Issue 3

September 2010

New York • London

Financial Technology Focus
Freeman & Co. LLC

Inside this Issue:

Indices at September 22, 2010

Index / Metric	Value
DJIA	10,739.3
NASDAQ	2,334.6
S&P 500	1,134.1
FTSE 100	5,551.9
10 yr Bond Yield	2.562%
USD per GBP	1.5643
USD per Euro	1.3392

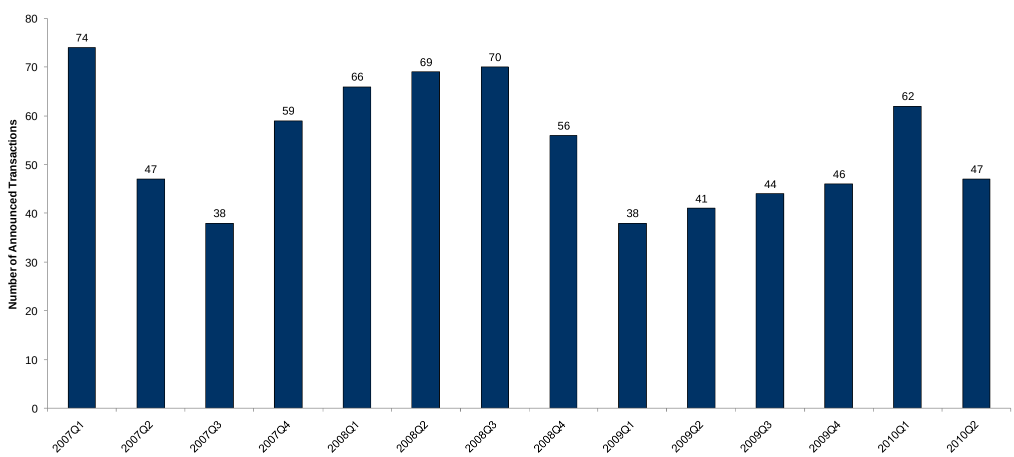
Out of the Frying Pan and into Regulatory Reform

While fee pressure and recent depressed transaction volumes have made the landscape challenging, FinTech companies generally survived the financial crisis better than their balance sheet dependent clients. They are still, however, faced with a sharply changing legal and regulatory landscape. In the following pages, we look at the **implications of the Dodd-Frank financial reform bill on FinTech companies** and six components of the bill that create opportunities – either positive or negative – for FinTech market participants. We also look at similar **efforts in Europe aimed at bringing greater transparency to both equity and non-equity markets**.

As we discussed in our last report, "Happy to Have No Balance Sheet," the absence of a big balance sheet made FinTech a relative bright spot in the financial services industry through the crisis. Despite better performance, deal volume was off significantly from pre-crisis levels as many of the most active buyers hunkered down and saved cash. As part of our report we look at **dry powder at the most active acquirers** of FinTech companies and how **deal volume is positioned to pick up as firms begin to spend their cash reserves.**

Also in this report, we look at **M&A activity and current valuation multiples** across the asset management technology, insurance servicing & processing and market data and financial information sub-sectors, and we highlight trends that characterize these sectors in 2010 and beyond.

Global Financial Technology M&A Activity



A note on this report: We have revised the format of our Servicing, Processing & Technology Newsletter. Going forward, we divide the financial technology universe into six sub-categories, the first three of which are addressed in this edition, and all six of which will be covered in our next issue.

1) Asset Management Technology	4) Broker-Dealer, Exchange & Capital Markets Technology
2) Insurance Servicing & Processing	5) Transaction Processing & Banking Systems
3) Market Data & Financial Information	6) Financial Business Services

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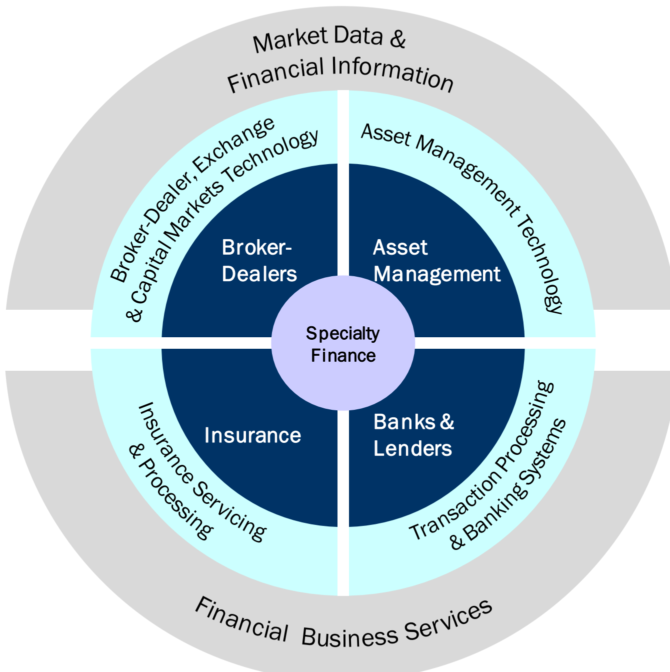

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Financial Reform: Implications for Financial Technology

Some Financial Technology Firms May Benefit from Increased Scrutiny over their Clients

Since President Obama signed the 2,300-page Dodd-Frank financial reform bill (the "Act") on July 21, Wall Street and the media have largely focused on the new burdens it places on financial institutions. In particular, capital requirements, limits on proprietary trading (the Volcker Rule), an increased FDIC assessment for banks and broad consumer protection measures all may negatively impact financial institutions' earnings in the years to come. However, the effect on companies that service and support the financial services industry as a result of this legislative upheaval is less clear. We describe below how we see the Act impacting financial technology firms in six areas.

Driver	Advantaged	Disadvantaged
Centrally traded and cleared swaps	• CME, ICE, LCH.Clearnet, Eurex	• Smaller competitors & market entrants • Potential consolidation pressure
Timely reporting of derivatives trades and position limits	• Market data providers • Risk management firms	• Swap dealers
Timely clearing and settlement of financial transactions	• Back-office systems providers • Financial BPO firms	• Market participants / trading desks saddled with increased costs / complexity
Review of conflicts between investment banking and research	• Independent research providers	• Full-service investment banks
Ratings agency reform	• Ratings agencies – higher barriers to discourage new entrants	• Ratings agencies – new controls, audit and reporting requirements
Consumer Financial Protection Bureau	• Potentially compliance and financial BPO firms • Exempt firms (regulated entities, insurers, auto lenders, real estate brokers)	• Credit card issuers • Consumer specialty finance firms

<u>Title VII. OTC Derivatives</u>

While market participants have anticipated OTC derivatives trading reforms since the downfall of AIG, the Act's stipulation that many swaps be exchange-traded and centrally cleared will undoubtedly **benefit the U.S. exchange conglomerates that have come to dominate swap clearing: The Chicago Mercantile Exchange and the IntercontinentalExchange.** They are likely the only two marketplaces in North America that have the infrastructure in place to support the migration of hundreds of trading counterparties to a central platform, as other exchanges, including the NYSE, have had limited success bringing business onto their swap clearing platforms. **Financial reform legislation may add pressures for consolidation among derivatives exchanges.** Title VII also requires the CFTC and SEC to set position and trading limits on market participants and requires all swap dealers to make pricing data available to counterparties in real time. Such requirements serve as a **boon to risk analytics and market data providers**, whose services will be required as swap dealers seek to comply with the rules.

