Issue 15
1st Half 2007

September 2007

New York • Paris • London

Asset Management Focus
Freeman & Co. LLC

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Indices at 06/29/07:

DJIA	13,409
Nasdaq	2,603
S&P 500	1,503
FTSE 100	6,608
10 Year US Treasury Bond Yield	5.03%
USD per GBP	$2.00
USD per EUR	$1.35

Robust First-Half, Uncertain Future

What a difference a summer makes!

Through mid-year, deal activity, particularly with alternative asset firms, was robust reaching about $800 billion AUM – set to outpace 2 of the past 3 years' volume. The first six months also included unprecedented IPOs of hedge fund and private equity firms.

But during summer holidays, the market plunged, credit spreads widened, liquidity dried up and those IPOs have dropped 10-25% from their offers and 30-50% from their highs.

It makes one ready for the end of summer vacation.

Performance as of June 30, 2007

Index	Total Return 1H07	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	7.0%	20.6%	11.7%	10.7%
NASDAQ	7.8%	19.9%	8.3%	12.2%
FTSE 100	6.2%	13.3%	14.0%	7.3%
LBGC*	1.0%	6.0%	3.8%	4.7%
HRFI FoF**	7.5%	14.4%	12.1%	11.2%
FTSE Hedge***	4.1%	7.1%	4.7%	5.6%

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

Summary:

- **Deal activity:** strong in the first half of 2007, highlighted by Power Corporation's acquisition of Putnam Investments ($192.0 billion AUM) and Madison Dearborn Partners LLC's purchase of Nuveen Investments Inc. ($166.0 billion AUM)
- **M&A:** there were 94 acquisitions in the first half, compared to 84 in the first half of 2006, and total deal AUM reached close to $800 billion for the third straight first half; private equity firms will continue to target the industry for deals
- **Alternatives:** hedge funds and other alternative firms continue to interest acquirers, notably major investment banks who are looking to satisfy the increased demand from institutional and high-net-worth clients for more alternative investment choices
- **IPOs:** 1H07 saw the beginning of US alternative firms going public, exemplified by private equity firm Blackstone and private equity/hedge fund Fortress Investment Group
- **Mutual Funds:** the US industry faces growth challenges with household penetration and net inflows flat. Firms need to pursue new product areas, longevity/mortality risk products and "de-accumulation" solutions for retirees

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Deal Activity

Deal activity has remained strong throughout the first half of 2007 with over 94 acquisitions, 7 MBOs, and 2 JVs reported to date, forming a total slightly higher than 1H06's total volume (97). Despite current fears of tightening credit and decreasing margins in light of subprime woes, the M&A wave may shift and shrink a bit, but strategic acquirers now have a leg up on the private equity firms due to the financing crunch. We expect strategic acquisitions in asset management to continue at a healthy pace and that PE interest will remain strong, but will be subject to tighter financing on their MBO deals where PE firms will have a competitive advantage by aligning themselves with management. The second quarter of 2007, in particular, exemplifies the market's ongoing demand for M&A: the period saw 60 deals announced in comparison to the first quarter's 43, including several of 2007's largest and most prominent deals such as Madison Dearborn Partners LLC's purchase of Nuveen Investments Inc. ($166 billion), Marsico Capital Management's MBO ($94 billion) and BlackRock's purchase of Quellos Group funds ($20 billion). While multi-billion MBOs are not expected now, we continue to see M&A demand by firms that need to expand their product range, geographic presence and distribution channels.

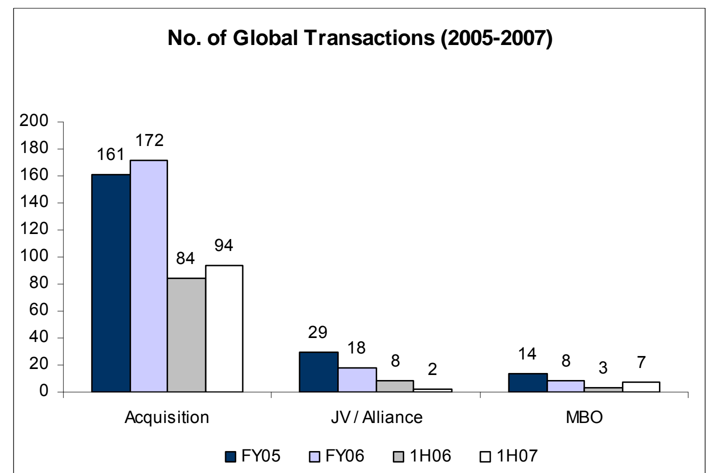
The two most significant deals in first half 2007 were:

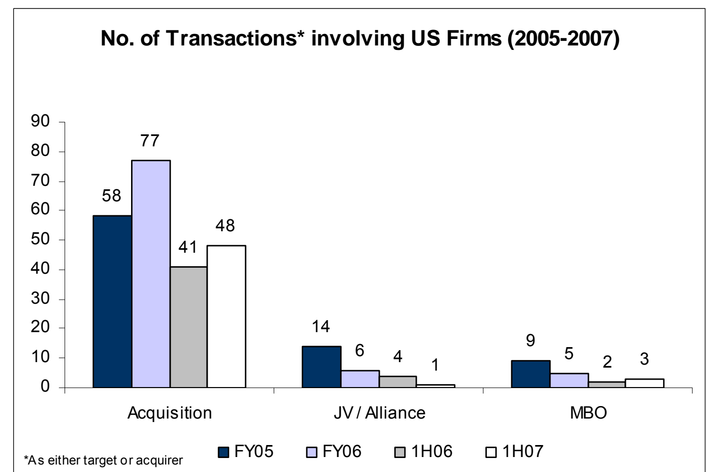
- Power Corporation's acquisition of Putnam Investments, Marsh & McLennan Co.'s AM unit ($192.0 billion)
- Madison Dearborn Partners LLC's purchase of Nuveen Investments Inc. ($166.0 billion)

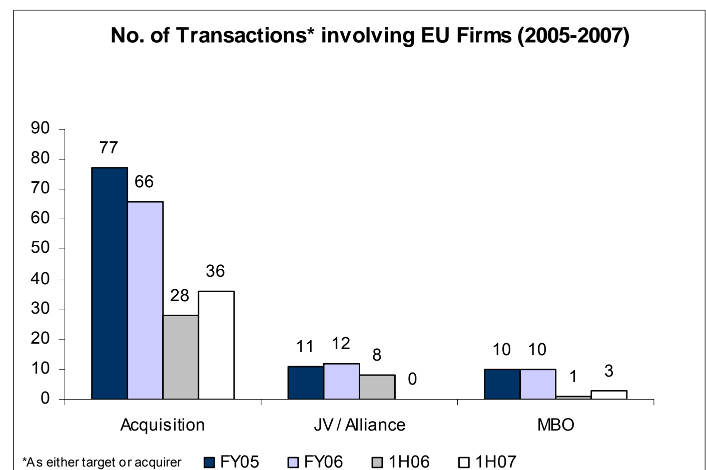
Nuveen's transition to the private sector represents a move contrary to the current market trend of asset managers opening their ownership to public and private investors in IPOs and private exchanges. For an in depth look at this trend, see page 8 of this report.

With a total of 39 transactions, 1H07 European deal volume finished marginally higher than 1H06's total (36), but still significantly below 1H05's 7-year peak performance of 50 deals. While 1H06's activity was defined by an increase in joint ventures and a substantial drop in acquisitions (38%), 1H07 witnessed a rebound in the number of acquisitions and MBOs and a decrease in strategic partnerships.

Acquisitions involving Asian firms as either target or acquirer have continued to grow in number, in line with the region's burgeoning economy. There were 28 acquisitions recorded in 1H07, up from 21 in 1H06 and 16 in 1H05, representing an increase of 75% over the past two years.



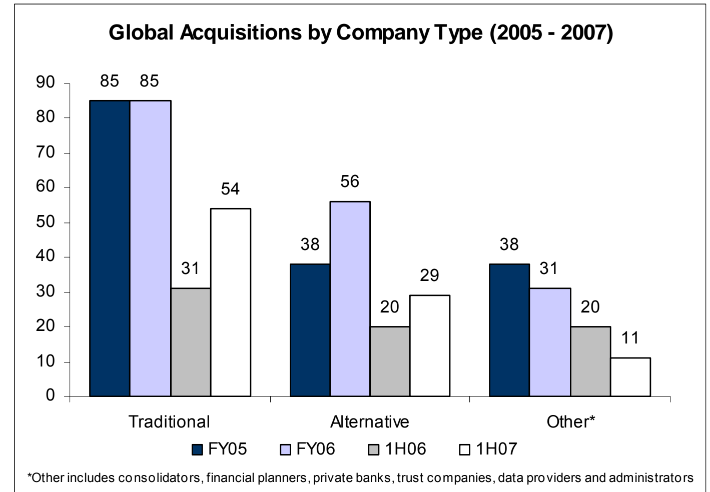




Source: Freeman & Co.

