meet short-term redemption requests without severely impairing their holdings. On the private equity side, cash distributions to LPs have dried up and many LPs will have difficulty meeting future capital calls. As a result, there has been an increased interest in secondary funds which can provide liquidity to investors, albeit at a price. Some notable funds that have already been raised include Goldman Sachs' GS Vintage V ($5.5 billion) fund and Pomona's Pomona Capital VII fund ($1.3 billion). Despite the initial interest, the secondary market has gotten off to a slow start thanks to wide bid-ask spreads and a lack of interest from buyers.



Source: Thomson Financial, Freeman & Co. Estimate

Retail Market

Plight of the Retail Investor

Retail investors endured a multi-fronted assault on their net worth throughout the course of the financial crisis. Assets previously thought to be uncorrelated all fell in tandem, leaving even well-diversified investors with steep losses. The impact has been severe, driving the total net worth of American households below 2004 levels and dramatically changing the composition of US household assets.

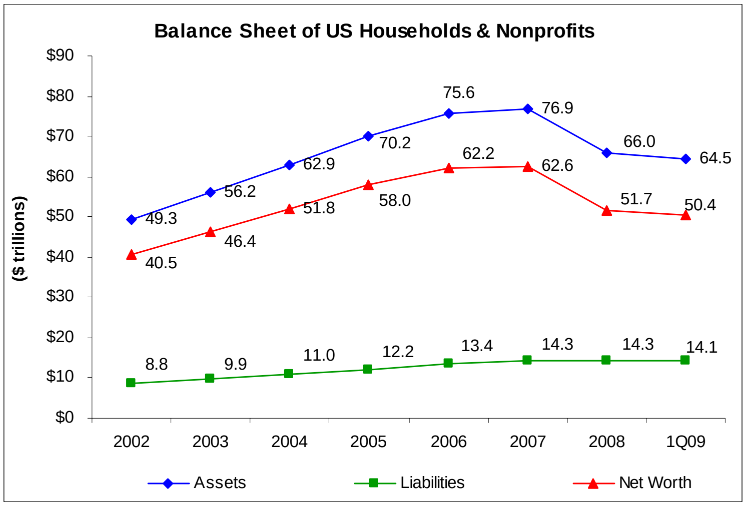
- Despite the attention falling real estate prices have received, the drop in equity markets has had the greatest effect on the net worth of retail investors. Household real estate holdings fell $4 trillion to $18 trillion, or 18%, from 2007 to 1Q 2009, while directly-owned equity and mutual fund holdings dropped a combined $5.6 trillion
- Investors' pension plan benefits tumbled $3.5 trillion, or 26%, from a peak of $13.4 trillion in 2007 to $9.9 trillion at the end of 1Q 2009
- Fixed income investments fared better than equities during the crisis, but still performed poorly amid record levels of defaults. However, changing investor preferences have bumped up the proportion of assets allocated to this sector from pre-crisis years
- Consistent with an increase in the domestic savings rate from 0.6 to 4.4% (see graph next page), checking and money market accounts now account for a larger portion of retail investors' assets

Retirement Assets

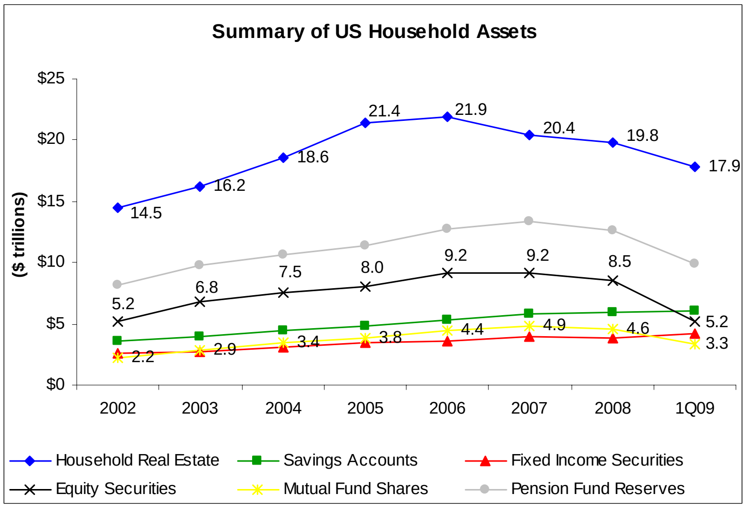
Baby-boomers planning to retire in the near term will have to reevaluate their plans or find supplementary sources of income to cope with insufficient retirement savings. Total US retirement assets dropped 21% from $18 trillion in 2007 to $14 trillion at the end of 2008.