<u>Title VIII. Clearing Supervision</u>

The Act authorizes the Federal Reserve to set standards for what constitutes "**timely clearing and settlement of financial transactions**," and provides for broad oversight over any entity that handles payments between financial institutions. Nearly every financial instrument that exists today falls under the definition of "financial transaction", thus **extending the Fed's reach deep into the back-office.** While it is unclear what remedies the Fed will have under this bill if a firm does not meet the "timely" standard, the bill provides enforcement actions against clearing and settlement firms deemed to be systemically important. As firms struggle to handle the complexity of the new regulations, they **may find it cost effective to outsource significant segments of their back office** to clearing and settlement specialists.

Financial Reform: Implications for Financial Technology *(cont.)*

Title IX: Investor Protections and Improvements to the Regulation of Securities

The Act authorizes the Comptroller General to **study the conflicts of interest that arise between investment banking and research functions** within the same firm, and to determine whether the Global Research Analyst Settlement of 2003, which expired just over a year ago, should be renewed and made permanent. The outcome of such a study could have a **material impact on independent research providers** ("IRPs"), whose presence has become less relevant as bulge-brackets are no longer required to provide access to their research. IRPs now operate in a highly competitive marketplace, but the consolidation of subscale providers may be stalled if the government enshrines their existence into law.

Title IX (c): Ratings Agencies

Title IX also **attempts to address conflicts of interest inherent in the ratings agency business model**. The Act mandates ratings agencies to report to the SEC annually on internal controls, policies and procedures, and any employees who left the agency to work at an institution that they once rated. A newly created Office of Credit Ratings will have the authority to audit ratings agencies annually and may include requiring agencies to disclose their quantitative models and ratings methodologies. While the new disclosure requirements might impair the agencies' ability to closely guard one of their most valuable assets – intellectual property – the **ratings agency oligopoly remains largely unchanged**. The Act does not open the door to competition, nor does it ease the requirements for new entities seeking to become ratings agencies. In fact, the new regulations likely reinforce the high barriers to entry into the ratings agency arena.

Title X: Bureau of Consumer Financial Protection

Title X **aims to provide consumers with better access to, and more transparency from, the financial products and services** they are offered. This section of the Act transfers to the Bureau of Consumer Financial Protection ("the Bureau") within the Fed all consumer protection functions that are currently enforced by multiple federal agencies. The Bureau will be allocated up to 12% of the Federal Reserve's budget, or $650 million per year. The Bureau will have the authority to interpret the **Truth in Lending Act** and other laws governing private education loans, loans to senior citizens (such as reverse mortgages) and credit reporting requirements. In addition, the Bureau is deputized with enforcing the recently passed **Credit CARD Act**, which targets the rate and fee hikes that credit card issuers had been accustomed to imposing on consumers who carry balances. The **burdens resulting from both of these measures largely fall on lenders and card issuers**, who will inevitably see their margins shrink as the leverage and pricing power they once had over customers has been significantly curtailed. While the Act only mandates increased disclosures, it leaves open the possibility that the Bureau can impose new regulations on the fees that these companies are able to charge consumers. Payment processing companies, such as remittance providers, ATM operators and merchant receivables servicers, all could potentially face increased government oversight and costs.

Conclusions

While the Act brings nearly every heretofore unregulated financial institution and their related service providers under the oversight of some arm of federal government, it is difficult to predict exactly what the Act's long-term consequences will be. Two primary factors contribute to this uncertainty. First, different provisions have different implementation and effective dates, some as far as 10 years away. Second, in many instances, the **Act provides little guidance as to what regulations will actually be implemented**. Rule-making authority has been vested with new government agencies without policy implementation track records, leaving financial institutions guessing. The Act's emphasis on transparency and risk mitigation will certainly benefit some companies that service and support the financial sector, as their clients come under pressure to comply with the complex requirements of the Act. However, given the vague definition of what constitutes a "systemically significant" enterprise, some financial technology firms may find themselves under a more stringent regulatory regime than they might have expected.

Apart from regulators themselves, in the FinTech space the **biggest winners are Market Data & Financial Information firms as lawmakers tend to equate transparency with gathering and dispensing more data**. Certain Capital Markets Technology and Financial Business Services firms stand to benefit as well if they develop cost effective solutions for regulatory hurdles imposed. While the majority of FinTech companies are not balance sheet intensive, the **heaviest burdens will fall on any firm whose capital requirements have been placed in limbo** such as in the foreign exchange trading space, where the impact could be tremendous and uncertainty around regulation is particularly damaging.

European Regulatory Trends and Implications

Europe may not have had a market wide act to consider, such as the Dodd-Frank financial reform bill, but there is certainly **significant momentum for regulatory and market reform**. Various groups are publicly debating formulations for new rules and guidance for market participants. The body responsible for harmonization across Europe, the Committee of European Securities Regulators ("CESR"), focused on transparency in its recent technical advice to the European Commission. This section of the report concentrates on two important CESR recommendations and their ramifications for the European financial technology space.

It all started with MiFID

When the Markets in Financial Instruments Directive ("MiFID") came into force in November 2007, the central goal was to ensure a properly functioning market. MiFID mandated the timely publication of pre- and post- trade data in equity markets partly to aid liquidity. However, the increasingly fragmented nature of equity markets has made access to trade information across Europe difficult to manage. Unlike the equity markets, MiFID did not establish transparency regimes for corporate bonds, structured finance products and credit derivatives markets (henceforth "non-equity"). CESR argued that there was "no evident market failure" and that similar requirements were simply not needed. CESR was **forced to reevaluate their views on both equity and non-equity transparency** after the financial crisis and did so in the form of several recommendations to the European Commission. This is, as we see it, a significant opportunity for the European financial technology space.

Select Recommendations CESR Technical Advice to European Commission - 29 July 2010	
Quality of Data Consolidation	• Require firms to publish their trade reports through Approved Publication Arrangements (APAs), which would be subject to stringent standards and ongoing monitoring to ensure data is complete and accurate
Equity Market Disclosure	• Require all post-trade data to be made available free of charge after a delay of no more than 15 minutes
Non-equity Market Harmonization	• Harmonize pre-trade transparency regimes for all non-equity instruments traded on regulated markets and multilateral trading facilities
Corporate Bond Disclosure	• Introduce requirements for disclosure based on thresholds of average transaction size
OTC Transparency	• Require OTC equity market transactions to make public post-trade data • Strongly favors enhancing post-trade transparency for OTC derivatives, but recommends that no pre-trade requirements should be introduced for any non-equity markets

