Issue 3
Mid Year 2008 Edition

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Private Equity Focus
Freeman & Co. LLC

Inside this Issue:

Indices and Rates at 9/18/08:

DJIA	11,020
Nasdaq	2,199
S&P 500	1,207
FTSE 100	4,880
10-yr U.S. T-Bond	3.44%
USD per GBP	$1.82
USD per Euro	$1.43

Where Have You Gone LBO?

Our Wall Street Turns its Lonely Eyes to You...

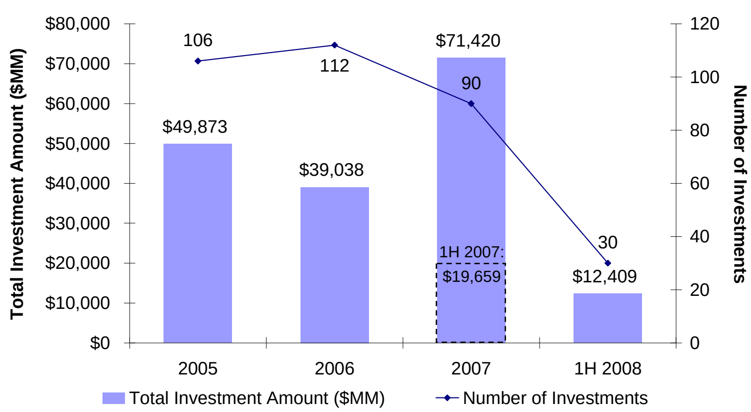
The past 12 months have seen a dramatic shift in the private equity environment. The previous edition of this report was written at the peak of the market in mid-2007, when credit was easy to obtain and record-breaking private equity ("PE") deals were being announced. Subsequently, the credit crunch has dealt a tremendous blow to deal making in PE. Inexpensive debt that was an important component of private equity firms' recent historic returns is gone. PE firms must now adapt to new market conditions if they are going to continue to provide significant returns to investors. There has already been a shift away from traditional LBO transactions. One such thematic is the focus of PE firms coming to the aid of the capital-deficient large commercial and universal banks, though deals to date in this sub-sector have proved challenging. We look for this bank & thrift thematic to move to the community and smaller regional market as well.

This report reviews the impact of the current economic environment on Financial Institutions Group ("FIG") PE investing and is divided into three main sections:

1. **Macro Environment** for FIG PE: including deal activity and entry/exit trends
2. **Deal Volume and Trends** in the six sub-sectors of FIG PE: Asset Management, Banks & Broker-Dealers, Financial Technology & Processing, Insurance, Specialty Finance and Business Services
3. **Current Topics** unique to FIG private equity: PE general and distressed debt fundraising, European trends, impact of the credit crunch and a focus on portfolio company maintenance

There were 30 FIG PE deals in 1H 2008 with a combined transaction value of only $12.4 billion, which is a significant drop from the 90 deals done in FY 07 worth $71 billion. Indeed, levels are not projected to reach even that of 2005 or 2006.

PE Investments in FIG (2005-1H 2008)



Source: Freeman & Co.

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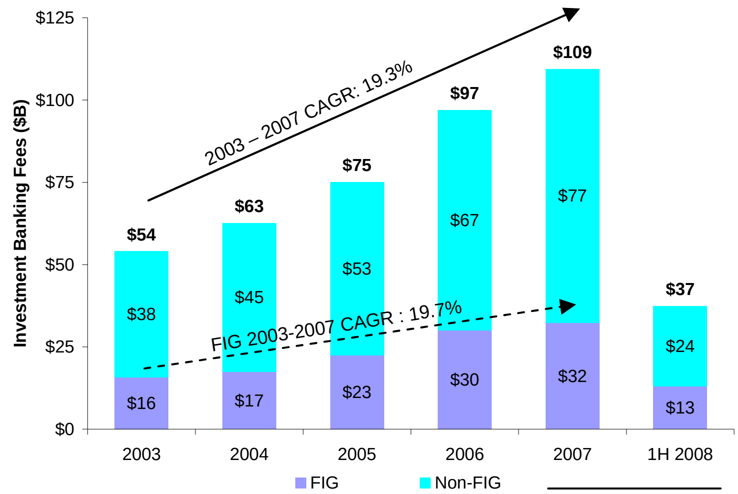
Macro Outlook

2007 was a record year for investment banks, collecting $109 billion dollars in fees from traditional investment banking products (M&A, Debt Capital Markets, Equity Capital Markets, Syndicated Loans and Securitization). As a result of the credit crunch and subsequent downturn in the economy, fees have decreased significantly in 1H 2008. Available capital, which had previously fueled mega-LBO transactions, has effectively disappeared. Securitization, another important source of fees for investment banks, has also sharply declined. Banking fees, which grew at a CAGR of over 19% from 2003 to 2007, are not on pace to match even 2005 levels.

Despite the turmoil in the markets, the FIG sector remains a strong driver of investment banking fees. FIG revenues have achieved a 19.7% CAGR from 2003 to 2007, and although they have experienced a significant decline in 1H 2008, they now comprise a larger portion of the overall investment banking market. Since 2003, FIG has contributed between 28% and 31% of total investment banking fees, but this year that figure is up to 35%. One main driver for the increase is the large amount of fundraising activities by banks themselves, which will be discussed in detail later in this report. In 1H 2008, General Industrial Group ("GIG") contributed 20% to overall fees. Technology, Media and Telecom ("TMT") contributed 12%, while all other industries contributed 33%.

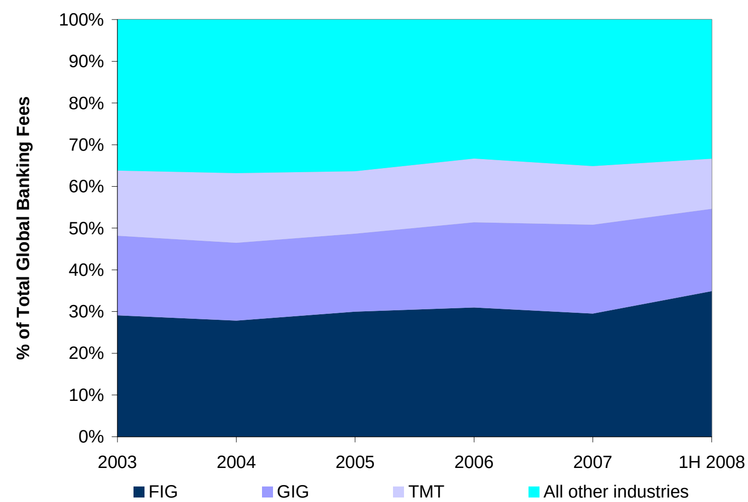
The impact of the credit crunch was first reported by financial institutions in their Q3 2007 reports. This bubble burst the momentum of an otherwise record year. The situation has only gotten worse in 2008, as risky assets such as mortgages and loans continue to be written down and purged by banks to firm up their financial positions.