- IRAs were particularly hard hit, falling 23% from $4.7 to $3.6 trillion over twelve months.
- Defined Benefit plans will find it difficult to meet obligations after losing more than 25% of their value in 2008. Assets in such plans fell $700 billion to $2 trillion
- Defined Contribution plans also suffered significantly, losing $1 trillion, or 22%, in 2008
- Annuities and Federal Pension plans held up the best throughout the crisis. Federal Pension plan assets were unchanged from 2007 to 2008 while annuities dropped by about 12%, or $200 billion

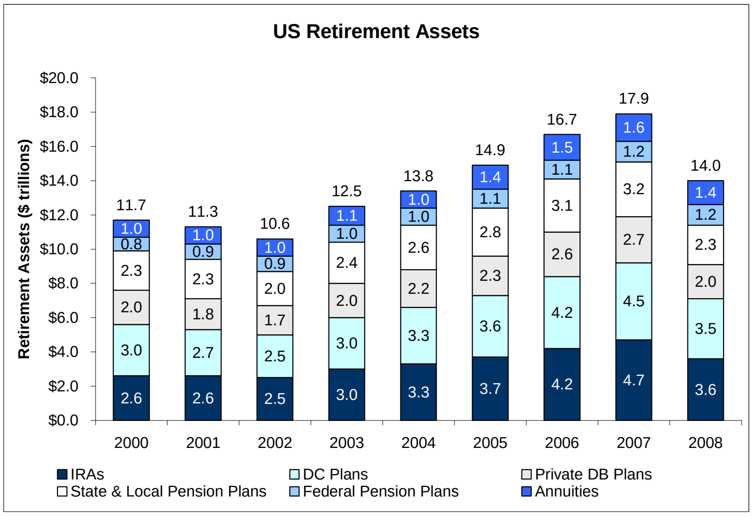
Recent market rallies boosted retirement assets, but with little hope of reaching the highs of 2007 in the near future, many retail investors are searching for new ways to plug up losses and plan for the future.



Source: Federal Reserve



Source: Federal Reserve

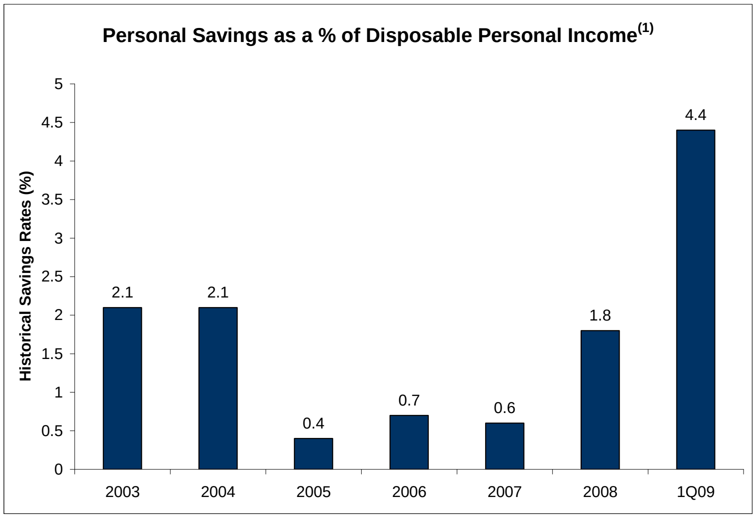


Source: Federal Reserve

What's Next for the Retail Investor?