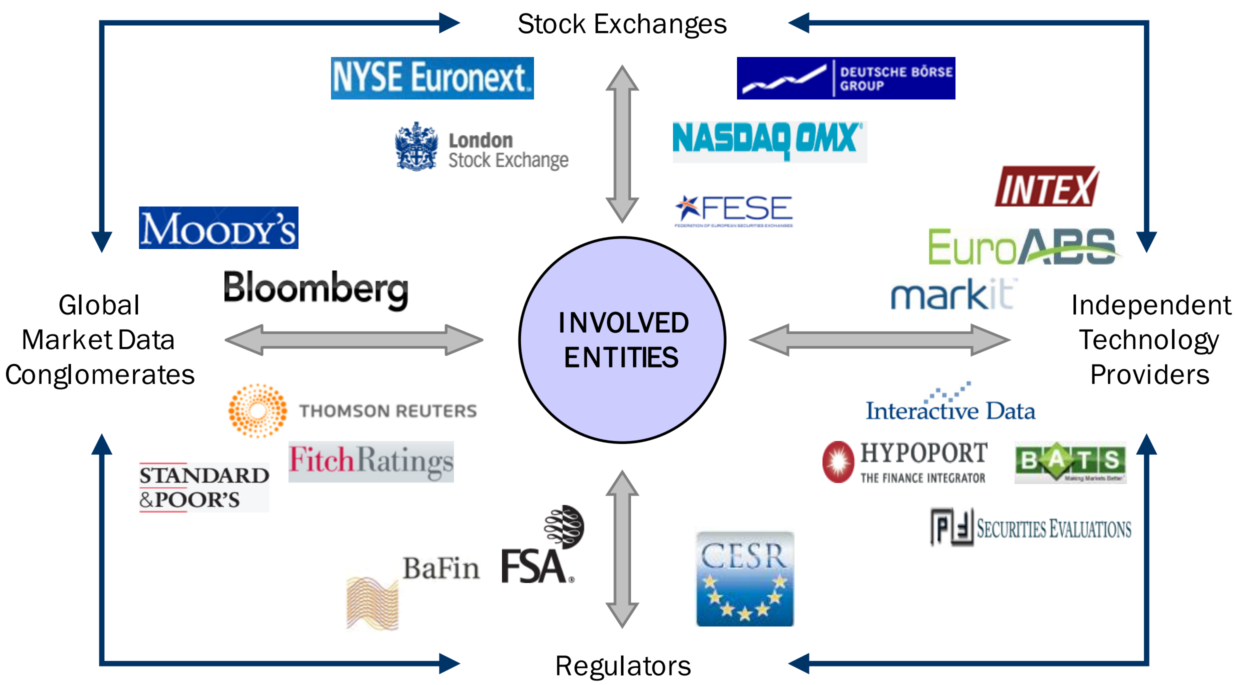
Consolidated Tape & Non-equity Transparency

Previously, a **variety of entities attempted to fill the void by independently consolidating data**. Markit has been the stand out success story of this group even as many data providers and exchanges bundled their products to increase revenue. In a sign of good faith, there has been a recent effort to unbundle these products so they would be more affordable and thus more available to provide information to the market. The Federation of European Securities Exchanges (52 exchanges) and the London Stock Exchange announced that it would follow in the footsteps of NYSE Euronext and commit to unbundling its data.

European Regulatory Trends and Implications *(cont.)*

To further address this issue, **CESR has recommended that a central place across all European venues should exist for the collection of trade data** (namely equities, exchange-traded funds and certain derivatives data). CESR recognized that this partly depends on current major data providers and we suspect liquidity providers playing ball. If an industry-led consolidated data tape is not possible, regulators should/will take the lead in creating a solution. This recommendation could potentially evolve into something that is similar in effect to the Trade Reporting and Compliance Engine ("TRACE") in the United States, which requires all reporting of transactions in corporate bonds under an SEC approved set of rules.

Additionally, **CESR reexamined the need for additional transparency for non-equity markets, and recommended that transparency requirements would indeed benefit the market**. Changing their position, CESR concluded that access to post-trade bond data specifically would help ensure a level playing field across Europe. The recommendation applies to a variety of instruments including CDS and certain types of derivatives. CESR argues that specific requirements for non-equities should ideally be based on market liquidity, but because of the current opacity of many of these instruments, it believes standards should be based on average trading size in each market. Like TRACE, which extends coverage to certain structured products in February 2011, CESR suggested a phased approach for ABS and CDOs. Whilst clearly more challenging, we see this as a very important step in the evolution of European capital markets and fundamental to resurrecting the securitization markets that are so desperately needed to further cleanse Banks' balance sheets.



Outlook for Market Data & Financial Information Providers

The recommendations made by CESR will likely **enhance what is already a large market niche for data provision and related services** as well as provide for a range of strategic partnership opportunities. The entities that these new transparency standards will affect fall into four major categories: regulators, stock exchanges, global market data conglomerates (including the credit rating agencies) and independent technology providers (see chart above). These firms represent a number of the major European market participants and will provide interesting copy for future issues of this newsletter. As the partnership between NYSE Euronext and Markit to consolidate streams of OTC data demonstrates, **cooperation, and ultimately more acquisition activity, remains likely in this fractured market.**

Dry Powder at the Most Active Acquirers of FinTech Companies

A close look at the most active acquirers of financial technology companies suggests that the **pump is well primed for an uptick in FinTech M&A activity.**

From early 2005 through mid-2007, cash holdings at the most active acquirers remained either flat or declined slightly as acquisition activity held strong, and free cash flow was converted to new investment. However, right around when the market turned rocky in the middle of 2007, cash holdings began rising gradually at first and then shot up as firms doubled and even tripled their cash reserves by 2009.

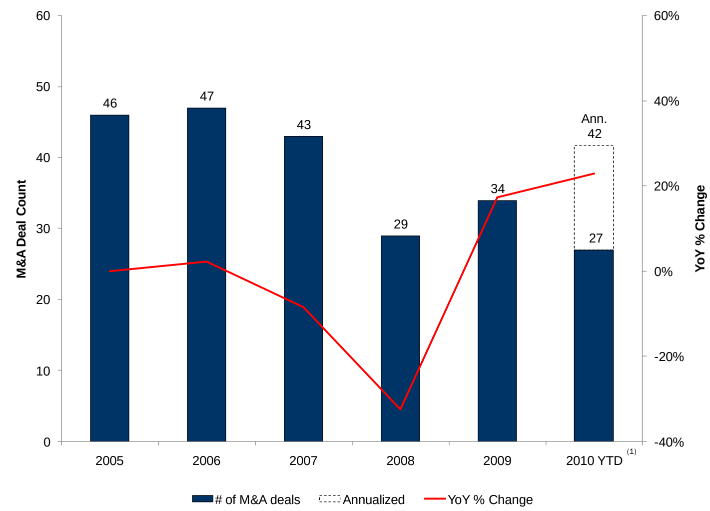
During this period from late 2007 into 2009, M&A activity among the most active acquirers fell by about one third from its pre-crisis level. While FinTech remained one of the most active sectors in financial services for M&A activity, **a sharp reduction in investor risk appetite pushed many buyers to stockpile cash rather than acquire or invest**.

This trend is beginning to reverse itself. Deal volume was up slightly in 2009 and has significantly rebounded in the first half of 2010. With 24 announced deals by the most active acquirers through June 30, M&A volume was on pace to top pre-crisis deal volume. It is notable, though, that while the number of deals picked up, acquisitions have been mainly small tuck-ins or attractively priced mergers of necessity. Since the mid-year break, deal volume has slowed, with only three announcements for the same group since June 30, highlighting how cautious buyers remain.

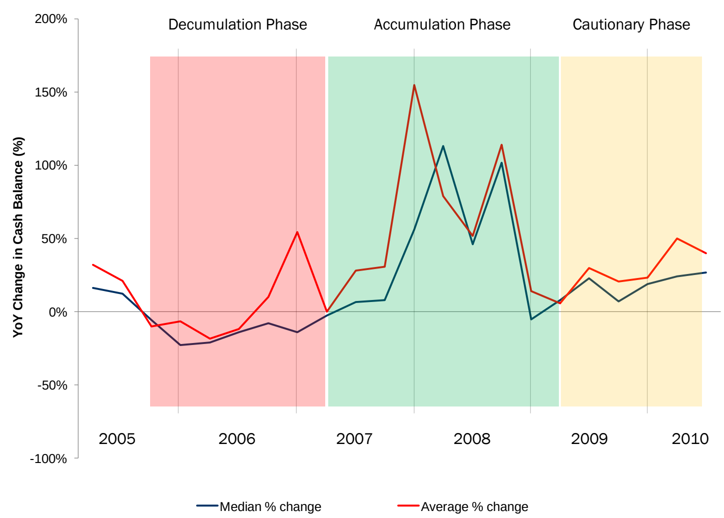
What is clear is that **a lot of dry powder remains on the sidelines**. Buyers have not yet begun to meaningfully reduce their cash reserves, and in several instances, they are still building cash as uncertainty around economic recovery persists.