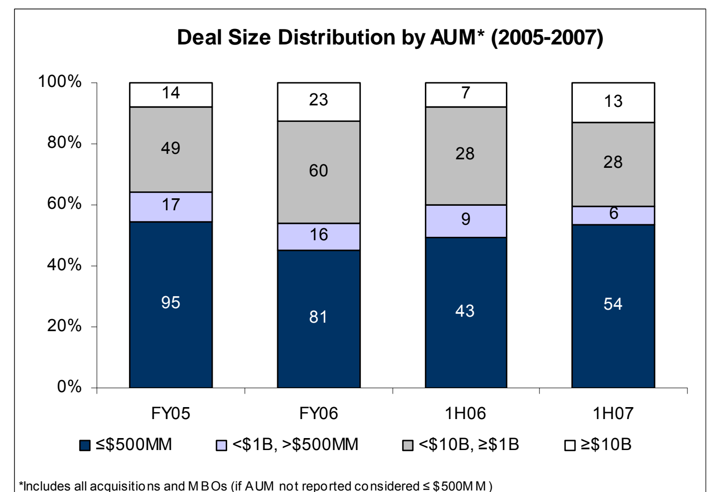
Transactions by Company Type

In line with recent years, traditional and alternative firms have enjoyed an increased popularity in the asset management M&A space, accounting for nearly 90% of total transactions in first half of 2007. This trend is in large part the result of an ever-increasing demand for alternatives. Many large banks and institutions no longer view hedge funds, fund of funds, and private equity firms as truly 'alternative' investments and instead extol the valuable diversification that their investment strategies provide. Conversely, acquisitions involving "Other" firms - which we have defined broadly to include financial planners, trust companies, and private banks - have gradually declined in number in both relative and absolute terms.



Deal Size

Deal size, like deal volume, has risen over the past five years to new highs. While transactions with AUM <$500 million continue to dominate the total number of deals, their relative proportion is gradually decreasing. Similarly, midsize deals (between $1 billion and $10 billion) and large deals (>$10 billion) are continuing to grow as a percentage of all deals. Some of this reflects inflation, but more of it reflects the need for size, scale and scope in the current marketplace where firms need to deliver a wide range of products (traditional, alternative, international) to an increasingly sophisticated client base. Small deals for many banks and insurance companies are not worth the effort. Even private equity firms have been targeting larger transactions.



Significant Deals in the First Half of 2007:

1) Power Corporation acquisition of Putnam Investments, Marsh & McLennan Co.'s AM unit ($192.0 billion)
2) Madison Dearborn Partners LLC's purchase of Nuveen Investments Inc. ($166.0 billion)
3) Thomas Marsico's MBO of Marsico Capital Co. from Bank of America Corp. ($94.0 billion)
4) TA Associates and Jupiter Management MBO of Jupiter Asset Management ($37.7 billion)
5) Lehman Brothers purchase of a 30% minority stake in D.E. Shaw & Co. ($29.0 billion)
6) Evergreen Investments acquisition of European Credit Management ($26.0 billion)
7) Undisclosed financial sponsor equity recapitalization of Ceres* ($24.0 billion)
8) BlackRock acquisition of Quellos Group LLC fund of funds ($20.0 billion)
9) Security Benefit acquisition of Rydex Investments ($15.0 billion)
10) TA Associates minority investment in K2 Advisors* ($5.5 billion)

**Freeman & Co. advised Ceres and K2 Advisors*

Source: Freeman & Co.

Assets Acquired by Seller Region

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

Region	FY2004	FY2005	FY2006	1H2006	1H2007
Africa	4,500	6,970	55,050	0	0
Asia	22,765	52,211	71,588	19,593	38,245
Canada	5,506	32,156	8,045	15	3,500
Europe	110,476	488,649	225,341	97,392	150,762
South America	6,432	2,800	7,600	0	0
US	294,730	549,132	1,836,915	678,892	585,678
Total	**$444,409**	**$1,131,917**	**$2,206,139**	**$797,492**	**$778,185**
Acquisitions**	86	107	129	62	60
Average Size	5,168	10,579	17,102	12,863	12,970
Median Size**	1,615	1,300	2,600	1,500	3,235

*Assets acquired through acquisitions and MBOs

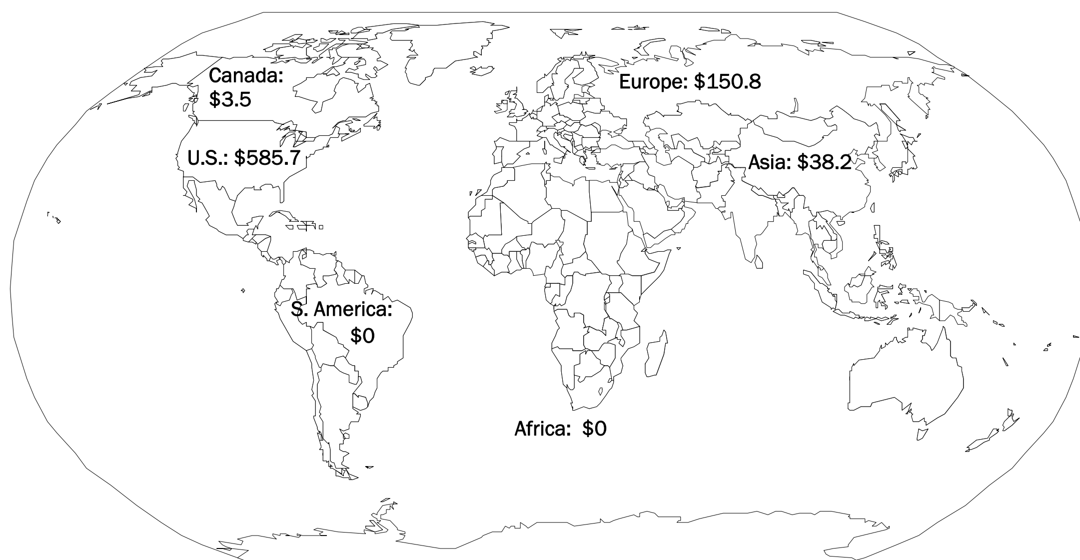
Source: Freeman & Co.

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

First half 2007 has displayed the same robust appetite for M&A that defined 2006's record deal activity, with $778 billion in total assets acquired compared to $797 billion in 2006. Standard indicators of market performance such as deal volume and average size mirror those of last year with deal numbers in the low 60s and average size above $10 billion; however, increased median size demonstrates buyers' desire for deal with size/scale. 2006's stats were significantly bolstered by the BlackRock/Merrill megadeal – a transaction which by itself accounted for $539 billion in assets or 68% of 1H06's total AUM. On the other hand, 2007 has witnessed increases across the board, which is reflected in median deal size, which grew from $1.5 billion to $3.2 billion AUM - the highest by far in recent years. The largest deal in 1H07 was Power Corporation's acquisition of Putnam Investments, a transfer of $192 billion AUM.

Geographically, the blend of asset acquisition continues to fluctuate with increases in assets acquired in Europe and Asia and a minor dip in the US. Both Asia and Europe's substantial increases in AUM acquired since 1H06, 95% and 55% respectively, should lead to stronger full year activity in these regions.

Assets Acquired by Seller Region ($778 Billions)



Source: Freeman & Co.

