Issue 8
3rd Quarter 2003

October 31, 2003

Asset Management Focus Freeman & Co.

Inside this issue:

International Deal Activity	2
US / European Acquisitions	3
Global Assets Acquired	4
European Third Party Funds	6
Alternative Investments	8
US Public Money Managers	11

Indices at October 31, 2003:

DJIA	9,275
NASDAQ	1,787
S&P 500	995.7
FTSE 100	4,091
10 Year US Treasury Bond Yield	4.33%
Euro to dollar	$1.18

Struck by Scandal, but Buoyed by Bounce in Returns

The asset management industry has been shaken by the recent events including mutual fund market-timing, threatened litigation, sales practices for mutual funds, break points on mutual fund sales and a push by the SEC to regulate the hedge fund industry. Luckily this bad news for the industry has been tempered by the strong returns in every asset class over the past 12 months.

We see M&A and expansion activity restarting in many market sectors as firms begin looking for growth opportunities again in products, distribution channels and geography. Also, there continue to be opportunities for acquisitions at reasonable prices as large financial services companies re-align their business models and shrink from non-core activities.

Performance as of Sept 30, 2003

Index	Total Return 3Q 2003	Total Return Trailing 12 Months	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	14.7%	24.4%	-10.1%	1.0%
NASDAQ	33.8%	52.5%	-21.4%	1.1%
FTSE 100	3.8%	9.9%	-13.4%	-4.2%
LBGC*	4.7%	6.5%	9.6%	6.7%
HFRI FoF**	13.2%	16.0%	4.1%	11.7%
CSFB/Tremont***	10.5%	12.9%	5.9%	8.9%

Lehman Brothers Govt./Credit Index* * Hedge Fund Research Institute Fund Weighted Composite* ****CSFB/Tremont Hedge Fund Index*

Summary

Our key findings are:

- There were 48 acquisitions announced in 3Q03, compared to 39 in 2Q03 and 33 in 3Q02 representing increases of 23% and 45%, respectively
- Year to date there has been a total of 116 acquisitions, compared to 100 for the same time period last year, an increase of 16%
- Globally, a total of $270 billion in AUM was acquired during the first three quarters of 2003 compared to $407 billion for the same time period in 2002, a decline of 34%
- Average deal size by AUM in 2003 has been $2.3 billion as compared to the average of $3.4 billion in 2002 representing a decline of 32%
- The largest US deal by AUM in 2003 was Lehman Brothers' acquisition of Neuberger Berman, which managed $64 billion at the time of the transaction
- Several hedge fund index providers have partnered with distributors to launch index-linked products recently, including S&P, Dow Jones, MSCI and others
- During the past year, four large hedge fund administrators have been acquired as financial institutions look to capitalize on the growth of the industry
- European investors have a growing emphasis on capital preservation through risk management and investment diversity, which is leading to increases in alternative allocations

Eric Weber	+1 (212) 830-6162	eweber@freeman-co.com
Akram Ben	+33 (1) 42-12-08-11	aben@freeman-co.com
Eric Schwarzbach	+1 (212) 830-6169	eschwarzbach@freeman-co.com
Kerry Saladino	+1 (212) 830-6174	ksaladino@freeman-co.com

All contents © Freeman & Co. LLC 2003

Freeman & Co. 1301 Avenue of the Americas 30th Floor New York, NY 10019 ● Tel: +1 (212) 830-6161 ● Fax: +1 (212) 265-4998 ● www.freeman-co.com

Global Asset Management

The improving equity markets in 2003 have led to increased asset management deal activity in the latter half of this year. The number of acquisitions announced globally has increased steadily over each quarter thus far in 2003. There were 48 acquisitions announced in the third quarter, representing an increase of 23% over the 39 acquisitions announced in the second quarter and an increase of 66% over the 29 acquisitions announced in the first quarter of 2003. Through the first three quarters of the year, global acquisitions increased 16% to 116 over 2002's 100 acquisitions during the same time period.

There were 13 strategic partnerships announced through the first three quarters of 2003, focused primarily in the alternative investment space. Five joint ventures occurred in the third quarter of 2003 down from eight during the same time period in 2002. There were 5 management buyouts ("MBO") during the first nine months of 2003.

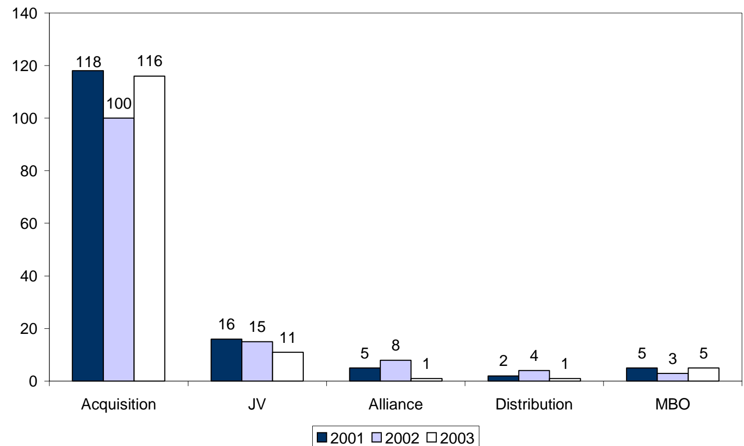
The number of global acquisitions is on pace for the first year over year increase since deal activity peaked in 2000, although total AUM will still fall short of that year's record $1.7 trillion AUM acquired. The deal environment was clearly helped by an overall increase in the global equity markets, and we expect to see a total of 140—150 acquisitions for the full year, although this potential total may be adversely impacted by the emerging scandals involving mutual fund trading/timing. Many firms may refocus management's energies to managing internal business reviews rather than looking for external acquisitions.

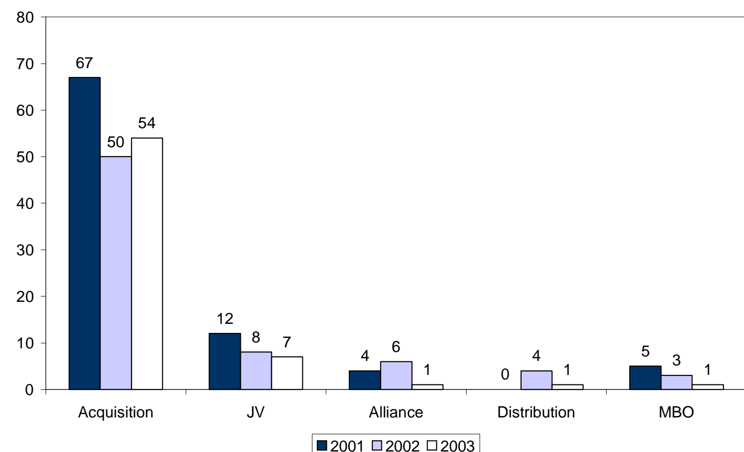
Regional Activity

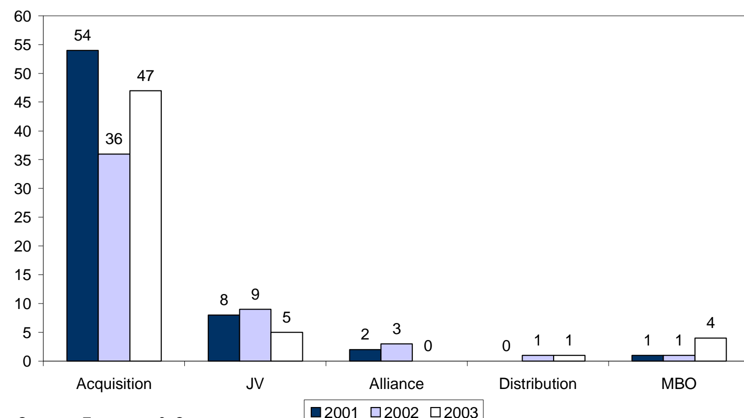
US deal activity has continued to recover, increasing 10% to 54 US deals through the third quarter, and increasing 42% from the low of 38 announced deals in the first nine months of 2000. However, US deal activity continues to be depressed from its 2001 six year high of 67 deals (-19.4%).