Once serial strategic acquirers, who are predominantly public companies in the FinTech space, hit their earnings targets for a few quarters, risk appetite will return, allowing buyers to release their cash reserves in search of acquisition and reinvestment opportunities. The resulting **unwind of defensive balance sheet management is great news for M&A volume in the upcoming quarters.**

M&A Activity by Serial Acquirers



Change in Cash Balances Among Serial Acquirers



Top FinTech Acquirers

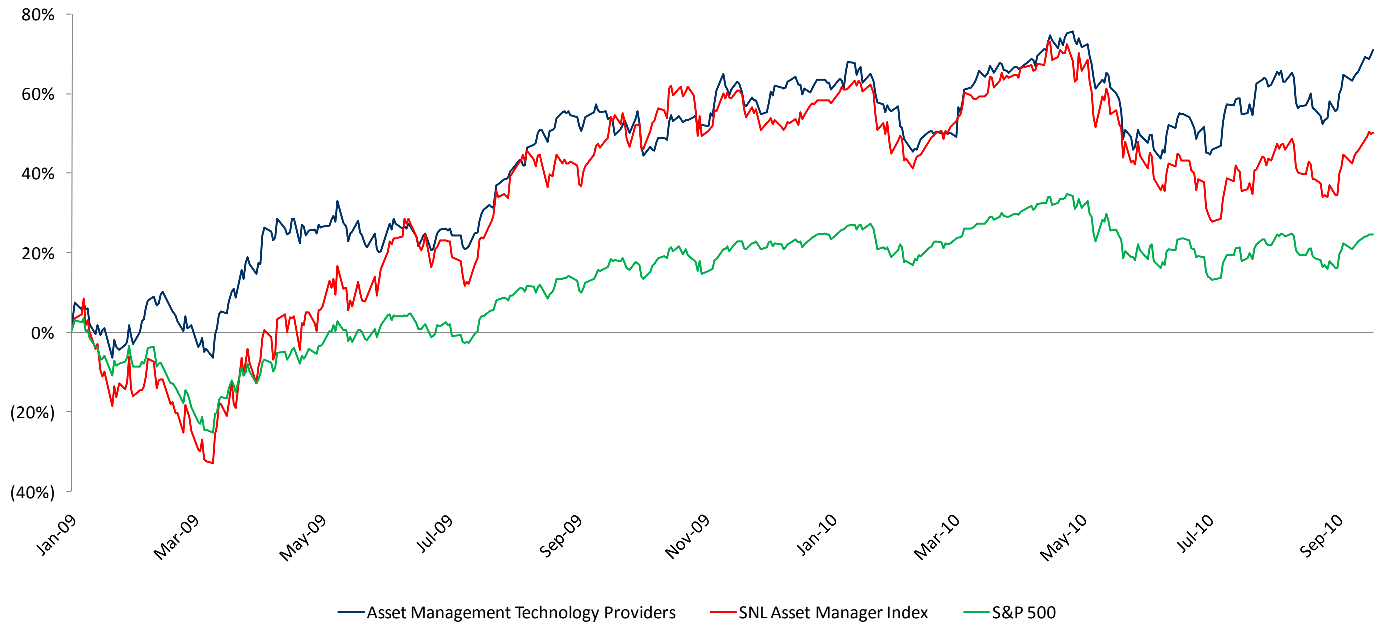
Name	Ownership	Deals since 2005
Morningstar(2)	Nasdaq: MORN	20
SunGard Data Systems(2)	Investor Group	20
CoreLogic(2)	NYSE: CLGX	19
Fiserv(2)	Nasdaq: FISV	19
First Data Corporation	KKR	18
Ebix(2)	Nasdaq: EBIX	12
JPMorgan Chase	NYSE: JPM	12
Thomson Corporation(2)	NYSE: TRI	11
Euronet Worldwide	Nasdaq: EEFT	10
Marshall & Ilsley	NYSE: MI	9

1) Through 8/24/10
2) Included in group of "Serial Acquirers" as well as Jack Henry (Nasdaq: JKHY) and SS&C (Nasdaq: SSNC)

Source: SNL, Capital IQ

Asset Management Technology – Data

Stock Performance of Selected Asset Management Technology Providers



Asset Management Technology Providers: ADVS, BR, CPU, DST, FDSA, GO, MSCI, SSNC

Trading Multiples of Selected Asset Management Technology Providers

		9/17/2010		Price / Revenue		EV / EBITDA		PE Ratio	
Company Name	**Ticker**	**Stock Price**	**Market Cap**	**LTM**	**2010E**	**LTM**	**2010E**	**LTM**	**2010E**
Advent Software	NDAQ: ADVS	$53.20	$1,360	5.1 x	4.8 x	24.3 x	18.1 x	73.9 x	39.0 x
Broadridge	NYSE: BR	$22.96	$2,910	1.3 x	1.3 x	6.9 x	6.8 x	16.1 x	14.8 x
Computershare	ASX: CPU	A$9.80	A$5,446	3.4 x	3.4 x	22.7 x	11.7 x	31.4 x	16.7 x
DST Systems	NYSE: DST	$43.21	$2,020	0.9 x	1.3 x	7.2 x	6.5 x	9.9 x	9.8 x
Fidessa Group	LSE: FDSA	£14.75	£531	2.1 x	2.1 x	6.8 x	9.0 x	19.8 x	20.7 x
GlobeOp	LSE: GO	£2.58	£235	1.4 x	1.2 x	4.1 x	3.4 x	10.0 x	9.3 x
MSCI Inc.	NYSE: MSCI	$35.05	$4,129	8.7 x	6.3 x	18.1 x	13.0 x	35.8 x	25.5 x
SS&C Technologies	NDAQ: SSNC	$15.06	$1,082	2.9 x	3.3 x	12.2 x	10.3 x	62.8 x	17.3 x
			HIGH	**8.7 x**	**6.3 x**	**24.3 x**	**18.1 x**	**73.9 x**	**39.0 x**
			AVERAGE	**3.2 x**	**3.0 x**	**12.8 x**	**9.9 x**	**32.4 x**	**19.1 x**
			MEDIAN	**2.5 x**	**2.7 x**	**9.7 x**	**9.7 x**	**25.6 x**	**17.0 x**
			LOW	**0.9 x**	**1.2 x**	**4.1 x**	**3.4 x**	**9.9 x**	**9.3 x**

Selected Private Portfolio & Risk Management Providers

Private Company	Employees
Calypso	475
Numerix	175
Paladyne Systems	150
Sophis	330
Sungard Data Systems	20,000

Selected Private Fund Administration and Prime Brokerage Providers

Private Company	Employees
ALPS Fund Services	300
BTIG	400
Citco Fund Services	4,000
Conifer Securities	150
Merlin Securities	100

