Issue 13
2nd Half 2005

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Asset Management Focus
Freeman & Co. LLC

Size Matters

Inside this Issue:

The second half of 2005 continued much of what we saw in the first half: robust activity, including a return of large transformational deals that drove transacted AUM to the highest levels seen since 2000. Firms of all types sought to add scale to their operations, and to take steps to focus their activities on their core capabilities. For some, like Legg Mason, this has meant exiting distribution and focusing on product manufacturing. For others, the approach has been to meet clients' demands for open architecture and best of breed products by focusing on distribution. These firms have created strong demand for providers of technology and analytic solutions. And while many firms are going back to basics, there continues to be demand for alternative acquisitions.

Performance as of December 31, 2005

Index	Total Return 2H05	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	5.8%	4.9%	14.4%	0.5%
NASDAQ	7.2%	1.4%	18.2%	-2.3%
FTSE 100	11.7%	21.2%	17.0%	1.5%
LBGC*	-0.4%	2.4%	3.7%	6.1%
DJ Balanced HF**	2.6%	1.6%	N/A	N/A
S&P HF Index***	2.7%	2.7%	5.9%	N/A

**Lehman Brothers Govt./Credit Index ** Dow Jones Hedge Fund Balanced Portfolio Index ***S&P Hedge Fund Index*

Indices at 12/31/05:

DJIA	10,718
Nasdaq	2,205
S&P 500	1,248
FTSE 100	5,619
10 Year US Treasury Bond Yield	4.39%
Dollar to Euro	$1.18

Summary:

- In 2005 there were 164 acquisitions, compared to 150 in 2004. As a result of a handful of very large deals, global AUM acquired leaped to a five year high of $1,117 billion versus $410 billion in the previous year
- 2005 was distinguished by the return of large, transformational transactions, headlined by the exchange of Legg Mason's brokerage business for Citigroup's asset management business. This trend is continuing into 2006, with the announcement of Merrill's exchange of its asset management business for a 50% interest in BlackRock
- Facing higher compliance costs and other issues, firms of all sizes are making efforts to increase the scale of their operations
- The Legg/Citi deal, Credit Agricole's acquisition of Banca Intesa's $122 billion asset management business, and other deals reflect a decision to focus on manufacturing or distribution, rather than try to "push" proprietary product internally
- Despite a challenging return environment and a desire by some firms to go "back to basics", interest in acquiring alternative managers continues. We are seeing a second wave of alternative transactions, as companies previously concentrating in HFOF begin to add other products to round out their alternative platforms

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Deal Activity

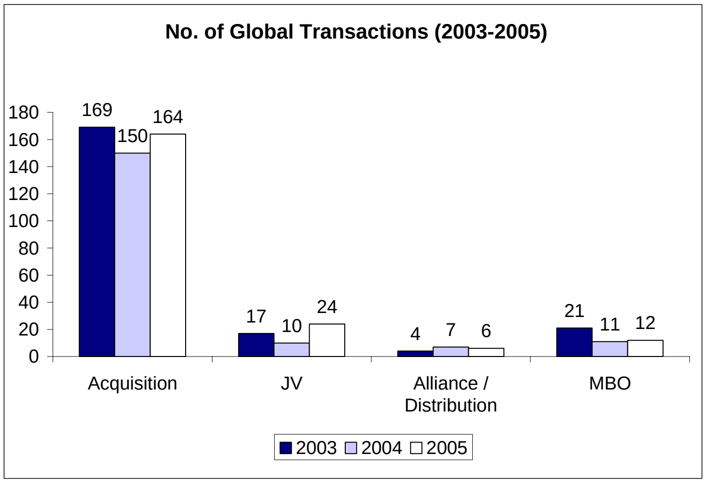
2005 was an exciting year for deals in the asset management industry. Not only did the size and number of acquisitions approach near-record levels, but also many deals were transformational in nature, increasing their strategic importance to the acquirer and the seller. As we noted in our mid-year report, "Changing Tides II", the first half began strongly, setting five-year highs in both the number of acquisitions as well as the total amount of AUM acquired. The second half continued this momentum, making 2005 second only to 2003 for the largest number of deals within the past five years. On an AUM basis, the results are even more impressive as 2005 had nearly as much AUM acquired as did 2002, 2003 and 2004 combined. While this number is buttressed by two of the largest deals we have seen in the past ten years, Legg Mason's purchase of Citigroup's Asset Management unit and Credit Agricole's purchase of Banca Intesa's Nextra unit, accounting for nearly $560 billion in AUM, without these deals, 2005's AUM still exceeds that of each of the past three years'.

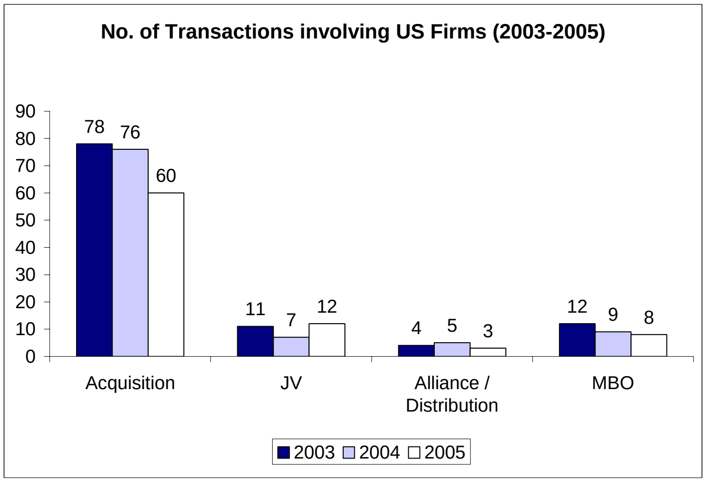
2005's largest deals (by AUM) include:

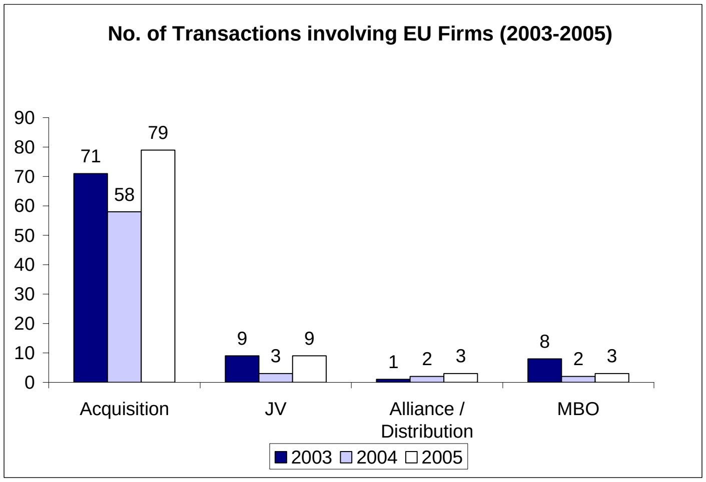
- Citigroup's swap of its asset management business ($437 billion AUM) to Legg Mason in return for its retail brokerage network
- Credit Agricole's acquisition of Banca Intesa's asset management business ($122 billion AUM)
- Julius Baer Holding AG's purchase of GAM & SBC Wealth Management ($95 billion AUM)
- Aberdeen Asset Management PLC's purchase of Deutsche Bank A.G.'s UK Fund Unit ($81 billion AUM)

Globally, 2005 saw a significant geographic shift as the number of transactions involving European firms jumped ahead of those involving US firms for the first time since 2000.

Similarly, assets acquired by and within firms in Asia also soared in 2005. Israeli firms, bound by new laws from Parliament were forced to divest some of their asset management businesses. Similarly, India, China and South Korea saw large-scale transactions due to changes in governmental policy.



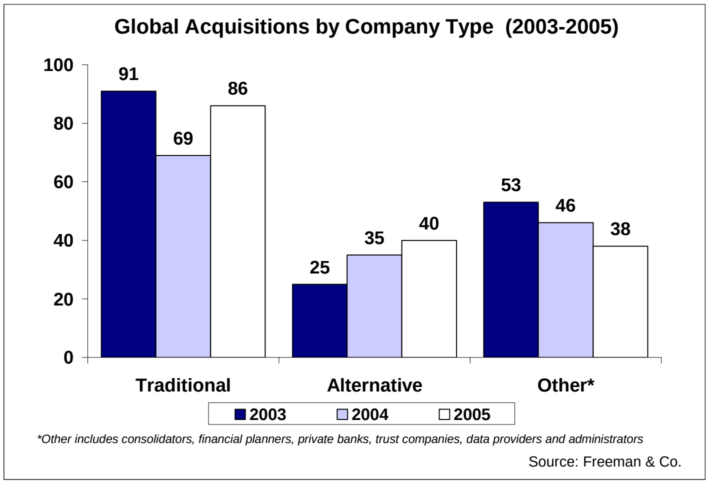




Source: Freeman & Co.

Transactions by Company Type

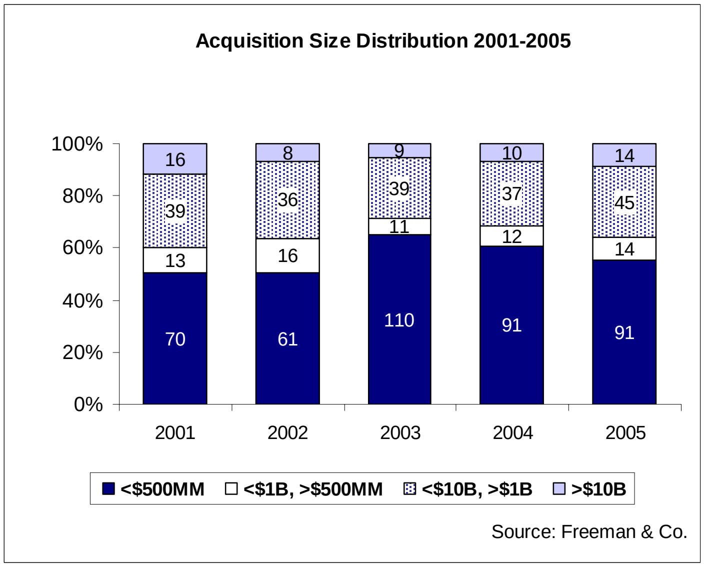
The growing presence of international acquisitions has increased the number of alternative and traditional deals as well as the total AUM acquired from "Other" firms. ("Other" includes: financial planners, trust companies, private banks and related firms.) There were 41 acquisitions of traditional non-U.S. firms in 2004 and 59 in 2005, an increase of 18 deals. During the same period, acquisitions of American firms declined slightly from 28 to 27. Therefore, the overall increase of 17 traditional deals from 2004 can be attributed solely to the growth in acquisition of non-US firms. Similarly, alternatives, which were dominated by US firms in 2004, accounting for 60% of the alternative deals, were sliced nearly in half in 2005, accounting for just over 33% of the deals.



While the number of acquisitions of "Other" firms has steadily declined from 2003, the total amount of AUM has skyrocketed, reflecting 2005's desire for bulk. AUM of over $238 billion was acquired in 2005 compared to $34 billion in 2004 and $60 billion in 2003. Furthermore, three of the ten largest deals, all involving private banks, came from the "Other" category – a phenomenon we have not seen in the past ten years.

Deal Size

2005 was a strong year for large acquisitions. Deals over $1 billion in AUM jumped to a five-year high with 59. This is nearly 25% higher than any of the past four years and approximately 7% higher than 2001. AUM of the top ten deals accounted for nearly $900 billion, an average of 152% higher than any of the previous five years.