Assets Acquired by Buyer Region

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

Region	FY2004	FY2005	FY2006	1H2006	1H2007
Africa	22,880	6,970	55,050	0	0
Asia	985	39,589	73,688	19,490	35,268
Canada	2,006	74,356	8,375	15	197,000
Europe	50,635	425,321	252,711	108,195	104,439
South America	0	1,800	0	0	0
US	367,904	583,582	1,816,315	669,792	441,478
Total	**$444,409**	**$1,131,917**	**$2,206,139**	**$797,492**	**$778,185**

Acquisitions**	86	107	129	62	60
Average Size	5,168	10,579	17,102	12,863	12,970
Median Size**	1,615	1,300	2,600	1,500	3,235

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

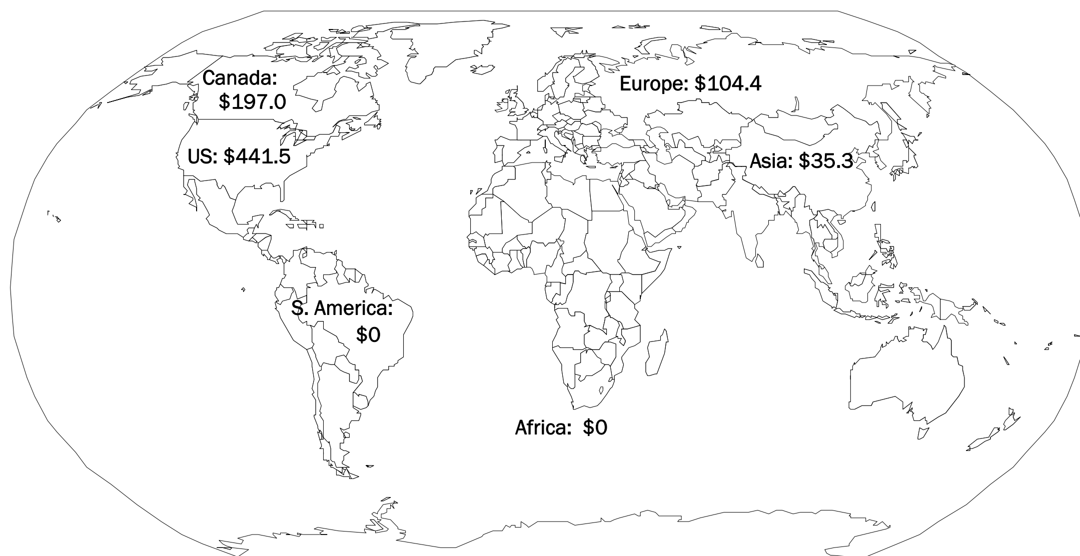
***Acquisitions and Median deal size calculated using only deals with reported AUM*

Evaluating market activity from a buy-side perspective further outlines the ongoing maturation of the global M&A marketplace. While the US still remains the largest single buyer, responsible for more deal AUM than all other regions combined, its absolute dominance in terms of buying power and deal activity appears to be giving way to a more balanced global paradigm. In recent years, Europe, Asia, and Canada have become increasingly active buyers and are responsible for 43.3% of total deal AUM in 1H07, up from 15.6% in 1H04 and 30.6% in 1H05. Significant deals from these regions include:

- Power Corporation's acquisition of Putnam Investments **($192 billion, Canadian acquirer)**
- Jupiter Management MBO of Jupiter Asset Management with TA Associates**($37.7 billion, European acquirer)**
- EFG International's purchase of PRS Group (US) **($2.5 billion, European acquirer)**

Aside from general bullish sentiments and favorable market conditions through June 30, each region has been driven by distinct factors that are both indicative of and responsible for its individual growth: Asia's increase is largely attributable to the greater availability and success of its emerging markets, while Europe's is reflective of a growing need to add products to compete across Europe and the globe.

Assets Acquired by Buyer Region ($778 Billions)



Source: Freeman & Co

New Options For Hedge Funds Seeking Liquidity

Hedge Fund Deals Go Mainstream

While successful hedge funds have traditionally been great at providing a stream of cash to their founders, there was not an M&A market for their businesses. Over the last 18 months, that has begun to change. In addition to several funds that have recently tapped the public markets, a number of others have sold equity to a variety of buyers. Major investment banks (led by Morgan Stanley) in particular have been eager to add successful alternative investment businesses to their internal asset management platforms.

Select Hedge Fund Deals since 2006

Year	Target	Acquirer	Type	Total Deal AUM ($mil)
2007	D.E. Shaw & Co.	Lehman Brothers	Hedge Fund	$29,000
2007	Quellos Group	BlackRock	Fund of Funds	20,000
2007	GLG Partners	Freedom Acquisition Hldg.	Hedge Fund	20,000
2007	**K2 Advisors***	**TA Associates**	**Fund of Funds**	**5,500**
2007	Spinnaker Capital Group	Lehman Brothers	Hedge Fund	5,000
2007	Old Lane	Citigroup	Hedge Fund	4,500
2007	Sterling Stamos Capital	Merrill Lynch	Fund of Funds	4,000
2006	Avenue Capital Group	Morgan Stanley	Hedge Fund	12,000
2006	Lansdowne Partners	Morgan Stanley	Hedge Fund	12,000
2006	FrontPoint Partners	Morgan Stanley	Hedge Fund	5,500
2006	Marble Bar Asset Mgmt.	Lehman Brothers	Hedge Fund	4,300
2006	DiMaio Ahmad Capital	Merrill Lynch	Hedge Fund	3,000

Freeman & Co. represented K2 Advisors Source: Freeman & Co.

In addition to bringing back some of the top trading talent that has fled to the often more lucrative world of hedge funds, these acquisitions have helped banks bolster their internal asset management offerings. This has become necessary because both institutional and high-net-worth investors have become more sophisticated in recent years, leading them to shift their asset allocations towards alternative investments, and away from the traditional long-only products that are currently the focus of the asset management divisions at many of the major banking houses. Thus, banks are spearheading a drive to keep up with the demands of their clients and focusing more heavily on alternatives. While internally built hedge funds have played a major role in this effort so far, acquisitions are becoming an increasingly important and popular strategic option.

A Slow Start

There are number of reasons why this trend has taken such a long time to develop. Chief among them was the lack of an M&A framework for hedge fund deals – they have key-man risks, significant performance fees and the potential for volatile returns (and cash flows). Without such a framework, deal discussions were more theoretical than practical. Recently however, the issue of the bid ask spread has begun to be overcome by innovative deal structures that manage to provide substantial payouts to sellers in cases where the upside does indeed materialize, while at the same time providing protection to buyers if things go badly.

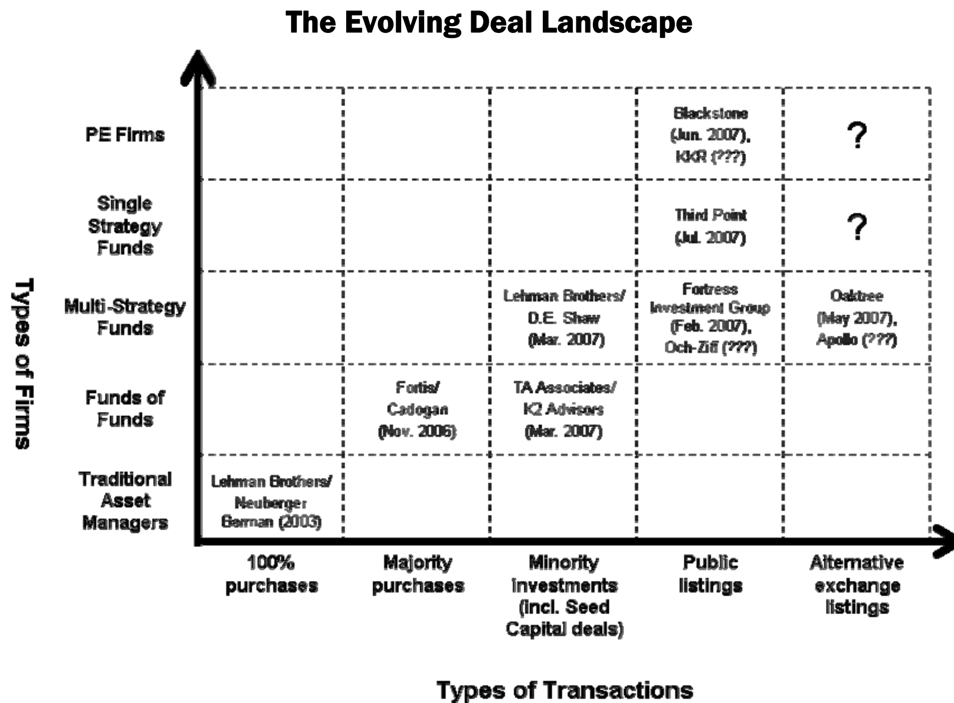
Another hindrance to hedge fund deals in the past has been concern by hedge funds and banks over possible conflicts of interest. Since banks derive a significant portion of their revenues from providing trading services to the hedge fund community, they have historically been reluctant to compete with their customers. In addition, a number of structural issues have slowed progress in this area, including restrictions on the part of ERISA clients surrounding best execution regulations. This has been further aggravated by the fact that hedge funds are concerned about the secrecy of their trading strategies given that banks have their own proprietary trading desks.

With the strong demand for alternative and hedge fund products, the banks and hedge funds have realized that partnering can help each firm grow beyond their current means. Banks have overcome their fears about the perception of conflicts in order to stay competitive. Accompanying this has been increasing comfort levels by some hedge funds regarding the effectiveness of banks' internal controls in keeping trade information confidential from bank owned competitors and proprietary trading desks. This has led to changes in the attitudes of many trading clients, especially as many of the most competent research departments and trading desks are at banks with growing alternative investment businesses.