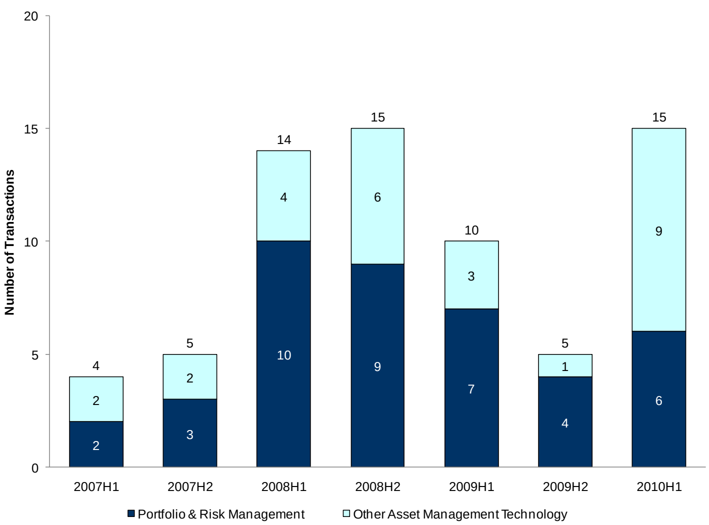
Asset Management Technology – Data

Multiple Fund Admin Businesses Change Hands

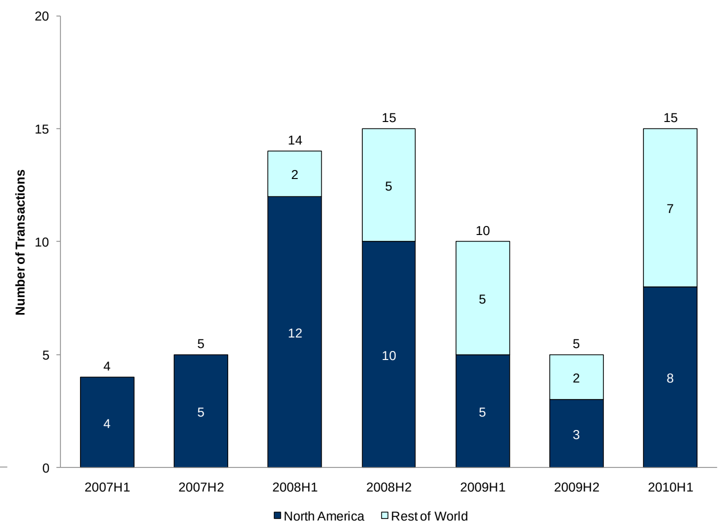
Global banking franchises are continuing to identify and divest non-core elements of their product offerings, and this has been especially relevant for the fund administration sector. Many banks and asset managers had internally grown their fund administration platforms to support their main businesses and to provide value-added services to third parties. Now, as these entities seek to right-size their businesses, some of the serial consolidators in this space have benefited. So far in 2010, PNC, Schroders and Bank of America have all shed at least parts of their fund administration businesses. We expect this trend to continue as capital needs persist among fund administrators' parent companies.

M&A Volume Among Asset Management Technology Companies

by Type of Company



by Geography



Select Recent Asset Management Technology Transactions

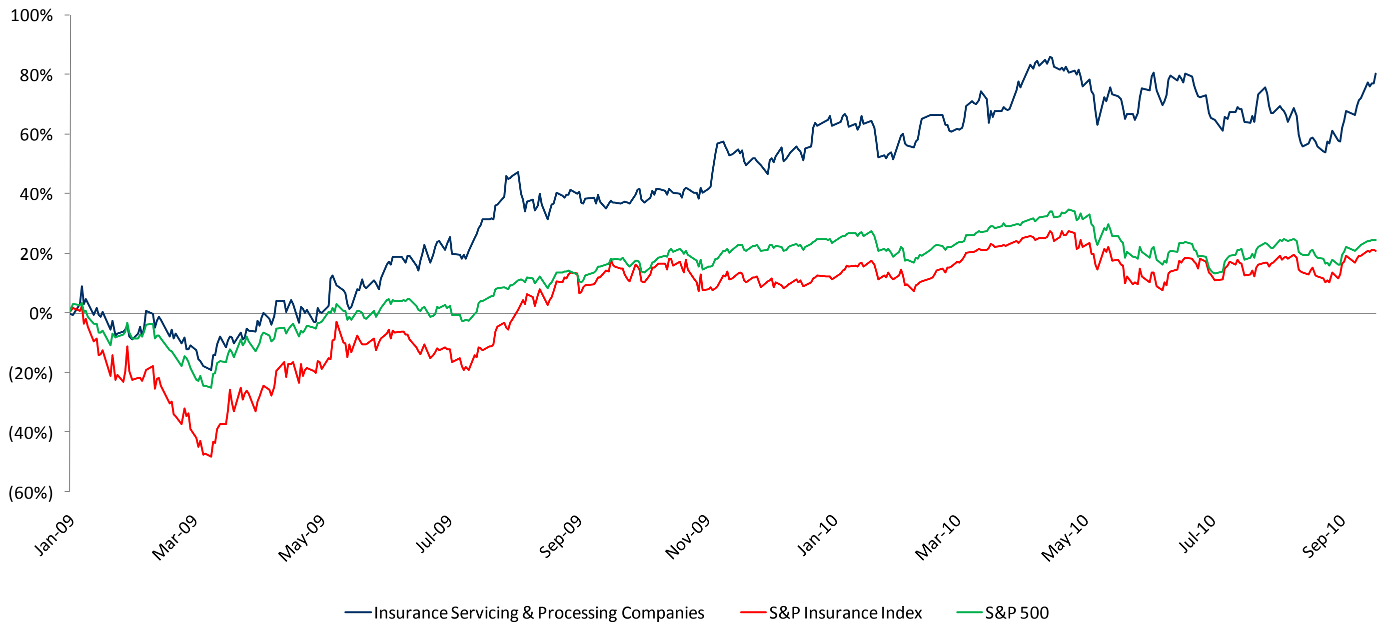
$ millions

Announced Date	Target	Target Type	Acquirer	Deal Value	% Acquired	Entity Value
8/17/2010	NewRiver, Inc.	Client Reporting & Investor Relations	Broadridge Financial Solutions, Inc.	$77	100%	$77
7/19/2010	Bank of America's global fund administration business	Fund Administration	LaCrosse Global Fund Services	ND	100%	ND
7/15/2010	Measurisk, LLC	Portfolio & Risk Management	MSCI Inc.	ND	100%	ND
5/17/2010	JPMorgan's managed account solutions business	Client Reporting & Investor Relations	UMB Financial Corporation	ND	100%	ND
4/29/2010	Schroders' PE fund admin business	Fund Administration	JPMorgan	ND	100%	ND
3/5/2010	OTC Valuations	Portfolio & Risk Management	Tullett Prebon	ND	100%	ND
3/1/2010	RiskMetrics Group	Portfolio & Risk Management	MSCI Inc.	$1,550	100%	$1,550
2/8/2010	TriOptima	Portfolio & Risk Management	ICAP	£119 (1)	62%	£193