2005's Top Ten Largest Deals (by AUM):

1. Legg Mason's purchase of Citigroup's Asset Management business ($437.0 billion)
2. Credit Agricole's purchase of Banca Intesa's Nextra unit ($122.0 billion)
3. Julius Baer's purchase of GAM & SBC Wealth Management ($95.0 billion)
4. Aberdeen's purchase of Deutsche Bank A.G.'s UK Fund Unit ($81 billion)
5. Royal Bank of Canada's purchase of Abacus Financial Services Group Ltd. ($41 billion)
6. Sal. Oppenheim Jr. & Cie KgaA's purchase of Services Generaux de Gestion SA ($37 billion)
7. AMG's purchase of First Asset Management ($23.0 billion)
8. Hana Bank's purchase of Daehan Investment & Securities Co. ($21.3 billion)
9. Legg Mason's purchase of Permal Group ($19.1 billion)
10. Merrill Lynch's purchase of Royal Philips Electronics NV's Asset Management Arm ($17.7 Billion)

Top 10 Deals as a % of Total AUM

Deals	AUM ($'s Billions)	% of Total AUM
Total AUM in Top 10 Deals:	$ 894	80.0%
Total AUM in All Deals:	1,117	100.0%

Source: Freeman & Co.

Assets Acquired by Seller Region

Assets Acquired by Seller Region by Year ($MM)

Region	2001	2002	2003	2004	2005
Africa		11,700	974	4,500	6,970
Asia	26,842	6,797	12,683	22,765	52,211
Canada	48,152	33,830	14,040	5,506	31,589
Europe	115,454	311,294	187,496	91,264	486,087
South America	2,047	3,683	7,890	6,432	2,800
US	654,901	113,641	233,620	279,584	537,507
Total	**$847,396**	**$480,944**	**$456,704**	**$410,051**	**$1,117,164**

No. of Acquisitions	138	121	169	150	164
Average Size	6,141	3,975	2,702	2,734	6,812
Median Size*	1,000	1,300	1,155	1,500	1,700

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

Source: Freeman & Co.

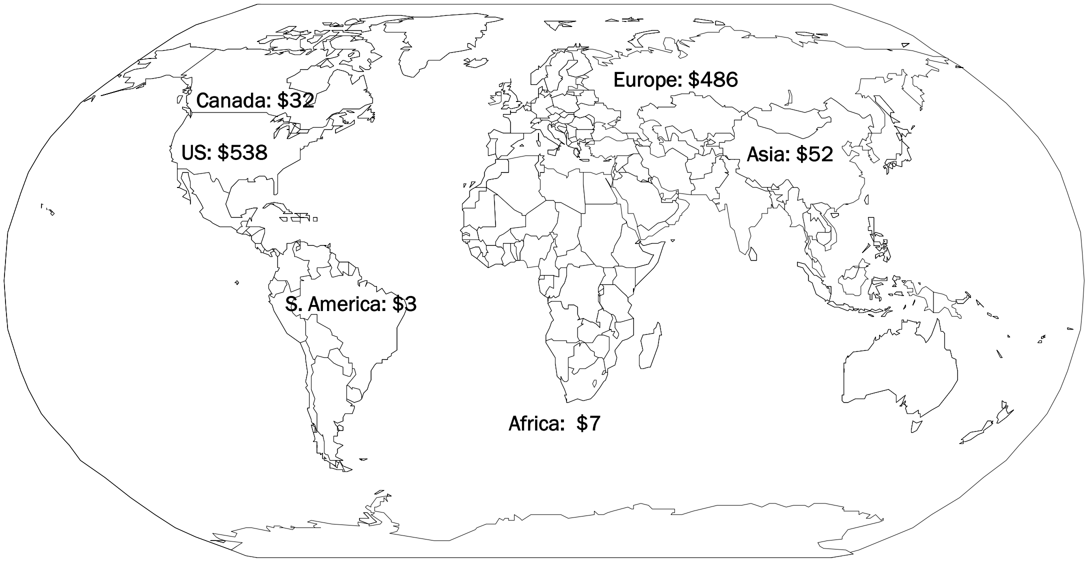
While nearly 50% of global AUM acquired for 2005 comes from two blockbuster transactions, the remaining 50% still exceeds that acquired in any of the prior three years. What accounts for this significant increase? The real area of change for 2005 (excluding the two largest deals) was Europe, which saw approximately four-fold growth (excluding the Banca Intesa transaction) from a five-year low in 2004. With 8 deals over $10 billion, and 24 deals over $1 billion, European deals played a major role in the increase. Interestingly, all of Europe's 8 deals over $10 billion involved either traditional asset mangers or private banks. This reflects the increasing difficultly firms face in growing a European asset management business organically as well as the trend towards obtaining higher yielding assets.

Acquisition of AUM in Asia, spurred largely by the relaxation of government regulation and the strong growth of the Chinese economy, more than doubled from last year and exceeded cumulative AUM acquired from 2002–2004.

Deals spurred by changes in the Asian Regulatory environment:

- Hana Bank's acquisition of Daehan Investment & Securities Co. (Privatization of South Korea's big 3 asset managers)
- Straits Lion's purchase of OCBC Asset Management Ltd. (Largest non-government linked domestic asset manager)
- Schroders PLC and CSFB (First fund management companies formed with Chinese commercial lenders)
- Israel Discount Bank Ltd. and Bank Leumi's divestiture of fund units (Parliamentary legislation forcing banks to divest)

Assets Acquired by Seller Region ($ billions)



Source: Freeman & Co.

Assets Acquired by Buyer Region

Assets Acquired by Buyer Region by Year ($MM)

Region	2001	2002	2003	2004	2005
Africa		11,700	974	22,880	6,970
Asia	1,802	6,461	10,313	985	39,589
Canada	47,926	36,820	23,430	2,006	73,789
Europe	537,727	216,991	110,666	50,423	422,759
South America	3,447	885	4,670		1,800
US	256,495	208,088	306,650	333,758	571,957
Total	**$847,396**	**$480,944**	**$456,704**	**$410,051**	**$1,117,164**

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Average Size	6,141	3,975	2,702	2,734	6,812
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**Median deal size calculated using only deals with reported AUM*

Source Freeman & Co.

On the buyside, we saw a huge slow down in purchases by U.S. firms. Excluding Legg Mason's purchases of Citi's asset management business and Permal Group, the U.S. accounted for nearly $116 billion of AUM acquired. This represents a mere 18% of total AUM for the year. In 2004, the U.S. represented over 81% of total AUM acquired and has averaged about 56% of total AUM from 2001-2004.