The Evolving Landscape

Perhaps the most important trend in hedge fund deals over the last several months has been a rapid increase in comfort levels regarding both deal structures and the types of firms that buyers are willing to consider. As recently as two or three years ago, nearly all transactions in this space involved traditional asset management firms and outright purchases of the target companies. Recently however, there has been a swift evolution towards innovative structures, sources of capital and the types of firms involved in these deals.

The biggest headlines have come from the initial public offerings of Fortress Investment Group and The Blackstone Group, but a number of other deals have also broken new ground. The figure below depicts the evolutionary process graphically. On the vertical axis we have moved from a situation where market participants focused on in the traditional asset management space to one where deals involving single-strategy hedge funds are possible.



Source: Freeman & Co.

Along the horizontal axis above we see the evolution of the types of structures used in these deals. Originally deals were 100% purchases by strategic buyers in the traditional asset management space; the M&A model continue to evolve. We have seen IPOs of large diversified firms and, with the listing of activist fund Third Point in London, an increased willingness on the part of public investors to own focused firms as well.

Another interesting innovation in this space was the listing of Oaktree Captial Management as the maiden offering on Goldman Sachs' new unregistered share exchange GSTrUE ("Goldman Sachs Tradable Unregistered Equity OTC Market"). While this market faces a number of legal limitations including only being accessible to sophisticated investors, it also provides a number of advantages. Since shares traded on this exchange are exempt from many of the standard reporting requirements, it may prove an attractive venue for hedge funds in particular, since they tend to place a high premium on confidentiality. In light of this, we foresee a number of these funds listing on one of these private exchanges.

Why We Expect These Deals to Continue

While current market events may slow the pace of these deals in the short term, we feel that over the longer term these types of transactions are here to stay. M&A deal types will continue to evolve and the continued flow of assets into alternative products is a strong driver for banks and hedge funds to partner.

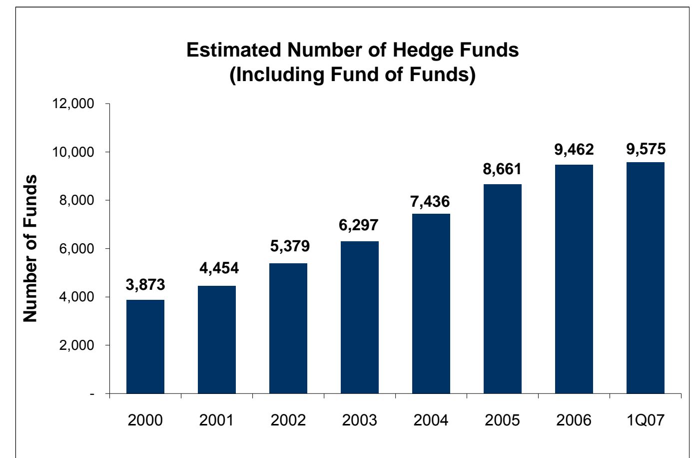
We think that the current wave of transactions is the beginning of a trend rather than just a short-term anomaly for several reasons. First, given the sheer number of hedge funds in the market, there will always be a certain percentage with a desire for liquidity. It may take some time for investors to again become comfortable with the risks inherent in these assets, but the

precedents set by past deals have proven that hedge funds can indeed be sold if the transactions are structured properly. As with the founders of any other entrepreneurial venture, many hedge fund mangers will at some point want to cash out, recapitalize, or otherwise monetize their equity stakes. Historically there have been few options for founders to achieve that goal, but as buyers have developed a deal framework, we expect continued partnering between large financial firms and alternative product managers.

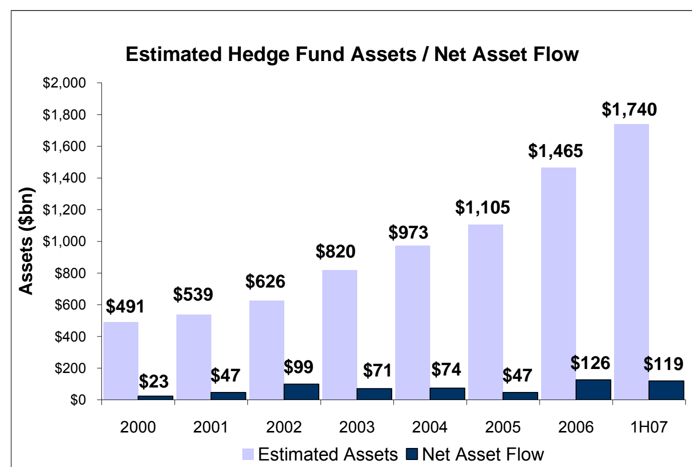
On the demand side, banks recognize the need to partner to gain products, and have developed a framework for these deals. It remains to be seen how recent market turmoil will affect this in the short term, but over the longer term buyers have a desire to participate in this highly profitable industry. Banks realize that they need to include hedge funds in their product offerings and have learned from experience that starting a successful fund business from scratch internally is often not easy. Rather than taking the investment of time, effort and money for an uncertain payoff, it makes sense that they will turn to established funds with proven track records. In addition, we expect interest in this sector on the part of financial buyers and other institutional money to trend upwards, as the market for these assets becomes more liquid and successful exits become more feasible.

A final driver that we see is the increasing number of seed capital deals. These transactions are a way for prospective hedge fund managers to raise start-up capital in exchange for equity stakes in their businesses. The purchasers of these (usually minority) stakes generally see theses deals as three to five year investments as opposed to long-term strategic acquisitions. This being the case, we expect an increasing number of such minority investments to come to market in the years ahead as seed capital investors attempt to realize profits. While a substantial share of these stakes will certainly be bought back by the management of the underlying funds, some portion will make its way to outside buyers as well. It may be that the re-marketing of these stakes will be highly dependent on the next generation of management at a firm, which want to buy in for more (or their first) equity.

In conclusion, its clear that demand for hedge fund product will continue to grow at a reasonable pace, that developing products internally by banks will not always be successful, and that M&A partnerships will play a significant role in the future for many large financial institutions.



Source: Hedge Fund Research



Source: Hedge Fund Research

Examples of Seed Capital

Firm	Backer	Year Founded	Current AUM ($bn)	Product Style
LSV Asset Mgmt	SEI Investments	1994	$79.0	Quantitative Value Equity
Pzena Investment Mgmt	Milestone	1996	28.5	Value Equities
FrontPoint Partners	XL Capital	2001	5.5	Alternative Investments
Colchester Global Investors	Silchester International Investors	2000	5.0	Global Fixed-Income
Sanderson Asset Mgmt	Silchester International Investors	2000	5.0	Active Int. Equities
Deephaven Capital Mgmt	Knight Trading	1994	4.0	Multi-Strategy; Market Neutral

Source: Freeman & Co, Nelsons Marketplace, Company Websites

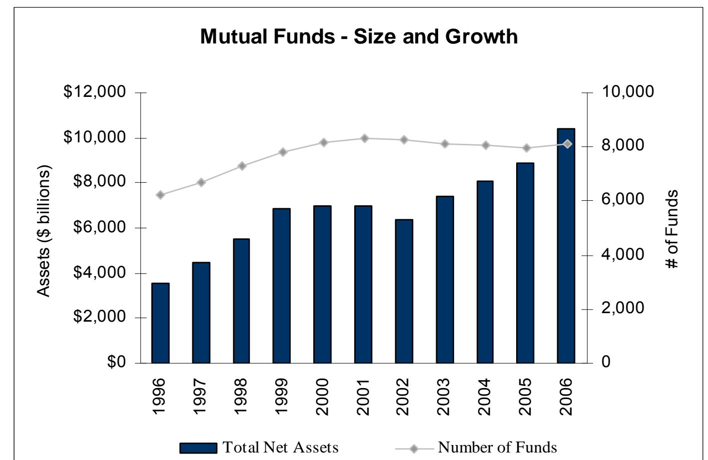
Mutual Funds: Retail Marketplace

Mutual Fund Challenges

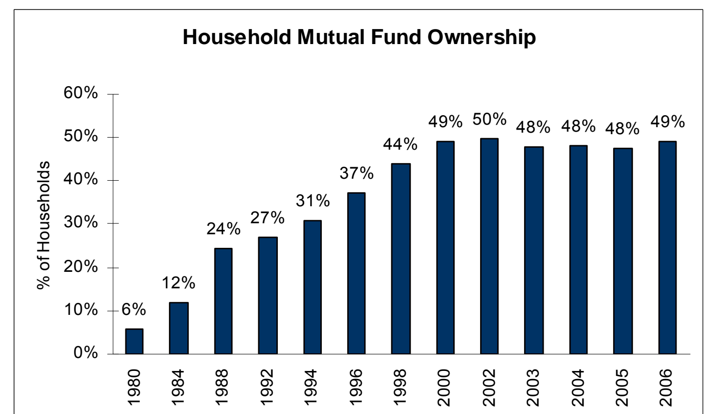
The battleship steams ahead! The US mutual fund industry has surpassed $8 trillion, generates annual management fees of approximately $48 billion and reaches 49% of households. However, our evolving view is that the industry may no longer be a battleship capable of cruising ahead at will, instead it may be more comparable to a Perini Navi sailboat: huge, but powered by the wind at its back (or slowed by headwinds) instead of its own power.