1) Includes £7 million of deferred consideration

Insurance Servicing & Processing – Data

Stock Performance of Selected Insurance Servicing & Processing Companies



Insurance Servicing & Processing: CRVL, COVR, CRD.B, EBIX, EXLS, G, WNS

Trading Multiples of Selected Insurance Servicing & Processing Companies

		9/17/2010		Price / Revenue		EV / EBITDA		PE Ratio	
Company Name	Ticker	Stock Price	Market Cap	LTM	2010E	LTM	2010E	LTM	2010E
Corvel	NDAQ: CRVL	$39.40	$468	1.3 x	NA	8.0 x	NA	17.7 x	NA
Cover-All Technologies	OTC: COVR	$1.30	$32	1.9 x	NA	5.8 x	NA	8.1 x	NA
Crawford & Co.	NYSE: CRD.B	$2.71	$129[1]	0.1 x	0.1 x	2.0 x	NA	5.5 x	6.5 x
EBIX	NDAQ: EBIX	$18.95	$656	5.5 x	5.0 x	12.9 x	11.3 x	15.4 x	14.5 x
ExlService Holdings	NDAQ: EXLS	$19.35	$566	2.5 x	2.4 x	10.5 x	11.6 x	30.7 x	24.4 x
Genpact	NYSE: G	$16.53	$3,626	3.1 x	2.8 x	13.1 x	13.0 x	27.1 x	22.2 x
WNS Holdings	NYSE: WNS	$9.00	$381	0.8 x	1.0 x	NM	6.0 x	NM	7.8 x
			HIGH	**5.5 x**	**5.0 x**	**13.1 x**	**13.0 x**	**30.7 x**	**24.4 x**
			AVERAGE	**2.2 x**	**2.3 x**	**8.7 x**	**10.5 x**	**17.4 x**	**15.1 x**
			MEDIAN	**1.9 x**	**2.4 x**	**9.2 x**	**11.4 x**	**16.6 x**	**14.5 x**
			LOW	**0.1 x**	**0.1 x**	**2.0 x**	**6.0 x**	**5.5 x**	**6.5 x**

Selected Private Policy Administration & Claims Processing Providers

Private Company	Employees
AQS	180
Camilion Solutions	200
Duck Creek Technologies	250
IDMI Systems	N/A
se[2]	480

Selected Private Risk Management & Software Services Providers

Private Company	Employees
FINEOS	300
INSTEC	70
One Shield	200
Patriot Risk Management	150
Vertafore	1,100

1) Market cap includes CRD.A and CRD.B shares

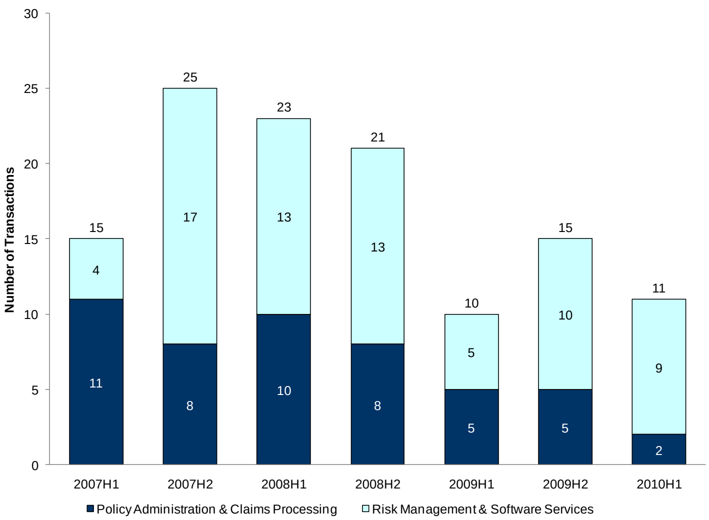
Insurance Servicing & Processing – Data

Insurance Servicing & Processing Companies Contribute to Margin Improvement among Carriers

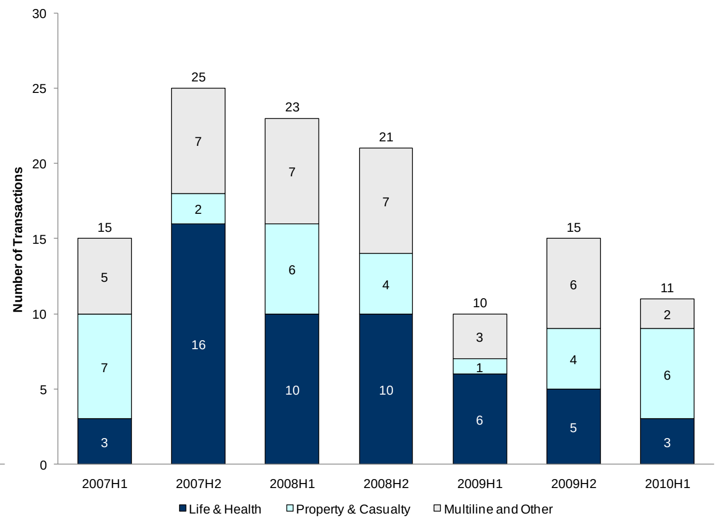
Capital markets solutions to raise equity, debt or securitize reserves will be embraced by many of the larger insurers in 2010 and 2011. However, the industry as a whole is expected to continue focusing on cost cutting and expense saving initiatives for the next several years. Both life and P&C carriers will continue to review the effectiveness of their back office functions including everything from call centers to claims processing to nurse case management. Several smaller and middle-market companies, in both the Life and P&C business, have worked on building the valuable combination of efficient work flows and cutting edge technology platforms. BPO/TPA platforms will continue to expand their marketing efforts through 2011, which will result in both increased business volumes and new client relationships.

