

# Private Equity Focus

## Freeman & Co. LLC

### Inside this Issue:

FIG PE Overview	p. 2
Asset Management	p. 3
Banks & Brokerage	p. 4
Business Services	p. 5
Financial Technology	p. 6
Insurance	p. 7
Specialty Finance	p. 8
Macro Outlook	p. 9
General Private Equity	p. 10
Exit Strategies	p. 12
Credit Environment	p. 13
Coverage List	p. 14
F & Co. PE Activity	p. 15
F & Co. Publications	p. 16

## Show Me the Money

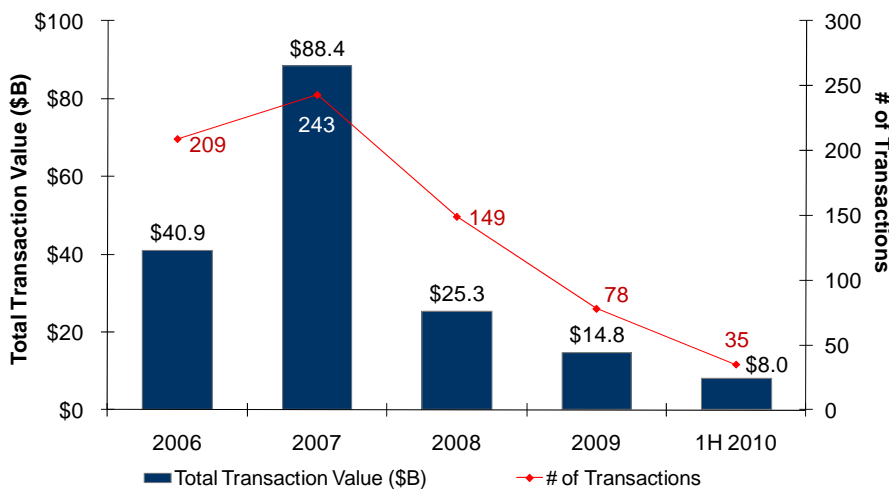
After two years of significant declines, transaction volume in the private equity sector is beginning to stabilize. Many PE firms are looking to deploy significant amounts of capital that has been raised over the past several years. In financial services there were 35 deals with a total deal value of \$8.0 billion in 1H 2010, compared to 78 deals with a combined deal value of \$14.8 billion in full-year 2009 and 149 deals worth \$25.3 billion in full-year 2008. Emerging from the downturn, we see several reasons that point to increased private equity deal flow in the coming years:

- 1. Capital Overhang:** after record-breaking fundraising efforts in 2005-2008, followed by a slow period in deal-making, PE firms have approximately half a trillion dollars in uncommitted capital to put to use
- 2. Attractive Valuations:** as the Dow has been hovering within a 1,000 point band for most of the year (with the exception of a slight break-out in the spring), investors are starting to feel more comfortable with current valuations. Those that have been waiting for depressed prices that have stemmed from a “double-dip” recession are starting to actively pursue acquisition targets
- 3. Divestitures:** balance sheet-driven financial companies will begin to divest non-core businesses as price levels are moving more towards “fair value,” as supported by points #1 and #2 above; this should accelerate in 2010 and continue into 2011, especially as regulatory changes become clearer
- 4. Vintage:** current funds with capital to deploy could be another fine vintage similar to funds raised in 2002-2003. The attractive valuations at which the PEs are able to make investments and acquisitions could lead to substantial gains if markets rebound over the coming years

### Indices at August 31, 2010

DJIA	10,014
NASDAQ	2,114
S&P 500	1,049
FTSE 100	5,225
10-yr US T-Bond	2.48%
USD per GBP	\$1.53
USD per Euro	\$1.27

### Financial Institutions Private Equity Transactions<sup>(1,2)</sup>



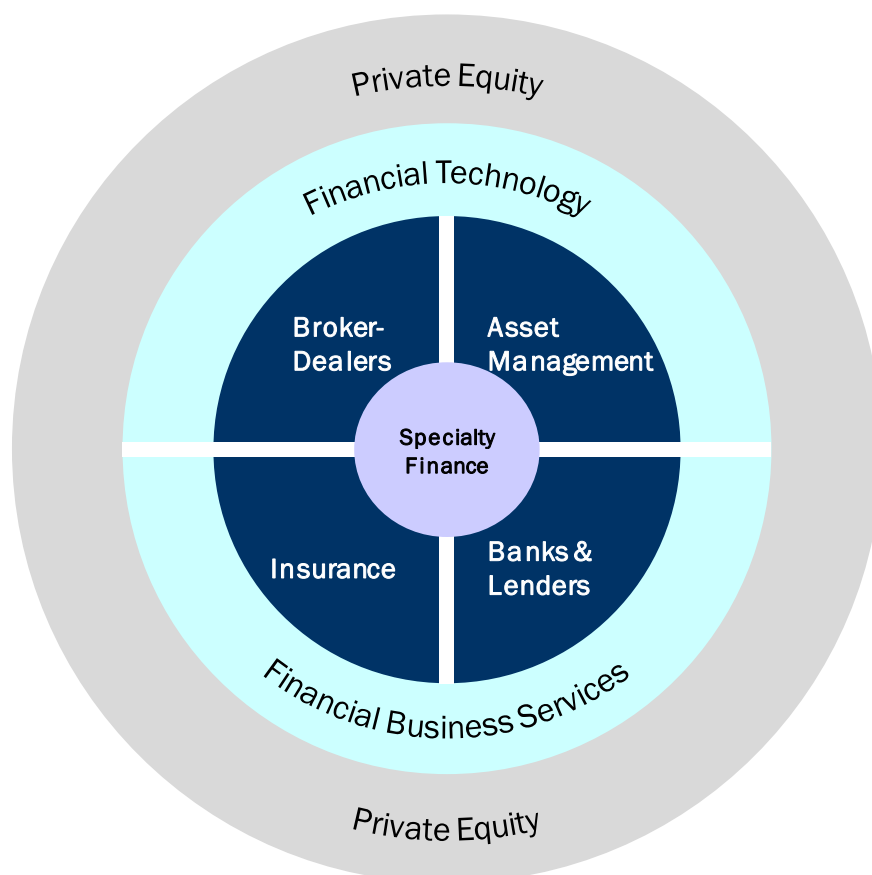
Source: Freeman & Co.

1) All deal statistics in this report include closed transactions only

2) All data in the report includes global deal activity for 162 private equity firms consistently tracked by Freeman & Co. Freeman & Co. believes the sample data is representative of total activity in financial institutions private equity

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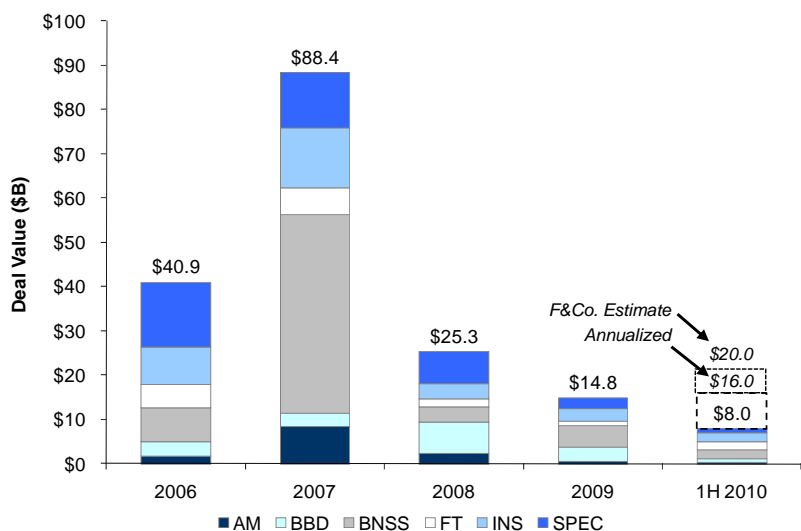
As in the past, this report is divided into three main sections:

- *FIG PE Overview*, including deal activity and entry/exit trends;
- *Sub-Sector Focus*, including trends in Asset Management, Banks & Brokerage, Business Services, Financial Technology, Insurance and Specialty Finance; and
- *Current Topics*, including topics important to PE investors in FIG such as the macro outlook, overall PE deal activity, fundraising, and the current state of the credit markets.

## FIG PE Overview

Although only \$8.0 billion of deals were completed in 1H 2010, which is a relatively low number historically, it represents an annualized projection of over \$16 billion in deal value for full-year 2010, which would surpass 2009's number. The staggering deal volumes that characterized the private equity boom from 2004 to 2007 do not seem to be returning soon. The availability of credit remains relatively tight, although improving, and many PE firms are suffering from a select number of overzealous mega-LBOs at the top of the market.

### Deal Value by Sub-Sector



Source: Freeman & Co.

We expect deal value in the second half of 2010 to increase and reach approximately \$20 billion, due to several factors: (1) conversations with PE firms and current and potential portfolio companies regarding the deal environment; (2) credit becoming increasingly available; (3) insight into transactions already announced and/or closed to date in 3Q 2010; and (4) the need for PE firm to deploy large amounts of unused capital sooner rather than later.