For example, household penetration by mutual funds has remained stagnant at approximately 50% since 2000; net inflows since 2002 have been marginal, and AUM growth since 2002 has been determined largely by market returns. Since non-market growth may be limited, we consider four areas important to evaluate as growth opportunities as well as the strategic positioning necessary to capture them:

- Savings/Spending Rates: Asset accumulation is dead; long live de-accumulation! Are we entering a phase where baby boomers will consume more than they save?
- Longevity Risk: We stole market share from insurance companies (and now they want it back)! What portion of longevity risk do retirees what to bear and who is best positioned to offer mortality/longevity products?
- Product Innovation: But we have the best buggy whip (or, what to fear from ETF's, hedge funds and turn-key products)! This may be more a game of stealing market share, but without organic growth, what else is there?
- Market Returns: We are growing, but inflows are flat. (Does this mean the Emperor has no clothes?)



Source: ICI



Source: ICI

Savings / Spending Rates

The mutual fund industry has enjoyed the benefit of steady monthly payroll deductions and the rising use of participant-directed retirement plans. However, we are reaching a saturation point: household penetration by mutual funds is stagnant, the baby boomers are reaching the start of their de-accumulation phase, and the annual flow of rollover assets is expected to grow from approximately $250 to $500 billion over the next five years. While a direct comparison of the rollover amount to total mutual funds is an imprecise comparison, it is notable that rollovers will top 5% of mutual assets shortly.

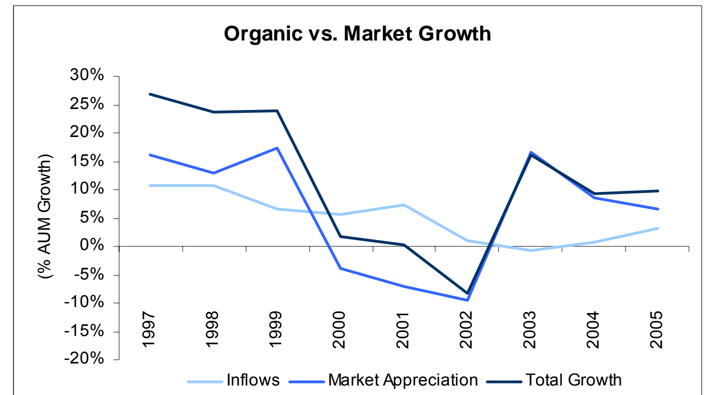
These retiring baby boomers will look for a fair amount of advice in their retirement savings vs. spending decisions, particularly as they will be handling more money directly than retirees have in the past, given the shift from DB to DC plans. A greater reliance on advice and handholding should favor business models with relationship managers such as wirehouses (Merrill Lynch, etc.) or advisory firms (Schwab, Ameriprise, etc.) over direct/do-it-yourself models that have been successful in the past.

The rollovers out of DC plans lead to the distribution of assets across a wide pool of people, with each taking a different route for selecting products and advice. For asset managers, the point of sale and marketing techniques that worked to convince the CFO of a company to use your firm as a 401(k) manager will be different than marketing to Mr. & Mrs. New Retiree.

First, the sales & marketing strategy necessary to capture rollover retirement assets will be different, and decisions will need to be made about direct vs. wholesale strategy evolution. Second, many managers that have not been subject to tough pricing pressure in 401(k) plans may find the situation different when sourcing assets from brokerages and wirehouses.

Third, the CAPEX and financial metrics (ROE, EBITDA margins) of asset managers may shift as they re-design their asset capture strategies: wholesale efforts require less fixed costs, but lack direct client interaction and can lead to disintermediation and fee compression; direct efforts have higher fixed costs but can lead to stickier AUM and higher fee realization rates.

The good news is that this asset leakage will be like a balloon losing air, and not catastrophic like the Hindenburg. However, slow leaks can be dangerous, too, as firms that are poorly positioned for these shifts realize their strategic missteps too late. Their fate may be a takeover, or an expensive acquisition to correct the imbalance.

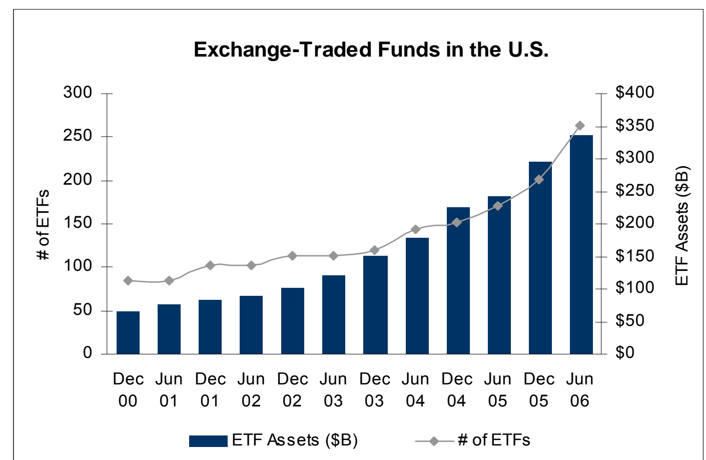


Source: ICI

Where is the Growth?

Longevity Risk

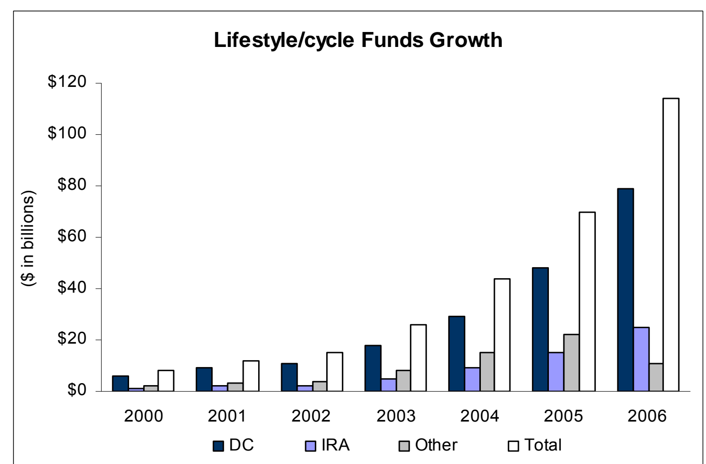
Do you remember GICs? Do you remember the retirement plan market share that insurance companies held? We remember GICs paying 11% in 401(k) plans almost two decades ago, and we remember how much wallet share they captured in those plans. Then came death by mutual funds, and their nimble, aggressive marketing tactics.



Source: ICI

Well, we think there are things that we can learn from the near extinct GICs. They were safe, they were easily understood, and they let investors sleep well at night. Along with the demise of the GIC over 20 years, came a great increase in the proportion of retirement risk borne directly by current and future retirees. We don't have a DB plan at Freeman & Co., so our sole guaranteed form of retirement income will come through government social security in the US, UK and France. The rest of our retirement income will come through our savings and investments, and we will bear all of the associated market volatility ourselves.

Which brings us back to GICs, what we can learn from investors' past use of GICs, and what that teaches us about individuals' risk tolerances and how they will choose to manage longevity risk. Longevity risk is the risk that a person will outlive their money, and it represents both a financial and psychological risk with the latter often outweighing the former.



Source: ICI, Freeman & Co. Estimates

How will retirees deal with these risks? First, they can save more (but it may be too late); second, they can spend less; and third, they can invest more aggressively. All of these help solve the financial risk, but often do not address psychological risk.

Enter the mortality risk experts -- traditionally living within the insurance industry but increasingly also present in the ever adapting investment banking community – both have the skill set to price mortality and longevity risk and the balance sheet and credit ratings to provide the type of guaranteed or hybrid income products that help solve the psychological and financial risks for retirees. Insurance companies are well positioned to address this market need with their strong distribution networks and comforting brand names. We have seen new products developed to address retirement savings and longevity risks, including products such as premium finance, life settlements and reverse mortgages.

Product Innovation

With net inflows flat and a potential future with net outflows, the mutual fund companies may compete for market share by pursuing high growth new product areas. Some of these include ETF's, lifecycle funds and turn-key asset manager programs (TAMPs). Total ETF assets are now over $400 billion, up from about $50 billion six years ago representing a 41% CAGR. This market has been dominated by the duopoly of State Street and Barclay's, which together command a super-majority of the total market.

