Issue 1

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Specialty Finance & Asset Focus
Freeman & Co. LLC

Inside this Issue:

Special Education

Freeman & Co. is pleased to present its inaugural Specialty Finance Focus, a newsletter aimed at covering Wall Street's specialized assets and the institutions that originate them.

The rebound in the credit markets over the past year has given hope where originators and servicers of specialized assets once had very little.

- Balance sheet pressure has eased on business development companies ("BDCs"), who again have access to the capital markets and are playing an active role in the small and middle market lending space
- Leasing companies find themselves with a variety of new windows to finance their growth; however, as of yet they remain slow to tap capital markets, compared with other commercial specialty finance firms
- Asset-Backed Securities ("ABS") new issuance has declined as the market faces headwinds from deleveraging consumers, wary investors and regulatory reform; however, ABS originations in autos and structured settlements are recovering
- Pricing on life settlements in the tertiary market has tightened considerably, as buyers have returned to the asset class after a volatile two years
- Consolidation among Collateralized Loan Obligation ("CLO") managers picked up considerably in 2010, but the rebound in leveraged loan prices has reduced the attractiveness of this type of trade for distressed investors

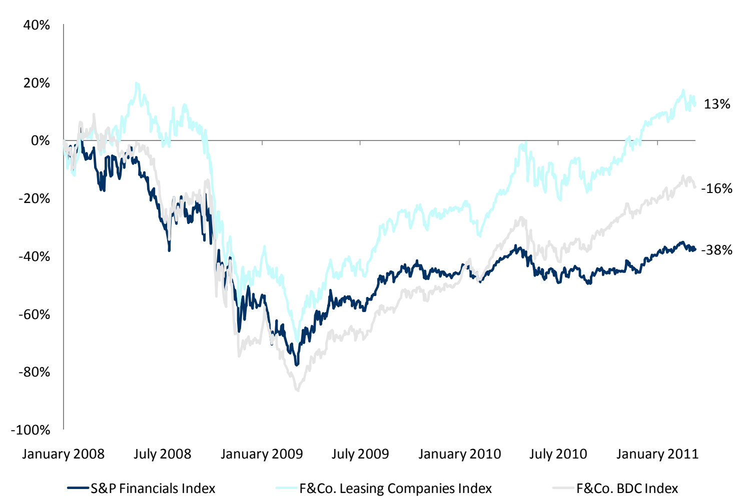
However, M&A activity remains concentrated on distressed takeovers and asset fire sales, as smaller specialty finance companies that succeeded in weathering the financial crisis have found, while market conditions have improved, they have improved primarily for market participants that have scale.

In this report, we look at select asset classes' current prospects for growth, and the M&A climate for those assets and, in certain cases, their originators.

Indices at March 11, 2011

Index / Metric	Value
DJIA	12,044.40
NASDAQ	2,715.61
S&P 500	1,304.28
FTSE 100	5,828.67
10 yr Bond Yield	3.393%
USD per GBP	$1.60805
USD per Euro	$1.39030

Specialty Finance Company Total Return Index Performance



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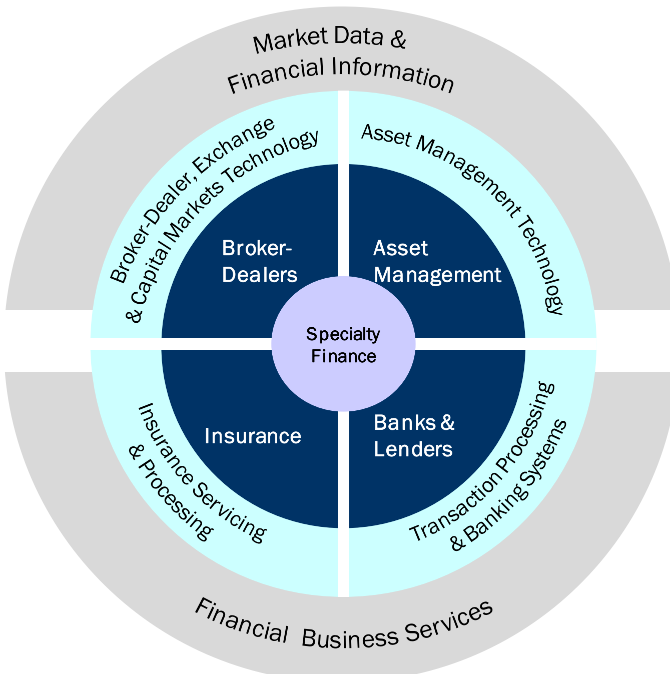

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Business Development Companies: Back in the Black

Business Development Companies ("BDCs") have produced generally favorable results for investors, with a few noteworthy exceptions, since valuations bottomed out in the depths of the credit crisis in early 2009. For those BDCs with focused business plans and disciplined credit underwriting, the capital markets have offered regular access to new equity since the crisis abated.

Despite the collapse in valuations around the stock market bottom, it is heartening that no BDCs resulted in a complete loss for investors. The most noteworthy non-survivor of the credit crisis era – Allied Capital Corporation – fell victim to a liquidity squeeze that was caused by a decay in the underlying credit performance of the portfolio, which triggered defaults on Allied's outstanding indebtedness. Nevertheless, Allied's senior loan holders were made whole, and its equity holders received a 27% premium upon the announcement that the company was being purchased by Ares Capital. Another near-casualty of the crisis was GSC Investment Corp., which defaulted on its bank line when it breached a covenant in July 2009. While still down 85% from its pre-crisis highs, the entity survives as an affiliate of Saratoga Investment Group, which recapitalized it and arranged for a replacement warehouse line from a different lender, taking the previous lender out at par. Even American Capital Strategies, which some analysts thought was headed for Chapter 11, managed to restructure its term debt outside of bankruptcy court. Here, too, while equity holders have seen an 85% decline since the market peak, lenders and note holders either have been made whole or have been amended and extended at par.