Acquisitions involving US firms (54) outnumbered European firms (47) by 15%, reversing the shift in the beginning of 2003 which saw the number of European transactions leading those involving the US by 50%.

As we predicted in the first quarter 2003 *Asset Management Focus,* activity in the US has rebounded to historical norms, as the 1997-2002 average for nine-month deal activity is 52 deals (to this year's 54 deals). There will still be steady deal activity in Europe as firms position themselves for pan-European competition. In the third quarter of 2003, there were thirteen European acquirers. Deals included the acquisition of the remainder of Eptaconsors SpA by Sanpaulo IMI SpA for full control of the Italian asset manager which managed $14.4 billion in AUM and Aberdeen Asset Management's acquisition of Edinburgh Fund Managers Group Plc with $5.3 billion in AUM.







Source: Freeman & Co.

US Companies over $1 Billion in AUM Acquired in 2003

There have been 17 acquisitions announced thus far in 2003 involving greater than $1 billion in AUM in the US. The most notable transaction being the third quarter acquisition of Neuberger Berman by Lehman Brothers, which saw the consolidation of a large public asset manager and a global investment bank. This acquisition represented the largest US deal by AUM in 2003, with $63.7 billion AUM being acquired. This total represented 34% of the assets acquired in the US and 24% of the AUM acquired globally during the first three quarters of 2003.

According to the press release, the Neuberger Berman acquisition was valued at $2.6 billion. It has been three years since a US public money manager of this magnitude was acquired when Fiduciary Trust was bought by Franklin Resources in 4Q 2000. The enterprise value for the Lehman Brothers' acquisition of Neuberger Berman is the largest for a US public money manager since the acquisition of PIMCO Advisors by Allianz AG in 1999 which valued the US bond fund manager at $4.7 billion.

US Companies Acquired in 2003 with Greater than $1 billion AUM

Qtr	Target	Acquirer	Total Deal AUM ($MM)
3	Neuberger Berman	Lehman Brothers	63,700
2	State Street Private Asset Mgmt	U.S. Trust Corporation	11,500
2	Atlantic Asset Management	Putnam Lovell Capital	9,000
2	Oppenheimer Asset Mgmt (USA)	Fahnestock & Co.	8,000
2	Parametric Portfolio Associates	Eaton Vance Corp	4,700
3	Security Capital Research & Mgmt	Bank One Corp	3,500
3	MW Post Advisory Group	Principal Global Advisors	3,400
2	Dalton, Greiner, Hartman, Maher	Boston Private	2,200
3	The Crossroads Group	Lehman Brothers	2,000
2	Newbridge Partners	Victory Capital Mgmt	2,000
2	Overture Asset Managers, LLC	Fahnestock & Co	1,500
1	Avatar Investors Associates Corp	Overture Asset Managers	1,500
3	Benson Associates LLC	Wells Fargo & Co.	1,300
1	Groupama Asset Managerment	Gartmore Global Investments	1,200
3	Shott Capital Management	State Street Global Alliance	1,168
3	Darby Overseas Investors Ltd.	Franklin Resources Inc.	1,000

Source: Freeman & Co.

Lehman Brothers has been particularly active in the asset management industry. In the fourth quarter of 2002, Lehman Brother's acquired the fixed income investment management business of Lincoln Capital Management, the largest US asset manager by AUM acquired in 2002. During the third quarter Lehman Brothers also announced the acquisition of The Crossroads Group, a private equity fund manager, which increases Lehman Brothers' private equity assets by $2 billion to $7 billion. Fahnestock & Co. also made two acquisitions which were greater than $1 billion in AUM in 2003, acquiring CIBC's Oppenheimer asset management operations in the US and taking a minority stake in Overture Asset Managers, LLC, a consolidator of boutique money managers that provides its subsidiaries with distribution and support.

Aside from the Neuberger Berman acquisition, the only other US deal to exceed $10 billion in AUM during the first three quarters of 2003 was US Trust's acquisition of State Street's Private asset management business, which had over $11 billion in AUM.

European Companies over $1 billion in AUM Acquired in 2003

There have been 12 acquisitions in Europe involving greater than $1 billion in AUM through the first three quarters. The largest European transaction, and largest globally, was American Express' acquisition of Threadneedle Asset Management involving $75 billion in AUM. There were two other deals in Europe that involved greater than $10 billion in AUM, 1) the $14 billion+ AUM acquisition of Eptaconsors SpA by Sanpaulo IMI SpA and 2) the $13 billion+ AUM acquisition of the Swiss private Bank Edouard Constant SA by EFG Private Bank SA.

European Companies Acquired in 2003 with Greater than $1 billion AUM

Qtr	Target	Acquirer	Total Deal AUM ($MM)
2	Threadneedle Asset Mgmt	American Express	75,000
3	Eptaconsors SpA	Sanpaulo IMI SpA	14,340
2	Bank Edouard Constant SA	EFG Private Bank SA	13,300
2	Compagnie Bancaire Geneve	Societe Generale SA	9,100
3	Edinburgh Fund Managers	Aberdeen Asset Mgmt	5,260
1	Aberdeen Unit Trust Mgrs	New Star Asset Mgmt	2,800
1	MEPC Ltd	Hermes Pensions Mgmt	1,930
3	Edinburgh Fund Mgr's Retail Business	New Star Asset Mgmt	1,507
4	Merrill Lynch German PCS	UBS Wealth Mgmt AG	1,400
2	Lloyds TSB (French money mgmt unit)	UBS AG	1,150
3	SG London Private Banking	Tilney Holdings Ltd.	1,140

Source: Freeman & Co.

In September, Aberdeen Asset Management announced that it would be acquiring Edinburgh Fund Managers with $5.3 billion in AUM with the financial backing of New Star Asset Management. As part of the transaction, Aberdeen agreed to sell the retail funds business of Edinburgh, which includes mutual funds and funds of funds, to New Star. New Star and Aberdeen were involved in another transaction involving greater than $1 billion earlier in the year when Aberdeen sold roughly $2.8 billion in unit trusts to New Star.

UBS made multiple $1 billion+ purchases in 2003, having acquired Lloyds TSB Group Plc's French money management unit with $1.2 billion in AUM and in October announcing the acquisition of Merrill Lynch's German private client unit with $1.4 billion. The Merrill Lynch business will be integrated into UBS Wealth Management AG. Another universal bank, Societe Generale, made the list twice with its acquisition of the Swiss private bank Compagnie Bancaire Geneve and the divestiture of its London private banking unit.