Global Investment Banking Fees: FIG vs. non-FIG



Sources: Freeman & Co., Thomson Financial

Breakdown of Global Investment Banking Fees



Sources: Freeman & Co., Thomson Financial

Global Banking Year-on-Year Revenue Growth

Universal Banks	2004	2005	2006	2007
Banc of America	29.4%	16.8%	26.9%	-8.6%
Citigroup	11.2%	5.0%	7.1%	-8.8%
JPMorganChase	28.8%	26.9%	14.3%	15.1%
Global I-Banks	**2004**	**2005**	**2006**	**2007**
Goldman Sachs	28.3%	22.8%	49.2%	22.1%
Lehman Brothers	33.5%	26.4%	20.2%	9.5%
Merrill Lynch	9.3%	14.8%	33.6%	-66.7%
Morgan Stanley	15.3%	15.8%	26.8%	-6.1%
Average	**22.3%**	**18.4%**	**25.5%**	**-6.2%**

Source: SEC Filings

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) Inv$MM: Total amount invested in U.S. dollars

FIG PE Overview

Deal activity in FIG PE grew significantly from 2004 to 2007, the height of the private equity boom. Total deal value in 2007 was $71.4 billion compared to $23.7 billion in 2004. In 1H 2008, deal activity slowed significantly, mainly due to the credit crunch, to $12.4 billion. Strategically, private equity investment into financial institutions has two distinct segments: heavily regulated areas such as depository institutions, broker-dealers, and insurance companies; and an unregulated segment with asset management firms, and firms that support financial institutions such as financial technology companies and business services firms.

FIG PE made its mark on the private equity industry not only with several large LBOs, but also with many smaller, more traditional investments in areas such as Financial Technology and Processing ("FTP") and Business Services ("BNSS"), both of which have business models that lend themselves to the typical private equity transaction. However, like the rest of the private equity industry, activity in FIG PE was significantly down during 1H 2008. BNSS experienced the biggest decline in combined deal value, which was to be expected due to KKR's $28 billion acquisition of First Data in 2007. The three sectors that experienced the largest declines in number of deals completed from 2007 to 1H 2008 were FTP, which only completed three deals so far in 2008 (compared to 21 in 2007), Insurance ("INS"), which had five deals (24 in 2007), and Specialty Finance ("SPEC") which had just five deals in 1H 2008 (14 in 2007).

Top Ten FIG PE Transactions (2003-1H 2008)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	KKR	First Data Corp.	9/24/2007	$28,678
2	Blackstone, KKR, Silver Lake, TPG, THLee	SunGard Data Systems	8/11/2005	$11,536
3	Cerberus	GMAC	11/30/2006	$7,353
4	CVC(1)	The Automobile Association	9/10/2007	$6,687
5	Madison Dearborn	Nuveen Investments	11/13/2007	$6,424
6	Cerberus	LNR Property Corporation	2/4/2005	$3,710
7	Cerberus	BAWAG P.S.K.	5/15/2007	$3,422
8	General Atlantic(1)	Archipelago Holdings	3/7/2006	$3,271
9	CVC	The Automobile Association	9/30/2004	$3,178
10	Corsair, Carlyle(1)	Citibank Korea	4/30/2004	$2,744

(1) Exit transaction

Source: Freeman & Co.

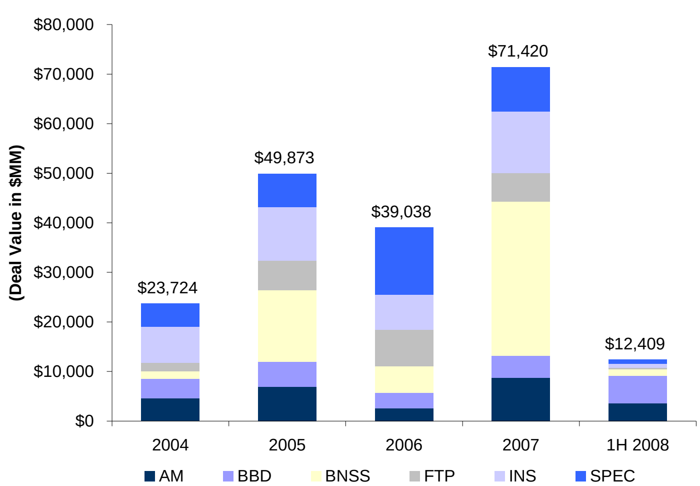
Top Ten FIG PE Transactions (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	KKR	First Data Corp.	9/24/2007	$28,678
2	CVC(1)	The Automobile Association	9/10/2007	$6,687
3	Madison Dearborn	Nuveen Investments	11/13/2007	$6,424
4	TPG	Washington Mutual	4/8/2008	$2,000
5	JC Flowers	Hypo Real Estate Holding	6/25/2008	$1,796
6	JC Flowers	Shinsei Bank, Limited	1/17/2008	$1,386
7	KKR	Legg Mason, Inc.	1/14/2008	$1,250
8	Corsair	National City	5/2/2008	$985
9	Madison Dearborn, WCAS(2)	Asurion	7/3/2007	$980
10	Warburg Pincus(1)	LG Card Co. Ltd.	9/21/2007	$890

(1) Exit transaction
(2) Stake sold by TA Associates

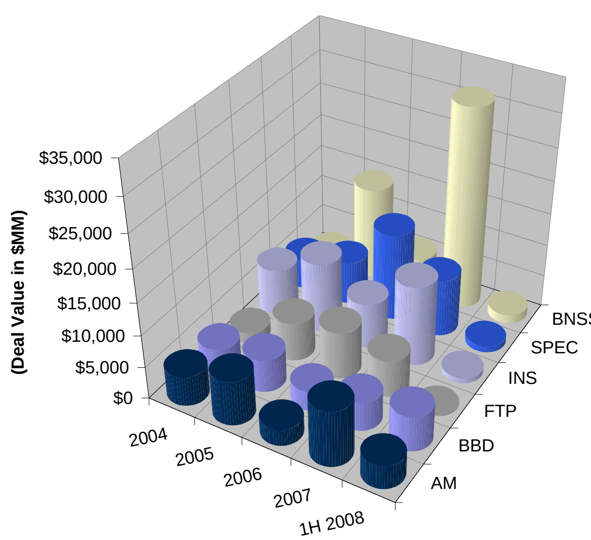
Source: Freeman & Co.

FIG PE Deal Value (2003-1H 2008)



Source: Thomson Financial / Freeman & Co.

FIG PE Sector Mix (2003-1H 2008)

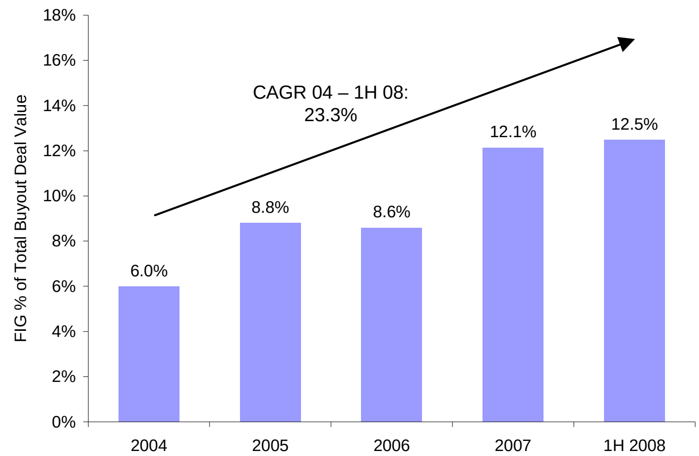


Source: Thomson Financial / Freeman & Co.