Top deal in 2009-2010 would not make Top 10 in 2004-2008

### Then...

#### Top Ten FIG PE Transactions (2004-2008)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	KKR	First Data Corp.	9/24/2007	\$28,678
2	Bain, Blackstone, KKR, Silver Lake, TPG, THLee	SunGard Data Systems	8/11/2005	\$11,536
3	Cerberus, Citi PPF	GMAC LLC	11/30/2006	\$7,353
4	CVC Capital Partners <sup>(1)</sup>	The Automobile Association	9/10/2007	\$6,687
5	Madison Dearborn, BAML Capital Partners	Nuveen Investments	11/13/2007	\$6,424
6	THLee, BAML, Citi PPF	Ceridian Corporation	5/30/2007	\$5,318
7	Cerberus	LNR Property Corporation	2/4/2005	\$3,710
8	CVC Capital Partners	The Automobile Association	9/30/2004	\$3,178
9	Corsair, Carlyle <sup>(1)</sup>	Citibank Korea Inc.	4/30/2004	\$2,744
10	JC Flowers	NIBC Holding	12/14/2005	\$2,594

(1) Exit transaction

Source: Freeman & Co.

### Now...

#### Top Ten FIG PE Transactions (2009-1H 2010)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	Advent International	Fifth Third Bank Processing	6/30/2009	\$2,350
2	Hellman & Friedman, Greenhill, Vestar, Stone Point, CDP Capital <sup>(1)</sup>	Paris Re Holdings Ltd.	12/7/2009	\$1,975
3	General Atlantic, Spectrum, TCV <sup>(1)</sup>	RiskMetrics Group, Inc	6/1/2010	\$1,845
4	Stone Point, Diamond Castle, BAML Capital <sup>(1)</sup>	Alterra	5/12/2010	\$1,394
5	Stone Point, JC Flowers	IndyMac Federal Bank	3/19/2009	\$1,300
6	Friedman, Stone Point; Sellers: Evercore, TH Lee	Sedgwick CMS Holdings	5/28/2010	\$1,100
7	Centerbridge, Carlyle, Blackstone	BankUnited, FSB	5/21/2009	\$900
8	CVC, Oak Hill	Avolon Aerospace Limited <sup>(2)</sup>	5/20/2010	\$750
9	TowerBrook	Haymarket Financial LLP	11/9/2009	\$707
10	Bain Capital	Centrale dei Bilanci Srl	1/28/2009	\$703

(1) Exit transaction

(2) Aircraft leasing company

Source: Freeman & Co.

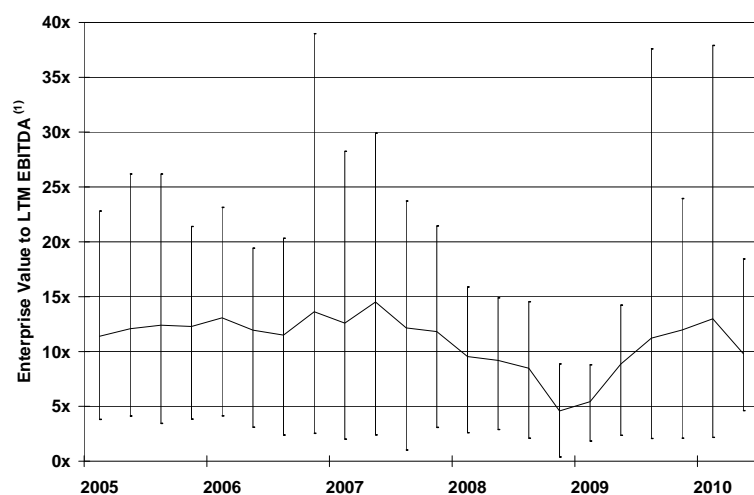
## Sector Review: Asset Management

Private equity activity in the Asset Management (“AM”) sector continues to remain low, both in terms of number of deals and transaction value. However, the decline in deal activity has ended and total transactions thus far look to be on par with 2009 levels. In 1H 2010, there were four deals with a total disclosed transaction value of \$226 million compared to only one deal with a total disclosed transaction value of \$16 million in 1H 2009. Over the last 12 months there were a total of ten deals with a total disclosed transaction value of \$760 million. It should be noted, however, total deal activity for 1H 2010 is almost entirely attributed to one exit transaction.

In 1H 2010, the largest reported deal in the sector was TA Associates’ sale of its equity stake in Advisory Research for \$220 million to Piper Jaffray. The consideration was \$180 million in cash and \$40 million in Piper Jaffray restricted stock for the common stock, notes, debentures and redemption notes of Advisory Research.

Asset managers were greatly affected by the financial crisis due to high levels of operating leverage. Because of this inherent leverage, asset managers are typically not good candidates on which to load high levels of financial leverage. But, there remains significant interest in the space from PE firms that have gained valuable experience through the years investing in these companies, and we expect PE deal activity to pick up in the sector as profitability stabilizes and buyers’ and sellers’ valuation expectations merge. In addition, as the markets stabilize, asset management firms are able to capitalize on both the inflow of capital and appreciation of the overall market. The firms that have been able to reduce their cost structure and survive this past downturn should have attractive margins and be in the sights of PE firms looking for solid returns on capital.

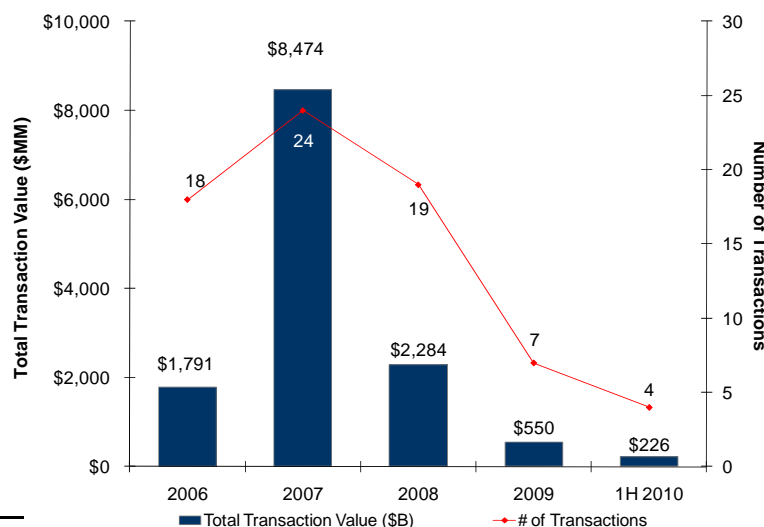
### Publicly Traded Asset Management Firms: Enterprise Value / LTM EBITDA



(1) Max 40x; Min 2x

Source: Capital IQ

### Deal Activity



Source: Freeman & Co.

### Top Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	Hellman & Friedman <sup>(1)</sup>	Gartmore Investment Management Plc	12/14/2009	\$484
2	TA Associates <sup>(1)</sup>	Advisory Research, Inc.	3/1/2010	\$220
3	Summit Partners	Focus Financial Partners, LLC	11/13/2009	\$50
4	Carlyle <sup>(2)</sup>	Boston Private Financial Holdings	6/18/2010	\$6
5	Buyer: Olympus; Seller: Irving Place	Churchill Group	5/12/2010	
6	Rosemont Investment Partners	Balentine LLC	2/28/2010	
7	Oaktree Capital	DoubleLine Capital LP	12/14/2009	
8	Aquiline Capital	Conning & Company	10/13/2009	
9	Aquiline Capital	Nexar Capital Group SCA	9/16/2009	
10	FTV Capital	VelocityShares	7/8/2009	

(1) Exit transaction (2) Follows a \$75mm PIPE in 2008

Source: Freeman & Co.

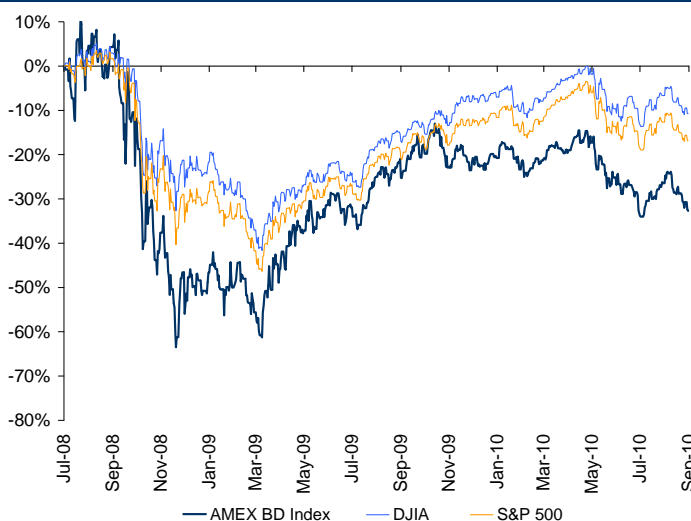
## Sector Review: Banks & Brokerage

Private equity activity in the Banks & Brokerage (“BBD”) space continues to evolve as the sector begins to heal from the credit crisis. The sector has seen drastic changes over the past few years between the collapses and forced consolidations of major players and the recent passage of the Dodd-Frank Act. The fallout of the credit crisis and the prolonged debate over the financial reform bill has led to uncertainty and contributed to a continuing slowdown of private equity investment in the broker-dear space. Also, higher regulatory hurdles issued last year by the FDIC has had the effect of limiting private equity investments in distressed banks. Since the onset of the credit crisis in early 2008, over 200 banks have failed, but only two dozen have been authorized to be acquired by private equity groups. In 1H 2010, there were five deals with a total disclosed transaction value of \$905 million, compared to five deals worth a total disclosed transaction value of \$2.7 billion in 1H 2009.

A particular area of interest for private equity is in middle-market broker-dealers. In the race to fill the void left by the consolidation of many bulge bracket investment banks, several new independents are emerging. Private equity has been and will continue to be a valuable partner in the capitalization of these firms, which have been winning share from their larger competitors as financial reform and other factors provide challenges to the bulge bracket.