[1] Please note that for regional classification Freeman & Co. includes Mexico in South America

Assets Acquired through the Third Quarter

The US acquired the most AUM totaling $188.1 billion through September 30th, $131.3 billion more than Europe with $57.6 billion. This seems to reverse a four year trend in which Europe led the world in assets acquired. The estimated US assets acquired for 2003 should surpass 2002 levels, thus continuing the trend of increased deal activity in the US asset management industry.

After two years of depressed asset levels acquired in the Australasian region, the AUM acquired this year to date has increased by a multiple of 4.4x since 2002. This increase in activity can be attributed to an increase in deals, particularly in Australia, as seen in the chart at right.

As noted in the first quarter 2003 *Asset Management Focus* the spike (5.5x) in activity in the South American region is due to GNP Pensiones SA acquiring the 40% stake in the pension fund Grupo Nacional Provincial Pensiones SA it did not already own from AIG in order to gain 100% control.

Deal activity in Canada has been decreasing since its peak in 2001 of $48.0 billion. The Canadian region has seen three deals over $1 billion this year through the first nine months of 2003, in contrast to six deals over the same timeframe in 2002.

Assets Acquired by Buyer Region Through First Three Quarters ($MM)

Region	1998	1999	2000	2001	2002	2003
Africa	54,860		28,900		11,700	635
Australasia	30,316	42,478	6,554	1,802	2,361	10,313
Canada	5,400	7,734	7,691	46,240	32,670	10,390
Europe	113,080	168,746	738,129	519,186	193,258	56,761
South America[1]			122	1,400	885	4,874
US	118,854	121,368	621,943	217,490	166,038	188,088
Total	**287,600**	**340,326**	**1,374,438**	**786,117**	**395,211**	**270,427**

	1998	1999	2000	2001	2002	2003
No. of Acquisitions	103	108	150	147	117	116
Average Size	2,792	3,151	9,163	5,348	3,378	2,331
Median Size*	8,382	9,981	16,824	9,682	6,819	4,561

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

2003 Intra-Australasian Deals

Qtr	Target	Ctry	Acquirer	Ctry	Ownrshp %	Deal AUM ($MM)
3	Citisec Asset Management	PHL	MAA Holdings Berhad	MAL	100	-
2	Commonwealth Bank of AU	AUS	National Australia Bk Ltd.	AUS	100	-
2	Terrain Australia Ltd	AUS	City Pacific Ltd	AUS	10	-
2	United Securities Invstmt Trust	TWN	Macquarie Bank Ltd.	AUS	40	868
2	Plum Financial Services	AUS	MLC Ltd	AUS	100	1,800
1	Grampians Finance Group	AUS	Investor Group Ltd.	AUS	100	8
1	Zurich Asset Management India	IND	HD Corp MF	IND	100	837
1	Challenger International Ltd.	AUS	CPH Investment Corp	AUS		6,800

Source: Freeman & Co.

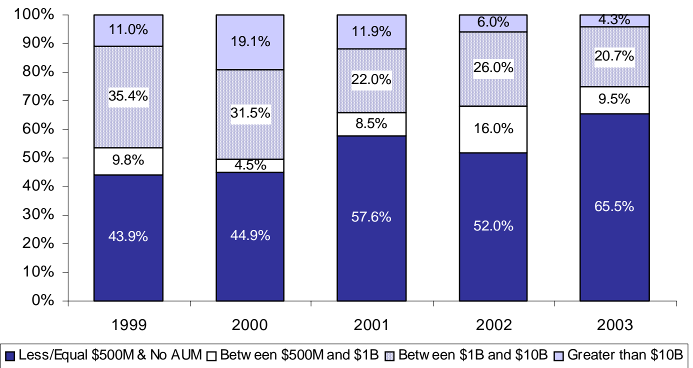
Global Deal Size Frequency

Although the number of asset manager acquisitions for the first three quarters has seen a significant increase over the same time period in 2002, the vast majority of acquisitions have involved boutique managers with less than $500 million in AUM. Sixty-six percent of the acquisitions in 2003 have involved less than $500 million in AUM, compared to 52% and 58% in 2002 and 2001, respectively. On the other end of the spectrum, the number of acquisitions involving greater than $10 billion in AUM for the first three quarters is at a five year low with only 5 companies of this magnitude having been acquired, representing only 4% of the total number of transactions. This total compares to 6% and 12% for the prior two years. The one range where acquisitions have remained fairly constant is between $1 and $10 billion in AUM. There were 24 acquisitions thus far in 2003 in this range, compared to 26 acquisitions in both 2001 and 2002. The peak number of acquisitions in the $1 to $10 billion range occurred in 1999, when 29 acquisitions were announced.

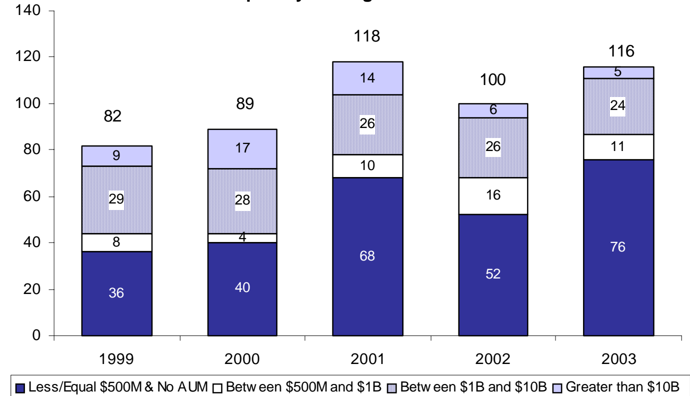
For the remainder of the year we expect to see few, if any, acquisitions in the greater than $10 billion AUM range as potential buyers of such businesses would want to be certain that any targets are clear of the ongoing mutual fund timing investigations.

Note: *For purposes of this analysis transactions with no reported AUM and asset management-related service providers have been classified as having less/equal than $500 million AUM*

Deal Size Distribution Through the First Three Quarters



Deal Size Frequency Through the First Three Quarters



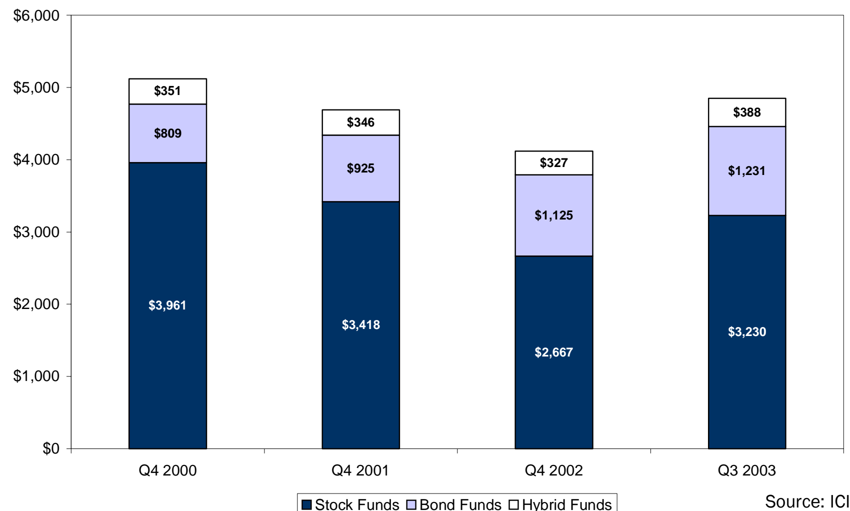
Source: Freeman & Co

[1] Please note that for regional classification Freeman & Co. includes Mexico in South America

The US Mutual Fund Industry

The US mutual fund industry has had the good fortune of strong returns in all the major asset classes over the past twelve months and particularly in the quarter ending September 30th:

- S&P 500 index +24.4% over 12 mos., +14.7% over 3 mos.
- NASDAQ Composite +52.5% over 12 mos., +33.8% over 3 mos.
- Lehman Brothers Gov't/Corp index +6.5% over 12 mos., +4.7% over 3 mos.