PE = Private Equity AM = Asset Management BBD = Banks & Broker-Dealers SPEC = Specialty Finance
FIG = Financial Institutions Group FTP = Financial Technology and Processing INS = Insurance BNSS = Business Services

PE Firms: Investment Strategy

FIG PE Buyouts as % of All PE Buyouts



Source: Freeman & Co.

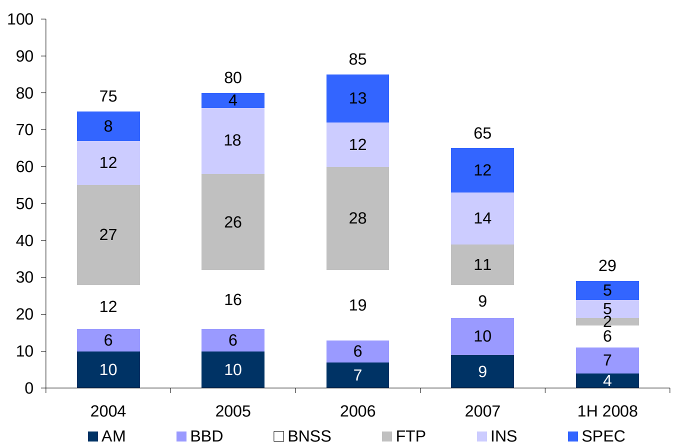
Although the FIG PE market has suffered in the past 12 months, this has also been the case for private equity as a whole. Even into 1H 2008, investments in financial institutions by private equity firms have become an increasingly significant part of the private equity market over the past five years. In 2004, global FIG PE buyouts (entry investments) constituted only 6.0% of all PE buyouts, as measured by total deal value. That percentage has more than doubled, steadily increasing to 12.5% in 1H 2008, signifying FIG's increased importance to private equity firms.

The larger deals that exemplified the buyout boom years of 2005 – 1H 2007 have disappeared from the market, including those involving financial institutions. However, deals below $1 billion in enterprise value require far less or no credit to get done, which is at present the main obstacle for larger LBOs. Private equity firms are still flush with cash and therefore still have the ability to write equity checks in the range of $500 million to $1 billion.

After rising in number from 2004 to 2006, FIG PE entry investments trailed off in 2007 (in the second half of the year) and continued to decline in 1H 2008, although full-year 2008 projects to be almost as high as 2007. Specialty Finance, Insurance, and Financial Technology and Processing deals dropped off most significantly, while Asset Management and Banks and Broker-Dealer deals kept the market afloat.

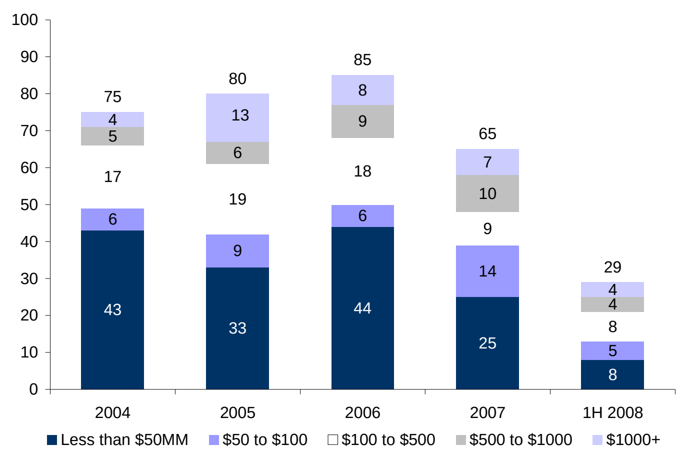
Deals above $1 billion have held relatively steady, with four deals in 1H 2008 already, but these deals are "post-credit crunch" investments in banks and asset managers rather than debt-fueled LBOs (to be discussed later in this report). Deals in the middle-market segment (valued at $100 to $500 million) have also held up quite well, with eight deals in 1H 2008 compared to nine in all of 2007.

PE # of Investments by Sector (2004-1H 2008)



Source: Freeman & Co.

PE # of Investments by Size (2004-1H 2008)



Source: Freeman & Co.

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars
GIG – Global Industrials Group **TMT** – Technology Media and Telecommunication

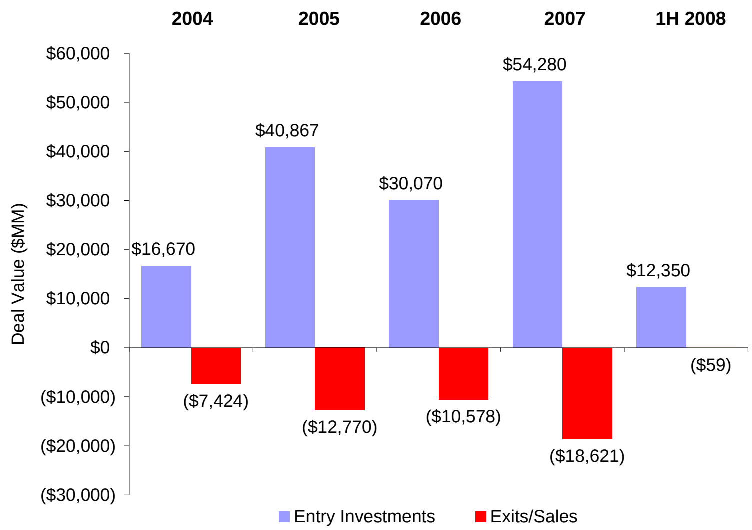
PE Firms: Investment Strategy

Private equity firms continue to be investors in financial institution opportunities. In addition, PE firms are altering their entry strategies, such as taking all-equity stakes in more established public companies, including banks and asset managers.

Exit investments, which were plentiful from 2004 to 1H 2007 (exit deal value grew at a CAGR of 35.9% during those years), have declined at a greater rate than entry investments. There has been a snowball effect which has slowed secondary buyout deals, and anemic capital markets don't currently provide attractive exit opportunities.

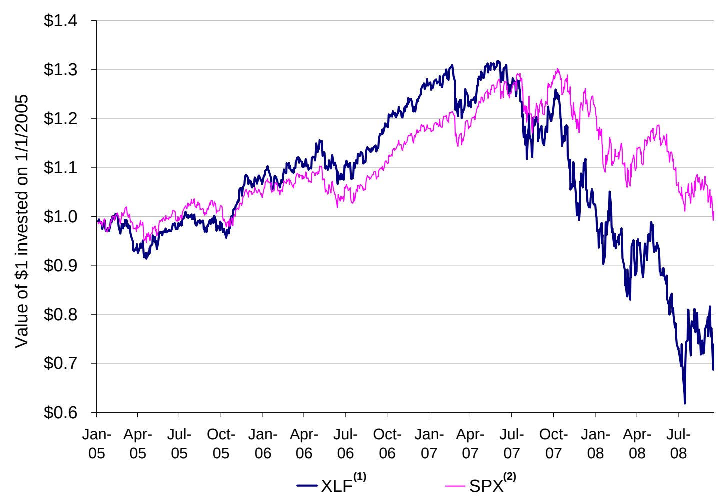
There are market indicators that point to opportunities for investing in FIG. When the supply of debt is constrained, PE firms need to be creative in finding ways to deploy their capital. With the absence of leverage provided by debt, profitable returns need to be generated from opportunistic equity situations. Although the lack of liquidity in the credit markets has currently curtailed the high profile LBO, valuations are currently at a depressed point, offering PE firms a low entry point to capitalize on future projected growth. Financial stocks have declined more than the overall market during the credit crunch, and as of mid-September 2008 were down 48% from their peak in mid-2007.