The healthy survivors of the credit crisis include those firms with some combination of niche-oriented businesses, low credit losses and relatively low leverage. Surviving BDCs have thrived over the past year, given the reduced presence of CLOs, commercial banks and non-bank lenders in the small and middle markets. Some seized the opportunity to fill this void in the marketplace. Eight BDCs have IPO'd since the start of 2010, and private equity has backed five BDC-type lending vehicles over the past few years. Given today's anemic yield environment, we would expect the retail demand for new-issue BDCs to spur further IPOs in the space, as their dividend payout requirements should attract income-seeking investors. However, thus far, we have not seen a glut of new entrants or irrational behavior on the part of existing participants that would result in unfavorable pricing of newly originated loans.

Market Cap Weighted Price to Book Value[(1)]

Freeman & Co. Business Development Company Constituents[(2)]

Company	Ticker	Price	Market Cap ($mm)	Assets/ Equity	Price/ BV	P/E (LTM)
American Capital	ACAS	8.94	3,145	1.7x	0.9x	2.9x
Apollo Investment Corp.	AINV	12.14	2,373	1.7x	1.3x	45.0x
Ares Capital Corporation	ARCC	17.23	3,522	1.5x	1.2x	4.4x
Blackrock Kelso Capital Corp.	BKCC	10.20	740	1.3x	1.1x	8.9x
Fifth Street Finance Corp.	FSC	13.10	872	1.4x	1.5x	21.8x
Gladstone Capital Corp.	GLAD	11.25	237	1.1x	1.0x	19.4x
Gladstone Investment Corp.	GAIN	7.80	172	1.4x	0.9x	5.0x
Golub Capital BDC Inc.	GBDC	16.35	290	1.8x	1.1x	NA
Hercules Tech Growth Capital	HTGC	10.99	477	1.4x	1.2x	NM
Horizon Technology Finance	HRZN	16.05	121	2.3x	1.7x	NA
KKR Financial Holdings LLC	KFN	9.62	1,714	5.1x	1.0x	4.1x
Kohlberg Capital Corp.	KCAP	7.78	175	1.5x	0.9x	NM
Main Street Capital Corp.	MAIN	19.36	366	1.8x	1.5x	8.1x
MCG Capital Corp.	MCGC	6.23	478	2.0x	0.8x	NM
PennantPark Investment Corp	PNNT	11.92	542	1.8x	1.3x	12.8x
Prospect Capital Corp.	PSEC	11.81	1,042	1.2x	1.2x	8.7x
Saratoga Investment Corp	SAR	21.90	72	1.3x	0.9x	25.2x
Solar Capital Ltd	SLRC	24.13	878	1.6x	1.1x	5.7x
THL Credit Inc.	TCRD	13.10	260	1.0x	1.0x	NA
TICC Capital	TICC	10.88	347	1.0x	1.1x	4.6x
			Median	**1.6x**	**1.1x**	**8.1x**
			Mean	**1.8x**	**1.1x**	**9.9x**

1) January 1, 2006 – March 11, 2011
2) Financial data as of latest filing; market data as of March 11, 2011

Sources: SNL, Freeman & Co.

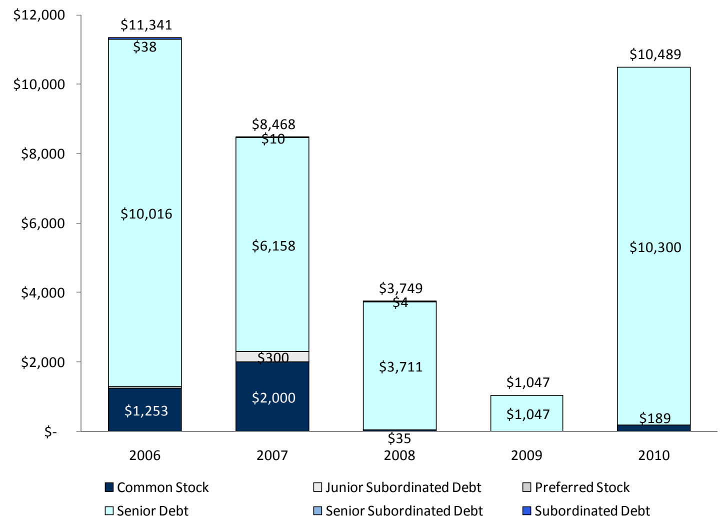
Leasing Companies: A Time for Choosing

With the equity market's strong rebound and further easing in credit markets, leasing companies are beginning to find themselves with several viable options to finance their growth in the post-crisis world. The accessibility of financing is paramount for leasing companies to grow their business, a fact that became all too clear over the past few years as credit markets began to seize in 2007 and equity markets plunged in the fall of 2008. Despite the lagging growth in the real economy, the comeback in financial and lending markets is providing increasing opportunities for leasing companies to finance their growth, which should renew investor interest in this sector. Nevertheless, despite improved access to financing, the financial crisis is having a lasting impact on investor risk aversion and consequently on their views on viable long-term capital structures. The climate for leasing companies is certainly improving; however, both investors and firms will need to temper return expectations in a more conservative leverage era.