As a result we see the total quarterly revenue of the public asset management firms that we track approach levels not seen since 2000 (approximately $3.2 billion); the total 3rd quarter revenue for this group is also up approximately 12.5% over the comparable period last year. This group of companies has also raised its average assets under management to levels ($1.96 trillion) that are higher than the average levels reached during the 2000 bubble ($1.83 trillion). As a result, we have begun to see firms looking at growth opportunities again, after focusing on cost realignment the past two years. One example of this is US Trust's acquisition of State Street's private client business; in addition, we continue to see firms that are exploring the three traditional channels for expansion: products, distribution channels (or client types) and geography. That is the good news.

Unfortunately the US mutual fund industry, which had been relatively scandal free, is being investigated for a number of potential abuses, which include sales practices, fee-breaks for large sales and mutual fund timing/trading by hedge funds. First, the sales practice abuses generally involve sale promotions by retail brokerage firms, in violation of regulations, and the failure to disclose the promotions to investors. Although the brokerages are the firms under scrutiny, the headline risk is not helpful to the mutual fund industry. The second problem has been the failure of brokerage firms to provide fee breaks on loads when customers make large purchases (generally over $50,000). As a result the brokerages were overcharging the investors. Again, the fault lies with the brokerages, but having "mutual funds overcharge" in the newspaper affects the industry and may erode investor trust. Last, but not least, the practice of mutual fund timing/trading by hedge funds has engulfed the industry — leading to the resignations or ousters of such industry notables as Larry Lasser, CEO of Putnam Investments, Dick Strong, founder of his eponymous firm, and the founders of Pilgrim Baxter: Gary Pilgrim and Harold Baxter. Unfortunately the investigations and turmoil over market timing practices will continue for years — currently the regulators are investigating and the trial lawyers are readying their litigation assaults, which will drag through the courts for years and potentially cost firms millions of dollars of legal fees, settlement costs and restitution to investors.

Firms Under Scrutiny for Market Timing

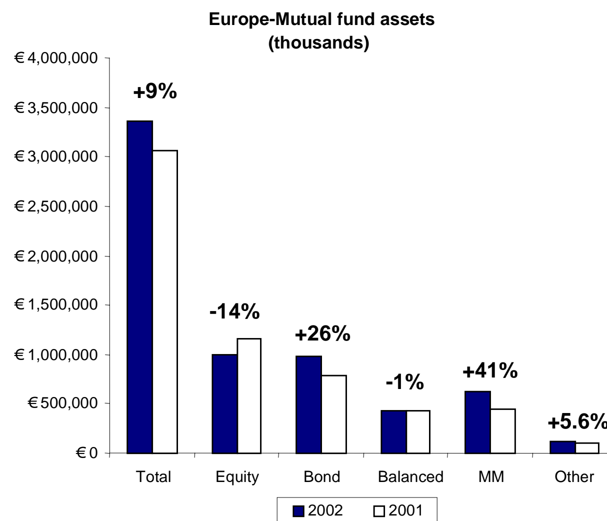
- Bank of America
- Strong Capital
- Pilgrim Baxter
- Putnam Investments
- Invesco
- Janus
- MFS
- Canary Capital

The market timing scandal also has the potential to impact other sectors of the industry. Since many of the market timers were hedge funds, it may be possible that they will be forced to disgorge any profits from the activity. If this is possible, then they might turn to their investors at the time to return any profits they might have withdrawn from the fund. While tracking down individual investors might be difficult, the institutional fund of funds would be easier targets. If this chain of events is possible or does occur, hopefully it will be handled directly between businesses and is not the direct result of Elliot Spitzer or other regulators reaching out tentacles to get to any investor who profited from market timing.

The other potential impact on the industry is in the area of M&A. Since it looks like Strong Capital will be put up for sale, difficult questions arise about the factors that will affect the salability and pricing of the firm. A simple factor is direct asset outflows, but estimating how long new asset raising will be negatively affected is much more difficult. Fines and settlements from regulators might be estimated, as might any potential disgorgement of profits by Strong Capital. What is more difficult is the threat from class action lawsuits on behalf of mutual fund shareholders that lost fractions of the profits in the NAV's each time a market timer was at work. For example, if Strong profited $600,000 from his activities on mutual funds with asset bases of $3 billion, the net loss to investors is 2 basis points. While each individual investor has little to gain, the lawyers would have a great deal to gain from the litigation.

European Mutual Fund Industry – Shifting Investment Strategies

In the past years European fund investors have increased their nominal bond allocation by 26% and their cash allocations by 41%. We think the increased allocation to cash is a temporary measure. Simultaneously they reduced their equity exposure by 14%. The continued shift from equities to bonds is largely driven by declines in stock values over the past years, during which time total returns on bonds have fared better in comparison. While these shifts are partly related to the market's returns, changes in investment policy among institutional investors have also been common. This shift has resulted in an overall increase of total mutual funds AUM in Europe of 9% despite the equity market declines.



Approximately US $115 billion has been allocated into new strategies such as real estate property funds, derivative funds, venture capital funds, specialized funds and securitization funds. Some of this increase represents reallocations from equity funds and some represents new allocations to mutual funds.

Mutual funds - New strategies ($ millions)

	2001	2002	Change (%)
Real Estate	85,996	105,050	22%
Derivative	2,232	4,707	111%
VC	7,758	7,969	3%
Special	523,106	599,370	15%
Securitisation	1,906	19,301	913%

There also continues to be increases in pan-European style investing, helped by the introduction of the single currency, which has removed currency risk for investors. As the landscape continues to blend into a single pan-European market, we expect continuing increases in pan-European investment mandates and directives.

Bond funds - pan-European investment increase

Total increase	Domestic	Euroland	European	Global
26%	*23%*	*27%*	*45%*	*20%*

The ability of pension funds to meet future liabilities continues to be challenged by low yields and diminished equity return expectations. Lower interest rates have also increased the present value of future payouts, encouraging pension plans to seek new strategies in hopes of increasing returns and closing future funding gaps. The result is continued reallocations to alternative asset classes such as real estate and hedge fund of funds. As rates remain low, we believe these two asset classes will experience strong demand. Hedge funds hold particular appeal for investors in Europe as diversified portfolios can provide them with current income and positive, absolute returns in the current investing environment.

Money Market Funds - pan-European investment increase

Total increase	Domestic	Euroland	European	Global
41%	31%	51%	84%	7%

European investors' sentiment appears to be influenced by continued market volatility, and they are pursuing two strategies in response. First, there is a growing emphasis on capital preservation through risk management and insurance wrappers. Second, many investors are willing to make allocations to diversified alternative investment strategies such as hedge fund of funds due to their low volatility and non-directional returns.