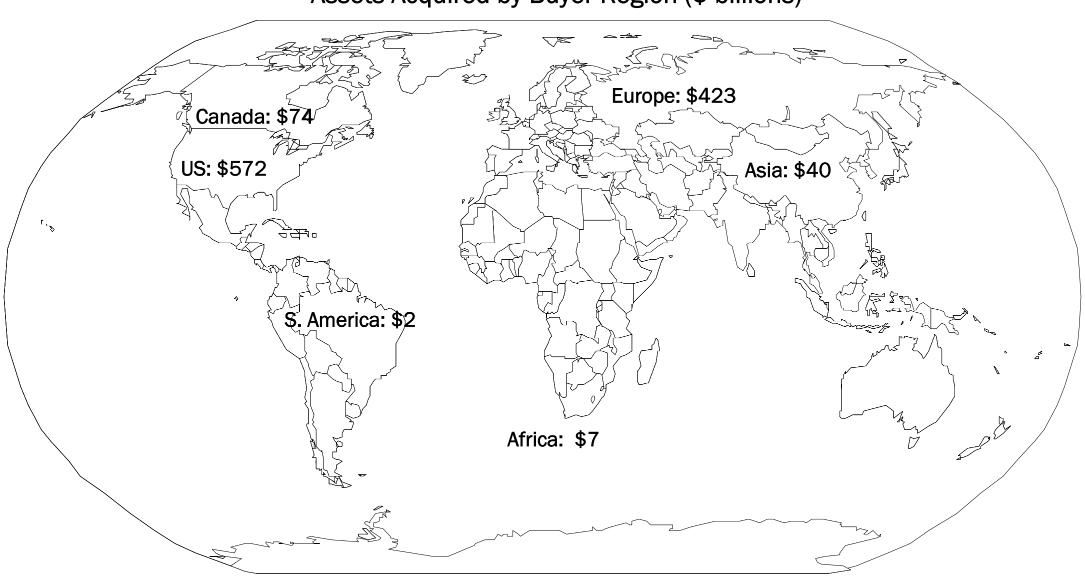
Europe was nearly as strong a buyer as it was a seller in 2005. Interestingly, much of Europe's buying was cross-border. Of Europe's 70 acquisitions, over 50% (36) were cross-border. Even more telling, of the 29 acquisitions of firms with over $1 billion in AUM, the numbers are even stronger: 19 of these deals were cross-border, or nearly 2/3.

2005 was also a strong year for Canadian acquisitions as AUM acquired hit a five-year high of $74 billion, approaching U.S. levels. (Excluding Legg Mason's purchases.) Interestingly, Canada's two largest acquisitions were cross-border transactions in Europe:

- The Royal Bank of Canada's purchase of Abacus Financial Services Group Ltd. ($41 billion)
- CDP's minority stake in La Compagnie Financière Edmond de Rothschild ($26 billion)

Both purchases resemble a number of European acquisitions we have seen recently. Both targets are private banks with high-net worth clients and high-yielding assets. Given the competitive European market, acquisition is virtually the only way of entry for firms without an already strong presence on the continent.

Assets Acquired by Buyer Region ($ billions)



Source: Freeman & Co.

The Need for Scale

Acquisitions of U.S. Firms with over $1B in AUM in 2H05

Month	Target	Acquirer	Total Deal AUM ($MM)
10	Kayne Anderson Rudnick	Phoenix Investment Partners	$ 9,150
8	Coast Asset Management	Summit Partners	3,873
12	Ibbotson Associates	Morningstar Inc.	3,500
12	**Guggenheim Alternative Asset Management***	**Bank of Ireland PLC**	**2,800**
8	Santa Barbara Asset Management	Nuveen Investments Inc.	2,800
8	Kobren Insight Management	E-trade Financial	1,000

*Freeman & Co. represented Guggenheim Alternative Asset Management Source: Freeman & Co.

As we discussed in our mid-year report, the transformational deals that defined 2005 resulted in large part from strategic repositioning by large asset management platforms. Legg Mason and other large institutions chose to focus on manufacturing, while Citigroup, Banca Intesa and others were able to extract value from asset management platforms that, for various reasons, were not positioned to perform to their full potential. This trend has continued into 2006 in the exchange, announced February of 2006 by Merrill Lynch of its asset management platform for a 50% interest in BlackRock.

Fundamentally for the participants, these transactions clarified their positions in the marketplace. Firms decided if they were going to be dedicated product manufacturers or full service distributors, rather than try to do both less successfully. These deals gave the parties the scale they needed for success. Legg Mason moved from the world's 19th largest asset manager before the Citigroup deal to 5th, at over $800 billion in AUM, tremendously increasing its ability to compete globally. Furthermore, Legg Mason's newfound market position paved the way for the acquisition of $20 billion HFOF manager Permal.

This focus on scale is not limited to the Legg Masons of the world. Facing the need to maintain market share and preserve margins in the face of an intensifying competitive environment, a changing distribution landscape and a transformed regulatory environment, firms of all sizes are facing increased pressure to increase the scale of their operations.

Both in the US and in Europe, wealth management has been highly focused on the need for scale. The market is a growing and attractive one, and HNW investors are increasingly looking to establish a primary relationship from which to access best-of-class products. Firms that can deliver a full range of wealth management products supplemented by comprehensive advice and planning are best positioned to meet these emerging needs---as Julius Baer hopes to be with its purchase from UBS of SBC Wealth Management and asset manager GAM.