Increased Savings

The pressure on US households' net worth has pushed the personal savings rate from 0.6% at the end of 2006 to 4.4% at the end of 1Q 2009. This trend should continue into the near future as it becomes an important channel for the recapitalization of the financial system.



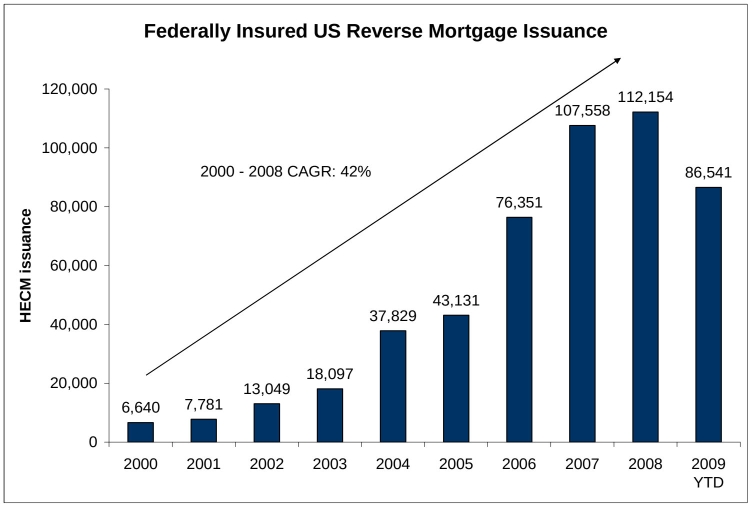
(1) Does not include consumer durables

Source: Federal Reserve, Morningstar, Freeman & Co. Analysis

Tapping Equity Sources with "Reverse" Products

The new savings, however, will not be enough to recover the lost assets and consumers are embracing non-traditional sources of retirement funding.

- Demand for reverse mortgage products has been sustained, despite depressed housing prices, (see graph) with FY 2009 on pace to surpass the highs reached in 2008
- According to Conning Research & Consulting (Sept 2008), the life settlement market is projected to double its gross market potential from $100 billion in annual total face amount in 2008 to $200 billion in 2014 (see graph)



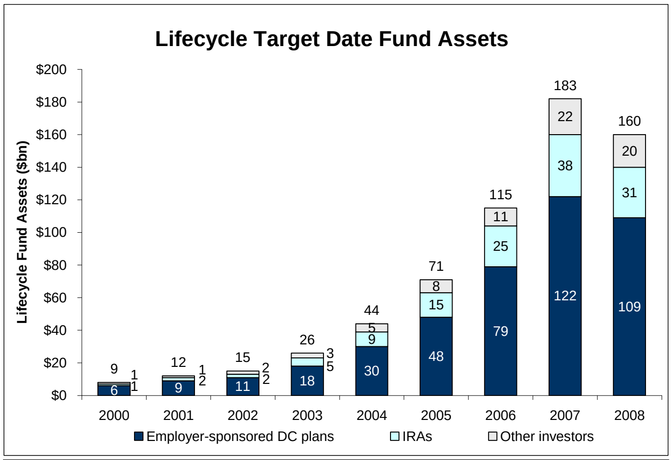
Note: The US federal government's FY begins Oct. 1; 2009; data is through June 30