FIG PE: Entry versus Exit



Source: Freeman & Co.

Financial Stocks Performance



(1) Financial Select Sector SPDR Fund
(2) S&P 500 Index Fund

Source: Bloombereg

Top Ten PE Investments in Financial Institutions (LTM)

Rank	Private Equity Firm	Portfolio Company	Inv. Date	Value $mm
1	KKR	First Data Corp.	9/24/2007	$28,678
2	Madison Dearborn	Nuveen Investments	11/13/2007	$6,424
3	TPG	Washington Mutual	4/8/2008	$2,000
4	JC Flowers	Hypo Real Estate Holding AG	6/25/2008	$1,796
5	JC Flowers	Shinsei Bank, Limited	1/17/2008	$1,386
6	KKR	Legg Mason, Inc.	1/14/2008	$1,250
7	Corsair Capital	National City	5/2/2008	$985
8	Madison Dearborn(1)	Asurion	7/3/2007	$980
9	THLee	MoneyGram International Inc	1/16/2008	$710
10	Matlin Patterson	Thornburg Mortgage	4/18/2008	$696

(1) Stake sold by TA Associates

Source: Freeman & Co.

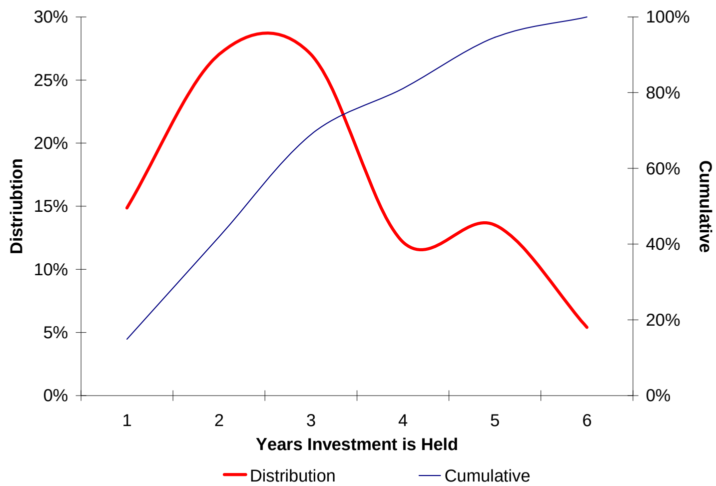
PE = Private Equity **AM** = Asset Management **BBD** = Banks & Broker-Dealers **SPEC** = Specialty Finance
FIG = Financial Institutions Group **FTP** = Financial Technology and Processing **INS** = Insurance **BNSS** = Business Services

PE Firms: Exit Strategy

Private equity firms generally sell a FIG investment within a five to seven year time frame, however for FIG portfolio companies that have been bought by PE firms since 2001 and subsequently exited, the typical investment period has been approximately three years. This trend was primarily due to the superior environment for private equity firms to exit their investments. The strength and attractive valuations provided by global capital markets, along with the opportunity to sell to upstream, cash-rich PE firms, made for tremendous return opportunities. PE firms were turning over investments at a highly rapid rate to generate returns for their investors, even as the size of deals was getting larger.

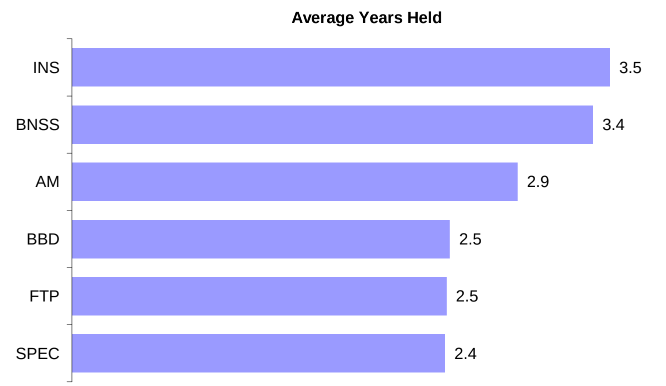
In 2004 to 2007, exit opportunities in FIG PE were abundant, with between 26 and 31 exit deals completed each year from 2004 to 2007. In the current environment, private equity firms need to be creative in exiting investments or stay locked in their investments until clearer waters.

FIG PE: Distribution of Holding Periods [1]



(1) Holding periods for investment made and exited from January 2001 to July 2008

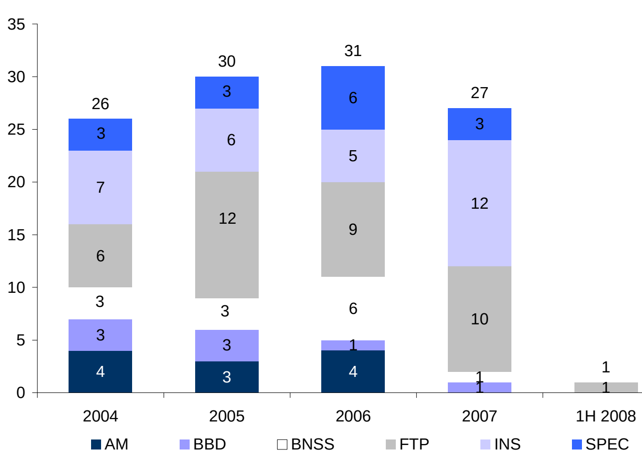
FIG PE: Average Time Held [1]



(1) Holding periods for investment made and exited from January 2001 to July 2008

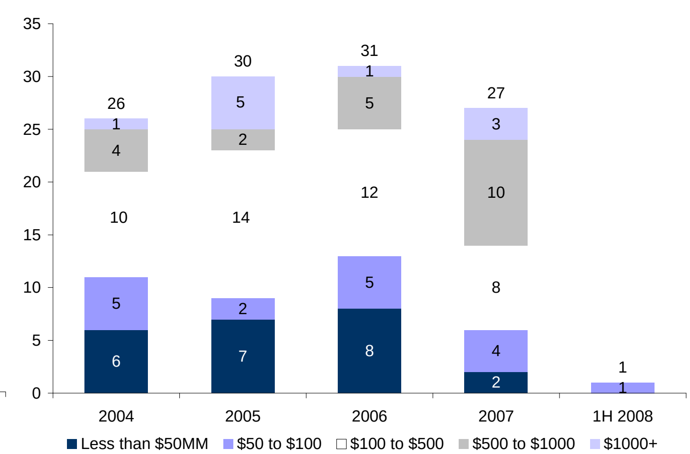
Source: Freeman & Co.

PE # of Exits by Sector (2004-1H 2008)



Source: Freeman & Co.

PE # of Exits by Size (2004-1H 2008)



Source: Freeman & Co.