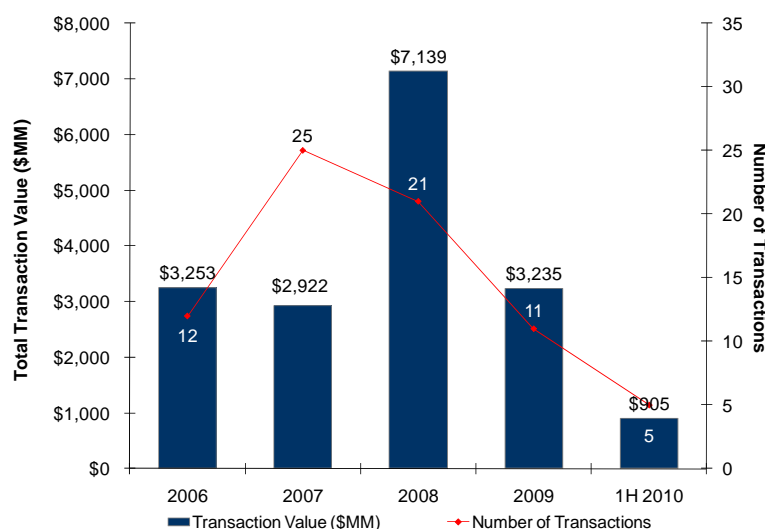
One significant PE-related transaction in the middle-market broker-dealer space was the \$225 million recapitalization of CRT Capital Group by Aquiline Capital Partners. CRT plans to expand its team and the products and services it currently provides to nearly 1,000 institutional clients. In the near-term, CRT will focus on scaling its customer flow and market-making activities in US Treasuries, Mortgage and Asset Backed Securities, Credit, Convertibles, Equities and Emerging Markets. Freeman & Co. acted as exclusive financial advisor to CRT on this transaction.

### Broker-Dealer Financial Performance



Source: Bloomberg

### Deal Activity



Source: Freeman &amp; Co.

### Top Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	Carlyle	Bank of Butterfield	3/2/2010	\$550
2	Actis Capital	Commercial International Bank	7/31/2009	\$244
3	Aquiline Capital	CRT Capital Group LLC <sup>(3)</sup>	8/31/2010	\$225
4	General Atlantic, Stone Point	Pierpont Securities LLC	3/3/2010	\$220
5	JC Flowers <sup>(1)</sup>	Fox-Pitt Kelton Cochran Caronia Waller	11/30/2009	\$147
6	Warburg Pincus	Webster Financial Corp.	10/15/2009	\$115
7	Friedman Fleischer, Pine Brook Road	Green Bancorp, Inc.	6/30/2010	\$100
8	Lovell Minnick, Parthenon Capital	Seaside National Bank & Trust	11/30/2009	\$40
9	Aquiline Capital	BNC Bancorp	6/14/2010	\$35
10	GTCR Golder Rauner <sup>(2)</sup>	Private Bancorp Inc.	11/2/2009	\$13

(1) Exit transaction (2) Follows \$220mm+ PIPE in 2007-2008 (3) Deal closed after 1H 2010 and not included in report data Source: Freeman &amp; Co.

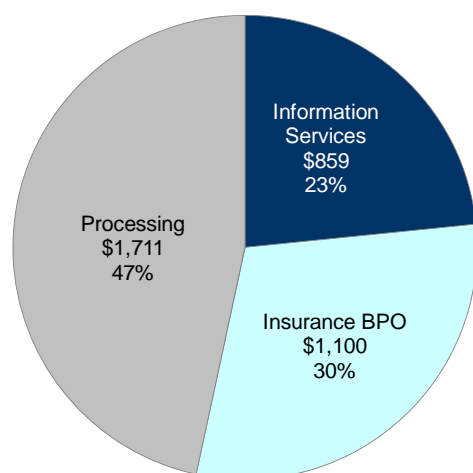
## Sector Review: Business Services

Activity in the Business Services (“BNSS”) sector remains tepid for private equity firms as exits remain limited. Deal activity has been primarily in the form of buyouts of private companies indicating private equity’s continued interest in the stable nature of this sector. While deal activity continues to slide, the sector is returning to normalized levels after the exceptionally high pre-crisis activity brought on by mega-deals such as the acquisitions of First Data and SunGard in 2007. In 1H 2010, there were 13 deals with a total disclosed transaction value of \$2.0 billion compared to ten deals worth a total disclosed transaction value of \$3.2 billion in 1H 2009. Over the last 12 months there was a total of 25 deals with total disclosed transaction value of \$3.7 billion. Total transaction value in 1H 2010, however, is largely attributed to only the top deal.

The largest deal in this sector was the secondary buyout of Sedgwick CMS Holdings by Hellman & Friedman and Stone Point from Evercore, TH Lee, Fidelity National Financial and UnitedHealth for \$1.1 billion. The deal was paid for in cash and the consideration included debt repayment. The transaction was financed with \$500 million of equity, split equally between Stone Point and Hellman & Friedman, and \$600 million loans committed by BAML and Barclays Capital.

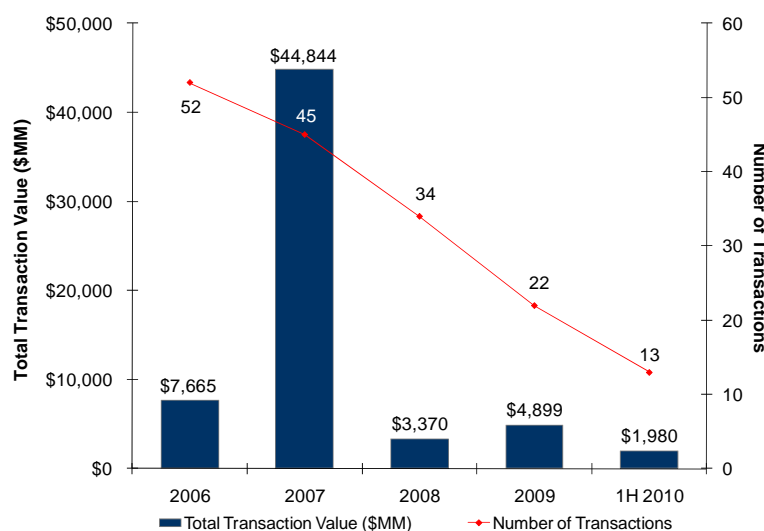
In addition to BNSS companies being a traditional area of investment for PE firms, the recession has emphasized the need for business services companies, which should influence private equity firms to maintain their interest in the sector. As processing and outsourcing firms mature, and as the cost of employing workers increases due to healthcare costs and other factors, businesses will divest and/or outsource more areas of their operations.

### Deal Activity by Sub-Sector (LTM)



Source: Freeman &amp; Co.

### Deal Activity



Source: Freeman &amp; Co.

### Top Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	Buyers: Hellman & Friedman, Stone Point; Sellers: Evercore, TH Lee	Sedgwick CMS Holdings, Inc.	5/28/2010	\$1,100
2	Apax Partners	Bankrate Inc	8/24/2009	\$572
3	Warburg Pincus <sup>(1)</sup>	Easycash GmbH	11/30/2009	\$435
4	Hellman & Friedman, General Atlantic <sup>(1)</sup>	Emdeon	8/11/2009	\$343
5	Advent International	Xafinity Limited	1/27/2010	\$304
6	Bain Capital, Spectrum <sup>(1)</sup>	iPay Technologies LLC	5/6/2010	\$301
7	TH Lee	Fidelity National Information Services Inc.	10/1/2009	\$250
8	General Atlantic	Markit	1/26/2010	\$250
9	Aquiline Capital	Clear2Pay NV	12/7/2009	\$74
10	Bessemer Venture Partners	ACTIV Financial Systems	12/31/2009	\$25

(1) Exit transaction

Source: Freeman &amp; Co.

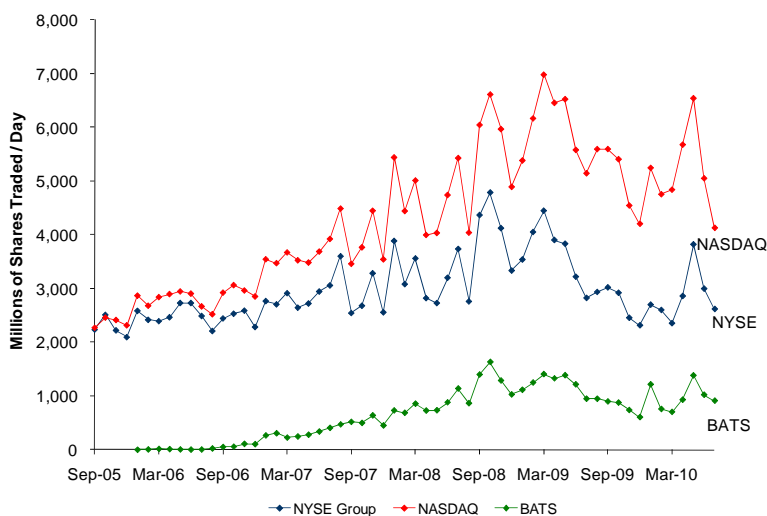
## Sector Review: Financial Technology

Financial Technology (“FT”) deal value was higher in 1H 2010, however, this is largely attributed to one deal and activity remains depressed in terms of number of deals. In 1H 2010, there were three deals with a total disclosed transaction value of \$1.9 billion compared to eight deals worth a total disclosed transaction value of \$354 million in 1H 2009. Over the last 12 months there was a total of 15 deals with a total disclosed transaction value of \$2.4 billion. There have been several exit transactions of financial technology portfolio companies through strategic sales, however, the market for IPOs remains absent. Reduced securities trading volumes has had a dampening effect on trading technology firms whose business model is on a per charge versus subscription basis.