The central challenge for wealth managers in this environment is how to "scale" advice capabilities aggressively to gain market share. One approach is to focus on the ultra high net worth (UHNW) market where there are simply more assets per client. Another avenue is to use technology to leverage advisors' time, such as:

- Account and data aggregation tools that enable an advisor to have a complete view of a client's financial picture, regardless of asset class or account location;
- Document sharing and other tools to allow clients and their advisers to work together seamlessly online; and
- Emerging technologies that make it possible for multiple advice providers to collaborate on an investment strategy in a coordinated and prescribed fashion

Acquisitions of E.U. Firms with over $1B in AUM in 2H05

Month	Target	Acquirer	Total Deal AUM ($MM)
9	GAM & SBC Wealth Management	Julius Baer Holding AG	$ 95,000
7	Deutsche Bank A.G.'s UK Fund Unit	Aberdeen Asset Management PLC	81,100
11	Abacus Financial Services Group Ltd.	Royal Bank of Canada	41,000
8	Services Generaux de Gestion SA	Sal. Oppenheim Jr. & Cie KGaA	37,000
10	Alcentra Group Limited	The Bank of New York	6,200
12	Harcourt Investment Consulting AG	Vontobel Holding	3,129
7	Bank Dewaay	KBC Groep NV	2,975
10	MCG Holding	OZ Holding AG	2,600
11	Sagitta Asset Management	Fleming Family & Partners	1,470
11	Bank Von Ernst (Liechtenstein) AG	EFG International	1,220

Source: Freeman & Co.

Europe

Responding to many of the same market forces as their US counterparts, including increased regulatory scrutiny, European asset management firms are taking active steps to increase the scale of their operations to secure their market position and protect their margins. As European firms address the conflict issues associated with owning both manufacturing and distribution, we see the beginnings of change in the fundamental model for distribution of investment products. Where formerly the landscape was dominated by captive distribution systems through which managers pushed in-house products, we see an emerging focus on open architecture and third party distribution.

Responding to Closer Regulatory Scrutiny

Although European regulators have thus far found few cases of market timing or late trading, oversight is on the rise. The latest requirements come on top of stricter corporate governance standards, strengthened anti-money laundering requirements and enhanced privacy protections that have been implemented in many countries. For example, the Association of the Luxembourg Fund Industry issued a set of best practices that recommended that all trades be priced on the day of execution. And the FSA has issued new limitations on the use of “soft” commissions from directed brokerage, pushing costs of research, trade execution and compliance onto money managers’ P&Ls. In addition, leading institutions are voluntarily instituting more stringent practices, and increasing transparency to clients, putting increased pressure on smaller firms unable to absorb these higher compliance costs.

Focus on Distribution or Manufacturing

European firms are taking steps to focus on third party distribution. For example, BNP acquired FundQuest, a leading provider of third party managed account programs, to give it the ability to respond to investor demand for open architecture solutions. We suspect other European financial institutions are also weighing the options for their operations, particularly since integrated businesses have generally not been overly successful in regard to investment performance or delivering profits to the bottom line. This is not to say that all banks with in-house distribution will move to divest; each company will have to weigh the growth prospects and its dependence on internal distribution against the value a sale could realize. Those with strong relative performance or with multiple distribution channels are likely to endure, while shops with lackluster performance are likely to feel greater pressure to divest. An alternative to divestment could also be the re-branding of bank-owned asset managers, like Halbis Partners, a specialized institutional investment unit HSBC is forming from existing asset management businesses.

Selective Withdrawal

The gradual shift towards fixed-income and more stable guarantee products being driven by an aging population, and product competition (particularly from ETFs and Index funds) will likely increase pressure on fees. In addition, clients increasingly want advice, and money managers will see the cost of servicing the advice channel continue to grow with expensive brand-differentiating programs and new ways to service and train advisors (discussed below). Those managers that have not built up good support platforms or that have spent the last few years cost cutting are potentially more exposed than others. US money managers such as Fidelity and Franklin who have an advantage in managing and growing this capability represent stiff competition for European asset managers.

Of course, there have been and will continue to be entities on the fringe that have no choice but to exit the business in response to these changes. These exits offer new entrants the opportunity to acquire/increase AUM at attractive prices.

Consolidation Deals for 2005

Target	Country	Acquirer	Country	Ownership %
Fondsfinans Aktiv Fortvaltning ASA	Norway	Danske Bank's Norwegian unit	Norway	100%
Hellenic Investment Company SA	Greece	Bank of Piraeus	Greece	n/a
HQ Fonder AB	Sweden	Hagstromer & Qviberg AB	Sweden	100%
Deutsche Bank A.G.'s UK Fund Unit	UK	Aberdeen Asset Management PLC	Scotland	100%
Safei SA	Spain	Inversis Banco	Spain	100%
Inversiones Ibersuizas SA	Spain	Catalana de Obras y Servicios (Llorens Torne Family)	Spain	9%
Cyril Finance	France	Oddo & Cie	France	100%
Tilney Holdings Ltd.	UK	Bridgepoint Capital	UK	n/a
Banca Intesa SpA's Nextra Fund Mgmt Bus.	Italy	Credit Agricole Asset Management	France	65%
Aurel Leven Gestion	France	KBL France	France	100%
AmSouth's Mutual Fund Management	US	Unicredito's Pioneer Asset Management	US	100%
Royal Philips Electronics NV's AM Arm	Netherlands	Merrill Lynch	US	100%

Source: Freeman & Co.

Strategic Alliances

We have seen a number of cross-border strategic alliances, in which firms seek partners to develop capabilities in new or increasingly important areas such as alternative investments (Northern Trust Global Advisors/Nordea), or in wealth management (Deutsche Postbank/Vontobel) or to broaden customer bases, distribution access, and diversify revenues (Aviva/AIB). Likewise, firms are pursuing fund "adoptions", whereby larger firms bring third party funds onto their own platforms, merging them into their existing funds. Examples include Unicredito's taking over of AmSouth Bank's mutual fund complex.

Strategic Alliances for 2005

Month	Target	Acquirer	Transaction
4	Consolidation Investment Ptrs.	Premier Asset Management plc	Minority Acquisition
5	Dekabank Deutsche Girozentrale Swiss Private Banking Unit	Lombard Odier Darier Hentsch & Cie	Minority Acquisition
9	WestLB AG	Mellon Financial	Joint Venture
10	Vontobel Holding AG	Deutsche Postbank AG	Distribution Agreement
11	Allied Irish Bank	Aviva PLC	Bancassurance Joint Venture
12	Dekabank Deutsche Girozentale	WestAM	Distribution JV
12	Nordea	Northern Trust Global Advisors	Strat. All./ Subadv. Agmt.

Source: Freeman & Co.