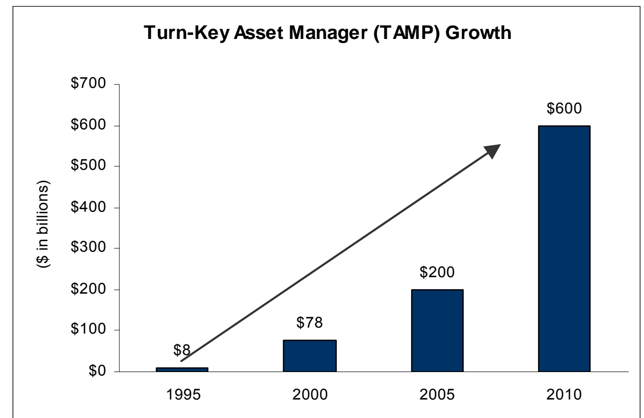
Other smaller firms have embraced ETF's such as WisdomTree, Power Shares, ETF Securities, and Rydex by creating specialty product that differentiates them from State Street and Barclay's, which have focused on core products that track mainstream indexes. It is unclear if ETF's become the preferred product structure for general mutual funds in the future, but the ETF products currently represent just under 5% of mutual fund assets. In the end, ETFs may remain excellent intra-day trading tools for hedge funds and asset allocation tools for some financial planners and retail investors, but not overtake the mutual fund structure. Even so, they will be a success.

What are the challenges?

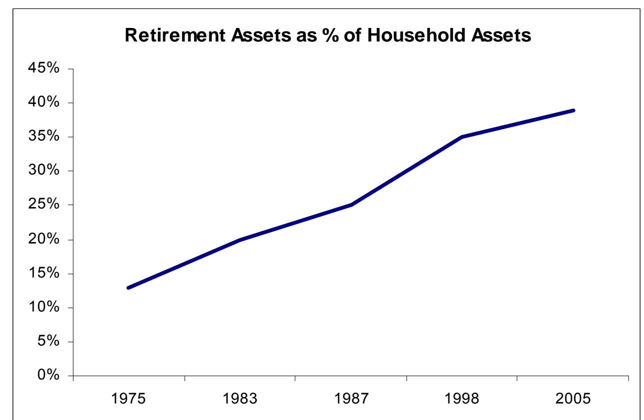
Market Returns (& Lack of Inflows)

We have reviewed the topics of savings/spending rates, longevity risk, and new product innovations/threats; each of these have different levels of impact on the industry, groups of competitors and individual firms. However, all firms will be affected by the same large factor, market returns, but each will have the ability to position their firm to address the other topics we have highlighted. Some will not have the right distribution strategy and may be vulnerable to missing the rollover wave; others will not be able to address the longevity risks of retirees and will lose share to insurers; finally, many firms will not innovate or adopt new products or packaging and miss high growth areas.

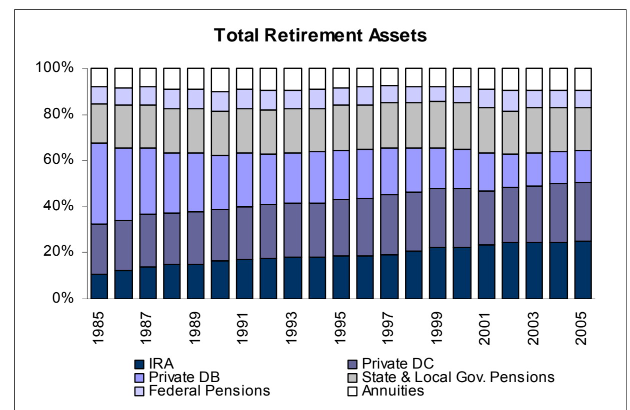
While any of these may seem minor, we believe market positioning for these areas, as well as new ones in the future, will take on more importance in an era of flat to negative asset flows. In such a scenario, long-term average growth rates would drop from high-teens to high-single-digits based on the returns from an average 60%/40% asset allocation less withdrawals to pay taxes by many (but not all) investors. In that framework, capturing market share by addressing the areas of de-accumulation, longevity risk, and product innovation will be paramount.



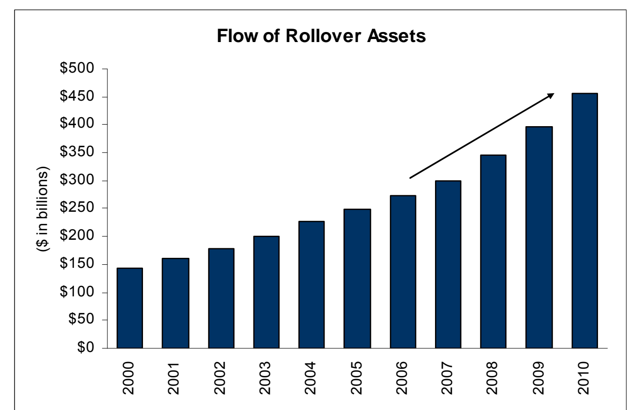
Source: Cerulli



Source: ICI, Freeman & Co. Estimates



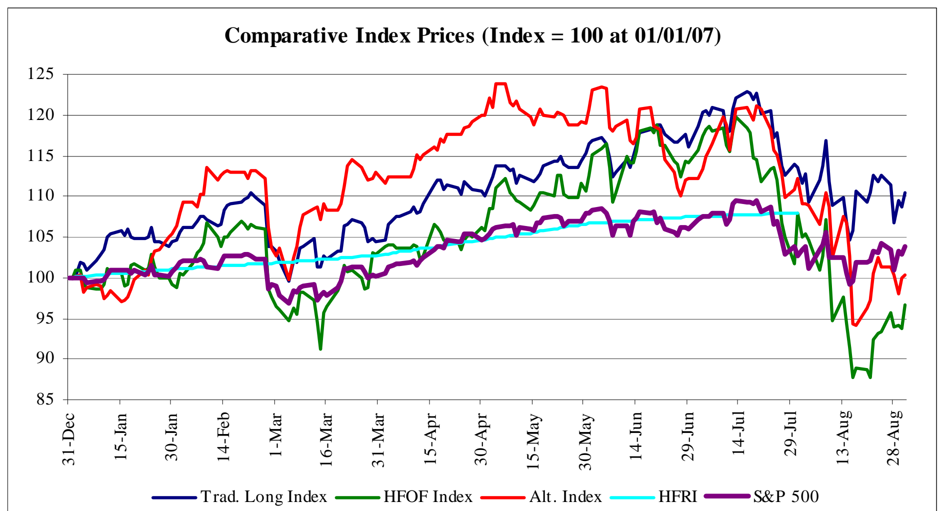
Source: ICI, Freeman & Co. Estimates



Source: Cerulli, Morgan Stanley, P&I, Freeman & Co. estimates

What does the Future Hold?

Until early July, asset management stocks had strong returns with traditional firms, hedge funds of funds, and hedge fund firms all posting price gains of about 20% YTD (see chart at right). Since then, the basket of traditional and hedge fund firms dropped about 15% in price. The HFOF firm basket dropped about 25% over the past 6 weeks. While HFOFs may have some problems in their portfolios, the stock price drop seems out of line with any fall in their fund performance, revenue and growth. The meltdown for certain CDO and structured credit managers has been substantially worse, for example.



Legend
Traditional Long Index: Blackrock, Eaton Vance, Federated Investors, Janus Capital, T Rowe Price, Franklin Resources, Legg Mason, Invesco, Schroders
HFOF Index: Man Group, Partners Group
Alternative Index: RAB Capital, Absolute Capital, BlueBay, Charlemagne Capital
Note: The above are all equally weighted indexes

Source: Bloomberg, Freeman & Co.

This turmoil has raised the question about how firms such as KKR, Och-Ziff and Apollo Management will proceed: IPO on a public market, list on a private exchange, sell a minority stake to a strategic partner or dismiss these plans.

The "need" to go public has been discussed a great deal – a currency to make acquisitions and attract talent. However, Blackstone was able to grow to an $88 billion AUM firm with multiple product lines without a public currency, so we question the need for one in most cases. Top firms have enough cash flow to attract talented individuals and teams, to start new product areas and expand geographically.

Additionally, private equity firms will remain active in backing expansions for private firms as well as MBOs and LBOs, given their ability to align with management, who can often push a deal to make or to keep a firm independent and employee-owned.