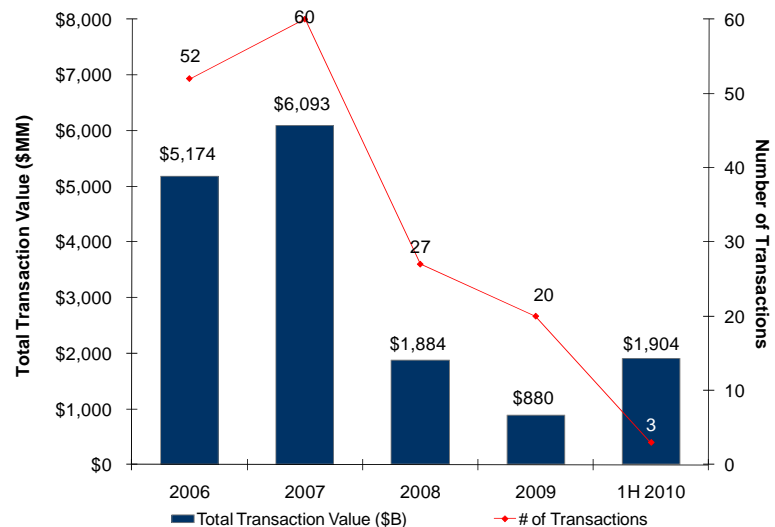
The largest deal in the sector was MSCI’s acquisition of RiskMetrics Group in June 2010 for \$1.85 billion. General Atlantic, Spectrum and Technology Crossover Ventures were among the sellers along with public shareholders. MSCI’s acquisition was paid for by \$1.4 billion in cash and approximately \$450 million in MSCI stock.

Despite an uncertain future for trading volumes and overall asset levels, financial institutions will likely remain interested in financial technology to bolster their internal risk and valuation systems that experienced significant shortfalls leading up to and during the financial crisis. Furthermore, the new exchange listed requirements for many derivative contracts should increase demand for firms providing clearing services and compliance technology. Also, financial technology firms give investors an opportunity to invest in a high-growth area of the financial institutions sector. This allows a greater percentage of the capital to be allocated to growth of the business, instead of being held as regulatory capital as is the case with depository banks and insurance investments. These trends bode well for private equity’s continued attraction to financial technology firms.

### US Exchanges Shares Volume



### Deal Activity



### Top Deals (LTM)

Source: Exchanges

Source: Freeman &amp; Co.

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	General Atlantic, TCV, Spectrum <sup>(1)</sup>	RiskMetrics Group, Inc	6/1/2010	\$1,845
2	CCP Equity <sup>(1)</sup>	PayCycle, Inc.	7/23/2009	\$169
3	Warburg Pincus <sup>(1)</sup>	NYFIX	11/30/2009	\$153
4	TCV	Interactive Brokers	8/21/2009	\$100
5	Lightyear Capital <sup>(1)</sup>	Goldleaf Financial Solutions, Inc.	10/1/2009	\$67
6	Susquehanna Growth Equity <sup>(1)</sup>	29West, Inc.	3/22/2010	\$50
7	North Hill Ventures	Tervela	9/14/2009	\$18
8	North Bridge Growth Equity <sup>(2)</sup>	Currensee, Inc	4/20/2010	\$15
9	Ascent, North Hill, RBC Ventures	Placemark Investments	7/22/2009	\$8
10	Susquehanna Growth Equity	TradeHelm, Inc	7/23/2009	\$5

(1) Exit transaction (2) Combination of two investments made in 2010

Source: Freeman &amp; Co.

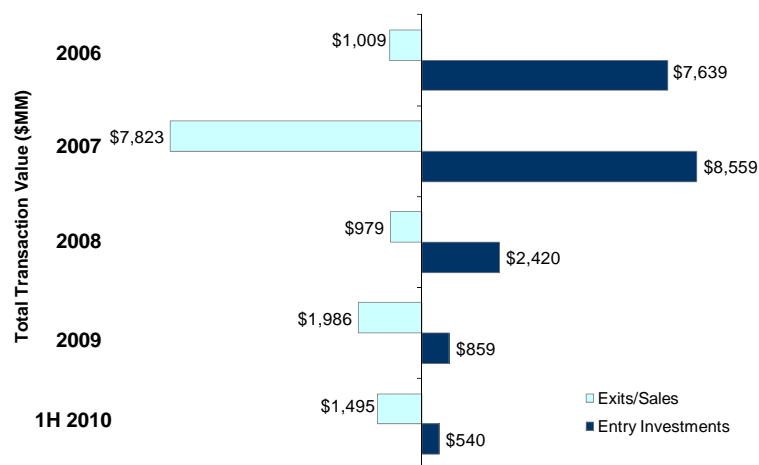
## Sector Review: Insurance

Private equity deal volume in Insurance-related companies has stabilized and is poised to increase from 2009 to 2010, although deal activity as measured by number of transactions is well below pre-crisis levels. In 1H 2010, there were four deals with a total disclosed value of \$1.9 billion compared to two deals worth a total disclosed transaction value of \$540 million in 1H 2009. Over the last 12 months, there have been a total of 11 closed deals with a total disclosed transaction value of \$4.2 billion.

Insurance companies were uniquely affected by the financial crisis, especially due to increased capital requirements and poor asset quality on the balance sheet. Now, sweeping financial reform is having further profound effects on the sector and private equity firms will certainly be players in the aftermath. Capital requirements are becoming more onerous, which will cause a wave of capital raising and divestitures over the next several years as regulations are determined. Dodd-Frank in the US and Solvency II in Europe and Asia will not only affect companies in their respective home regions, but also any business with cross-border subsidiaries and affiliates. Other areas of regulatory concern will be fiduciary duties and reporting requirements.

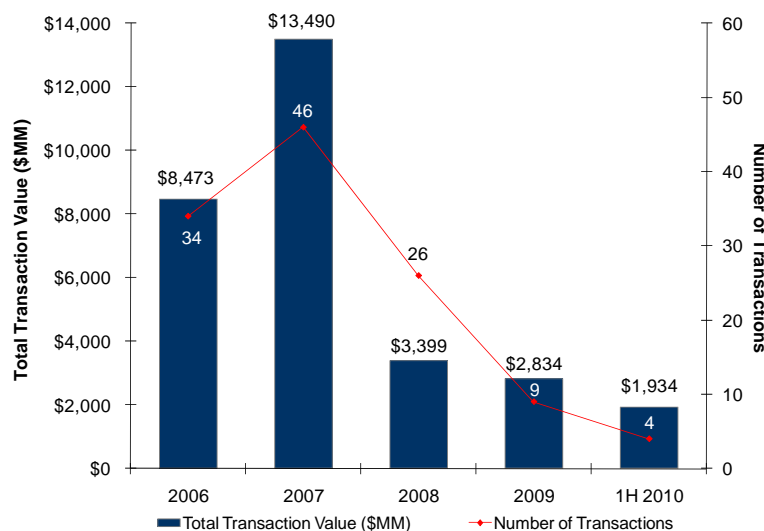
The largest deal in the sector was the sale of Paris Re to PartnerRe from a syndicate of investors including Hellman & Friedman, Greenhill, Vestar, Stone Point and CDP Capital for \$2.0 billion. The deal was financed by a multi-step stock-for-stock transaction. Another noteworthy deal was the merger of Max Capital Group and Harbor Point Limited to form the new entity named Alterra. The deal was completed by a fixed-ratio stock exchange worth a total consideration of \$1.4 billion. The new entity relisted on both the NASDAQ and Bermuda stock exchange.

### Entry vs. Exit Deals



Source: Freeman &amp; Co.

### Deal Activity



Source: Freeman &amp; Co.

### Top Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	Hellman & Friedman, Greenhill, Vestar, Stone Point, CDP Capital <sup>(1)</sup>	Paris Re Holdings Ltd.	12/7/2009	\$1,975
2	Stone Point, Diamond Castle, BAML Capital <sup>(1)</sup>	Alterra	5/12/2010	\$1,394
3	GTCR, Calera	Ironshore, Inc.	8/31/2009	\$300
4	Electra Private Equity	Esure Holdings Limited	2/11/2010	\$290
5	Warburg Pincus	Primerica, Inc.	4/15/2010	\$230
6	Greenhill Capital Partners	Acrisure LLC	1/29/2010	\$20
7	Insight, Menlo Ventures, JMI Equity	DriveCam Inc	8/11/2009	\$19
8	Stone Point	Higginbotham & Associates, Inc.	12/15/2009	
9	Blackstone	Insphere Insurance Solutions	7/7/2009	
10	Aquiline Capital	TigerRisk Partners	10/6/2009	

(1) Exit transaction

Source: Freeman &amp; Co.