Source: National Reverse Mortgage Lender's Association

Shift to New Asset Allocation Products

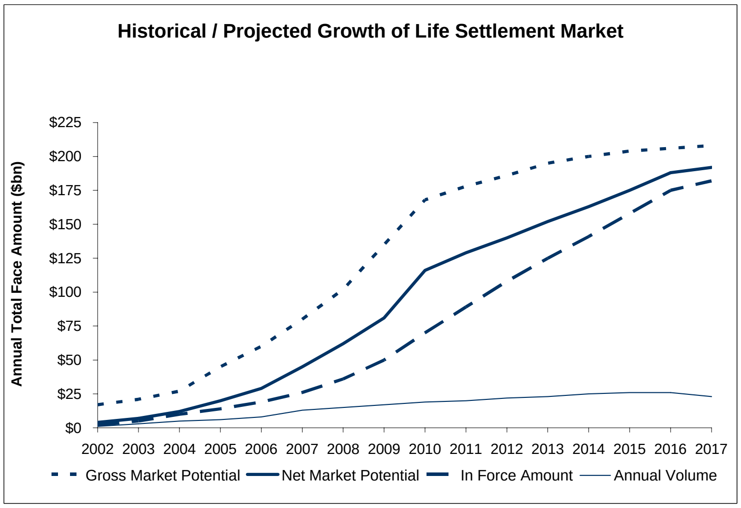
In terms of choosing an investment strategy, investors who felt burned by their investment advisors may see lifecycle funds as a safe-heaven, although performance can vary substantially between similar funds.

- Lifecycle funds assets have grown in popularity from $9 billion in 2000 to $160 billion at the end of 2008
- Lifecycle funds have displayed a wide variance in performance. An analysis of 36 different funds tracked by Morningstar within the same target date and risk category (i.e. "moderate") showed returns ranging from -3.5% to -33.0% for 12 months ending June 30, 2009



As of June 30, 2009	YTD	Annualized (%)		
Morningstar Category	**(%)**	**1 Yr**	**3 Yr**	**5 Yr**
Target Date 2000-2010	*Total Funds: 36; Total Assets: $23 bn*			
High	11.2	(3.5)	2.6	2.6
Average	6.2	(14.5)	(1.7)	1.4
Low	(0.3)	(33.0)	(6.3)	(0.8)
S&P Target Date 2010 TR	*1.8*	*(11.6)*	*(0.1)*	-

Source: ICI, Morningstar



Source: Conning Research & Consulting: Case Study (9/30/08)

History of Valuations

Stock Prices

Over the past year (as of 8/31/09) public asset managers have seen their share prices drop in some cases as much as 57%. Compared with the S&P 500, which was down 20% over this twelve month period, an equally-weighted index of public traditional long-only managers was down 17%, an index of alternative managers was down 32%, and an index of HFOF managers was down 48%.

The worst performing stocks in the sector were all alternative asset managers, some of which saw their stock price plummet as much as 57%. The table below highlights a few of these companies.

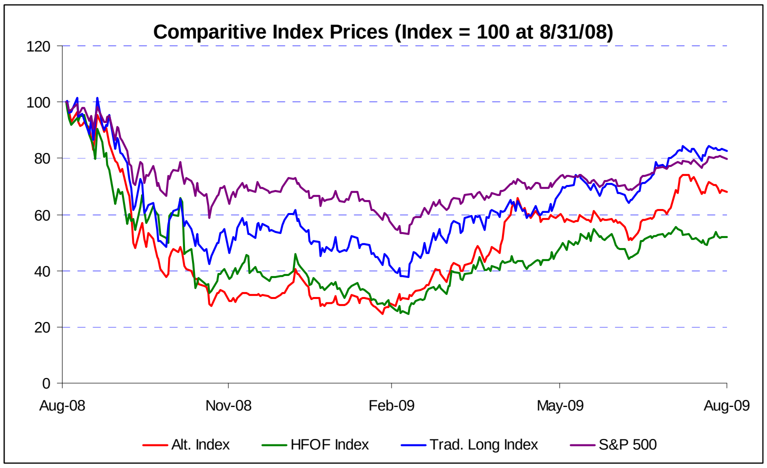
	Stock Prices			YOY %
	8/31/08	12/31/08	8/31/09	Change
Charlemagne Capital	£ 0.30	£ 0.07	£ 0.13	-56.7%
Fortress	$ 10.05	$ 1.00	$ 4.53	-54.9%
GLG	$ 8.24	$ 2.27	$ 3.95	-52.1%
Man Group	£ 5.11	£ 2.24	£ 2.69	-47.4%
RAB Capital	£ 0.39	£ 0.10	£ 0.21	-46.2%
Och-Ziff	$ 17.47	$ 5.07	$ 9.98	-42.9%

Although traditional managers did not experience as big a downfall as the alternative managers, their YOY % decline was generally still in double digits. Janus Capital, whose stock price was nearly $27 in August 2008, is trading at approximately $13 one year later, a decline of nearly 53%. However, asset managers as a whole have slowly started to see their stock rebound as investors begin to gain confidence and managers are witnessing fresh asset inflows.