M&A Volume Among Insurance Servicing & Processing Companies

by Type of Company



by Sector Focus



Select Recent Insurance Servicing & ProcessingTransactions

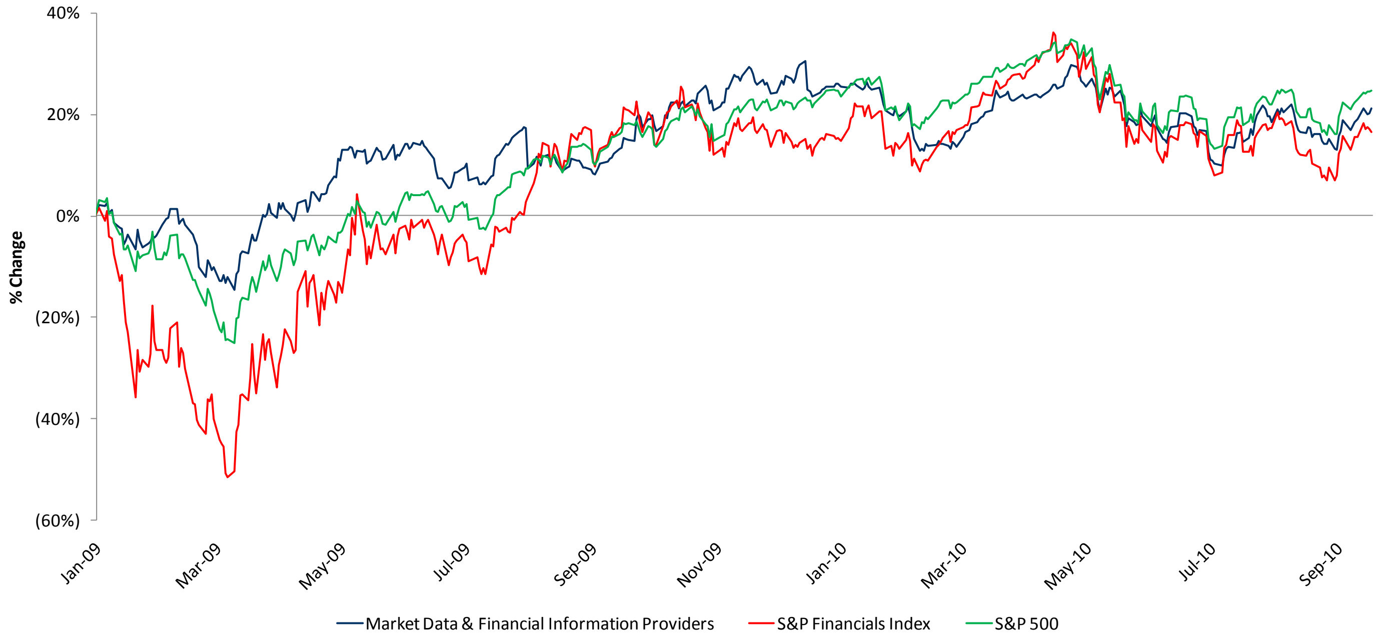
$ millions

Announced Date	Target	Target Insurance Sector	Acquirer	Deal Value	% Acquired	Entity Value
7/30/2010	se[2] (Security Benefit)	Variable Annuities	Guggenheim Partners	ND	100%	ND
7/1/2010	Innovative Process Administration, LLC	Policy Administration & Claims Processing	Mercer (Marsh, Inc.)	ND	100%	ND
6/30/2010	Allied Management Group's Special Investigation Unit	Risk Management & Software Services	HMS Holdings Corp.	$26 (1)	100%	$26
5/20/2010	Connective Technologies, Inc.	Property & Casualty	Ebix, Inc.	ND	100%	ND
12/31/2009	Verify Solutions	Life & Health	HMS Holdings Corp.	$14 (2)	100%	$14
11/12/2009	McCamish Systems	Multiline	Infosys Technologies Limited	$58 (3)	100%	$58
10/30/2009	Technical Loss Adjustment and Appraisal LLC	Property & Casualty	Crawford & Company	ND	100%	ND
8/12/2009	AIG Systems Solutions	Multiline	Mphasis (Hewlett-Packard)	$27	100%	$27

1) Includes $13 million in payments contingent on future performance
2) Includes $6 million in payments contingent on future performance
3) Includes $20 million in payments contingent on future performance

Market Data & Financial Information Providers – Data

Stock Performance of Selected Market Data and Financial Information Providers



Market Data & Financial Information Providers: DUN, FDS, MCO, MORN

Trading Multiples of Selected Market Data and Financial Information Providers

		9/17/2010		Price / Revenue		EV / EBITDA		PE Ratio	
Company Name	Ticker	Stock Price	Market Cap	LTM	2010E	LTM	2010E	LTM	2010E
Dun & Bradstreet	NYSE: DNB	$70.93	$3,550	2.1 x	2.1 x	7.9 x	8.1 x	13.1 x	13.0 x
FactSet	NYSE: FDS	$82.78	$3,835	6.1 x	6.0 x	14.3 x	13.7 x	27.5 x	26.9 x
Moody's	NYSE: MCO	$25.69	$6,019	3.2 x	3.1 x	8.3 x	8.2 x	14.2 x	13.9 x
Morningstar	NDAQ: MORN	$41.84	$2,074	4.1 x	3.8 x	11.2 x	NM	26.2 x	24.6 x
			HIGH	**6.1 x**	**6.0 x**	**14.3 x**	**13.7 x**	**27.5 x**	**26.9 x**
			AVERAGE	**3.9 x**	**3.8 x**	**10.4 x**	**10.0 x**	**20.2 x**	**19.6 x**
			MEDIAN	**3.6 x**	**3.5 x**	**9.8 x**	**8.2 x**	**20.2 x**	**19.2 x**
			LOW	**2.1 x**	**2.1 x**	**7.9 x**	**8.1 x**	**13.1 x**	**13.0 x**

Selected Private Market Data & News Providers

Private Company	Employees
Advantage Data	50
Bloomberg	10,000
Markit	1,300
RIMES Technologies	100
SNL Financial	1,200

Selected Private Ratings & Advice Providers

Private Company	Employees[1]
A.M. Best	450
CreditSights	100
Dominion Bond Rating Service	100
Egan-Jones Ratings Company	20
OTR Global	200

1) Includes field reporters in the case of OTR Global

Market Data & Financial Information Providers – Data

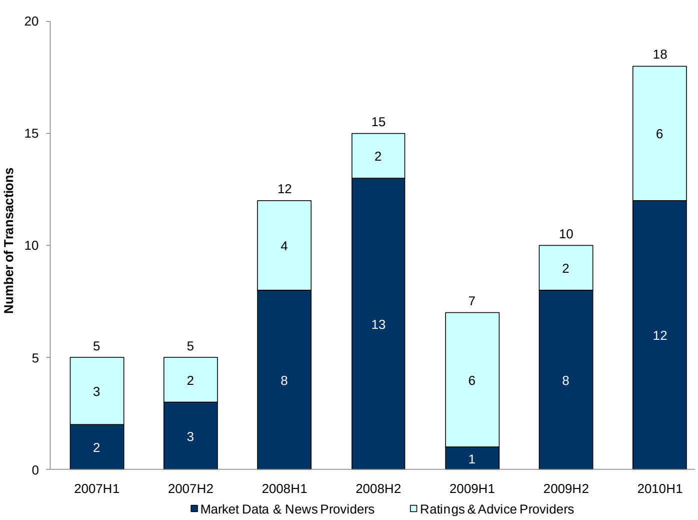
M&A Activity Resumes at a Brisk Pace

After slowing in 2009, activity among market data and financial information providers has picked up dramatically in the first half of 2010. Morningstar continued to be the most active company in this area, making five acquisitions already this year. No other firm made more than one acquisition of a market data and financial information provider in 2010.

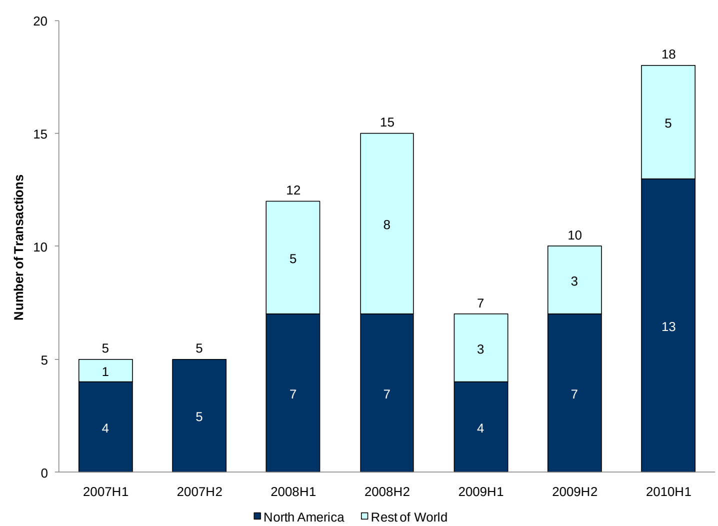
In what may be the start of a trend, two electronic trading firms, Liquidnet and ITG, each acquired stakes in independent research providers, OTR Global and Disclosure Insight, respectively. Both offer a non-traditional approach to equity research and will augment their acquirers' sales and trading product offerings. In addition, neither acquisition compromises the independent nature of the research providers, as neither buyer has a legacy investment banking business.