PE: Private Equity

AM: Asset Management

BBD: Banks &amp; Broker-Dealers

SPEC: Specialty Finance

FIG: Financial Institutions Group

FT: Financial Technology

INS: Insurance

BNSS: Business Services



## Sector Review: Specialty Finance

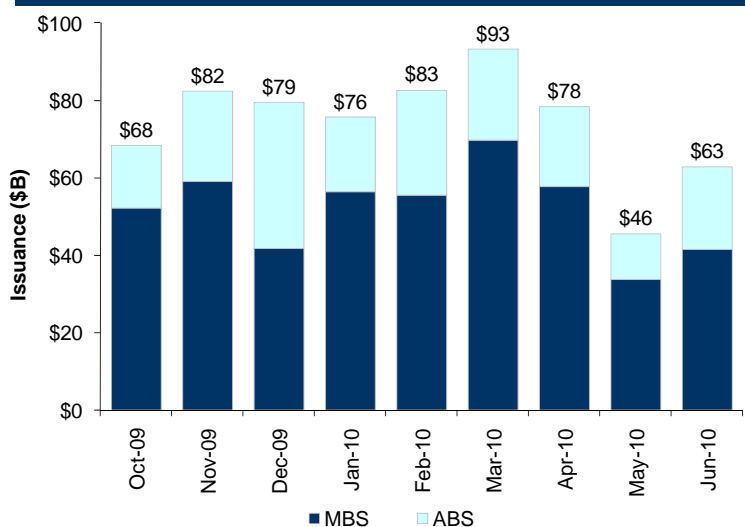
The level of private equity deal activity in Specialty Finance (“SPEC”) is beginning to stabilize after significant declines from 2006 through 2009. In 1H 2010, there were six deals with a total disclosed value of \$1.0 billion compared to three deals worth a disclosed value of \$505 million in 1H 2009. Over the last 12 months there have been a total of 12 deals with a total disclosed transaction value of \$2.9 billion.

During 2009 and the beginning of 2010, the specialty finance market had a chicken-and-egg problem – banks had retreated from providing warehouse lines, partially because exits (securitizations) for asset-backed products were extremely constrained. Hedge funds had attempted to step into the market for warehouse lines but were charging higher rates than those charged by banks, stunting any potential comeback in the market. As banks have solidified their capital bases and passed the write down cycle, their willingness to lend has increased and we believe there will be a selective recovery in securitizations. As these exit routes increase, the rates at which banks are willing to provide lines will decrease.

Spreads earned on specialty finance transactions themselves are typically not high enough to satisfy private equity’s IRR requirements, but there continue to be opportunities for PE vehicles to purchase undervalued assets, recapitalize them inexpensively, and to use their equity as collateral for warehouse lines in the process.

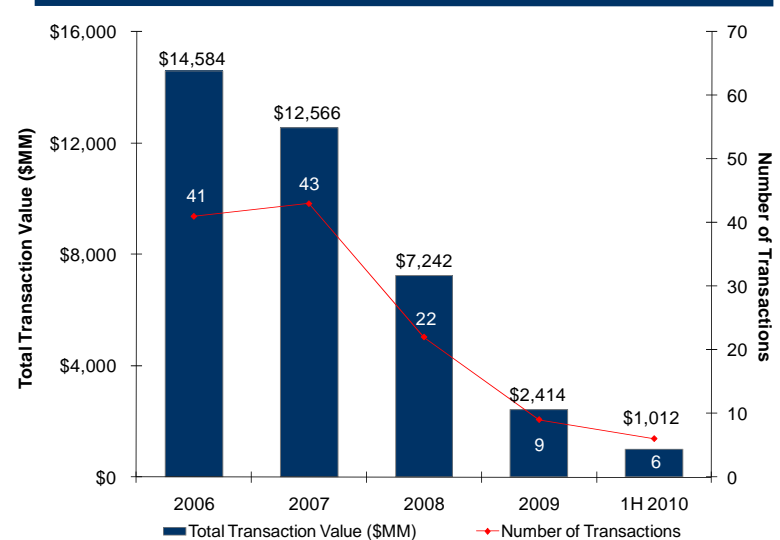
The largest PE deal in this sector was the \$750 million initial capital raise for Avolon Aerospace Limited, an aircraft leasing company. CVC and Oak Hill made \$250 million in capital commitments each for minority ownership positions.

### Securitization Proceeds



Source: Freeman & Co. / Thomson Financial

### Deal Activity



Source: Freeman & Co.

### Top Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM
1	CVC, Oak Hill	Avolon Aerospace Limited <sup>(2)</sup>	5/20/2010	\$750
2	TowerBrook	Haymarket Financial LLP	11/9/2009	\$707
3	Oaktree Capital	Sky Holding Company	12/14/2009	\$500
4	GTCR Golder Rauner	Palladian Financial Holdings, LLC	7/15/2009	\$300
5	JC Flowers <sup>(1)</sup>	Hypo Real Estate Holding AG	10/13/2009	\$230
6	HIG Capital	First Capital LLC	5/18/2010	\$139
7	AnaCap Financial Partners	Absolute Invoice Finance Ltd.	9/14/2009	\$116
8	Inter-Atlantic, Lightyear, North Hill <sup>(1)</sup>	Higher One Inc.	6/16/2010	\$108
9	FTV Capital	Castle Pines Capital	10/30/2009	\$56
10	Volition Capital	Prosper Marketplace	4/16/2010	\$15

(1) Exit transaction

(2) Aircraft leasing company

Source: Freeman & Co.

## General Private Equity Outlook

Despite numerous headlines proclaiming private equity's death in 2008 and 2009, the sector as a whole ended up less bruised than many other asset classes, such as public equity markets and hedge funds.

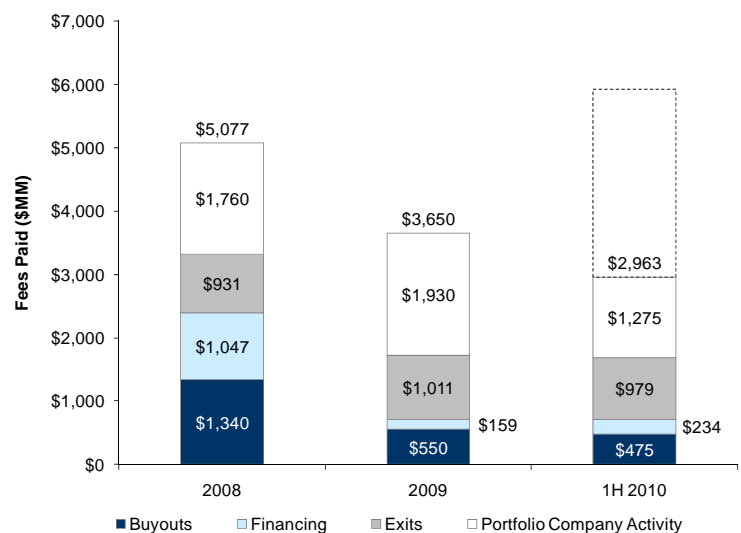
Overall PE deal activity, measured by fees paid to investment banks, is projected to surpass 2008 and 2009 levels on an annualized basis in 2010. The \$5.1 billion in fees projected for 2010, however, will be significantly lower than the peak of \$16.2 billion in 2007, and will be even lower than the amount of fees paid in 2003 of \$5.3 billion.

PE firms have also picked up activity of making bolt-on acquisitions for their portfolio companies, with 183 bolt-on transactions in 1H 2010 compared to 205 for all of 2009. Divesting units of portfolio companies is also projected to surpass the number in 2009.

Continued recovery in deal activity should be supported by the giant pools of capital PE firms have amassed. This current fundraising boom started in 2004, and continued all the way through 2008, despite the fact that the credit crisis was well underway. Fundraising is likely to stay low for the time being, though, as it will take time to deploy previously-raised capital.

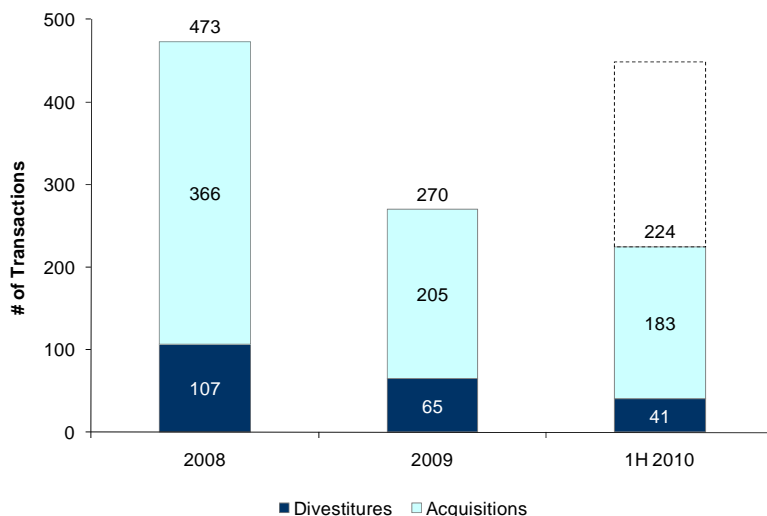
Just \$76 billion was raised by PE firms in 1H 2010, which is similar to 2009 levels, but well below the roughly \$500 billion raised in each of years 2007 and 2008. We expect continued pressure on institutional investors, in the form of allocations to illiquid products and alternatives that were too large, to keep PE fundraising low for the next several years.