	Stock Prices			YOY %
	8/31/08	12/31/08	8/31/09	Change
Janus Capital	$ 26.86	$ 8.00	$ 12.72	-52.6%
Legg Mason	$ 42.63	$ 21.40	$ 28.76	-32.5%
T Rowe Price	$ 57.74	$ 34.89	$ 45.30	-21.5%
Eaton Vance	$ 34.72	$ 20.59	$ 28.57	-17.7%
INVESCO	$ 24.84	$ 14.15	$ 20.75	-16.5%
Federated Investors	$ 29.53	$ 16.43	$ 26.25	-11.1%

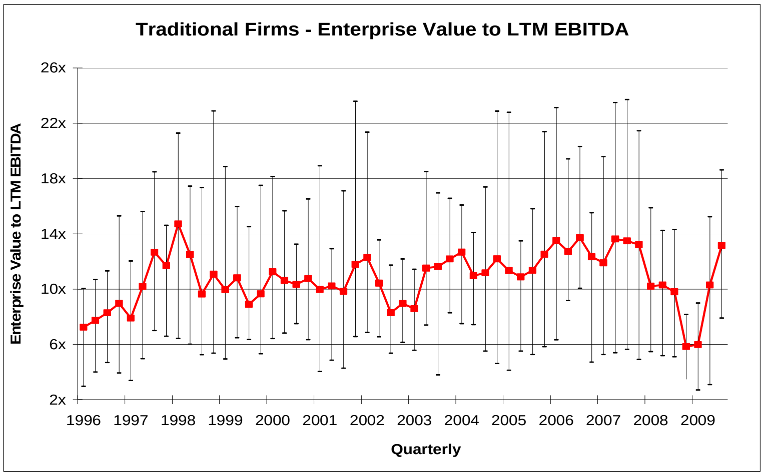
EBITDA Multiples

After bottoming out in December 2008, the multiples of firms' current enterprise value to last-twelve-months (LTM) EBITDA have started on an upward slope as valuations slowly rebound. The increase in multiples can be mainly attributed to the rally in the markets, which has caused AUMs to rise in the first half of 2009. In the case of alternative asset managers EBITDA multiples have grown from a mere 2.0x to nearly 10.0x EBITDA as investors anticipate stronger earnings ahead.



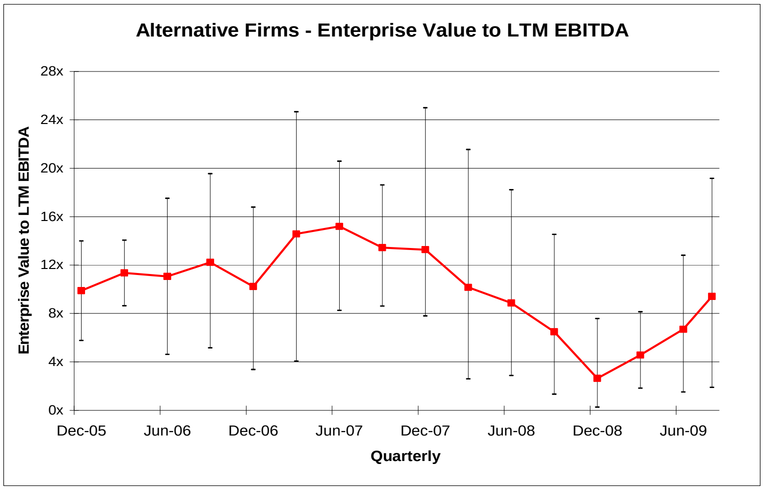
Traditional Long Index: Blackrock, Eaton Vance, Federated Investors, Franklin Resources, INVESCO, Janus Capital, Legg Mason, Schroders, T Rowe Price
HFOF Index: Man Group, Partners Group
Alternative Index: Blackstone, BlueBay, Charlemagne, Fortress, GLG Partners, Och-Ziff, RAB Capital
Note: The above 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 and HFOF 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.