Rise of Third Party Distribution

The shift to third-party distribution is even more profound in Continental Europe than in other markets, as Europe steadily evolves from the captive distribution that has traditionally been dominant. In 2004 third party distributors placed €134 billion of mutual funds, of which €30 billion, or 22%, went into third party funds versus around 12% in 2002 (source: Feri Fund Market; Sector Analysis). In 2005 new fund sales in Europe reached a 5-year high of €350 billion, a 260% increase over 2004, and we estimate that sales through third party distribution channels exceeded €100 billion.

European managers are beginning to embrace a number of different open architecture distribution structures:

- Professional allocators (funds of funds)
- Bank platforms offering order aggregation services for third party and internal organizations holding the end-client relationship
- Wealth managers or advisers of various types

We strongly believe the trend toward independent advice providers represents an important structural change throughout the world, fueling in turn the trend toward open-architecture and best-of-breed distribution platforms and product structures (fund of funds, GPF, managed accounts, etc.). With this shift, the role of advisers, asset allocators and other distributors becomes more and more critical, shifting power to the distributor and exerting downward pressure on asset management fees as revenue migrates from manufacturing to distribution.

Furthermore, the increasing demands of this increasingly sophisticated, professional audience will begin to affect costs for asset managers, as advisers begin to delve more deeply into the technicalities of the investment process, looking for providers that can support sales and marketing efforts, and provide value-added services such as customized reporting and training.

In such an environment, the most successful investment management firms will be those who can manage a variety of distribution channels. To be successful, these distributor-provider partnership will need to address common critical issues:

- Achieving coherent product design, pricing and marketing across different distribution channels
- Determining the degree of integration with external partners. Simple and efficient technology solutions that streamline the sales and client service process will become a major differentiating factor
- Maximizing the effectiveness of the sales process, through financial advisor education, customized marketing literature and products tailored to individual customer segments and sales environments.

Alternative Investments

As in 2004 and 2003, the number of acquisitions of alternative managers increased again in 2005. Driven by institutional demand, as well as interest from HNW individuals, more and more asset managers are concluding that alternatives represent a capability they must have. The interest in acquiring alternative managers continues despite a difficult return environment for hedge funds and related products in 2005, and in the face of rebounding equity markets. While some pension funds and other institutional investors remain skeptical of hedge funds we think demand for acquisitions of alternative firms will continue, at least for the near future. Of 2005's 40 alternative deals, more than 1/3 involved purchases of HFOF managers, generally by large platforms looking to add a product capability.

Top Alternative Deals for 2005

Month	Target	Acquirer	Type	Total Deal AUM ($MM)
6	Permal Group	Legg Mason	Hedge Fund of Funds	$ 19,100
10	Alcentra Group Limited	The Bank of New York	Int'l Sub-Grade Debt	6,200
8	Coast Asset Management	Summit Partners	Hedge Fund of Funds	3,873
12	Harcourt Investment Consulting AG	Vontobel Holding	Hedge Fund of Funds	3,129
12	**Guggenheim Alternative Asset Management***	**Bank of Ireland PLC**	**Hedge Fund of Funds**	**2,800**
1	Siemens' Real Estate Funds Business	UBS AG	Real Estate	2,700
6	Certain Assets of ING Capital Advisors	West Gate Advisors	Leveraged Loans	2,100
4	Ospraie Management, L.P.	Lehman Brothers	Hedge Fund	2,000
7	RBC Capital Markets	GSO Capital Partners	CDO's	1,800
3	Saunders Karp & Megrue	Apax Partners Worldwide LLP	Private Equity	1,500
11	Sagitta Asset Management	Fleming Family & Partners	Hedge Fund of Funds	1,470

*Freeman & Co. represented Guggenheim Alternative Asset Management — Source: Freeman & Co.

For many asset managers, HFOFs are still the point of entry to the alternative asset management market. This approach recognizes those clients who seek exposure to hedge funds but are not ready to manage a hedge fund portfolio directly. They turn to HFOFs to make the sector and manager allocations and to manage the risk, and are willing to pay the HFOF manager's fees.

Reasons for reliance on HFOFs vary, but in many cases the investor lacks the internal expertise or resources to manage hedge funds directly. Later, as their experience grows, these investors may "graduate" to investing directly in hedge funds. Thus, as the sector matures, we expect to see more and more asset managers move to a second phase: rounding out their alternative offerings by supplementing HFOF capabilities with other alternative strategies.

The Bank of New York provides an example. In 2000, BNY entered the alternative space with the purchase of Ivy Asset Management,[1] a leading HFOF manager with $2.4 billion in AUM at the time it was announced. The acquisition was enormously successful, and by the beginning of 2005 Ivy had grown to over $15 billion. By this time BNY was established as an alternative player, but exclusively in the HFOF space. In 2005, BNY made two acquisitions to expand beyond Ivy's HFOF products. In October BNY purchased an 80% interest in Alcentra Group, a $6.2 billion UK-based manager of sub-investment grade debt and structured credit. This was followed by the announcement in January 2006 of the acquisition of Urdang Asset Management, a $3 billion real estate manager[2]. With these transactions BNY will have over $25 billion of alternative AUM in three distinct product categories, establishing itself as a multidimensional alternative management firm. BNY is not alone in pursuing this strategy and we expect this maturing trend to continue.

The business models of alternative managers are evolving in other ways as well. Convergence among asset managers continues, and hedge funds are taking steps to broaden their investments, including such vehicles as catastrophe bonds and weather derivatives. Many hedge funds are now providing mezzanine debt, making private equity investments, and making direct investments in real estate.

These developments have led some observers to question whether some hedge funds are now afflicted with "style-drift," investing in areas beyond their expertise. This concern is fueling demand for separate account-based hedge platforms (such as Guggenheim Partners) that provide full transparency, daily NAVs and risk management services.

[1] Freeman & Co. advised BNY on this transaction.
[2] Freeman & Co. advised BNY on this transaction.