M&A Volume Among Market Data and Financial Information Providers

by Type of Company



by Geography



Select Recent Market Data & Financial Information Technology Transactions

$ millions

Announced Date	Target	Target Focus	Acquirer	Deal Value	% Acquired	Entity Value
8/9/2010	Arete Consulting	Market Data & News Providers	Euromoney Institutional Investor	ND	100%	ND
8/4/2010	Investopedia (Forbes)	Market Data & News Providers	ValueClick	$42	100%	$42
5/4/2010	Interactive Data Corporation	Equities, Fixed Income	Silver Lake, Warburg Pincus	$3,448	100%	$3,448
4/12/2010	Old Broad Street Research	Mutual Funds	Morningstar	$18	100%	$18
3/24/2010	Aegis Equities Research	Equities	Morningstar Australasia	ND	100%	ND
3/19/2010	Realpoint LLC	CMBS	Morningstar	$52	100%	$52
1/29/2010	EDGAR Online	SEC Filings	Bain Capital Ventures	$12	29% (1)	$41
1/26/2010	Markit	OTC Derivatives	General Atlantic	$250	8%	$3,333

1) Based on initial conversion price of convertible preferred

Case Studies: Select 1H 2010 Transactions

MSCI's Purchase of RiskMetrics

Deal Summary

- 03/01/10 – MSCI (NYSE: MSCI) and RiskMetrics (RISK) announce deal for MSCI to acquire RISK
- Final offer is for $21.75 per share, a 17% premium over the unaffected stock price.
- Consideration mix consisted of $16.35 cash and 0.1802 shares of MSCI class A common stock, implying a total equity value of $1.55 billion
- 06/01/10 – Deal closes. MSCI raises $1.38 billion of debt financing, including a $1.28 term loan used for the acquisition and refinancing of pre-existing debt

Rationale

- RiskMetrics' products help MSCI create a full end-to-end solution for its clients
- MSCI provides investment decision support tools for the front office
- RiskMetrics provides financial risk management and corporate governance solutions for the middle / back office
- High growth potential as risk management remains high priority in current financial markets

Implication: Smart strategic acquirers have returned to the market

Acquisition Share Price	$ 21.75	LTM Revenue[2]	$ 303.0	TEV / LTM Revenue	6.2x
Transaction Eq. Value[1]	1,550	LTM EBITDA[2]	69.8	TEV / LTM EBITDA	26.8x
Implied TEV[1]	1,872	LTM EBIT[2]	61.3	TEV / LTM EBIT	30.5x
		LTM Earnings[2]	27.9	Price / Earnings	57.0x

Leveraged Buyout of Interactive Data Corp

Deal Summary

- 01/15/10 – Interactive Data Corp (IDC) and majority stakeholder Pearson (LSE:PSON) announce intention to sell IDC
- 05/04/10 – IDC accepts final offer of $33.86 per share from Silver Lake / Warburg Pincus, implying a $3.4 billion equity value and a 32.9% premium over the 01/14/10 close, the last unaffected trading day
- Total sponsor equity contribution of $1.4 billion or 39% of deal value
- $2 billion of debt raised represents a 7.4x leverage ratio based on 2010 Q1 LTM EBITDA

Rationale

- Catalyst for sale:
  - Pearson wanted liquidity and was reluctant to contribute further capital to fund IDC's acquisition growth
- Available financing:
  - IDC's strong cash flows, low capex and negligible debt made it easy to add leverage
- Growth potential:
  - Increasing desirability for market transparency across financial institutions

Implication: Large PE shops are actively looking to put money to work

Acquisition Share Price	$ 33.86	LTM Revenue[2]	$ 768.1	TEV / LTM Revenue	4.2x
Transaction Eq. Value[1]	3,448	LTM EBITDA[2]	269.8	TEV / LTM EBITDA	12.0x
Implied TEV[1]	3,241	LTM EBIT[2]	203.9	TEV / LTM EBIT	15.9x
		LTM Earnings[2]	138.9	Price / Earnings	23.3x

1) $ in millions
2) $ in millions, balance sheet and earnings items as of 3/31/10

Select Freeman & Co. Financial Technology Transactions

700,000 policies administered $30 billion in assets under administration

GUGGENHEIM

led investor group has acquired

se2

The undersigned acted as financial advisor to Security Benefit Corporation, parent of se2
February 16, 2010

Freeman & Co. Securities LLC

TORC FINANCIAL

has been acquired by

INSTINET

The undersigned acted as financial advisor to TORC Financial, LLC
August 26, 2009

Freeman & Co. Securities LLC

ESP Electronic Specialist LLC

ESP has been recapitalized and received a growth equity investment from

BEAR STEARNS

CREDIT SUISSE

SIG SUSQUEHANNA GROWTH EQUITY, LLC

The undersigned acted as advisor to ESP Technologies, LLC
May 17, 2007

Freeman & Co. Securities LLC

CARLIN FINANCIAL GROUP

has been acquired by

RBC Capital Markets

Acted as financial advisor to Carlin Financial Group
January 2, 2007

Freeman & Co. Securities LLC

The BANK of NEW YORK GTCR Eze Castle Software

have merged

The BANK of NEW YORK Eze Castle Software

to form

BNY ConvergEx Group

Acted as financial advisor to GTCR
October 2, 2006

Freeman & Co. Securities LLC

NEOVEST High Performance Trading Technology

has been acquired by

JPMorgan

Acted as financial advisor to Neovest Holdings, Inc.
September 1, 2005

Freeman & Co. Securities LLC

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citigroup

has acquired

LAVA

Acted as financial advisor to Citigroup Inc.
August 2004

Freeman & Co. Securities LLC

$345,577,305

charles SCHWAB

has acquired

SOUNDVIEW TECHNOLOGY GROUP

Acted as financial advisor to The Charles Schwab Corporation
January 16, 2004

Freeman & Co. Securities LLC

$105,000,000

ITG Investment Technology Group, Inc.

has acquired

HOENIG
Hoenig Group, Inc.

Acted as financial advisor to ITG
September 3, 2002

Freeman & Co. Securities LLC

$320,000,000

SOUNDVIEW TECHNOLOGY GROUP

has been acquired by

Wit Capital Group, Inc.

Acted as financial advisor to SoundView Technology Group, Inc.
January 2000

Freeman & Co. Securities LLC

Other Recent Publications by Freeman & Co.

Asset Management Focus
- *Slogging Through the Mud (September 2010)*
- *Putting the Pieces Back Together (April 2010)*
- *Humpty Dumpty had a Big Fall (September 2009)*
- *Can a Third Shoe Drop? (March 2009)*
- *Reports of my Death were Greatly Exaggerated (September 2008)*

Financial Technology Focus
- *Out of the Frying Pan and into Regulatory Reform (September 2010)*
- *Happy to Have No Balance Sheet (September 2009)*
- *Companies that Service & Support Wall Street (September 2008)*

Insurance Focus
- *To Arms, To Arms: The Regulators are Coming! (July 2010)*
- *Back from the Brink (January 2010)*
- *Insurance Servicing & Processing (July 2009)*
- *Inaugural Issue (January 2009)*

Private Equity Focus
- *Show Me the Money (September 2010)*
- *Waiting for the Turn (September 2009)*
- *Where Have You Gone LBO? (September 2008)*

Securities Industry Focus
- *Securities Industry Focus (October 2010)*
- *Focus Shifts from Survival Mode to Strategic Mode (October 2009)*
- *Securities Industry at Major Inflection Point (March 2009)*
- *Mom, Dad, Are We There Yet? (September 2008)*

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