### Investment Banking Fees Paid on PE Deals



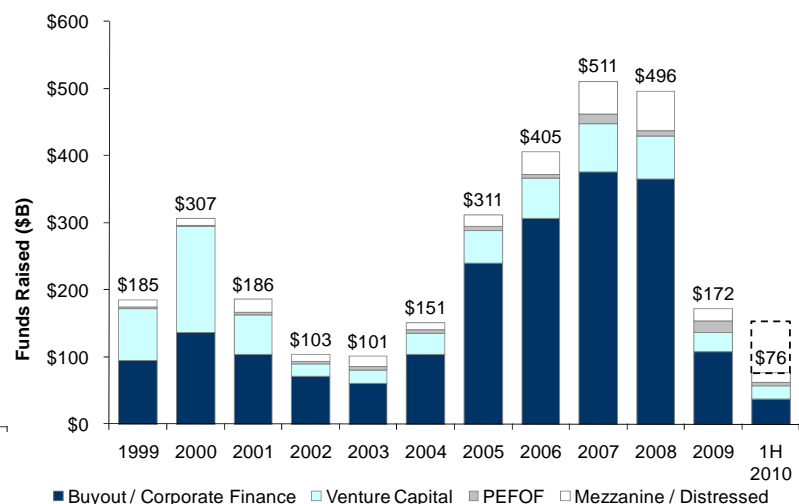
Source: Freeman & Co. / Thomson Financial

### Portfolio Company Activity by Deal Type



Source: Freeman & Co. / Thomson Financial

### Fundraising



Source: Freeman & Co. / Thomson Financial

## General Private Equity Outlook (continued)

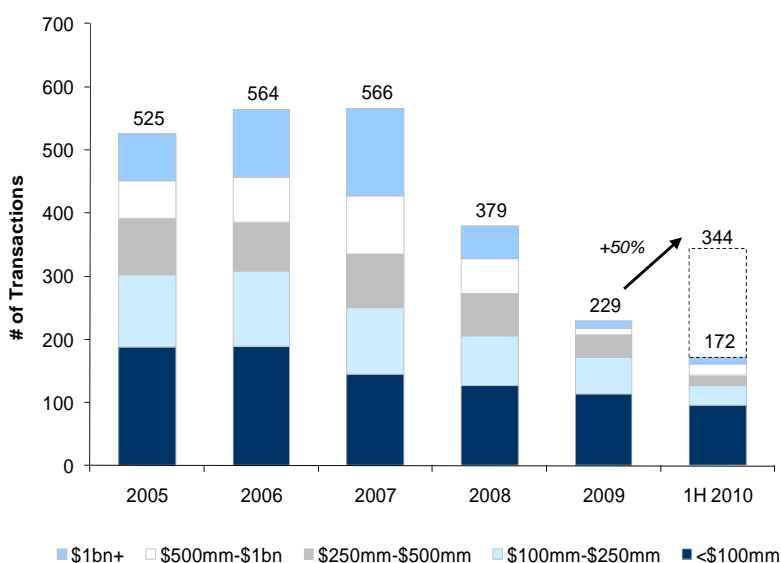
A clear trend in PE buyout activity has been the strength of middle-market deal flow. Shown in the chart at the bottom left of this page, buyouts under \$100 million in value have held up extraordinarily well considering the decreases in overall deal activity. In fact, if 2H 2010 keeps pace with the first half of the year in terms of the number of deals completed below \$100 million, there will be 192 of such transactions, which would represent a record year. While large buyouts require heavy doses of debt financing, small amounts of leverage (or just equity) to fuel small and middle-market deals have been much more readily available, even through the crisis.

Every other segment of the market is projected to at least match deal activity in 2009, except deals between \$250 million and \$500 million, which are projected to be slightly less than flat.

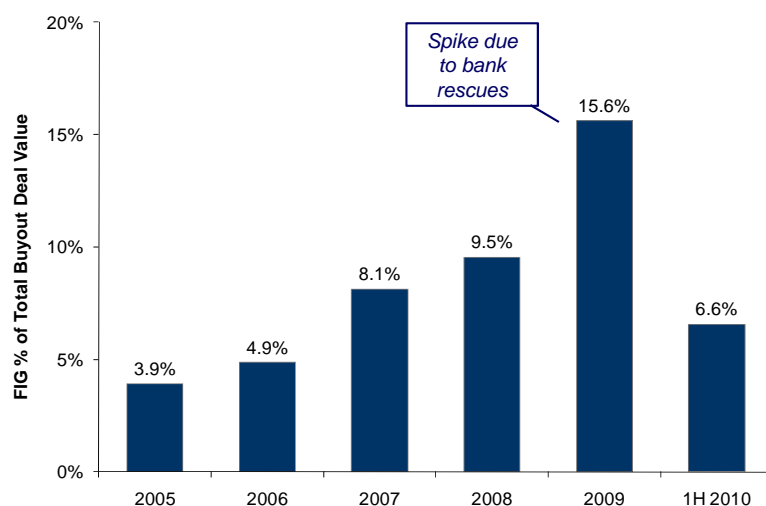
While overall PE deal activity in financial institutions has declined since 2007, FIG PE deal activity as a percentage of overall PE deal activity peaked last year at 15.6% of deal value. This was because, of the relatively small amount of deals in private equity, many were PE rescues of banks. However, the major uptick in bank transactions involving PE firms that was predicted by many experts several years ago has not yet come to fruition as investors in the sector are still trying to find ways to participate within the strict confines of Bank Holding Company regulatory framework.

Only three FIG PE transactions over \$1 billion in deal value were closed in 1H 2010 – MSCI’s \$1.85 billion acquisition of RiskMetrics, which represented an exit for General Atlantic, Technology Crossover Ventures and Spectrum Equity; Stone Point, Diamond Castle, BAML Capital Partners and other investors’ \$1.5 billion sale of Harbor Point Limited to Max Capital Group (now named Alterra); and Hellman & Friedman and Stone Point’s \$1.1 billion acquisition of Sedgwick CMS Holdings from Evercore and TH Lee. The number of deal valued over \$1 billion is set to be surpassed in the second half of the year, however, as Interactive Data has already been taken private by Silver Lake and Warburg Pincus for approximately \$3.2 billion (deal closed in July 2010), and Advent and Bain have announced their acquisition of RBS’ WorldPay payment processing unit for approximately \$3 billion.

**PE Buyouts by Deal Size<sup>(1)</sup>**



**FIG Buyouts as % of Total Buyouts**



(1) Includes deals with disclosed deal value only

Source: Freeman & Co. / Thomson Financial

Source: Freeman & Co. / Thomson Financial

## Exit Strategies

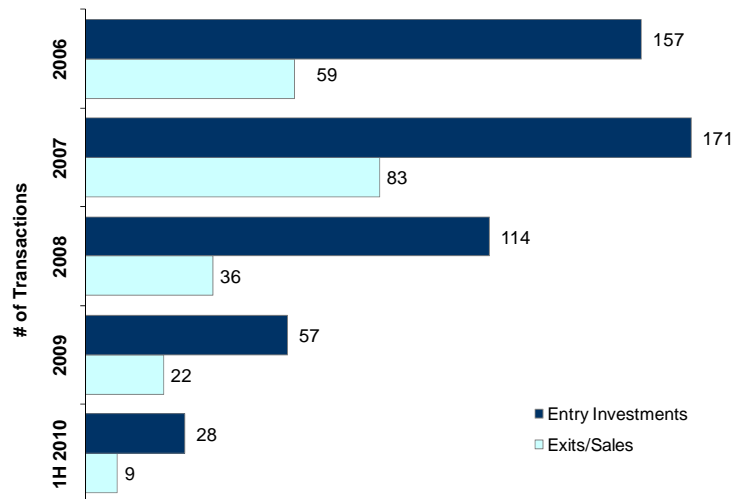
Finding an exit for investments has been a particularly troubling area for private equity firms, and one of utmost importance. There were only nine exit transactions of FIG investments in 1H 2010, compared to 22 in full-year 2009.

After a nearly complete absence of PE-backed IPOs in 2008 and 2009, there may be opportunity to bring the most desirable PE-backed companies to market via IPOs, but equity markets remain extremely choppy and timing must be perfect.

Large strategic FIG firms are recapitalized, and sales to these repetitive buyers are a viable exit route for PE firms.

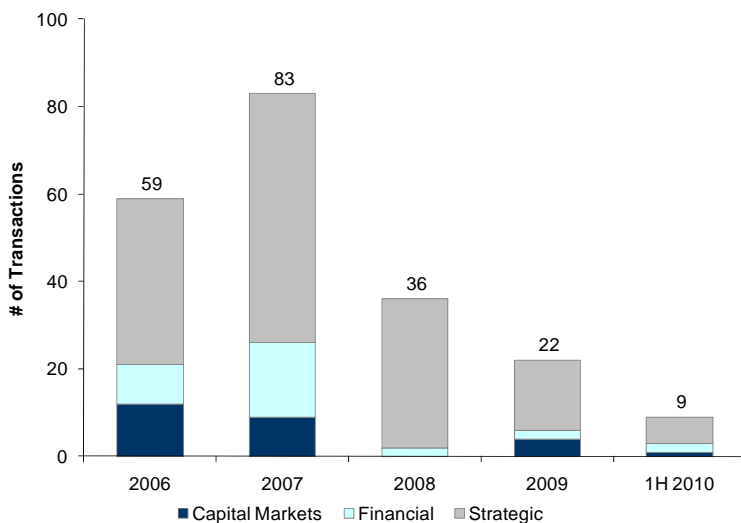
Secondary buyouts, when one PE firm sells out to another PE firm, are also on the rise, as PE firms look both to harvest the numerous investments made during the boom years of 2005-2007 and simultaneously to deploy capital raised in recent years.

## Entry vs. Exit Deal Activity



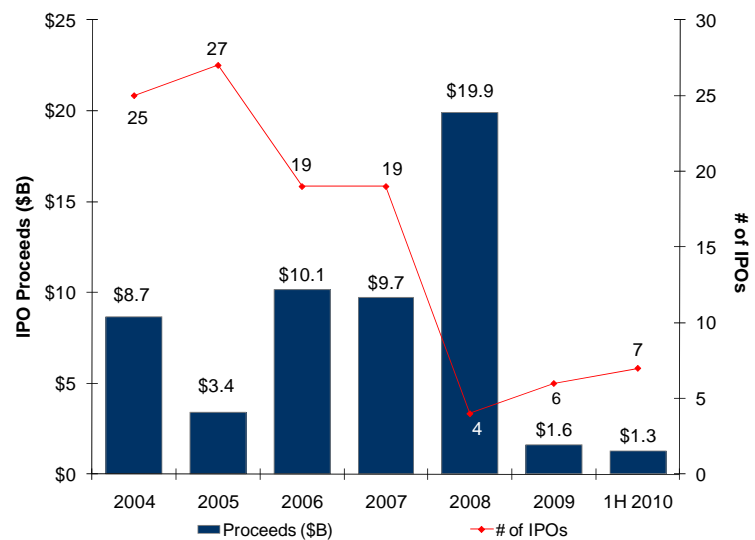
Source: Freeman & Co.