Increasing access to bank debt and availability of better terms has been a significant development over the past year. This gradual return comes as a sigh of relief for leasing companies, as they have historically maintained strong relationships with banks who found leasing companies' relatively low credit risk and strong collateral appealing. Particularly, senior secured lines have seen a come back. During the crisis, these senior lines, along with commercial paper conduits, experienced an extreme tightening as banks only renewed and even cut existing lines and the commercial paper markets almost completely froze. While the availability of bank credit is still limited due to banks' own capital concerns, access to lending facilities is improving for well capitalized lessors. Typical terms for senior lines are seeing advance rates around 85% with spreads over LIBOR at 300 bps, with multi-year lines becoming available once again. As the last of the major banks wean their way off of TARP and their lending books continue to recover, leasing companies can expect bank lending to return as a viable source of financing over the coming year.

In the public bond markets, activity has also increased for leasing companies with total issuance of $10.3 billion for 2010, compared to $1.0 billion in 2009. This increase was due to $8.2 billion raised in multiple offerings by International Lease Finance Corporation, a wholly-owned subsidiary of AIG. ILFC had not accessed public debt markets since 2008 and needed financing due to many of its outstanding obligations reaching maturity and efforts of the larger AIG organization to rid itself of reliance on government funding.

U.S. Capital Markets Issuance Activity ($ millions)



Representative Debt Financing Terms

The following tables show representative terms for several forms of senior financing for leasing companies in the current market. The spreads charged by banks on senior secured lines and commercial paper conduit financing will vary based on the lessor's size, operating history, capitalization and type of equipment leased.

Secured	Advance Rate	Interest Rate
Senior Secured Lines / Commercial Paper	~85%	LIBOR + 300
Subordinated Secured Lines	10%	LIBOR + 1000 bps

Unsecured Term Debt	Rated	Unrated
Maturity	5 years	1 – 3 years
Coupon	10% (BB rated) 12% (B rated)	Mid to high teens

Sources: SNL, Private Sources

Leasing Companies: A Time for Choosing

While stable companies may take advantage of the current low interest rate environment to refinance legacy obligations, it is doubtful if there will be a rush to pile on new leverage and return to business as usual. Since the peak of the credit bubble in 2005-2006 when asset to equity ratios ranged around 5 to 1, leverage has come down significantly to the mid-3 to 1 range. As a dark reminder of the financial crisis, investors have heightened sensitivity to what is deemed a sustainable capital structure, which may temper lessors' demand for leverage.

In equity markets, there has been a clear rebound for leasing companies as valuations have drastically improved from the March 2009 lows; price to book value multiples ranged between 1.00x and 1.50x in 2010. Since Spring 2010 leasing company multiples have been rising unabatedly along with the rest of the market. Valuations are still well off of levels seen during the height of the credit boom, however, their rapid ascent and the market's continued strength despite many lingering macroeconomic concerns should raise eyebrows as to the sustainability of current valuations. Interestingly, despite improved valuations, leasing companies were slow in 2010 to join the recent throng of equity offerings by many other commercial finance companies. However, one noteworthy event for leasing companies was the October 2010 IPO of SeaCube Container Leasing (BOX), a Fortress portfolio company, raising a gross a total of $109.3 million. Additionally, 2011 is already off to a good start with the recent S-1 filling by Air Lease Corporation, which is led by former ILFC CEO Steven Udvar-Hazy, for a proposed IPO. Coupled with improving equity valuations, these events should bode well for further equity offerings.

It is uncertain whether private equity will be a major source of financing for lessors in the near term. Spreads are typically not high enough to satisfy their IRR demands and could be further compromised if deleveraging continues. However, one of the largest FIG private equity-backed transactions in 2010 was the investment in Avolon Aerospace by CVC, Oak Hill and Cinven raising over $1.3 billion in equity, term debt and warehouse lines. In January the same group led a second round of funding consisting of $650 million of debt and equity. Given private equity's slow return to mega deals, particularly in FIG, this deal should be cautiously viewed as a sign of private equity's continuing interest in leasing opportunities, but not as a clear indication of private equity as a reliable source of funding.

Market Cap Weighted Price to Book Value(1)

Freeman & Co. Leasing Company Constituents(2)

Company	Ticker	Price	Market Cap ($mm)	Assets/ Equity	Price/ BV	P/E (LTM)
AerCap Holdings	AER	13.35	1,992	4.3x	0.9x	7.4x
AeroCentury Corp.	ACY	15.74	24	2.9x	0.6x	5.3x
Aircastle Limited	AYR	11.67	932	3.6x	0.7x	14.1x
CAI International, Inc.	CAP	24.18	467	3.1x	2.4x	15.3x
ePlus Inc.	PLUS	26.58	225	1.9x	1.1x	9.2x
GATX Corporation	GMT	35.86	1,662	4.9x	1.5x	20.5x
Marlin Business Services Corp.	MRLN	12.41	160	2.9x	1.0x	28.2x
MicroFinancial Incorporated	MFI	4.47	64	2.1x	0.9x	12.1x
Mobile Mini, Inc.	MINI	21.78	801	2.4x	1.1x	NM
Ryder System, Inc.	R	47.85	2,451	4.7x	1.7x	21.3x
SeaCube Container Leasing Ltd.	BOX	15.04	303	5.8x	1.6x	8.6x
TAL International Group, Inc.	TAL	35.01	1,081	5.9x	2.5x	18.4x
Textainer Group Holdings Limited	TGH	35.17	1,699	2.6x	2.5x	14.1x
Willis Lease Finance Corporation	WLFC	13.00	121	4.9x	0.7x	18.8x
			Median	**3.4x**	**1.1x**	**14.1x**
			Mean	**3.7x**	**1.4x**	**14.9x**

With the continuing strong rebound in equities and the likely long-term reversion to lower leverage levels, leasing companies may increasingly find the public equity markets as a viable financing alternative to help grow their businesses.