US Public Money Managers – Valuations

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

Company Name	End AUM ($ bils)	Stock Price 3/31/06	Equity Value	Enterprise Value [a]	LTM (12/30/2005) Revenue	LTM (12/30/2005) EBITDA [b]	LTM (12/30/2005) 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	$ 452.7	$ 140.00	$ 9,096.8	$ 8,866.3	$ 1,191.4	$ 425.5	$ 4.03	7.4x	20.8x	34.7x	2.0%
Eaton Vance	113.3	27.38	3,689.5	3,639.9	777.7	259.7	1.16	4.7	14.0	23.7	3.3%
Federated Investors	213.4	39.05	4,161.4	4,075.4	909.2	354.5	1.71	4.5	11.5	22.8	1.9%
Franklin Resources	464.9	94.24	24,278.6	21,851.4	4,505.5	1,643.8	4.43	4.8	13.3	21.3	5.2%
Gabelli	26.8	39.95	1,192.9	1,257.0	252.4	94.1	2.19	5.0	13.4	18.3	4.5%
SEI Investments	148.5	40.53	4,204.4	4,086.6	773.0	233.8	1.85	5.3	17.5	21.9	2.8%
Janus Capital	148.5	23.17	5,166.8	4,990.5	953.1	198.9	0.44	5.2	25.1	52.6	3.5%
T Rowe Price	269.5	78.21	10,753.9	9,950.3	1,515.8	701.0	3.21	6.6	14.2	24.3	4.0%
Waddell & Reed	41.9	23.10	1,896.2	1,931.7	622.1	162.4	1.10	3.1	11.9	21.0	4.5%
Nuveen Investments	136.1	48.15	4,163.6	4,664.5	589.1	304.1	1.99	7.9	15.3	24.2	3.1%
Calamos Investments	43.8	37.40	860.2	806.5	417.6	49.6	1.31	1.9	16.3	28.4	2.0%
Cohen & Steers	20.5	24.50	957.8	930.0	146.2	57.0	0.84	6.4	16.3	29.2	4.7%
TOTAL	**$ 2,079.8**		**$ 70,421.9**	**$ 67,050.0**			**AVERAGE**	**5.2x**	**15.8x**	**26.9x**	**3.5%**
							MEDIAN	**5.1**	**14.8**	**23.9**	**3.4%**
Holding Companies											
Affiliated Managers	$ 184.3	$ 106.61	$ 4,099.6	$ 4,924.7	$ 916.5	$ 222.7	$ 2.81	5.4x	22.1x	37.9x	2.2%
Bank / Trust Companies [d]											
Boston Private Finl	$ 23.7	$ 33.79	$ 1,049.2	$ 1,049.2	$ 257.9	$ 90.2	$ 1.47	4.1x	11.6x	23.0x	4.4%
Wilmington Trust	39.7	43.35	2,977.3	2,977.3	630.4	288.6	2.50	4.7	10.3	17.3	7.5%
TOTAL	**$ 63.4**		**$ 4,026.5**	**$ 4,026.5**			**AVERAGE**	**4.4x**	**11.0x**	**20.2x**	**6.0%**
Limited Partnerships											
Alliance Capital	$ 578.6	$ 66.25	$ 17,048.1	$ 16,801.3	$ 3,250.7	$ 1,000.9	$ 3.35	5.2x	16.8x	19.8x	2.9%
Overall **TOTAL**	**$ 2,906.0**		**$ 95,596.2**	**$ 92,802.4**							
							HIGH	7.9x	25.1x	52.6x	7.5%
							AVERAGE	5.1	15.7	26.3	3.7%
							MEDIAN	5.1	14.8	23.3	3.4%
							LOW	1.9	10.3	17.3	1.9%

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

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

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

(b) EBITDA is shown net of minority interest.

(c) EV and BEN fiscal year end of October and September and have been calendarized.

(d) Enterprise Value excludes cash.

US Public Money Managers – AUM Analysis

ENDING AUM ($ in billions)

Quarter Ending	3/31/2004	6/30/2004	9/30/2004	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005
Diversified								
Blackrock	$ 320.7	$ 309.7	$ 323.5	$ 341.8	$ 391.3	$ 414.4	$ 427.8	$ 452.7
Eaton Vance	85.1	89.4	94.3	98.0	98.8	106.0	108.5	113.3
Federated Investors	193.9	183.8	177.6	179.3	179.0	204.7	207.4	213.4
Franklin Resources	351.6	350.8	361.9	402.2	412.1	425.4	453.1	464.9
Gabelli	28.2	28.2	27.2	28.7	28.0	27.6	27.6	26.8
SEI Investments	96.1	100.1	109.8	120.4	123.9	130.7	138.5	148.5
Janus Capital	145.0	135.4	130.2	139.0	132.2	130.3	139.4	148.5
T Rowe Price	201.0	206.8	212.0	235.2	235.9	244.8	257.6	269.5
Waddell & Reed	37.0	36.4	35.1	38.7	38.4	39.1	40.7	41.9
Nuveen Investments	100.9	101.9	106.9	115.5	118.5	124.0	128.2	136.1
Calamos Investments	29.0	32.3	33.2	38.0	38.2	39.5	42.2	43.8
Cohen & Steers	15.5	15.0	16.1	18.3	17.8	19.9	20.2	20.5
TOTAL	**$ 1,604.0**	**$ 1,589.6**	**$ 1,627.8**	**$ 1,754.9**	**$ 1,814.1**	**$ 1,906.4**	**$ 1,991.3**	**$ 2,079.8**
Holding Companies								
Affiliated Managers	$ 94.8	$ 102.2	$ 101.0	$ 129.8	$ 132.1	$ 138.0	$ 175.3	$ 184.3
Bank / Trust Companies								
Boston Private Finl	$ 14.9	$ 15.4	$ 15.1	$ 21.1	$ 19.3	$ 20.0	$ 20.6	$ 23.7
Wilmington Trust	32.7	32.9	33.3	36.5	36.5	36.8	38.0	39.7
TOTAL	**$ 47.6**	**$ 48.3**	**$ 48.4**	**$ 57.6**	**$ 55.8**	**$ 56.8**	**$ 58.6**	**$ 63.4**
Limited Partnerships								
Alliance Capital	$ 483.6	$ 480.6	$ 487.0	$ 538.8	$ 533.9	$ 516.0	$ 555.5	$ 578.6
OVERALL TOTAL	**$ 2,230.0**	**$ 2,220.7**	**$ 2,264.2**	**$ 2,481.0**	**$ 2,535.9**	**$ 2,617.2**	**$ 2,780.6**	**$ 2,906.0**
% Change	*4.8%*	*(0.4)%*	*2.0%*	*9.6%*	*2.2%*	*3.2%*	*6.2%*	*4.5%*