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GIG – Global Industrials Group **TMT** – Technology Media and Telecommunication

As discussed, full and partial monetization of stakes in financial institutions have been a large part of the FIG PE market in recent years, especially in the FTP and insurance sectors. The lack of a robust exit market is a result of the obstructions in the conventional exit routes for private equity firms:

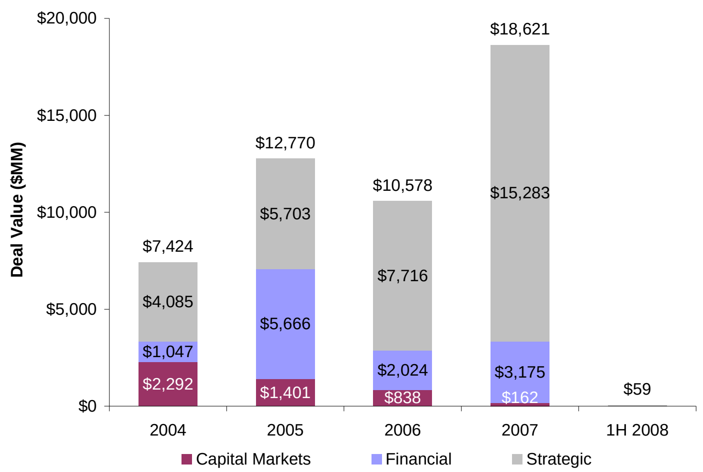
- **Capital markets:** this is obviously not an ideal time to bring a company public.
  - Q2 2008 was the first quarter since 1978 that no venture capital-backed companies were brought public
  - Global IPO volume in August 2008 was at the lowest monthly level since 1992 and 2008 is on pace to be the worst year in terms of number of initial public offerings since 2003
  - 292 IPOs have been pulled or postponed thus far in 2008
- **Secondary buyouts:** the lack of initial buyouts also means that another potential route for PE exit is hindered
- **Strategic acquisitions:** strategic buyers in FIG have also been affected by the credit crunch, but remain a strong exit option for PE firms over the long term

Portfolio Companies: Exit Strategy

Business owners face certain challenges over their firms' life cycle, especially when considering a sale of the business. Freeman & Co. has advised numerous firms on key issues such as:

- Who to sell to? Strategic versus financial acquirers: strategic buyers continue to increase their share of overall exit volume (see chart below), constituting 73% of all exit deal value in 2006 and 82% in 2007. There are many factors to consider when selling to strategic buyers such as potential threats to independence, preservation of culture, and alignment of buyer and seller interests. Exiting to another financial buyer often allows more independence in continuing with the business, but a full liquidity event generally takes place over a longer period of time
- Equity plan for key employees and succession or intergenerational planning
- Corporate governance and potential conflicts
- Taxes and estate planning
- Who controls the process? There could be many parties involved in a sale
- What a buyer will look for:
  - Critical mass of revenue and other financial metrics such as AUM
  - Recurring revenue
  - Quality management team
  - Growth and profitability
  - Performance and reputation
  - Diversification

Portfolio Company Exits by Acquirer Type



Source: Freeman & Co.

Top Ten PE Exits/Sales of Financial Institutions (LTM)

Rank	Private Equity Firm	Portfolio Company	Inv. Date	Value $mm	Exit
1	CVC	The Automobile Association Limited	9/10/2007	$6,687	Private equity
2	TA Associates(1)	Asurion	7/3/2007	$980	Private equity
3	Warburg Pincus	LG Card Co. Ltd.	9/21/2007	$890	Strategic
4	KKR	Bristol West Holdings Inc.	7/3/2007	$763	Strategic
5	Welsh Carson Anderson & Stowe	MemberHealth, LLC	9/21/2007	$763	Strategic
6	GTCR, TA Associates	CompBenefits Corporation	10/1/2007	$674	Strategic
7	Technology Crossover Ventures	Automated Trading Desk, LLC	10/3/2007	$673	Strategic
8	Capital Z Financial Partners, Endicott Group	PXRE Group Ltd.	8/7/2007	$557	Strategic
9	KKR	Alea Group Holdings AG	7/20/2007	$492	Private equity
10	Welsh Carson Anderson & Stowe	Ruesch International	9/6/2007	$440	Strategic

(1) Stake bought by Madison Dearborn and WCAS

Source: Freeman & Co.

FIG PE Sector Review: Banks and Broker-Dealers

The Bank and Broker-Dealer sector ("BBD") experienced the greatest shift in makeup in 1H 2008. The coupling of the effects that the credit crunch has had on commercial and investment banks and the fact that PE firms now have to shift strategy because traditional LBOs are no longer prevalent has led PE firms to invest in banks. Historically, private equity firms have avoided investment in banks, as there are strict rules governing leverage and ownership. But the desperate need for capital by major financial institutions (see table below) has linked the two industries, as evidenced by the largest deal in the BBD space by a PE firm in LTM 1H 2008 being TPG's $2 billion investment in Washington Mutual. Buyout firms are still flush with cash and eager to invest in distressed and undervalued situations, and banks are currently providing that opportunity. Potential changes in the regulation landscape for bank holding companies will determine the level of future PE investment in banks. Some PE firms are already developing ways to avoid the general partnership being classified as bank holdings companies, which are severely restricted in their investment practices. Regulators are beginning to bend some of the more prohibitive rules and as this report goes to press, have already declared their intentions to provide more clarity on the existing issues. Banks continue to announce massive write downs moving into 2H 2008 and are still in need of capital, but several large investments in banks by PE firms have already run into trouble, which may cut short this trend.

Nonetheless, due to bank deals, BBD was one of only two sectors in FIG (Asset Management being the other) that had relatively strong performance in 1H 2008 in terms of deals completed and total deal value. Seven BBD deals were completed in 1H 2008 for a total of $5.5 billion, which already translates to record yearly deal value. The broker-dealer segment of BBD, however, has seen a stark lack of activity, with no deals over $50 million in LTM 1H 2008.

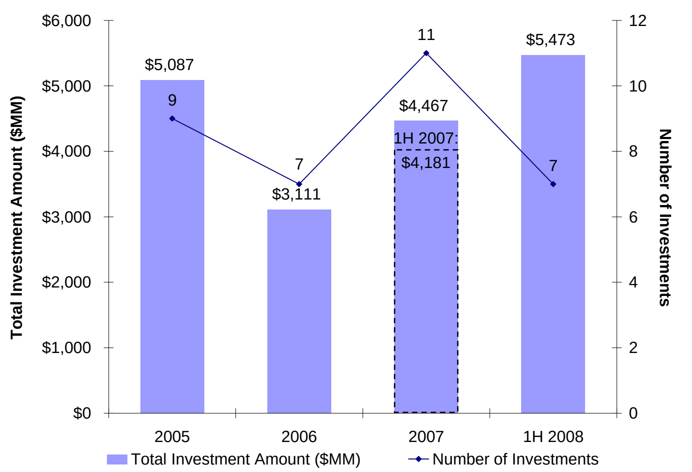
Bank Write Downs & Capital Raising[1]

Rank	Bank	Write down ($bn)	Capital Raised ($bn)
1	Citigroup	$54.6	$49.1
2	Merill Lynch	51.8	30.8
3	UBS	38.2	29.7
4	Wachovia	22.0	11.0
5	Bank of America	21.2	20.7
6	HSBC	19.5	3.9
7	IKB	16.1	13.3
8	RBS	15.5	25.5
9	Washington Mutual	14.8	21.1
10	Morgan Stanley	14.4	5.6
11	JPMorgan	12.8	7.9
12	Wells Fargo	10.0	4.1
13	Credit Suisse	9.7	2.7
14	Credit Agricole	8.4	10.1
15	Lehman Brothers	8.2	13.9
	Total	**$317.2**	**$249.4**

(1) Since June 2007

Source: Bloomberg

PE Activity in Banks & Brokers (2004-1H 2008)



Source: Freeman & Co.