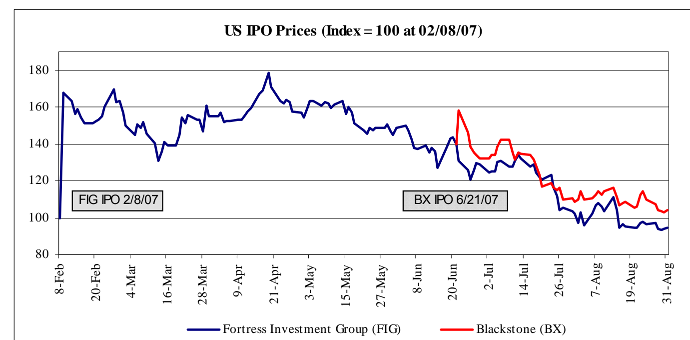
With the new stock listings significantly off their recent highs, strategic discussions will not favor IPOs in the way that they have recently. But IPOs will continue as one of many strategic options for firms as the world evolves to include the growing demand for alternative asset products.

Recent IPO and Future Prospects

Company	AUM ($bn)	Date	Exchange
Polar Capital Holdings (POLR)	$4	2/5/207	AIM
Fortress Investment Group (FIG)	43	2/8/07	NYSE
Oaktree Capital	42	5/23/07	GSTrUE
Blackstone Group (BX)	88	6/21/07	NYSE
GLG Partners(2)	20	6/25/07	NYSE
Third Point(1)	5	7/28/07	LSE
Kohlberg Kravis Roberts	31	??	NYSE
Och-Ziff Capital	27	??	NYSE
Apollo Management	33	??	GSTrUE

(1) Third Point held three offerings: one in GBP, USD and EUR respectively
(2) GLG Partners was acquired by Freedom Acquisition Holdings (FRH) in a reverse merger.

Source: Bloomberg, Freeman & Co.



Source: Bloomberg, Freeman & Co.

Recent IPO Performance Highlights

Company	Ticker	IPO Date	Offer	High	Current (08-31-07)	% Current / Offer	% Current / High
Polar Capital Holdings	AIM: POLR	2/5/07	£1.90	£2.62	£2.17	14.21%	-17.18%
Fortress Investment Group	NYSE:FIG	2/8/07	$18.50	$33.07	$17.53	-5.24%	-46.99%
Blackstone Group	NYSE:BX	6/21/07	$31.00	$35.06	$23.13	-25.39%	-34.03%
Third Point(1)	LSE:TPOU	7/28/07	$10.00	$10.00	$8.60	-14.00%	-14.00%

(1) Third Point held three offerings: one in GBP, USD and EUR respectively

Source: Bloomberg, Freeman & Co.

Public US Money Managers – Valuations

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

Company Name	End AUM ($ bils)	Stock Price 8/31/07	Equity Value	Enterprise Value [a]	LTM (6/30/2007) Revenue	LTM (6/30/2007) EBITDA [b]	LTM (6/30/2007) 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	$ 1,230.1	$ 155.10	$ 18,493.7	$ 17,389.9	$ 3,443.9	$ 734.0	$ 6.56	5.0x	23.7x	23.7x	1.5%
Eaton Vance	150.0	38.39	5,115.2	4,960.4	947.7	311.1	1.39	5.2x	15.9x	27.7x	3.4%
Federated Investors	259.7	35.11	3,638.4	3,621.6	1,044.6	353.0	1.98	3.5x	10.3x	17.7x	1.4%
Franklin Resources	624.0	131.77	32,884.8	29,735.5	5,873.9	2,187.7	6.31	5.1x	13.6x	20.9x	5.3%
Gamco	30.6	53.73	1,515.7	1,561.0	270.0	86.7	2.85	5.8x	18.0x	18.8x	5.0%
SEI Investments	198.7	25.37	4,996.0	4,817.4	1,279.6	417.9	1.25	3.8x	11.5x	20.4x	2.5%
Janus Capital	190.6	26.59	4,747.1	5,132.6	1,082.3	272.5	0.80	4.7x	18.8x	33.4x	2.5%
T Rowe Price	379.8	51.32	14,400.6	13,505.4	1,999.5	937.9	2.09	6.8x	14.4x	24.6x	3.8%
Waddell & Reed	52.4	24.84	2,092.6	2,121.3	755.1	190.3	1.39	2.8x	11.1x	17.9x	4.0%
Nuveen Investments	171.6	62.18	5,341.0	5,818.0	778.6	377.1	2.53	7.5x	15.4x	24.6x	3.1%
Calamos Investments	43.8	23.22	523.3	525.7	470.5	65.8	1.92	1.1x	8.0x	12.1x	1.2%
Legg Mason	992.4	86.82	11,931.3	11,807.4	3,769.0	1,204.4	4.72	3.1x	9.8x	18.4x	1.2%
Cohen & Steers	34.6	33.23	1,321.6	1,209.1	257.6	111.9	1.77	4.7x	10.8x	18.8x	3.8%
TOTAL	**$ 4,358.3**		**$ 107,001.4**	**$ 102,205.3**			**AVERAGE**	**4.5x**	**14.0x**	**21.5x**	**3.0%**
							MEDIAN	**4.7x**	**13.6x**	**20.4x**	**3.1%**
Alternatives											
Fortress	$ 43.3	$ 17.53	$ 7,128.9	$ 7,157.5	$ 1,507.5	$ 801.5	$ 1.19	4.7x	8.9x	14.7x	16.5%
Blackstone	91.8	23.13	25,158.2	23,724.9	2,441.9	1,618.7	0.90	9.7x	14.7x	25.7x	27.4%
TOTAL	**$ 135.1**		**$ 32,287.1**	**$ 30,882.3**			**AVERAGE**	**7.2x**	**11.8x**	**20.2x**	**21.9%**
Holding Companies											
Affiliated Managers	$ 266.6	$ 113.25	$ 3,798.0	$ 5,294.6	$ 1,250.5	$ 263.7	$ 4.17	4.2x	20.1x	27.1x	1.4%
Alliance Capital	792.9	82.61	21,639.8	21,187.5	4,321.1	1,379.0	4.62	4.9x	15.4x	17.9x	2.7%
TOTAL	**$ 1,059.5**		**$ 25,437.9**	**$ 26,482.1**			**AVERAGE**	**4.6x**	**17.7x**	**22.5x**	**2.1%**
Bank / Trust Companies [d]											
Boston Private Finl	$ 32.8	$ 27.15	$ 1,041.5	$ 1,041.5	$ 362.8	$ 117.4	$ 1.52	2.9x	8.9x	17.8x	3.2%
Wilmington Trust	48.1	40.10	2,762.4	2,762.4	711.3	319.5	2.69	3.9x	8.6x	14.9x	5.7%
TOTAL	**$ 80.9**		**$ 3,803.9**	**$ 3,803.9**			**AVERAGE**	**3.4x**	**8.8x**	**16.4x**	**4.5%**
Overall TOTAL	**$ 5,498.7**		**$ 136,243.1**	**$ 132,491.3**							
							HIGH	9.7x	23.7x	33.4x	27.4%
							AVERAGE	4.7x	13.6x	20.9x	5.0%
							MEDIAN	4.7x	13.6x	18.8x	3.2%
							LOW	1.1x	8.0x	12.1x	1.2%

Source: Publicly available SEC filings, Bloomberg and IBES estimates.
Note: All figures have been adjusted for extraordinary and non-recurring items.
(a) Enterprise Value calculated as Equity Value plus Net Debt (Total Debt less Cash & Cash Equivalents).
(b) EBITDA is shown net of minority interest.
(c) EV, BEN and LM fiscal year end of October, September and March have been calendarized.
(d) Enterprise Value calculated as equal to Equity Value