US Public Money Managers – Revenue Analysis

QUARTERLY REVENUE ($ in millions)

Quarter Ending	3/31/2004	6/30/2004	9/30/2004	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005
Diversified								
Blackrock	$ 181.8	$ 183.8	$ 171.0	$ 188.7	$ 250.1	$ 271.4	$ 300.8	$ 369.1
Eaton Vance	165.3	165.9	173.6	181.8	182.5	190.8	198.1	206.4
Federated Investors	227.1	213.1	205.2	201.6	205.9	221.3	241.4	240.7
Franklin Resources	874.6	862.8	894.6	986.0	1,051.2	1,109.7	1,163.2	1,181.5
Gabelli	63.5	60.2	57.2	74.2	61.5	59.8	66.2	64.8
SEI Investments	167.2	169.2	173.0	183.0	185.7	190.1	193.7	203.6
Janus Capital	274.4	258.8	237.8	239.8	239.0	229.3	237.5	247.3
T Rowe Price	305.5	309.5	316.1	345.5	357.0	363.4	388.5	406.9
Waddell & Reed	129.1	124.1	120.6	130.3	130.5	150.7	157.5	183.4
Nuveen Investments	119.7	120.4	131.6	133.9	134.9	138.9	158.3	157.1
Calamos Investments	63.6	75.9	81.2	91.6	97.3	99.1	107.7	113.5
Cohen & Steers	27.3	25.6	29.1	32.1	34.1	38.3	36.4	37.4
TOTAL	**$ 2,599.1**	**$ 2,569.3**	**$ 2,591.1**	**$ 2,788.3**	**$ 2,929.6**	**$ 3,062.7**	**$ 3,249.3**	**$ 3,411.6**
Holding Companies								
Affiliated Managers	$ 151.6	$ 158.6	$ 165.8	$ 184.0	$ 201.6	$ 208.3	$ 234.1	$ 272.5
Bank / Trust Companies								
Boston Private Finl	$ 42.4	$ 46.6	$ 48.8	$ 54.5	$ 57.6	$ 59.9	$ 63.0	$ 82.9
Wilmington Trust	139.0	139.2	140.5	146.8	151.9	152.7	160.5	165.3
TOTAL	**$ 181.4**	**$ 185.8**	**$ 189.3**	**$ 201.3**	**$ 209.5**	**$ 212.6**	**$ 223.5**	**$ 248.2**
Limited Partnerships								
Alliance Capital	$ 744.7	$ 737.1	$ 719.2	$ 825.9	$ 750.2	$ 768.6	$ 811.1	$ 920.8
OVERALL TOTAL	**$ 3,676.8**	**$ 3,650.8**	**$ 3,665.4**	**$ 3,999.4**	**$ 4,090.9**	**$ 4,252.1**	**$ 4,518.0**	**$ 4,853.0**
% Change	*4.6%*	*(0.7)%*	*0.4%*	*9.1%*	*2.3%*	*3.9%*	*6.3%*	*7.4%*

US Public Money Managers – Compensation Analysis

COMPENSATION MARGIN

Quarter Ending	3/31/2004	6/30/2004	9/30/2004	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005
Diversified								
Blackrock	36.3%	40.6%	47.6%	40.8%	46.1%	43.8%	51.6%	56.0%
Eaton Vance	22.3%	22.7%	22.2%	23.2%	24.1%	23.4%	23.8%	23.6%
Federated Investors	21.8%	19.6%	20.5%	19.0%	21.6%	19.9%	18.9%	17.3%
Franklin Resources	22.5%	22.4%	21.2%	21.5%	20.7%	21.0%	17.9%	20.2%
Gabelli	40.8%	38.6%	41.1%	42.3%	42.8%	45.7%	42.6%	37.6%
SEI Investments	NA	NA	NA	NA	NA	NA	NA	NA
Janus Capital	27.7%	26.9%	29.9%	42.7%	38.4%	37.5%	42.0%	41.5%
T Rowe Price	35.9%	36.5%	37.3%	33.9%	35.6%	35.8%	34.0%	32.7%
Waddell & Reed	15.1%	17.3%	16.4%	17.2%	17.3%	15.5%	16.3%	5.6%
Nuveen Investments	27.7%	32.6%	34.5%	35.5%	31.9%	31.7%	35.3%	33.2%
Calamos Investments	16.8%	22.8%	21.1%	22.5%	15.3%	15.0%	14.3%	14.0%
Cohen & Steers	32.9%	26.7%	23.4%	25.4%	25.4%	23.9%	27.9%	22.2%
AVERAGE	**27.3%**	**27.9%**	**28.6%**	**29.4%**	**29.0%**	**28.5%**	**29.5%**	**27.6%**
Holding Companies								
Affiliated Managers	37.8%	36.3%	37.0%	35.6%	40.3%	39.8%	40.8%	39.1%
Bank / Trust Companies								
Boston Private Finl	50.5%	48.2%	47.2%	48.3%	48.5%	45.2%	46.4%	41.8%
Wilmington Trust	37.1%	35.1%	36.4%	36.2%	35.7%	35.8%	34.0%	33.2%
AVERAGE	**43.8%**	**41.6%**	**41.8%**	**42.3%**	**42.1%**	**40.5%**	**40.2%**	**37.5%**
Limited Partnerships								
Alliance Capital	36.9%	35.5%	36.3%	34.8%	38.0%	40.2%	40.5%	37.1%
OVERALL AVERAGE	**30.8%**	**30.8%**	**31.5%**	**31.9%**	**32.1%**	**31.6%**	**32.4%**	**30.3%**
% Change	*0.3%*	*(0.1)%*	*2.2%*	*1.4%*	*0.6%*	*(1.6)%*	*2.5%*	*(6.4)%*

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