Top Ten PE Deals in Banks & Broker-Dealers (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	TPG	Washington Mutual	4/8/2008	$2,000
2	JC Flowers	Shinsei Bank, Limited	1/17/2008	$1,386
3	Corsair Capital	National City	5/2/2008	$985
4	JC Flowers .	Shinsei Bank, Limited	2/4/2008	$455
5	Cerberus	Aozora Bank	3/3/2008	$415
6	FPK, JC Flowers	InvesTorgBank	6/26/2008	$212
7	GTCR	Private Bancorp Inc.	12/11/2007	$201
8	Matlin Patterson	First Albany Companies Inc.	9/21/2007	$50
9	Lovell Minnick	Leerink Swann & Company	9/11/2007	$35
10	Sequoia Capital	Merlin Securities, LLC	1/3/2008	$20

Source: Freeman & Co.

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars

GIG – Global Industrials Group **TMT** – Technology Media and Telecommunication

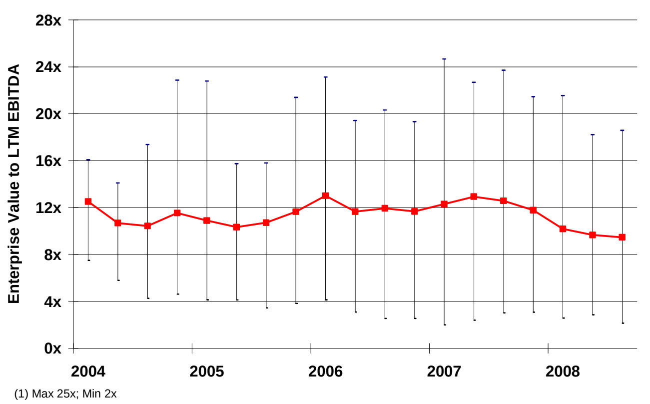
FIG PE Sector Review: Asset Management

In June 2007, Madison Dearborn Partners announced it was acquiring Nuveen Investments for $6.4 billion, which marked the peak of the market for FIG PE investment in the Asset Management sector (the deal closed in November). Since then, there have been several other transactions with a deal value greater than a billion dollars. There were four deals in Asset Management FIG PE in 1H 2008 for a total of $3.6 billion, which puts the sector on pace to roughly match 2007 totals.

Several of the larger deals in Asset Management occurred in Europe, the biggest of which was a JC Flowers-led investment group's purchase of 25% of Hypo Real Estate AG, which closed in June 2008 for $1.8 billion, a 33% premium to the value of the company when the transaction was announced. Hypo had been badly affected by the credit crunch, and had to write down losses related to mortgage assets. Hypo's stock price had fallen 38% on the year by the time the deal was announced, essentially wiping out the premium paid by the consortium. Another deal of note in Europe was Corsair's acquisition of 20% of HCI Capital AG, a German asset manager that creates closed-end funds in the areas of shipping, real estate, private equity fund of funds and the secondary life insurance market. Corsair first acquired 10% of the firm in late 2007, then another 10% in February 2008 for a total investment of $156 million.

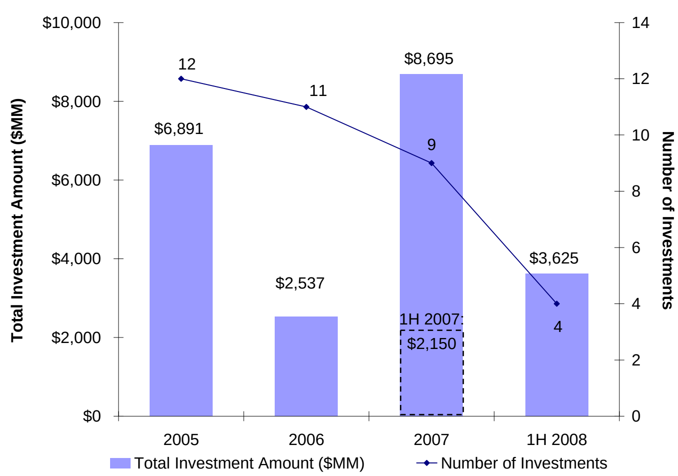
In the U.S., KKR's $1.25 billion investment in Legg Mason in January 2008 was much like the bank transactions discussed in the previous section of this report. KKR invested in the form of convertible notes to stabilize Legg Mason's balance sheet following bailouts of its money market funds.

Publicly Traded Asset Management Firms: Enterprise Value / LTM EBITDA



Source: Bloomberg

PE Activity in Asset Management (2004-1H 2008)



Source: Freeman & Co.

Top PE Deals in Asset Management Firms (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	Madison Dearborn	Nuveen Investments	11/13/2007	$6,424
2	JC Flowers	Hypo Real Estate Holding AG	6/25/2008	$1,796
3	KKR	Legg Mason, Inc.	1/14/2008	$1,250
4	TPG	American Beacon Advisors	4/1/2008	$480
5	Corsair	HCI Capital AG	2/1/2008	$99
6	Corsair	HCI Capital AG	10/10/2007	$57
7	American Capital	Republic Financial Corporation	12/21/2007	$50
8	Inter-Atlantic Group	U.S. Fiduciary, Inc.	11/19/2007	$9
9	Sequoia Capital	Noah Private Wealth Management	10/23/2007	$5

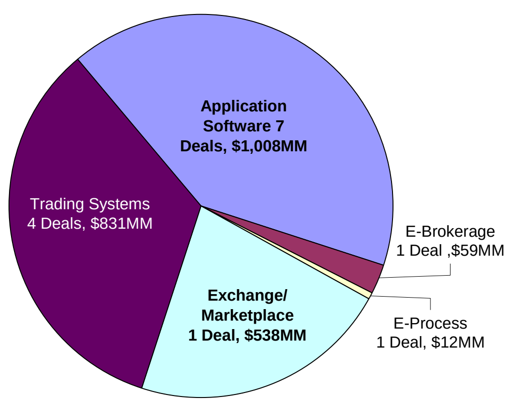
Source: Freeman & Co.

FIG PE Sector Review: Financial Technology

The Financial Technology and Processing sector ("FTP"), which consists of Application Software, E-brokerages, E-processors, Exchanges and Trading Systems, has been slightly active. Most of the transactions have been with middle market firms as there have not been any deals over $1 billion in the past 12 months. However, the rapidly increasing reliance of finance firms on technology, combined with the growing maturity of the sector, has attracted a number of private equity suitors. In LTM 1H 2008, the FTP sector was characterized mainly by PE firms exiting their portfolio companies or selling down their stakes, as five of the top ten transactions were sales, including the largest deal which was TCV's sale of Automated Trading Desk to Citigroup for $673 million in October 2007. However, the struggling economy has clearly taken a toll on M&A activity in this sector. 1H 2008 deals are down drastically from previous levels, with only three deals completed for an aggregate deal value of $211 million.