Public European Money Managers – Valuations

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

Company Name	End AUM (bils)	Stock Price 8/31/07	Equity Value	Enterprise Value [c]	LTM (06/30/2007) [a][b] Revenue	LTM (06/30/2007) [a][b] EBITDA [d]	LTM (06/30/2007) [a][b] EPS	Enterprise Value as a Multiple of LTM Revenue	Enterprise Value as a Multiple of LTM EBITDA	PE Ratio LTM	Equity Value % AUM
Traditional											
Invesco	£245.0	£6.03	£4,886.9	£5,051.7	£1,313.7	£522.1	£0.36	3.8x	9.7x	16.9x	2.0%
Schroders	£137.6	£13.24	£3,774.5	£3,345.1	£874.3	£314.2	£0.91	3.8x	10.6x	14.6x	2.7%
F&C Asset Management	£101.3	£1.95	£938.7	£978.8	£223.9	£53.2	£0.02	4.4x	18.4x	n/m	0.9%
Henderson Group	£61.6	£1.52	£1,377.0	£1,098.6	£337.5	£61.5	£0.09	3.3x	17.9x	16.1x	2.2%
Azimut Holding Spa	€ 13.1	€ 11.21	€ 1,618.7	€ 2,083.6	€ 399.9	€ 137.5	€ 0.58	5.2x	15.2x	19.2x	12.4%
New Star Asset Management	£21.1	£3.98	£1,200.5	£1,200.5	£133.9	£75.7	£0.14	9.0x	15.9x	28.2x	5.7%
Liontrust Asset Management	£5.7	£4.00	£139.8	£116.9	£30.1	£11.9	£0.23	3.9x	9.8x	17.4x	2.5%
Aberdeen Asset Management	£80.4	£1.78	£1,070.0	£1,194.8	£309.1	£141.8	£0.11	3.9x	8.4x	16.7x	1.3%
							AVERAGE	4.7x	13.2x	18.4x	3.7%
							MEDIAN	3.9x	12.9x	16.9x	2.3%
Alternative [d]											
RAB Capital	£3.3	£0.99	£563.0	£504.2	£144.4	£49.2	£0.14	3.5x	10.2x	7.0x	16.9%
MAN Group	£31.3	£4.94	£9,283.5	£8,352.8	£1,384.8	£763.0	£0.32	6.0x	10.9x	15.4x	29.6%
Absolute Capital Management Holdings	€ 2.3	€ 6.42	€ 468.4	€ 440.6	€ 89.4	€ 47.4	€ 0.47	4.9x	9.3x	13.7x	20.5%
Ashmore Group	£15.0	£2.23	£1,580.8	£1,422.9	£135.6	£99.5	£0.10	10.5x	14.3x	22.3x	10.5%
Charlemagne Capital Limited	£2.4	£0.53	£153.8	£138.4	£46.3	£23.9	£0.06	3.0x	5.8x	8.9x	6.4%
BlueBay Asset Management	£5.0	£4.24	£806.3	£767.0	£98.5	£45.0	£0.17	7.8x	17.0x	24.9x	16.1%
Polar Capital Holdings	£3.4	£2.18	£145.5	£114.1	£41.3	£17.3	£0.21	2.8x	6.6x	10.1x	4.3%
							AVERAGE	5.5x	10.6x	14.6x	14.9%
							MEDIAN	4.9x	10.2x	13.7x	16.1%
							HIGH	10.5x	18.4x	28.2x	29.6%
							AVERAGE	5.0x	12.1x	16.7x	8.2%
							MEDIAN	3.9x	10.9x	16.8x	4.3%
							LOW	2.8x	5.8x	7.0x	0.9%

Source: Publicly available company filings, Bloomberg and IBES estimates.
Note: All figures have been adjusted for extraordinary and non-recurring items.
(a) Azimut, Liontrust, Aberdeen, Man Group, and Polar Capital LTM (3/31/2007)
(b) Ashmore, Charlemagne, and Bluebay LTM (12/31/06)
(c) Enterprise Value calculated as Equity Value plus Net Debt (Total Debt less Cash & Cash Equivalents).
(d) EBITDA is shown net of minority interest.

Public US Money Managers – EBITDA Margin Analysis

Fiscal Year	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Diversified						
Blackrock	36.8%	40.8%	41.7%	35.8%	35.7%	36.0%
Eaton Vance	39.7%	35.9%	31.9%	33.9%	34.5%	32.6%
Federated Investors	45.5%	47.8%	41.8%	42.2%	39.0%	33.5%
Franklin Resources	31.6%	30.5%	31.6%	34.6%	35.6%	38.0%
Gamco	40.9%	43.0%	35.8%	39.0%	37.3%	34.2%
SEI Investments	30.8%	36.7%	35.0%	32.1%	30.2%	32.0%
Janus Capital	37.5%	38.1%	39.1%	29.1%	21.4%	22.8%
T Rowe Price	36.4%	40.1%	41.2%	44.7%	46.1%	46.7%
Waddell & Reed	43.0%	36.2%	34.7%	34.5%	26.1%	24.7%
Nuveen Investments	54.8%	56.2%	55.9%	52.6%	51.6%	49.0%
Calamos Investments	NA	NA	NA	12.8%	11.9%	10.6%
Mellon Financial	6.6%	12.4%	11.8%	17.4%	15.7%	20.0%
Cohen & Steers	NA	NA	NA	40.4%	39.0%	40.3%
AVERAGE	**36.7%**	**38.0%**	**36.4%**	**34.5%**	**32.6%**	**32.3%**
Holding Cos/LPs						
Affiliated Managers	32.2%	28.1%	28.1%	27.1%	24.3%	23.4%
Alliance Capital	37.8%	35.3%	29.0%	28.7%	31.6%	31.3%
AVERAGE	**35.0%**	**31.7%**	**28.5%**	**27.9%**	**27.9%**	**27.4%**
Bank / Trust Companies						
Boston Private Finl	37.7%	33.0%	32.5%	33.0%	35.0%	32.8%
Wilmington Trust	44.7%	44.2%	43.8%	42.7%	45.8%	45.9%
AVERAGE	**41.2%**	**38.6%**	**38.1%**	**37.8%**	**40.4%**	**39.3%**
OVERALL AVERAGE	**34.8%**	**34.9%**	**33.4%**	**32.3%**	**31.2%**	**30.8%**
% Change	*(4.3)%*	*0.4%*	*(4.4)%*	*(3.3)%*	*(3.4)%*	*(1.3)%*

Public US Money Managers – Compensation Margin Analysis

Fiscal Year	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Diversified						
Blackrock	40.3%	40.0%	38.3%	53.9%	50.0%	45.1%
Eaton Vance	18.8%	20.1%	22.1%	22.7%	23.6%	28.4%
Federated Investors(1)	24.2%	25.0%	22.2%	20.3%	19.3%	19.6%
Franklin Resources(1)	26.1%	25.6%	24.8%	22.4%	20.2%	18.5%
Gamco	38.2%	38.3%	43.0%	40.8%	42.1%	40.8%
SEI Investments	NA	NA	NA	31.4%	31.4%	26.8%
Janus Capital	20.5%	30.8%	30.8%	31.6%	39.9%	39.3%
T Rowe Price	38.7%	38.8%	38.5%	35.9%	34.6%	36.3%
Waddell & Reed(1)	12.0%	13.4%	16.2%	16.5%	16.0%	15.3%
Nuveen Investments	25.1%	26.1%	28.8%	32.7%	33.1%	37.1%
Calamos Investments	NA	NA	NA	21.1%	14.6%	15.1%
Mellon Financial	57.5%	51.5%	53.3%	48.7%	41.1%	44.2%
Cohen & Steers	NA	NA	NA	27.0%	24.8%	29.0%
AVERAGE	**30.2%**	**31.0%**	**31.8%**	**31.1%**	**30.1%**	**30.4%**
Holding Cos/LPs						
Affiliated Managers	33.0%	34.4%	35.3%	36.6%	39.9%	40.4%
Alliance Capital	31.0%	33.1%	33.5%	35.9%	38.9%	39.2%
AVERAGE	**32.0%**	**33.7%**	**34.4%**	**36.2%**	**39.4%**	**39.8%**
Bank / Trust Companies						
Boston Private Finl	44.9%	46.3%	48.0%	48.5%	46.1%	48.3%
Wilmington Trust	35.7%	35.4%	35.9%	36.2%	34.6%	35.3%
AVERAGE	**40.3%**	**40.8%**	**41.9%**	**42.3%**	**40.4%**	**41.8%**
OVERALL AVERAGE	**31.9%**	**32.8%**	**33.6%**	**33.1%**	**32.4%**	**32.9%**
% Change	*1.7%*	*2.8%*	*2.5%*	*(1.6)%*	*(2.1)%*	*1.5%*

(1) Excludes underwriting & distribution costs

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- *Post Labor Day: Back to School, Hopefully not Schooled!* (September 2007)
- *Back in Black* (August 2006)
- *Landmark Deals Signal Growth of Electronic Trading Flow* (July 2005)
- *Mega Deals Return* (January 2005 Supplement)
- *2004 Provides Foundation for Expanded Deal Volumes* (January 2005)
- *Inaugural Issue: Midyear Update* (August 2004)

Asset Management Focus

- *Robust First-Half, Uncertain Future* (September 2007)
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- *Size Matters* (March 2006)
- *Changing Tides II* (August 2005)
- *A Slow Year, Focused on Repositioning* (February 2005)
- *Alternatives Go Mainstream, Move Up the Charts* (August 2004)
- *Will Strong Returns Lead to Increases in Industry Activity?* (March 2004)
- *Struck by Scandal, but Buoyed by Bounce in Returns* (October 2003)
- *A Nadir or Not? Lowest Deal Levels in over 6 Years* (May 2003)

Private Equity Focus

- *The Stampede Rumbles On* (September 2007)
- *Inaugural Issue: Buyouts Breakout* (August 2006)

Thematic Industry Focus

- *Are Hedge Fund M&A Deals a Sustainable Trend?* (January 2005)
- *Convergence in Alternatives* (November 2004)
- *Credit: The Rite of Passage for Investment Banks?* (June 2003)

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