1) January 1, 2006 – March 11, 2011
2) Financial data as of latest filing; market data as of March 11, 2011

Sources: SNL, Freeman & Co.

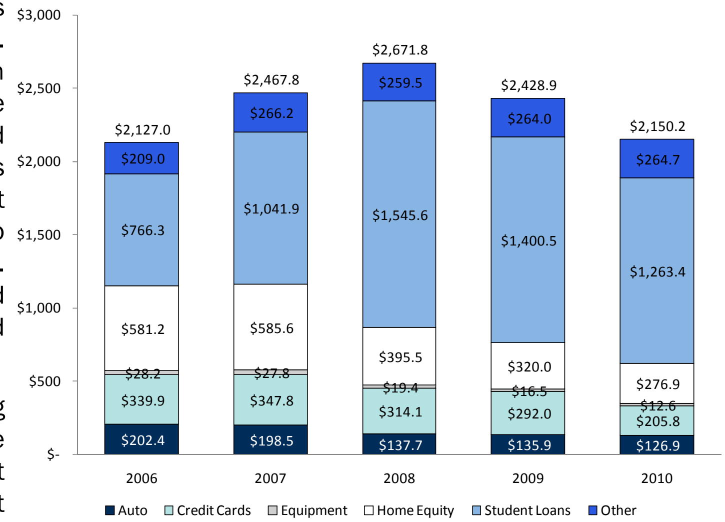
ABS Market: When Will You Be Back?

Short of mortgage-backed securities, there is probably no other asset class more closely identified with the excesses of the pre-crisis era than asset-backed securities (ABS). Despite the bad image, the importance of this $2.2 trillion market cannot be overstated, as the ability to securitize the excess leverage among businesses and households played an integral role in growing the economy in the early 2000s and appeared to be the magical elixir for redistributing credit risk. However, these very products ultimately contributed to the worst credit bust the modern economy has ever seen. The collapse of this market exacerbated the recession, and its sluggish current state continues to undermine a rapid economic recovery.

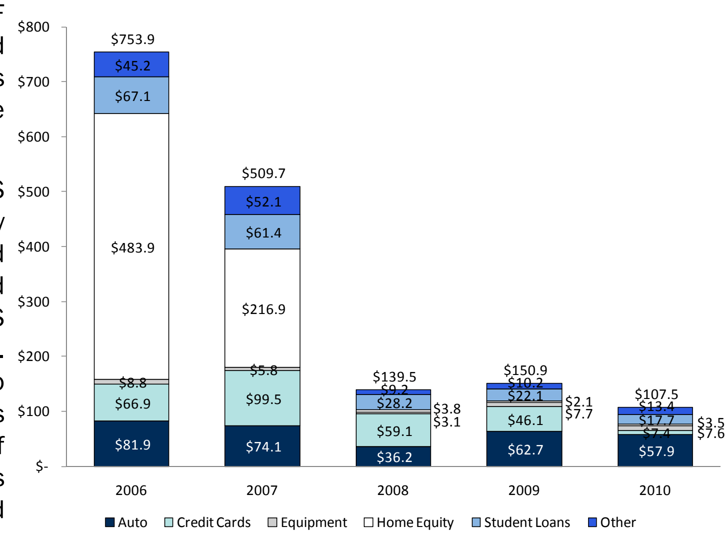
Despite extensive government intervention and the strong rebounds in many other financial markets, the state of the ABS market remains tepid. The size of the US ABS market continues to shrink, with the outstanding dollar amount having decreased by 19.5% since the end of 2008 to 2010. New issuances collapsed 81.5% from 2006 to 2008 and have remained anemic. There was incremental improvement in 2009 and early 2010 as a result of the Fed's TALF program and a recovery in select sectors, but a true rebound is not occurring. After increasing by 8% in 2009, issuances were down again in 2010, reaching the lowest level in the past decade.

Counter to this trend is a cautious revival in the auto ABS segment. Yearly new issuance for auto ABS declined by 55.8% from 2006 to 2008. While severe, this sector faired better than the broader ABS new issuance market and unlike many of its peers is seeing a rebound. New auto ABS issuances were up almost 60% in 2010 from 2008. However, new issuances were down slightly compared to 2009 and remain well off of pre-crisis levels, reminding us that a full recovery is still not yet assured. The central role of automobiles to the American consumer and business mitigated the severity of the decline in credit quality, and now is showing encouraging signs of a possible recovery.

Total U.S. Outstanding ABS by Collateral Type ($ billions)



U.S. ABS New Issuance by Collateral Type ($ billions)



Additionally, auto finance has traditionally had more conservative underwriting standards compared to other forms of lending due to the inherent rapid depreciation of the collateral, unlike the wishful thinking regarding home prices that pervaded the home mortgage market for a time. Furthermore, during the recession used car sales increased, serving as a countercyclical buffer and source for loans for this ABS segment. Auto ABS should remain appealing as investors place a premium on prudent underwriting and the underlying delinquency rates continue to decline. Finally, the revival of the American automotive industry, with Ford's recent return to profitability and GM's successful IPO, should continue to spur growth in auto ABS.