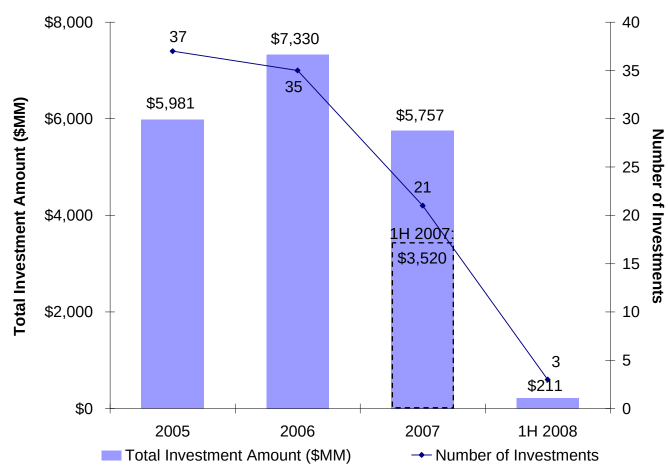
In the middle-market Financial Technology and Processing sector, ESP Technologies, an institutional technology brokerage firm, raised growth equity capital from affiliates of Bear Stearns, Credit Suisse and Susquehanna International Group. The transaction will facilitate shareholder liquidity and allow ESP to continue its research and development of innovative broker-neutral technologies as a leading direct market access provider. (Note: Freeman & Co. acted as sole advisor to ESP Technologies.)

FTP Sub-Industry Breakdown (LTM)



Source: Freeman & Co.

PE Activity in FTP (2004-1H 2008)



Source: Freeman & Co.

Top Ten PE Deals in Financial Technology & Processing Firms (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	Technology Crossover Ventures(1)	Automated Trading Desk, LLC	10/3/2007	$673
2	Warburg Pincus	Metavante Technologies, Inc.	11/1/2007	$625
3	General Atlantic	Brazilian Mercantile & Futures Exchange	9/24/2007	$538
4	FT Ventures(1)	Actimize, Inc.	8/30/2007	$282
5	3i Group, Vantage Point	Gain Capital	1/22/2008	$117
6	Edison Venture Fund(1)	EdgeTrade Inc.	1/14/2008	$59
7	Edison Venture Fund(1)	Longview Solutions	11/9/2007	$52
8	Technology Crossover Ventures	MarketAxess Holdings Inc.	6/3/2008	$35
9	3i Group(1)	APAK Group plc	7/20/2007	$24
10	Vulcan Capital	Redfin Corporation	7/17/2007	$12

(1) Exit transaction

Source: Freeman & Co.

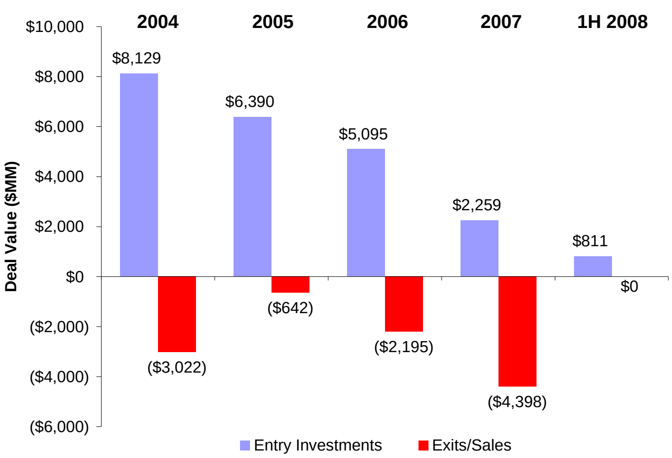
InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars
GIG – Global Industrials Group **TMT** – Technology Media and Telecommunication

FIG PE Sector Review: Insurance

FIG PE Investment in the Insurance sector has also slowed after a robust few years. Deal activity was strong from 2004 to 2007, with an increasing trend of exits as opposed to new investments in the sector. New investments into Insurance companies have decreased each year since 2004 in terms of total deal value, but exits and sales reached a peak of $4.4 billion in 2007, led by Capital Z Financial Partners' sale of the Insurance broker USI Holdings in May 2007 for $1.4 billion to an affiliate of Goldman Sachs. The largest FIG PE Insurance deal of LTM 1H 2008 was a secondary buyout: Madison Dearborn Partners, Welsh, Carson, Anderson & Stowe and Providence Equity Partners acquisition of a stake in Asurion Corporation from TA Associates for $980 million.

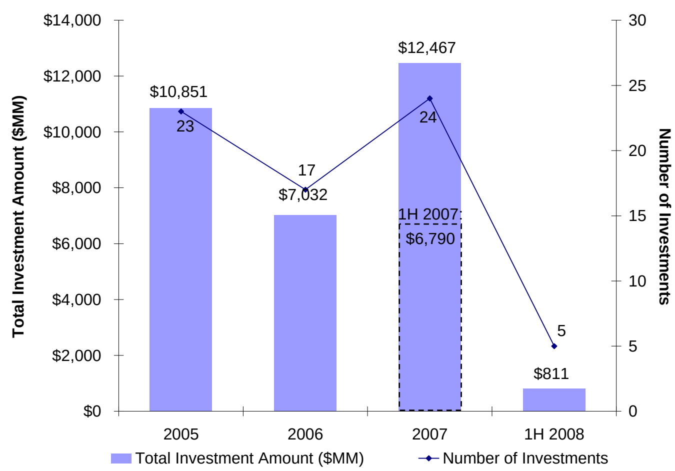
Although FIG PE entry into Insurance companies has slowed significantly this year, there continues to be attractive opportunities for investors in the sector. PE firms have executed transactions in the Insurance brokerage space both in the U.S. and in Europe in recent years. We expect this trend to continue on an opportunistic basis, as brokerage entities continue to consolidate in order to reach critical mass. Additionally, deal activity in the life settlement market will continue to pick up, which will ultimately drive growth in mortality and longevity hedging and trading opportunities, growth in mortality indices and secondary market activity involving life settlements. These areas may prove to be significant to private equity investors as they seek out non-traditional means of providing above-average returns for their investors.

Insurance Entry vs. Exit Deals



Source: Freeman & Co.

PE Activity in Insurance (2004-1H 2008)



Source: Freeman & Co.