We think these changes offer opportunities for select asset management firms. The first characteristic that European investors are going to look for as they expand their asset class spectrum is product manufacturing expertise. We believe this presents opportunities for both European and US product providers, as the important factors for asset class selection are potential returns and diversification ability. As a result, we see an increasing willingness by Europeans to invest in unique strategies, regardless of their geographic origin. The best example of this is hedge fund of fund providers, which are usually US-centric due to the well-developed hedge fund market and large supply of managers in the US. In fact, many of the European providers of hedge fund of funds are opening US offices to source managers and to comfort investors that they have a window into this important market.

The challenge for many of these product providers will be distribution, particularly US firms that may not understand the nuances of the European marketplace and its product distribution patterns. We believe that alternative investment firms (European and US) will be able to market directly to institutions due to their level of sophistication and the economics driven by the size of their allocations. Also, the products are often so specialized that intermediaries may not be able to effectively communicate the product message so investors would want to interact directly with the manager. In the mass market, many of these alternative products may not be suitable, but any attempt to distribute in this channel would certainly require partnering or using intermediaries. Product providers will not have the critical mass to approach these clients directly and will have to rely on private banks, retail banks and financial intermediaries to reach these customers. As many firms will try to gain access to this limited shelf space, other factors such as brand name, client service levels and support for the distributor by the product provider will be key factors for gaining distribution access.

Opportunities for US Managers to Penetrate the Continental European Market

Many universal and private banks in Europe have created preferred partner programs (Banque du Louvre and Natexis Banques Populaires in France, for example), offering shelf space to five to seven product providers. Although some banks are opening their distribution platforms to outside providers, we believe that we are unlikely to see more than 20% of fund flows in the bank channels available to third party branded products in the next few years. It is likely there will be a two stage process, with mass retail banks remaining rather closed while private banks and advisor networks offer a far wider degree of choice to their investors. This second group will position their best-in-class offerings as a competitive advantage in attracting customer assets.

The reasons behind the lack of a wider openness among universal banks differ according to the size of the organization. Small banks like Banco Popular in Spain, with small proprietary asset management capabilities have seen their client base shift to more secured investments (money market, guarantee, savings accounts) after being hard hit by equity market volatility. This type of client base is not the optimal segment that many foreign managers should pursue in Europe, as they are often promoting higher risk/return products. Many larger firms like Societe Generale, BNP Paribas, UBS and Deutsche Bank have the capital to support a competitive global distribution business without merely relying on their captive distribution channels. Many mid-sized banks will face two challenges in product manufacturing and distribution. The first challenge, lack of size and scale, may prevent firms from offering a broad range of investment products, so they may be forced to adopt open architecture to deliver products to their customer bases. With regards to the second challenge, distribution and client relations, the costs of expansion may force mid-sized firms to pursue niche focus areas — either in specific channels, geographic regions or client segments — where they can gain critical mass. As a result, product providers will need to custom tailor their marketing approaches to meet the needs of the different intermediaries who control the client relationships.

The conclusions we draw from these observations are that the opportunities for US asset managers looking to expand distribution across continental Europe will be:

- Wholesaling products to European financial organizations, as some insurers and banks will close poor performing funds and will want to access the scale and professionalism of international asset managers.
- Tracking acquisition opportunities as mid-sized banks and insurers may accelerate disposal of their asset management operations to focus on distribution.
- Targeting private banks as distributors as we see a trend towards providing affluent investors with greater product choices.
- Focusing on corporate pension plans in some markets as they offer greater choice to their investors who will seek to capture best-in-class performance records.
- Targeting multi-manager programs developed by many distributors.

Selected US-Europe Business Ventures 2002 - 9M 2003

Year	Month	Partner 1 / Target	Region	Partner 2 / Acquirer	Region	Transaction
2003	9	Capital Management Advisors	Europe	CMA Group NA	US	New Business
2003	7	Interros Holding	Europe	American International Group	US	JV
2003	6	Lyxor Asset Management	Europe	MSCI	US	JV
2003	5	Metzler Asset Management	Europe	Frank Russell	US	Distribution
2002	7	ABN Amro Holding NV	Europe	Mellon Financial Corp	US	JV
2002	7	Prumerica Financial	US	Sal. Oppenheim	Europe	JV
2002	3	LJH Global Investments, LLC	US	Attica Portfolio Management	Europe	JV
2002	2	American Express Bank France	US	BNP Paribas SA	Europe	Alliance
2002	1	Deutscher Investment Trust	Europe	Citigroup	US	Distribution

The current economic environment presents opportunities for those firms that have the resources to expand or take advantage of selective opportunities. The previous downturn in the market has forced many banks and insurance companies to sell businesses in non-core client, product or geographic segments. As a result there have been numerous cross-border acquisitions as firms pull out of markets and divest businesses. Change events such as these always present opportunities either to buy market share or to displace a competitor due to the turmoil and uncertainty transactions often create.

We also believe that client service and support can be a differentiating factor and that firms who do not withdraw resources that support their distribution channel partners during market downturns could be well rewarded for their commitment. Offensively, they may be able to add market share within channels; defensively, they will certainly protect their market share and prevent other firms from gaining more shelf space.

Alternative Investments - Current Developments

In the third quarter of 2003, the SEC published a staff report entitled "Implications of Growth of Hedge Funds" which studied hedge funds, including their investment advisers, other service providers, and their investors in order to shed light on the hedge fund industry and explore ways of potentially increasing regulation. The report recommended the following proposals to the Securities Exchange Commission as main directives for regulating the hedge fund industry:

1. *Require hedge fund advisers to register as investment advisers under the Advisers Act, taking into account whether the benefits outweigh the burdens of registration*
2. *Address certain valuation, suitability and fee disclosure issues relating to registered fund of hedge funds*
3. *Permit general solicitation in fund offerings limited to qualified purchasers*
4. *Monitor closely capital introduction services provided by broker-dealers*
5. *Encourage the hedge fund industry to embrace and further develop its best practices*
6. *Improve investor education regarding hedge funds*

Although it is uncertain which of the recommendations will eventually be enacted, we believe the push to greater levels of disclosure and regulations will increase the costs of doing business for hedge funds, hedge fund of funds and their distributors and service providers. The next key point is who will eventually bear these increased costs along the value chain: investors, hedge funds, fund of funds or service providers. We are fairly certain that investors will bear some of the costs through either higher direct fees or additional charge-backs against the funds in which they invest. However, the hedge funds and fund of funds may shoulder a disproportionately high portion of these costs and their ability to pass these costs on to investors will depend on the laws of supply and demand (generally directly proportional to the net returns a fund has been generating).

While the largest fund complexes will have little trouble supporting an additional $250,000 to $1 million in regulatory and compliance costs, the biggest burden will fall on the thousands of small hedge funds and fund of funds that will have the greatest difficulty in carrying these costs. This leads to the next question of whether firms will seek critical mass to help cover the higher cost of doing business: regulatory, compliance, marketing, distribution, etc. Although it is hard to place a value on a hedge fund and sell it in a traditional M&A transaction, there are emerging models that combine firms or provide a platform for hedge funds. Most of these provide all the back-office services in return for the base management fees; on top of that, they may provide marketing and distribution, for which they will split the incentive fees.