The broader ABS market is continuing to experience significant obstacles and will struggle to find its way back to growth. Businesses and households are continuing to delever as credit still remains scarce and the desire to maintain more conservative personal balance sheets will remain a lasting effect of the crisis. While this underlying trend may be good for long-term economic prosperity, it results in a much smaller pool of available assets to securitize. Household debt reached

Sources: SIFMA

ABS Market: When Will You Be Back?

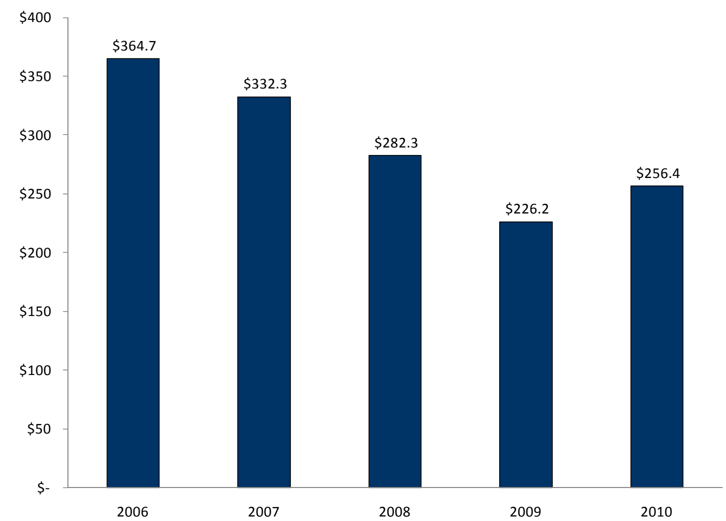
an all time high of $3.2 trillion (excluding home mortgage balances) in the fourth quarter of 2008 and has since fallen by 7.5% through the end of 2010. While seemingly small in grand consideration this does represent a major paradigm shift after consumer indebtedness grew unabatedly at a 14.3% annualized rate from the end of the Dot-com / 9/11 recession until the credit crisis.

Another significant problem for the ABS market is the demand for the product as an investment asset. Investors lost billions in what were believed to be highly secure investments. It comes as no surprise that the aggressive demand of the past has not returned and may take years to return. Unfortunately, this ends up hurting the real economy as well, as the lack of demand for securitized assets limits banks, nonbank lenders and other originators in their ability to extend credit.

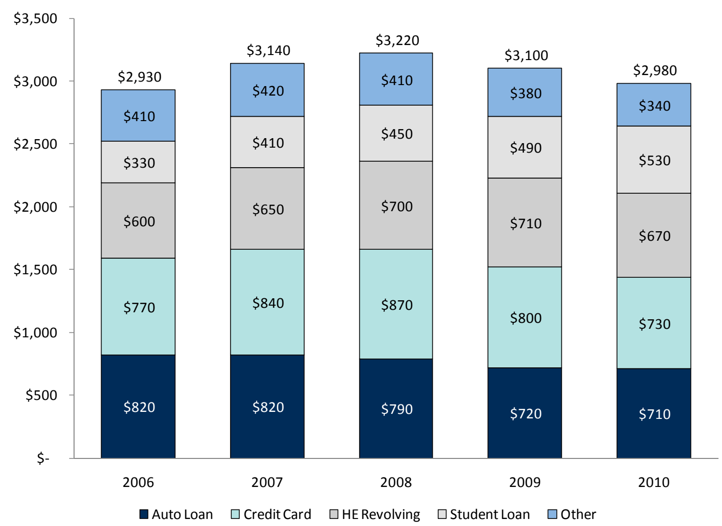
Finally, extreme uncertainty remains regarding the impact the Dodd-Frank Act will have on the asset class. Key provisions have been outlined but will take time to fully implement and may have unexpected consequences. Among the provisions, the call for originators / securitizers to retain approximately 5% of the economic risk may be welcoming to investors as it should encourage better underwriting but will also have the effect of reducing available credit. Rules demanding greater due diligence and more frequent and detailed disclosure of underlying asset performance is also a mixed bag for investors. This added transparency will come at the cost of higher servicing fees and possibly the need for third party processing to handle the deluge of additional information; while designed with the best intentions, the added explicit and opportunity costs may result in investors shying away from this asset. The Act also calls for greater government oversight and reporting requirements, the full extent of which may take years to be determined. The return of a Republican majority in the House may delay implementation and could even halt reform altogether. In the meantime, securitization remains on the fence as the full cost of new issuance is still not calculable due to the uncertainty regulators and politicians are adding.

Continuing deleveraging, uneasy market participants and regulatory uncertainty are keeping the return of the ABS market in flux. All three elements are intimately interdependent and are creating the ultimate chicken-or-the-egg problem as to which area will need to resolve itself first for the ABS market to see a full return – if it ever will.

U.S. Auto Loan Originations ($ billions)



Total U.S. Household Debt Excluding Mortgages ($ billions)



Sources: Federal Reserve Bank of New York

Structured Settlements: Securitizations Rebound

As we have just noted, the ABS market in general has been slow to rebound from the crisis. However, we have found that, where the market has returned, it has proven to be as efficient as it was pre-crisis. One example of this is the structured settlements market. Structured settlements are contractual arrangements involving an individual who is scheduled to receive a payment stream over a set period, typically as compensation for a slip-and-fall or other insurance claim. Structured settlements are typically paid by insurance carriers with financial strength ratings of A or higher. Because annuitants are senior in the capital structures of these companies in the event of a carrier insolvency, historical default rates for this asset class have been very low. Additionally, these assets currently provide investors with a higher yield than the bonds of the underlying insurance carriers that are guaranteeing their payment.