## Exits by Year (# Deals)



Source: Freeman & Co.

## US FIG IPOs



Source: Freeman & Co.

## Top Exits (Since 2008)

Rank	Private Equity Firm	Portfolio Company	Date	Value \$MM	Exit Type
1	H&F, Greenhill, Vestar, Stone Point, CDPQ	Paris Re Holdings Ltd.	12/7/2009	\$1,986	Strategic
2	General Atlantic, TCV, Spectrum	RiskMetrics Group, Inc	6/1/2010	\$1,850	Strategic
3	Stone Point, BAML, Diamond Castle	Alterra	5/12/2010	\$1,495	Strategic
4	Evercore, TH Lee	Sedgwick CMS Holdings, Inc.	5/28/2010	\$1,100	Financial
5	Corsair Capital	National City	12/31/2008	\$1,010	Strategic
6	General Atlantic	NYMEX Holdings Inc.	8/22/2008	\$599	Strategic
7	Stone Point Capital	ZC Sterling Corp.	12/23/2008	\$575	Strategic
8	Hellman & Friedman	Gartmore Investment Management	12/14/2009	\$484	Capital Markets
9	TA Associates	Creditex Group, Inc.	6/3/2008	\$481	Strategic
10	Warburg Pincus	Easycash GmbH	11/30/2009	\$435	Strategic

Source: Freeman & Co.

## Credit Environment

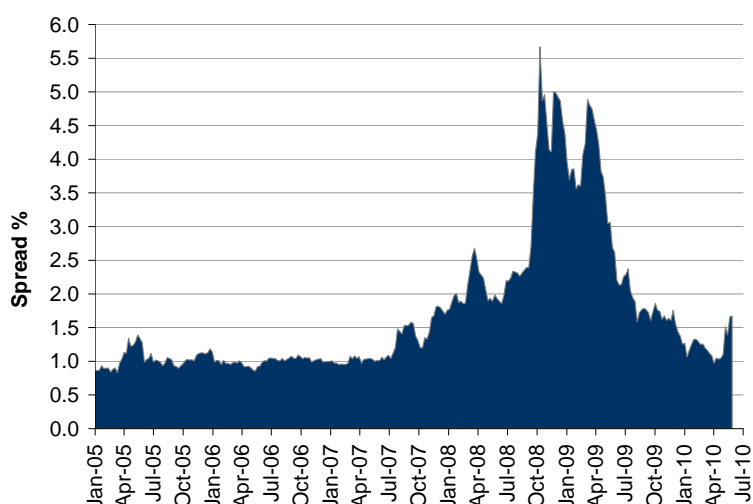
PE firms have had to be creative to get any deals of size done since late 2007, as a cause of the recession stemmed from a lack of liquidity. Credit spreads widened, peaking in late 2008 / early 2009, but have since returned to workable levels. Still, it is much more difficult to obtain leverage in mid-2010 than it was in 2005-2007.

The ratio of equity to total capital used in LBO transactions dipped below 30% on average during the PE deal boom in 2006 as credit terms were generous for buyers. In 2008-2009, credit markets were almost totally frozen, and the average amount of equity reached above 50%. During this period, PE firms searched for acquisitions whose valuations were depressed enough to justify nearly all-equity deals, hoping to earn appropriate returns solely from appreciation in enterprise value rather than leverage. In 2010, average leverage ratios have crept back up to 40-45% and PE firms have been obtaining credit from many more banks than in the past to secure reasonable levels of debt for their acquisitions.

The chart at the bottom left of this page details global issuance of syndicated loans, high yield bonds and CDOs (combined). These products experienced a half-year increase for the first time in 1H 2010 since 1H 2007, marking a turning point for the availability of credit in private equity and corporate funding in general.

Examining at a more granular level, a monthly view (bottom right chart) reveals that after a slow start to the year, debt issuance has improved significantly, including four consecutive, relatively strong months from March to June of 2010.

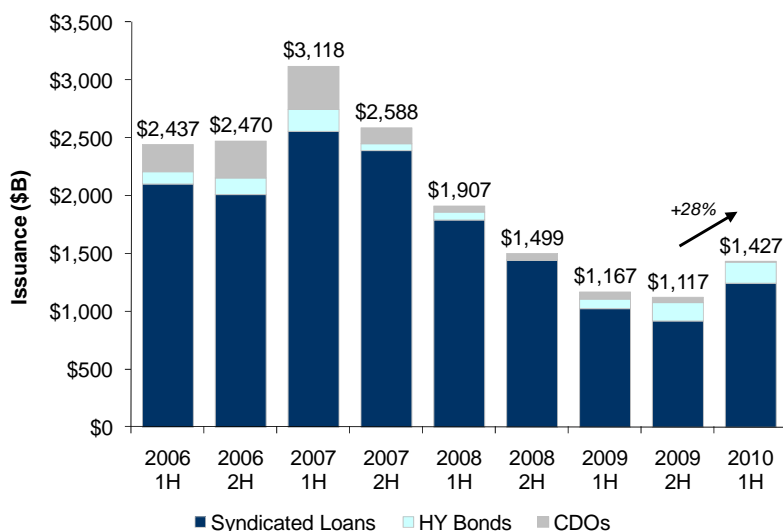
### Credit Spreads: US Govt. 10-Yr vs. IG Corp<sup>(1)</sup>



(1) US Generic 10 Year Index yield versus BLP Active Investment Grade US Corporate Bond Index YTM