Public US Money Managers – Valuations

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

	Summary Financials							LTM 6/30/09 Valuation Metrics			
		8/31/2009			LTM (6/30/2009) [c]			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 [d]											
Blackrock	$ 1,373.2	$ 199.57	$ 27,083.2	$ 25,673.2	$ 4,392.9	$ 1,873.2	$ 4.72	5.8x	13.7x	42.2x	2.0%
Eaton Vance	127.2	28.57	3,536.3	3,776.3	940.4	289.8	1.18	4.0x	13.0x	24.2x	2.8%
Federated Investors	401.8	26.25	2,704.8	2,837.5	1,225.2	359.1	2.10	2.3x	7.9x	12.5x	0.7%
Franklin Resources	451.2	93.33	21,684.1	19,530.0	4,276.6	1,418.2	3.59	4.6x	13.8x	26.0x	4.8%
Gamco	21.4	45.13	1,254.2	1,044.9	201.6	66.8	0.82	5.2x	15.6x	NM	5.9%
SEI Investments	135.7	18.44	3,549.1	3,334.7	1,085.1	343.8	0.63	3.1x	9.7x	29.5x	2.6%
Janus Capital	132.6	12.72	2,316.6	3,204.0	823.0	236.4	0.30	3.9x	13.6x	42.9x	1.7%
T Rowe Price	315.6	45.30	11,982.8	11,315.4	1,797.4	691.7	1.23	6.3x	16.4x	36.8x	3.8%
Waddell & Reed	55.6	26.53	2,284.7	2,295.7	808.6	169.8	1.03	2.8x	13.5x	25.9x	4.1%
Calamos Investments	27.0	11.28	1,094.9	1,099.8	295.3	32.3	(1.10)	3.7x	NM	NA	4.1%
Legg Mason	656.9	28.76	4,135.4	5,342.6	2,916.4	600.6	0.88	1.8x	8.9x	32.7x	0.6%
Cohen & Steers	16.3	19.67	833.2	704.2	126.8	25.7	(0.43)	5.6x	NM	NA	5.1%
TOTAL	**$ 3,714.5**		**$ 82,459.4**	**$ 80,158.2**			**AVERAGE**	**4.1x**	**12.6x**	**30.3x**	**3.2%**
							MEDIAN	**4.0x**	**13.5x**	**29.5x**	**3.3%**
Alternatives											
Fortress	$ 31.0	$ 4.53	$ 2,050.8	$ 2,400.1	$ 417.0	$ 167.0	$ (0.31)	5.8x	14.4x	NA	6.6%
Blackstone	93.5	12.89	14,109.7	13,403.2	(409.0)	(1,256.8)	(0.67)	NA	NA	NA	15.1%
GLG	19.1	3.95	986.1	1,254.5	312.7	93.0	0.09	4.0x	13.5x	46.4x	5.2%
Och-Ziff	20.7	9.98	3,556.4	4,178.1	469.2	218.1	0.32	8.9x	19.2x	31.2x	17.2%
TOTAL	**$ 164.3**		**$ 20,703.1**	**$ 21,235.8**			**AVERAGE**	**6.2x**	**15.7x**	**38.8x**	**11.0%**
Holding Companies											
Affiliated Managers	$ 173.3	$ 65.33	$ 2,800.1	$ 3,483.1	$ 893.9	$ 184.8	$ (0.85)	3.9x	18.8x	NA	1.6%
AllianceBernstein	447.0	22.69	6,027.1	5,558.3	2,740.5	582.5	1.79	2.0x	9.5x	12.7x	1.3%
TOTAL	**$ 620.3**		**$ 8,827.1**	**$ 9,041.4**			**AVERAGE**	**3.0x**	**14.2x**	**12.7x**	**1.5%**
Bank / Trust Companies [e]											
Boston Private Finl	$ 27.2	$ 5.02	$ 344.3	$ 344.3	$ 188.7	$ (111.0)	$ (2.95)	1.8x	NA	NA	1.3%
Wilmington Trust	46.0	14.03	972.4	972.4	463.9	11.5	(0.26)	2.1x	NM	NA	2.1%
TOTAL	**$ 73.2**		**$ 1,316.7**	**$ 1,316.7**			**AVERAGE**	**2.0x**	**NM**	**NM**	**1.7%**
Overall TOTAL	**$ 4,572.4**		**$ 113,306.3**	**$ 111,752.1**							
							HIGH	**8.9x**	**19.2x**	**46.4x**	**17.2%**
							AVERAGE	**4.1x**	**13.4x**	**30.2x**	**4.4%**
							MEDIAN	**3.9x**	**13.6x**	**30.3x**	**3.3%**
							LOW	**1.8x**	**7.9x**	**12.5x**	**0.6%**