Structured settlement providers will factor these payments and provide the claimant with a lump sum that reflects a discount of the expected cash flows. In 2008 and 2009, the major players in this industry faced two critical challenges:

2010 Structured Settlement Securitizations

Date	Provider	Amount ($mm)	Stated Maturity
2/5/10	Peachtree	$131	1/16/46
4/16/10	J.G. Wentworth	$223	7/15/61
8/12/10	J.G. Wentworth	$105	1/15/50
10/12/10	Novation	N/D	N/D
11/15/10	J.G. Wentworth	$197	12/15/50
11/30/10	Peachtree	$106	8/15/36

1) Banks that had provided warehouse financing for providers to purchase structured settlements decided to curtail their lending activities in the face of internal pressures; and

2) The securitization market had closed, leaving no capital markets exit for the structured settlements that providers had accumulated on their balance sheets.

In addition, many providers themselves faced the high degrees of leverage at the corporate parent level as a result of boom-era recapitalizations. This was no more evident than when the industry's largest player, J.G. Wentworth, filed for bankruptcy in May 2009.

The past year has been kinder to the structured settlements market, as at least six securitizations with just under $1 billion of receivables came to market in 2010 (see above chart). These were the first securitizations of this asset in two years. J.G. Wentworth emerged from bankruptcy within two weeks with a clean balance sheet and $100 million of fresh equity for structured settlements originations. Execution spreads have tightened considerably since the start of 2010, and we believe that each securitization has priced tighter than the previous one. Some of the banks whose warehouse lines fueled the demand side of this market have since returned, but others have exited the market completely. This void is being partially filled by dedicated funds inside a few alternative asset managers, but we expect commercial banks seeking attractive risk-adjusted yields to enter this market as the economic recovery slowly takes hold.

Life Settlements: Life After Death

Life settlements, or transactions involving the sale of an existing life insurance policy to a third party, have developed into an estate-planning tool for elderly Americans over the past decade. The tertiary market for such policies ballooned at the same time, as life settlements also became a popular investment for alternative asset managers seeking uncorrelated returns. However, from the onset of the financial crisis through the early part of 2010, investor appetite for committing large sums in order to support the initial negative cash flow of these assets had virtually disappeared. But over the past six months, we have seen an increase in activity, led by a few serious institutional buyers who have returned to the asset class in significant size. These buyers either have found that the concerns of the previous two years have subsided, or they have proactively mitigated these concerns:

Issue	Investor Concern	Solution
Liquidity Demands	• Annual premium payments associated with the high face value policies that make up life settlement portfolios limit both the number and type of buyers that can participate in the market	• New vehicles have been formed with long-term, locked-up capital • Finance future premiums with third-party lenders that are committing debt capital again • Reserve additional 90 to 100% of the purchase price to pay future premiums
Life Expectancy Accuracy	• After life expectancy underwriters extended their actuarial tables in 2009, the second such increase in two years, many portfolios took severe valuation impairments	• Sophisticated buyers now perform their own analysis on a policy-by-policy basis to determine a portfolio's value, use updated life expectancy tables, and improved stress test scenarios
Carrier Litigation	• Insurance carriers would litigate over a lack of insurable interest, or fraudulent underwriting, leading to litigation over matured policies	• Recent investor-friendly court decisions, where AXA and Phoenix each claimed lack of insurable interest or fraud in separate cases, have required carriers to pay claims after the contestability period, in each case, had passed
Carrier Insolvency	• Non-payment of claims as a result of carrier insolvency became a concern when major life insurers came under severe stress in 2008 • For example, Phoenix Life saw its risk-based capital nearly breach regulatory compliance levels	• Accessibility to government assistance (e.g., AIG and other TARP-assisted carriers) and a general improvement in carrier balance sheets have staved off insolvencies thus far • Carrier credit analysis is now a key consideration in life settlement investing and portfolio construction

The recent news that Apollo Management had raised a $600 million fund to buy life settlements, coupled with Fortress' purchase of $6.2 billion of policies from KBC are welcome signs for sellers that tertiary demand is resurfacing. More yield-hungry investors should follow, as portfolios are now trading around 18-20% IRRs – a healthy pickup on the underlying life insurance carriers' bond yields.

Another positive dynamic for the life settlements market is that certain policies are now being sold via 363 bankruptcy court-ordered processes. A typical requirement of a 363 sale is that assets are delivered free of any liens or encumbrances. In an asset class with a history of litigation surrounding proper title and origination practices, 363 processes may mitigate a key risk that had previously discouraged buyers from entering the market involving tertiary policies.

Recent Life Settlements Tertiary Market Activity

Date	Seller	Buyer	NDB ($bn)	Description
Oct 2010	KBC Group	Fortress Investment Group	$6.2	Asset divestiture from KBC Group
Jan 2011	Life Equity	Kohlberg & Co.	N/D	Purchase of portfolio and stake in management company
Jan 2011	JPMorgan	Kohlberg & Co.	$1.0	Asset divestiture from JPMorgan
Jan 2011	Himmelsein Mandel	Gerova	$1.2	Purchase price of $105 million

CLO Contracts: M&A Landscape Transforming

In the half dozen years preceding the credit crisis, almost 200 institutions – from hedge funds and banks to pure-play loan boutiques – launched collateralized loan obligations ("CLOs"). Of those, over one-third launched only one deal, and few ever got to scale. When the origination machine that churned out $300 billion of paper from 1Q 06 – 2Q 07 summarily shut off, many smaller managers found themselves without a raison d'être. Talk of consolidation loomed as CLOs began to run off and subordinated fees were diverted to pay down senior note holders.