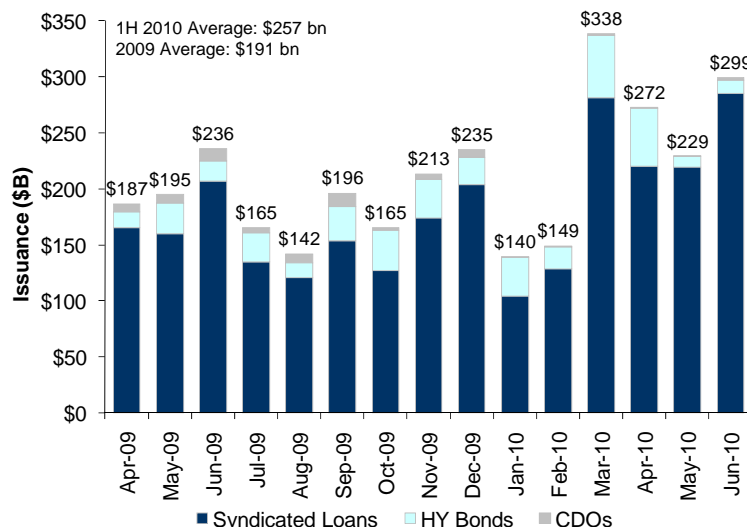
Source: Bloomberg

### Global Debt Issuance



Source: Freeman & Co. / Thomson Financial

### Global Debt Issuance (Monthly Breakdown)



Source: Freeman & Co. / Thomson Financial

## Freeman & Co. Private Equity Coverage

Private Equity Firm	City	State/ Nation	Private Equity Firm	City	State/ Nation
3i Group PLC	New York	NY	Highland Capital Partners	Lexington	MA
AAC Capital Partners	Amsterdam	Neth.	Howde Private Equity	Washington	DC
ABS Capital Partners	Waltham	MA	Infinity Point	New York	NY
Actis Capital	London	UK	Insight Venture Partners	New York	NY
Advent International Corporation	Boston	MA	Inter-Atlantic Group	New York	NY
Alpine Investors, Inc.	San Francisco	CA	IPGL	London	UK
American Capital	Bethesda	MD	Irving Place Capital	New York	NY
AnaCap Financial Partners	London	UK	ITOCHU Financial Services, Inc.	New York	NY
Angelo, Gordon & Co.	New York	NY	JC Flowers + Co.	New York	NY
Apax Partners	London	UK	JMI Equity	Baltimore	MD
Apollo Capital Management LLC	New York	NY	Kohlberg & Company	Mt. Kisco	NY
Aquiline Capital Partners	New York	NY	Kohlberg Kravis Roberts & CO.	New York	NY
Ares Capital Corporation	Los Angeles	CA	Lee Equity Partners, LLC	New York	NY
Arsenal Capital Partners, Inc.	New York	NY	Lightyear Capital	New York	NY
Ascent Venture Partners	Boston	MA	Lindsay Goldberg LLC	New York	NY
Bain Capital Partners, LLC	Boston	MA	Lithos Capital Partners LLC	Westport	CT
BAML Capital Partners	Charlotte	NC	LLR Partners	Philadelphia	PA
Barclays Private Equity Limited	London	UK	Long Ridge Equity Partners	New York	NY
Battery Ventures	Boston	MA	Lovell Minnick Partners LLC	El Segundo	CA
BC Partners	London	UK	Madison Dearborn Partners, Inc.	Chicago	IL
Bessemer Venture Partners	Larchmont	NY	Marlin Equity Partners	El Segundo	CA
Blackstone Group	New York	NY	Matlin Patterson	New York	NY
Bluff Point Associates	Westport	CT	Matrix Partners	Waltham	MA
Brera Capital Partners	New York	NY	Menlo Ventures	Menlo Park	CA
Bridgepoint Capital Limited	London	UK	Metalmark Capital	New York	NY
Caledonia Investments	London	UK	Millenium Technology Value Partners	New York	NY
Calera Capital	San Francisco	CA	Moore Capital Management, LLC	New York	NY
Capital Z Partners	New York	NY	NewSmith Capital Partners	London	UK
Carlyle Group	Washington	DC	Nikko Principal Investments	London	UK
Castle Harlan	New York	NY	North Bridge Growth Equity	Waltham	MA
CCP Equity Partners	Hartford	CT	North Hill Ventures	Boston	MA
CDP Capital	Montreal	Canada	Oak Hill Capital Management	Menlo Park	CA
Cedar Hill Capital Partners	New York	NY	Oak Investment Partners	Palo Alto	CA
Centerbridge Partners	New York	NY	Oaktree Capital Management, LLC	Los Angeles	CA
Centre Partners Management	Los Angeles	CA	Olympus Partners	Stamford	CT
Century Capital Management, Inc.	Boston	MA	One Equity Partners	New York	NY
Cerberus Capital Management, LP	New York	NY	Parthenon Capital	Boston	MA
Charles River Ventures	Waltham	MA	Pegasus Capital Advisors LP	Cos Cob	CT
Charlesbank Capital Partners LLC	Boston	MA	Phoenix Equity Partners	London	UK
Charterhouse Capital Partners	London	UK	Pine Brook Road Partners, LLC	New York	NY
Chess Ventures	San Francisco	CA	Platinum Equity Advisors, LLC	Beverly Hills	CA
Chicago Growth Partners	Chicago	IL	Post Capital Partners	New York	NY
CIBC Capital Partners	Boston	MA	Prism VentureWorks	Needham	MA
Circle Peak Capital LLC	New York	NY	Proctor NBF Capital Partners	New York	NY
Citadel Investment Group	Chicago	IL	Promethean Investments	London	UK
Citi Financial Partners Fund	New York	NY	Questor Management Company	Southfield	MI
CIVC Partners LLC	Chicago	IL	RBC Venture Partners	Toronto	Canada
Clayton, Dubilier and Rice	New York	NY	Reservoir Capital Group	New York	NY
Clipper Ship Ventures	New York	NY	Rosemont Investment Partners	West Conshohocken	PA
Commonwealth Capital Ventures	Waltham	MA	Scale Venture Partners	Foster City	CA
Corsair Capital LLC	New York	NY	Sequoia Capital	Menlo Park	CA
Court Square Partners	New York	NY	Shattan Mendel Enterprises	New York	NY
CVC Capital Partners	London	UK	Silchester International Investors	London	UK
D.E. Shaw & Co. LP	New York	NY	Silver Lake Partners	New York	NY
Diamond Castle Holdings	New York	NY	Spark Capital	Boston	MA
DLB Capital	Wilton	CT	Spectrum Equity Investors	Boston	MA
Edison Venture Fund	Lawrenceville	NJ	State Street Global Alliance, LLC	Boston	MA
Electra Private Equity	London	UK	Sterling Partners	Northbrook	IL
Endicott Group, The	New York	NY	Stone Point Capital LLC	Greenwich	CT
Evercore Capital Partners	New York	NY	Strategic Investment Group	Arlington	VA
Farmington Capital Partners	Hartford	CT	Stripes Group	New York	NY
FdG Associates	New York	NY	Summit Partners	Boston	MA
Flexpoint Ford	Chicago	IL	Sun Capital Partners Ltd.	London	UK
Flybridge Capital Partners	Boston	MA	Susquehanna Growth Equity	Bala Cynwyd	PA
Fortress Investment Group	New York	NY	TA Associates	Boston	MA
Friedman, Fleischer & Lowe	San Francisco	CA	Technology Crossover Ventures	Palo Alto	CA
Frontenac Company	Chicago	IL	Thomas H. Lee Partners, L.P.	Boston	MA
FTV Capital	San Francisco	CA	TL Ventures	Wayne	PA
General Atlantic LLC	Greenwich	CT	TowerBrook Capital Partners	New York	NY
Genstar Capital LLC	San Francisco	CA	TPG Capital	New York	NY
Golden Gate Capital	San Francisco	CA	Tudor Ventures	Boston	MA
GrandBanks Capital Inc.	Wellesley	MA	Udata Partners Venture Capital	Edison	NJ
Great Hill Partners	Boston	MA	VantagePoint Venture Partners	San Bruno	CA
Greenhill Capital Partners	New York	NY	Venturion Capital	New York	NY
GTCR Golder Rauner LLC	Chicago	IL	Vestar Capital Partners	New York	NY
Guggenheim Partners	Chicago	IL	Volution Capital	Boston	MA
Hamilton Investment Partners	New York	NY	Vulcan Capital	Seattle	WA
Hellman & Friedman	San Francisco	CA	Warburg Pincus	New York	NY
Hermes Private Equity	London	UK	Welsh Carson Anderson & Stowe	New York	NY
HgCapital	London	UK	XL Capital Investment Partners	New York	NY
HIG Capital	Miami	FL	Zurich Alternative Asset Management	New York	NY

# Freeman & Co. PE Activity

## Capital Raising

**CRT**  
CAPITAL GROUP LLC

has raised \$225,000,000 from

**AQUILINE**  
HOLDINGS LLC

The undersigned acted as financial advisor to CRT Capital Group, LLC  
September 1, 2010

**Freeman & Co. Securities LLC**

\$32,000,000

**HERALD**  
NATIONAL BANK

NYSE Alternext: HNB

has received a \$32,000,000 investment from an

**Investor Group**

The undersigned acted as co-manager for Herald National Bank  
March 31, 2010

**Freeman & Co. Securities LLC**

US \$400 million investment

**GUGGENHEIM**

led investor group has acquired

**SECURITY BENEFIT™**

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

**Freeman & Co. Securities LLC**

\$50,000,000 investment in

**Broadpoint.**

by

**MatlinPatterson**  
MatlinPatterson Global Opportunities Partners II, L.P.

The undersigned acted as financial advisor to the Board of Directors of First Albany Companies, Inc.  
September 21, 2007

**Freeman & Co. Securities LLC**

**LEERINK SWANN**

has sold a minority interest to

**LOVELL MINNICK PARTNERS LLC** **March Group**

The undersigned acted as financial advisor to Leerink Swann & Company  
July 23, 2007

**Freeman & Co. Securities LLC**

**ESP**  
Electronics Specialized LLC

ESP has been recapitalized and received a growth equity investment from

**BEAR STEARNS**  
**CREDIT SUISSE**  
**SIG**  
SOUTHERN BANK OF THE SEVENTH FLOOR

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

**Freeman & Co. Securities LLC**

\$5.5 billion AUM

**K2 ADVISORS**

has sold a minority interest to

**TA Associates**

Acted as financial advisor to K2 Advisors LLC  
April 30, 2007

**Freeman & Co. Securities LLC**

\$24 billion AUM

**CERES**

has completed an equity recapitalization sponsored by an undisclosed

**Financial Sponsor**

as provider of financing

The undersigned acted as financial advisor to Ceres Capital Partners  
January 31, 2007

**Freeman & Co. Securities LLC**

**GTGR** **Eze Castle Software**

have merged

**BNY ConvergeX Group**

Acted as financial advisor to GTGR  
October 2, 2006

**Freeman & Co. Securities LLC**

\$1.3 billion AUM

**LYRA CAPITAL LLC**

has completed the management buyout of

Zurich Benchmark Series

from

**ZURICH CAPITAL MARKETS**

Acted as financial advisor to Zurich Capital Markets, Inc.  
October 16, 2003

**Freeman & Co. Securities LLC**

**GUGGENHEIM**

has made an investment in

**CRT**  
CAPITAL GROUP LLC

Acted as financial advisor to CRT Capital Group  
February 2002

**Freeman & Co. Securities LLC**

## Private Equity Exits

\$1.7 billion AUM

**LYRA.**

its holding company

**URSA** and **STARVIEW.**

have been acquired by

**CRÉDIT AGRICOLE**  
STRUCTURED ASSET MANAGEMENT

Acted as financial advisor to Ursa Capital  
September 14, 2006

**Freeman & Co. Securities LLC**

The \$2.8 billion AUM hedge fund of funds

**GUGGENHEIM**

has been acquired by

**Bank of Ireland** **Asset Management**

Acted as financial advisor to Guggenheim Capital  
January 31, 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**

**citigroup**

has acquired

**LAVA**

Acted as financial advisor to Citigroup Inc.  
August 2004

**Freeman & Co. Securities LLC**

**CONSTELLATION**

has been acquired by

**SG**  
CORPORATE & INVESTMENT BANKING

Acted as financial advisor to Constellation Financial Management Company LLC, FEP Holdings LP & its affiliates  
July 17, 2003

**Freeman & Co. Securities LLC**

## Recent Publications by Freeman & Co.

### Securities Industry Reports

- *Happy to Have no Balance Sheet* (September 2009)
- *Securities Industry at Major Inflection Point* (March 2009)
- *Mom, Dad, Are We There Yet?* (September 2008)
- *Post Labor Day: Back to School, Hopefully not Schooled!* (September 2007)

### Asset Management Reports

- *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)

### Insurance

- *To Arms, To Arms: The Regulators are Coming!* (July 2010)
- *Back from the Brink* (January 2010)
- *Insurance Servicing, Processing and Technology* (July 2009)
- *Retirement Funding: New Solutions for a Growing Problem* (August 2008)

### Private Equity Focus

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

# Freeman & Co. LLC

“Independent Financial Services Advice”

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