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 LTM as of 4/30/09

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

(e) 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 6/30/09 Valuation Metrics			
		8/31/2009			LTM (6/30/2009) [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	£113.3	£10.81	£3,008.9	£2,124.9	£609.3	£47.8	£0.08	3.5x	NA	NA	2.7%
F&C Asset Management	88.3	0.76	370.3	444.7	217.1	59.1	-0.03	2.0x	7.5x	NA	0.4%
Henderson Group	49.5	1.29	1,029.0	1,061.4	273.1	95.1	0.10	3.9x	11.2x	12.8x	2.1%
Liontrust	1.9	1.14	38.4	11.7	35.9	11.8	0.28	0.3x	1.0x	4.1x	2.0%
Aberdeen	96.3	1.38	999.9	1,181.4	420.8	101.7	0.09	2.8x	11.6x	16.0x	1.0%
TOTAL	**£349.3**						**AVERAGE**	2.5x	7.8x	11.0x	1.6%
							MEDIAN	2.8x	9.3x	12.8x	2.0%
Alternatives											
RAB Capital	£3.6	£0.21	£98.8	£63.3	£26.0	£11.7	-£0.03	2.4x	5.4x	NA	2.8%
MAN Group	32.9	2.69	4,594.2	3,385.1	1,366.9	833.2	0.31	2.5x	4.1x	8.8x	13.9%
Ashmore Group	16.9	2.39	1,682.0	1,380.2	221.0	161.4	0.18	6.2x	8.6x	13.4x	10.0%
Charlemagne Capital	1.5	0.13	36.5	17.2	24.1	9.1	0.03	0.7x	1.9x	4.8x	2.4%
BlueBay	11.5	2.84	549.0	487.4	109.4	40.1	0.13	4.5x	12.2x	22.2x	4.8%
Polar Capital	1.1	0.76	55.3	27.3	52.8	12.9	0.11	0.5x	2.1x	6.8x	5.2%
Partners Group	12.2	CHF 122.00	CHF 3,257.4	CHF 3,176.7	CHF 327.9	CHF 240.0	CHF 8.39	9.7x	13.2x	14.5x	13.1%
TOTAL	**£79.7**						**AVERAGE**	3.8x	6.8x	11.7x	7.5%
							MEDIAN	2.5x	5.4x	11.1x	5.2%
Overall TOTAL	**£429.0**										
							HIGH	9.7x	13.2x	22.2x	13.9%
							AVERAGE	3.3x	7.2x	11.5x	5.0%
							MEDIAN	2.6x	7.5x	12.8x	2.7%
							LOW	0.3x	1.0x	4.1x	0.4%

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

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

(a) Man Group, Aberdeen, Liontrust, and Polar Capital reflect LTM financials as of 3/31/2009; Henderson, Ashmore, Charlemagne, Bluebay and Partners reflect LTM financials as of 12/31/2008

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

(c) EBITDA is shown net of minority interest.

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