Additional SEC Recommendations being Considered

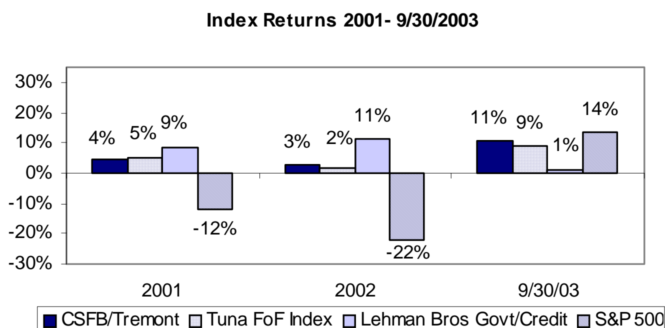
- Require all registered companies that invest in hedge funds to have procedures to ensure hedge funds are valued in a manner consistent with 1940 Act requirements
- Disclose in prospectuses estimated fee and expense tables to address concerns that registered fund of hedge fund investors do not understand the impact of multiple layers of fees
- Permit hedge funds which limit their investors to a higher investment standard, to engage in general solicitation

Hedge fund of funds are easier to value due to the lower percentage of variable fees, and they present themselves as better M&A candidates. The key question is: What will they need to do to be both competitive and profitable? We believe that the long-only world provides a template for the future hedge fund of fund landscape; in the long-only world there are a number of very large complexes (e.g. Fidelity) and a long tail of much smaller firms, many of which are quite successful and profitable. However, at the small end, many of the firms should be larger and more profitable than they usually are; we think the hedge fund of fund world will follow a similar pattern. Currently, many firms are trying to reach critical mass and become top 20 firms — the only problem is that only 20 firms can fit in the top 20 list. We continue to believe that those firms that do not reach critical mass and show momentum in asset growth will have difficulty raising capital and investing in the infrastructure that institutional investors will require from their hedge fund of fund managers in the near future.

The recent mutual fund trading/timing scandal will certainly increase the focus on hedge funds and their practices. Although a very small proportion of hedge funds ever pursued mutual fund timing strategies, the current events provide the opening for regulators to begin exploring other parts of hedge fund activity (sales practices, suitability tests) and to push for an increased level of regulatory oversight of the industry. One potential avenue for this is by approaching hedge funds indirectly by increasing the reporting and regulatory burden on the prime brokerage firms (virtually all of which are owned by firms that have settled other matters with Elliot Spitzer recently). It is clear that the capital introduction services provided by prime brokers is a targeted area — sales practices and investor suitability issues have been investigated in most financial products over time (mutual funds, variable annuities, etc.). Whether or not Mr. Spitzer's group decides to take this road remains to be seen, but the fact that a potential route like this exists should warn firms to review their current business practices to make sure that they uncover any problems, if any, and take corrective actions before the regulators do it for them.

Alternative Investments—Investable Indexes

In the previous issue of *Asset Management Focus* we highlighted the growing number of hedge fund indices and the related index products. Since that time there have been a number of additional partnerships and product launches.



In August, CSFB/Tremont launched the first investment product that tracks their long-standing index. MSCI and Lyxor launched a product in July that uses separate accounts to track the MSCI Hedge Fund Index. More recently, Lyra Capital LLC announced that Dow Jones will begin publishing the hedge fund index returns that are a basis for Lyra's investable products. Lyra Capital had previously grown their business to $1.3 billion in AUM as a part of Zurich Capital Markets prior to their MBO in October of this year.

Competition will become increasingly stiff amongst the hedge fund indices. Although the traditional index providers (S&P, Dow Jones & MSCI) should be at an advantage, CSFB/Tremont was one of the first movers and has positioned themselves as an industry standard. The traditional index providers should gain instant credibility amongst investors due to their global brand names and create great opportunities for their distribution partners with both institutions and retail-oriented investors alike.

Hedge Fund Index-related Partnerships

Mo	Year	Partner 1	Partner 2	Summary Details
11	2003	PlusFunds Inc.	XL Capital Ltd.	Creating structured products for the insurance industry based on the S&P Hedge Fund Index
10	2003	**Lyra Capital**[2]	Dow Jones Indexes	Dow Jones will publish the Hedge Fund Indices formerly owned by Zurich Capital Markets
8	2003	CSFB	Tremont	Launched investable fund that tracks the CSFB/Tremont Index
7	2003	Lyxor Asset Mgmt	MSCI	MSCI launched investable index using separate accounts owned by Lyxor
4	2003	MondoHedge	MPS Alternatives	Partnered to launch hedge fund index for the Italian Market
5	2002	PlusFunds Inc.	S&P	PlusFunds will act as investment manager for product tracking the S&P Hedge Fund Index

Source: Freeman & Co

Alternative Investments—Hedge Fund Administrator Acquisitions

In order to capitalize on the growing hedge fund market and in several cases to increase their relationships with hedge fund managers, several large financial institutions have acquired hedge fund administrators over the past several quarters. Most recently, Citigroup acquired Forum Financial Group for approximately $47 million. The acquisition allows Citigroup, with $5.5 trillion of fund assets under custody, to offer accounting and administrative services to its mutual fund and hedge fund clients for the first time. Around the same time as the Citigroup announcement, HSBC announced that it was acquiring Bank of Bermuda for approximately $1.3 billion, primarily for its fund administration and private client businesses. Bank of Bermuda is one of the world's largest fund administrators with $113 billion in assets which account for approximately 45% of the company's overall revenue. Other notable transactions were BISYS' acquisition of the Hemisphere Group and PNC's acquired the remaining minority interest it did not own in PFPC.

With the rapid growth that the hedge fund industry has experienced over the past several years, large financial institutions have been looking for ways to further develop their relationships with hedge fund managers by becoming one-stop shops. Additionally, the economics of administrators, whose fees are linked to assets under administration, allows large institutions to catch a ride on the growth of the industry while potentially solidifying cross-selling relationships for their prime brokerage and trading desks. It also provides firms with recurring, asset-based fees in businesses that should have good operating leverage and require low amounts of capital allocation, in contrast to the prime brokerage businesses.

As the hedge fund business continues to gain traction with institutional investors, we expect further expansion of service provider efforts and increased consolidation in the sector.

Recent Acquisitions of Hedge Fund Administrators

Year	Target	Country	Acquirer	Country	Price ($MM)	Total AUM ($MM)
2002	Hemisphere Group	Bermuda	BISYS Group	US	130	50,000
2003	PFPC Inc.	US	PNC Financial	US	54	
2003	Bank of Bermuda	Bermuda	HSBC	UK	1,300	113,000
2003	Forum Financial Group	US	Citigroup	US	47	

Source: Freeman & Co

[2] Lyra Capital was formed through the management buyout of the Zurich Benchmark Series from Zurich Capital Markets, Inc. Freeman & Co. Securities LLC acted as financial advisor to Zurich Capital Markets, Inc.