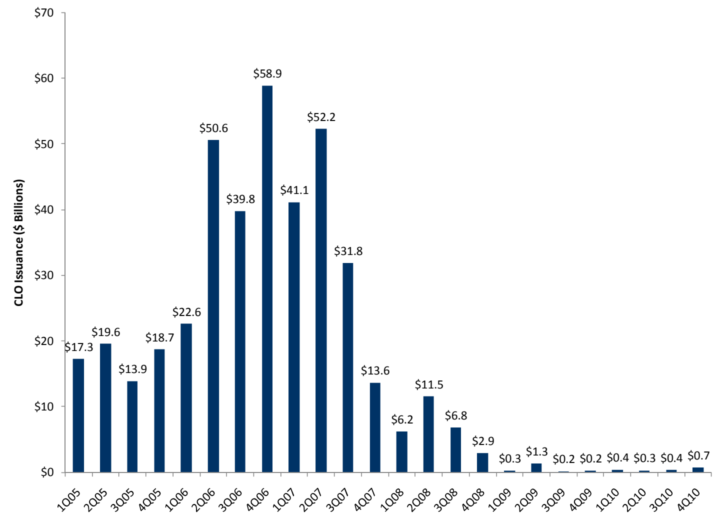
The rationale for the consolidation thesis was simple: Smaller managers, whose operating costs typically exceeded their revenue from senior fees due to their lack of scale, would be challenged to break even without subordinated fees. The chart at right demonstrates the need for scale in such an environment. In addition, all managers would see the fees from their run off over the next few years, without new issuance to replace old deals. To the extent that new issuance returns, it would return to the at-scale players and the top performers. Thus, a glut of sellers should have flooded the market.

Such predictions have proven slightly exaggerated to date. Despite an unfavorable long-term outlook for new issuance, sub-scale managers have refused to capitulate. We estimate that, while the number of overall transactions involving CLO managers or collateral management agreements ("CMAs") did increase from 2009 to 2010, overall AUM transacted in the past two years still accounted for less than 3% of the total outstanding CLO notional globally. The trades that have taken place have more often than not involved individual CMAs as opposed to platforms, and the figures cited above include instances where managers were voted off their deals by equity or note holders (as opposed to entering into a mutually agreed upon merger or acquisition). A number of factors can be cited for the current state of the CLO manager M&A market:

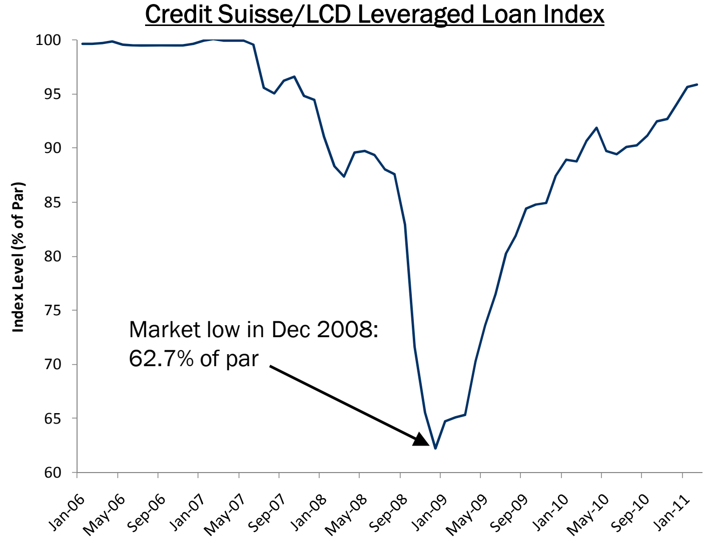
1) **Improvement in underlying collateral:** Loan prices have traded to levels not seen since 2007. Over three-quarters of managers are now paying subordinated fees, up from half at the market low. The economic pressure on sub-scale managers has lifted for now.

2) **(Some) new issuance:** News of over $2 billion of new issuance coming to market in recent months has provided managers a glimmer of hope that the new issue market might finally be opening up after two and a half years. However, the level of issuance that we saw in 2010 remains well below levels that would sustain as many market participants as currently exist.