Alternative Investments—Max Re

Max Re Financial Data as of September 30, 2003

Asset Type	Market Value ($000)	Total %	Alternative %	Returns 3Q03	Returns Last 36 months	Asset Change Q2-Q3 $000	Asset Change Q2-Q3 %
Cash and Fixed Maturities	$1,648,983	66.0%	NA	-0.4%	7.8%		
Global Macro	111,854	4.5%	13.2%	3.4%	15.8%	15,246	1.5%
Long / Short Equity	64,078	2.6%	7.6%	5.0%	3.4%	(1,238)	-0.5%
Convertible Arbitrage	88,862	3.6%	10.5%	0.1%	12.1%	(459)	-0.5%
Diversified Arbitrage	116,535	4.7%	13.7%	1.1%	10.5%	(28,696)	-4.5%
Distressed Securities	120,728	4.8%	14.2%	7.1%	10.3%	31,516	3.7%
Opportunistic	17,830	0.7%	2.1%	13.7%	7.6%	(775)	-0.2%
Emerging Markets	55,629	2.2%	6.6%	4.5%	6.2%	(847)	-0.4%
Fixed Income Arbitrage	86,395	3.5%	10.2%	3.8%	7.3%	9,218	0.8%
Event-Driven Arbitrage	47,256	1.9%	5.6%	3.8%	8.8%	1,386	0.0%
Commodity Trading Advisers	55,686	2.2%	6.6%	5.4%	5.4%	2,566	0.1%
Max Re Diversified Strategies	**$764,853**	**30.6%**	**90.1%**	**3.4%**	**8.7%**	**$27,977**	**0.0%**
Insurance Underwriting	83,697	3.4%	9.9%	3.1%	8.3%		
Alternative Investments	**$848,550**	**34.0%**	**100.0%**	**3.4%**	**9.0%**		
Total Investments	**$2,497,533**	**100.0%**	**NA**	**0.9%**	**8.2%**		

Source: SEC Filings

In the third quarter of 2003 Max Re reported increased returns for its alternative investment portfolio of 3.4%. For the fourth consecutive quarter, strong alternative investment results have augmented Max Re's total income. Net gains on alternative investments for the three months ended September 30, 2003, were $28.1 million, or a 3.4% rate of return, compared to net gains on alternative investments of $1.1 million, or a 0.3% rate of return, for the same period of 2002. For the nine months ended September 30, 2003, alternative investments returned $95.2 million, or 12.8%, compared to $6.7 million, or 1.1%, for the same period in 2002. Overall, alternative investment strategies returned 3.4% compared to 0.9% for the overall investment portfolio of the firm. Returns were markedly higher in the opportunistic style asset type with a 13.7% quarterly return.

Since Max Re's 2% increase in allocation to alternative investments on December 31, 2002, the company has continued to steadily allocate 34% of its investment portfolio towards alternatives. In contrast to MaxRe's investment performance shortly after going public, the alternatives portion has begun to contribute strong positive returns that are uncorrelated to its long fixed income portfolio holdings. In terms of adjustments made to the alternatives portfolio, there was a decrease in the allocation for diversified arbitrage and increases to global macro, distressed securities and fixed income arbitrage strategies.

Notable Alternative Investment Transactions

The alternative investment industry continues to be one of the most active segments of the broader industry in terms of strategic business alignments. During the third quarter we recorded 10 alternative investment business relationships or partnerships that were created, of which 6 were acquisitions and the remaining 4 were alliances or joint ventures. Generally, these all involved investment products although we continue to see an expansion of partnerships involving platforms for IT, infrastructure and information services to the industry. Although it is now easier to get information on alternative products and performance than it was just 2 years ago, the alternative industry's infrastructure lags behind those of other financial products such as mutual funds or variable annuities in terms of reporting, shareholder services and information availability. We continue to see opportunities for select firms to capitalize on these transactions.

Notable Alternative Investment Transactions of 2003

Month	Year	Partner 1 / Target	Country 1	Partner 2 / Acquirer	Country 2	Transaction Type
10	2003	**Zurich Benchmark Series**[3]	US	Lyra Capital LLC	US	MBO
9	2003	LJH Financial Marketing Strategies	US	Capco	US	Alliance
9	2003	Stone Harbor Advisors	Japan	RMF Investment Management's Hedge Fund Ventures	Switzerland	JV
9	2003	The Crossroads Group	US	Lehman Brothers	US	Acquisition
9	2003	Attica Asset Management	UK	Threadneedle Asset Management	UK	Acquisition
8	2003	Thomason Capital	US	Taurum Capital Partners	US	Acquisition
7	2003	Hedgefund.net	US	Wall Street Access	US	JV
7	2003	JD Farrods Securities Ltd.	UK	Integrated Asset Management	Canada	Acquisition
7	2003	Appleton International	UK	Integrated Asset Management	Canada	Acquisition
6	2003	**Zurich Capital Markets**[3,4]	US	BNP Paribas	France	Acquisition

Source: Freeman & Co

[3] Freeman & Co. Securities LLC acted as financial advisor to Zurich Capital Markets, Inc.

[4] Transaction included the majority of ZCM's structured product assets.

US Public Money Managers—Valuations

Investment Management Company Valuations — P&L data as of September 30, 2003

	Avg, AUM $Bil.	Enterprise Value (EV) [1]	Market Cap $MM	10/31/03 Share Price	Last 12 Months Revenue	EBITDA [2]	Core Net Income [3]	EV/ EBITDA [2]	EV/ EBIT [3]	Price/ Core Income [3]	Price/ TTM Income	% of AUM
Diversified												
Blackrock (BLK)	281.6	3,380	3,380	$51.35	637.5	203.8	145.7	16.6x	16.7x	23.2x	22.9x	1.2%
Eaton Vance (EV)	58.4	2,630	2,455	$34.88	503.5	199.0	102.0	13.2x	16.9x	24.1x	24.2x	4.2%
Federated Investors (FII)	198.0	3,215	3,132	$27.65	704.0	333.2	206.6	9.6x	10.1x	15.2x	15.9x	1.6%
Franklin Resources (BEN)	274.7	12,762	12,137	$47.42	2,624.4	665.2	430.8	19.2x	19.7x	28.2x	24.1x	4.4%
Gabelli (GBL)	21.8	1,319	1,079	$35.21	193.0	77.9	40.3	16.9x	16.9x	26.7x	23.6x	5.0%
SEI Investments (SEIC)	82.5	3,199	3,170	$29.10	614.7	206.7	127.9	15.5x	15.5x	24.8x	22.7x	3.8%
Janus Capital (JNS)	141.9	4,078	3,243	$14.14	991.0	367.4	114.1	11.1x	13.7x	28.4x	17.8x	2.3%
T Rowe Price (TROW)	152.7	5,196	5,163	$40.93	935.7	375.9	206.5	13.8x	15.8x	25.0x	25.2x	3.4%
Waddell & Reed (WDR)	28.9	2,039	1,825	$22.18	432.3	116.9	74.0	17.4x	18.5x	24.7x	38.4x	6.3%
Total	***1,240.4***	***$37,818***	***$35,584***		***$7,636***	***$2,546***	***Average***	***14.8x***	***16.0x***	***24.5x***	***23.9x***	***3.6%***
							Median	***15.5x***	***16.7x***	***24.8x***	***23.6x***	***3.8%***
Insurance												
Nuveen Investments (JNC)	84.8	2,735	2,717	$28.00	439.6	234.6	145.7	11.7x	11.9x	18.7x	19.7x	3.2%
Total	***84.8***	***$2,735***	***$2,717***		***$440***	***$235***		***11.7x***	***11.9x***	***18.7x***	***19.7x***	***3.2%***
Holding Companies												
Affiliated Managers (AMG) [4]	74.6	2,196	1,583	$72.50	473.7	202.8	129.8	10.8x	12.2x	12.2x	28.0x	2.1%
Total	***74.6***	***$2,196***	***$1,583***		***$474***	***$203***		***10.8x***	***12.2x***	***12.2x***	***28.0x***	***2.1%***
Bank/Trust Companies												
Boston Private Fincl. (BPFH)	7.7	594	593	$25.50	127.2	35.1	22.4	16.9x	17.0x	26.5x	28.6x	7.7%
Wilmington Trust (WL)	29.2	2,517	2,233	$33.68	512.6	199.4	128.3	12.6x	12.7x	17.4x	17.4x	7.7%
Total	***36.9***	***$3,110***	***$2,826***		***$640***	***$234***	***Average***	***14.8x***	***14.9x***	***21.9x***	***23.0x***	***7.7%***
							Median	***14.8x***	***14.9x***	***21.9x***	***23.0x***	***7.7%***
Limited Partnerships												
Alliance Capital L.P. (AC)	407.7	8,910	8,491	$33.57	2,611.8	621.0	562.7	14.3x	14.8x	15.1x	14.9x	2.1%
Total	***407.7***	***$8,910***	***$8,491***		***$2,612***	***$621***		***14.3x***	***14.8x***	***15.1x***	***14.9x***	***2.1%***
Overall												
Total	***1,844.5***	***$54,769***	***$51,201***		***$11,801***	***$3,839***	***Average***	***14.3x***	***15.2x***	***22.1x***	***23.1x***	***3.9%***
							Median	***14.1x***	***15.6x***	***24.4x***	***23.2x***	***3.6%***

Notes
1 Enterprise Value (EV) includes equity plus long term debt
2 Before tangible depreciation and amortization
3 Excludes extraordinary items and minority interest expense/income
4 EBITDA for AMG includes cost of minority interest expense to affiliates

Source: Freeman & Co

US Public Money Managers— AUM Analysis

Average AUM Analysis $Billion

Quarter Ending	3/31/2001	6/30/2001	9/30/2001	12/31/2001	3/31/2002	6/30/2002	9/30/2002	12/31/2002	3/31/2003	6/30/2003	9/30/2003
Diversified											
Blackrock (BLK)	$ 201.6	$ 212.7	$ 225.6	$ 238.6	$ 238.1	$ 249.8	$ 245.9	$ 272.8	$ 273.6	$ 286.3	$ 293.5
Eaton Vance (EV) *	49.0	50.4	56.6	59.3	59.2	54.8	55.6	55.8	57.9	64.3	-
Federated Investors (FII)	146.4	160.8	163.6	179.7	177.6	185.0	180.9	195.4	195.7	202.4	198.7
Franklin Resources (BEN)	224.9	267.9	246.4	266.3	274.5	270.4	247.8	257.7	252.4	287.0	301.9
Gabelli (GBL)	23.7	25.6	22.3	24.8	25.9	23.2	20.2	21.2	20.1	22.5	23.2
SEI Investments (SEIC)	78.1	79.9	74.0	77.5	79.0	76.8	72.2	78.0	79.0	85.7	87.4
Janus Capital Group (JNS)	294.4	223.9	171.8	193.0	188.8	161.5	148.4	138.4	132.7	149.8	146.5
T Rowe Price (TROW)	148.7	158.6	140.4	156.3	159.8	148.8	131.6	140.6	139.9	161.2	168.9
Waddell & Reed (WDR)	35.3	34.0	29.8	31.8	32.0	29.1	27.1	26.9	26.6	30.5	31.7
Total	**1,202.1**	**1,213.8**	**1,130.5**	**1,227.2**	**1,235.0**	**1,199.4**	**1,129.6**	**1,186.7**	**1,177.8**	**1,289.6**	**1,251.8**
Insurance											
Nuveen Investments (JNC)	61.4	63.0	66.5	68.5	69.5	68.5	76.9	79.7	81.4	88.3	90.1
Total	**61.4**	**63.0**	**66.5**	**68.5**	**69.5**	**68.5**	**76.9**	**79.7**	**81.4**	**88.3**	**90.1**
Holding Companies											
Affiliated Managers (AMG)	69.7	73.7	65.2	81.0	81.4	74.1	68.5	70.8	68.4	77.3	81.9
Total	**69.7**	**73.7**	**65.2**	**81.0**	**81.4**	**74.1**	**68.5**	**70.8**	**68.4**	**77.3**	**81.9**
Bank/Trust Companies											
Boston Private Fincl. (BPFH)	5.6	6.2	5.3	6.5	6.8	6.5	6.0	6.4	6.8	8.3	9.4
Wilmington Trust (WL)	38.7	38.5	34.7	36.9	37.0	31.7	28.7	28.2	28.0	29.8	30.7
Total	**44.3**	**44.7**	**40.1**	**43.4**	**43.8**	**38.2**	**34.7**	**34.6**	**34.8**	**38.1**	**40.1**
Limited Partnerships											
Alliance Capital L.P. (AC)	454.0	454.9	421.4	455.0	448.0	451.6	368.7	386.6	386.3	426.2	431.8
Total	**454.0**	**454.9**	**421.4**	**455.0**	**448.0**	**451.6**	**368.7**	**386.6**	**386.3**	**426.2**	**431.8**
Total	**$1,831.6**	**$1,850.2**	**$1,723.7**	**$1,875.2**	**$1,877.6**	**$1,831.7**	**$1,678.4**	**$1,758.5**	**$1,748.7**	**$1,919.4**	**$1,895.7**

* EV periods end January, April, July, October

Source: Freeman & Co

Freeman & Co. LLC
1301 Avenue of the Americas, 30th Fl.
New York, NY 10019
www.freeman-co.com

Recent Publications by Freeman & Co.

Asset Management	A Nadir or Not? Lowest Deal Levels in Over 6 Years	May 2003
Asset Management	2002 Year End Summary	January 2003
Asset Management	Diverging Results Lead to Diverging Fortunes	October 2002
Asset Management	Challenges to Growth in a Sliding Equity Market	July 2002
Asset Management	Changing Tides: Trends in the Asset Management Industry	March 2001
Asset Management	Drivers of Consolidation	October 2000
Asset Management	Who are the Leading Suppliers of Segregated Mandates in Europe?	November 2002
Asset Management	Reaching the End Customer in Europe	October 2002
Asset Management	To Whom do Brand and Reputation Matter in Europe?	July 2002
Asset Management	Distributors Don't Care about Domicile in Europe	May 2002
Asset Management	Big Four US Players Dominate the Spanish Market	April 2002
Asset Management	What are Private Banks in Europe?	April 2002
Investment Banking	Credit: The Rite of Passage for Investment Banks?	June 2003
Investment Banking	2002 and Beyond	October 2002
Investment Banking	Investment Banking in Europe: Map to the Holy Grail	August 2001
Investment Banking	Will Equity Research Survive 2001?	April 2001
Equity Sales & Trading	The End of the Line for Old Reliable: New Directions for Institutional Commission Flows	October 2002