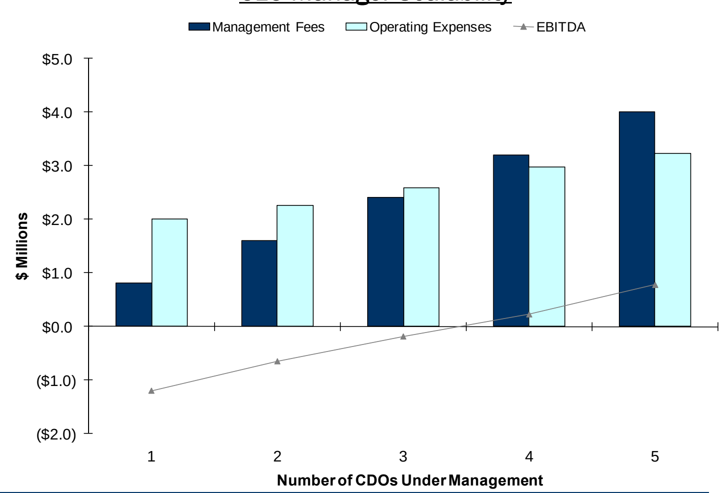
Global CLO Issuance



Credit Suisse/LCD Leveraged Loan Index



CLO Manager Scalability



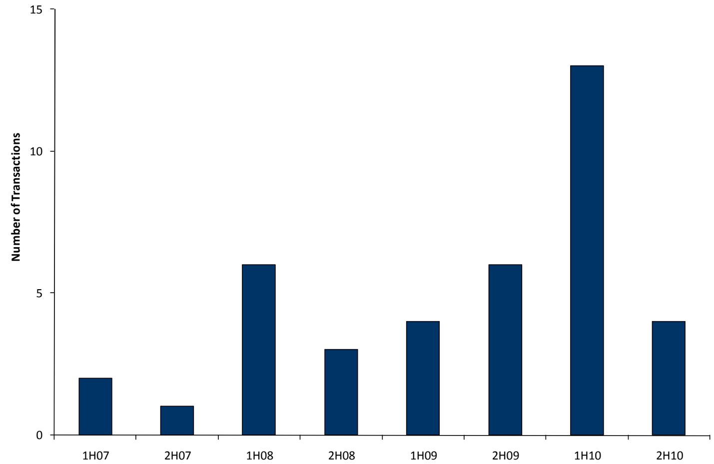
1) Not all of these transactions were traditional acquisitions; In certain cases, the manager was replaced by a vote of the equity or note holders

Sources: Freeman & Co., Fitch Ratings, SIMFA

CLO Contracts: M&A Landscape Transforming

3) **Unrealistic seller expectations**: "Every parent thinks their child is good-looking," an active buyer recently told us. Typically, sub-scale CLO managers are headed by an individual who is both a portfolio manager and an entrepreneur. Convincing these business owners to sell is far more challenging than convincing a large bank or insurer to sell an orphaned unit, and the CLO market has far more of the former than the latter.

CLO Manager and Contract M&A Transactions



We believe that the next phase of M&A in the CLO manager space will look far more like 3i Group's recent acquisition of Mizuho's London-based credit platform, which included 28 employees, than like GSO's acquisition of Callidus, which was effectively a CMA-only transaction. Buyers are coming to realize that portfolio managers would prefer to ride out the storm on their own, rather than lay off all their employees (including themselves) as a result of a CMA-only sale. Those buyers with a strong enough urge to expand into the credit management space will find that it is far easier to get a deal done when they offer to retain staff and plan to build out the acquired business. This also means that, of the 25 or so CLO managers who manage at least ten deals globally, few are likely to be the active buyers of the future. Rather, the opportunity exists today for firms like 3i Group, which heretofore had no credit platform in the U.S. or Europe, to pick up experienced teams and provide capital to grow the platform. While the consolidation that was first forecast two years ago will inevitably continue, the window has probably closed on CMA-only transactions for the foreseeable future.

Select CLO Manager and Contract Transactions: 2010 – Present

Announce Date	Target	Acquirer	Target CLO AUM ($mm)
Feb-11	Churchill Pacific	Apidos	$2,363
Dec-10	Deerfield	CIFC	$5,546
Nov-10	GSC Group	Black Diamond Capital	$7,000
Sep-10	Mizuho's CLO Business	3i Group	$5,900
Sep-10	Primus' CLO Business	CIFC	$2,800
May-10	Princeton CLO Contracts	JMP Group	$300
Apr-10	GSC Investment Corp	Saratoga	$400
Apr-10	GSC's European CLO Contracts	Prudential	$820
Apr-10	Camulos CLO Contracts	Brigade Capital	$731
Mar-10	Columbus Nova Credit	Deerfield Capital	$1,800
Mar-10	Stanfield Capital Partners	Carlyle Group	$5,100
Mar-10	Nomura CLO Contract	Avoca	$533
Mar-10	Navigare Partners CLO Contracts	Ares Management	$900
Feb-10	Avenue Capital CLO Contracts	ING Alternative Asset	$1,472
Feb-10	250 Capital LLC CDO Contracts	MJX Asset Management	$4,308
Jan-10	IKB CLO Contracts	Halcyon	$354
Jan-10	Tricadia CLO Contracts	Babson Capital Management	$580
Jan-10	Callidus CLO Contracts	Blackstone / GSO	$3,200

Sources: Freeman & Co.

Recent Specialty Finance Transactions

Structured Settlements

$75,000,000

peachtree

has obtained $75,000,000 of structured settlement warehouse financing from an undisclosed

Hedge Fund

The undersigned acted as financial advisor to Peach Holdings July 12, 2010

Freeman & Co. Securities LLC

CLO Contracts

$210,000,000

GSC GROUP

Senior Debt Restructuring

The undersigned acted as financial advisor to the Creditor Committee 2009 – 2010

Freeman & Co. Securities LLC

Reverse Mortgages

$840,000,0000

The Reverse Mortgage Portfolio of

KBC SENIOR LENDING NETWORK

has been acquired by an undisclosed

Investment Bank

The undersigned acted as financial advisor to KBC Financial Products February 24, 2010

Freeman & Co. Securities LLC

CLO Contracts

€350,000,000

avoca capital

has acquired the CLO business of

KBC

The undersigned acted as financial advisor to Avoca Capital December 11, 2009

Freeman & Co. Int. LLP

Recent Publications by Freeman & Co.

Asset Management Focus
- *Slogging Through the Mud (September 2010)*
- *Putting the Pieces Back Together (April 2010)*

Financial Technology Focus
- *Out of the Frying Pan and into Regulatory Reform (September 2010)*

Insurance Focus
- *Damned if You Don't (January 2011)*
- *To Arms, To Arms: The Regulators are Coming! (July 2010)*
- *Back from the Brink (January 2010)*

Private Equity Focus
- *Show Me the Money (September 2010)*

Securities Industry Focus
- *Filling the Void in the Middle Market (January 2011)*

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