Top Ten PE Deals in Insurance (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	Madison Dearborn, WCAS(2)	Asurion	7/3/2007	$980
2	KKR(1)	Bristol West Holdings Inc.	7/3/2007	$763
3	Welsh Carson Anderson & Stowe(1)	MemberHealth, LLC	9/21/2007	$763
4	GTCR, TA Assoc.(1)	CompBenefits Corporation	10/1/2007	$674
5	JC Flowers	Bisys Group, Inc., Retirement and Insurance Services Divisions	8/1/2007	$650
6	Endicott Group, Capital Z Financial(1)	PXRE Group Ltd.	8/7/2007	$557
7	KKR(1)	Alea Group Holdings AG	7/20/2007	$492
8	Capital Z Financial ,THLee, WCAS	Universal American Financial Corp.	9/21/2007	$350
9	Warburg Pincus	MBIA Inc	2/13/2008	$348
10	Corsair Capital	SPARTA Insurance Holdings, Inc.	8/2/2007	$279

(1) Exit transaction
(2) Stake sold by TA Associates

Source: Freeman & Co.

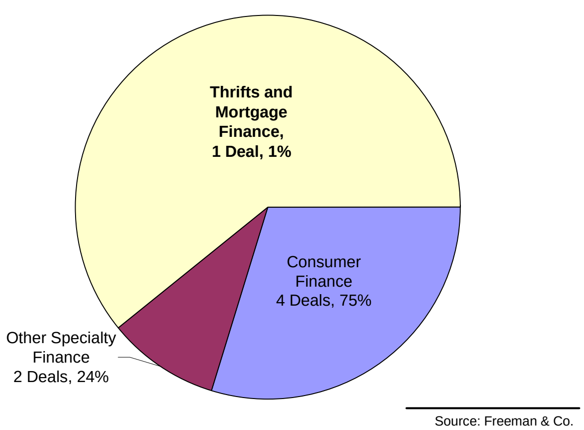
FIG PE Sector Review: Specialty Finance

Specialty Finance (“SPEC”), along with Financial Technology and Insurance, has been another area where PE activity has slowed significantly in 1H 2008. Historically, SPEC’s total deal value has been between $6 billion and $9 billion (with the exclusion of Cerberus and Citigroup $7.3 billion acquisition of GM Acceptance Corp in 2006). However, in 1H 2008 there were only five deals with a total value of $922 million.

The largest SPEC deal of 1H 2008 was Matlin Patterson’s exercise of its option to acquire warrants convertible into a 20.5% stake in Thornburg Mortgage Inc, for a total deal value of $696 million. Thornburg is headquartered in New Mexico and provides residential mortgage lending services that acquires and retains investments in adjustable and variable mortgage assets. Another interesting deal was CVC Capital Partners’ sale of The Automobile Association Limited, which offers personal automobile financial services for consumers mainly in the UK. CVC, Permira and Intermediate Capital Group purchased Automobile Association in September 2004 for $3.2 billion from Centrica PLC, and merged it with Saga Group in September 2007 to create a $12 billion financial services conglomerate. CVC and Permira will retain a stake in the combined company, alongside Charterhouse Capital Partners which backed the MBO of Saga in 2004.

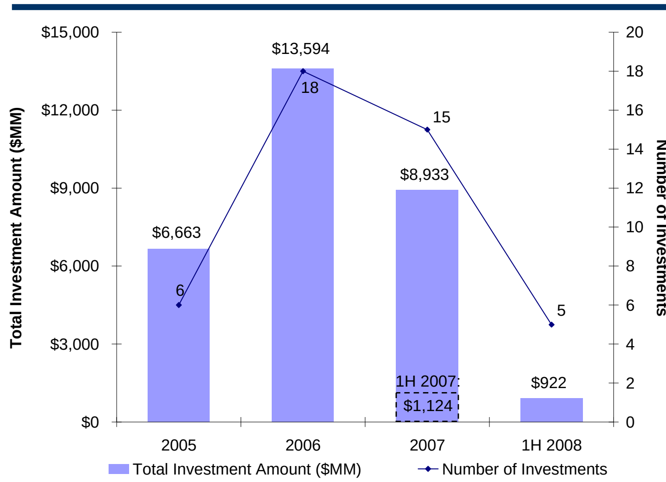
Warburg Pincus finally fully exited its stake in LG Card in September 2007. Shinhan Financial Group bought the remaining 14.3% of LG Card that it did not already own, after amassing a 85.7% stake in the company earlier in 2007. Warburg Pincus first invested in LG Card in 2000 in a transaction worth $415 million, and sold down some of its stake since it went public in 2002. The value of the stake Shinhan purchased from Warburg Pincus in September 2007 was valued at approximately $890 million.

SPEC Sub-Industry Breakdown (LTM 1H 2008)



Source: Freeman & Co.

PE Activity in SPEC (2004-1H 2008)



Source: Freeman & Co.

Top Ten PE Deals in Specialty Finance (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	CVC[(1)]	The Automobile Association Limited	9/10/2007	$6,687
2	Warburg Pincus[(1)]	LG Card Co. Ltd.	9/21/2007	$890
3	Matlin Patterson	Thornburg Mortgage	4/18/2008	$696
4	TPG	NIS Group Co Ltd	2/20/2008	$179
5	Union Square Capital	NewStar Financial, Inc.	11/1/2007	$125
6	JC Flowers	Kessler Financial Services, L.P.	9/7/2007	$100
7	Bessemer Ventures	Shriram City Union Finance Ltd.	5/16/2008	$30
8	Edison Ventures	Business Financial Services, Inc.	4/21/2008	$9
9	Menlo Ventures	Nexxo Financial Corporation	1/10/2008	$8
10	Menlo Ventures	Golden Gateway Financial, Inc.	9/14/2007	$6

(1) Exit transaction

Source: Freeman & Co.

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars
GIG – Global Industrials Group **TMT** – Technology Media and Telecommunication

FIG PE Sector Review: Business Services

FIG PE for Business Services (which includes Processing and Information Services) has been distinguished by landmark mega-LBOs in recent years. The consortium of Blackstone, KKR, Silver Lake, TPG and TH Lee acquired Sungard in 2005 for $11.5 billion, marking the largest LBO in any sector since KKR's acquisition of RJR Nabisco 16 years earlier. Subsequently, in 2007, KKR shook up the business services sector again with its $28.7 billion acquisition of First Data Corp.

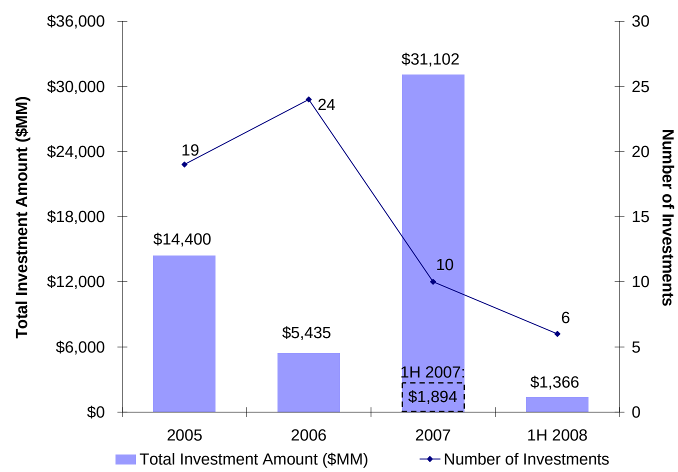
Turning to 1H 2008, Business Services has not been immune to the trouble befallen other sectors. The firms categorized as Business Services show many of the same characteristics as the firms in Financial Technology and Processing. In 1H 2008, there were six deals completed with an aggregate deal value of $1.4 billion, which makes it the third most active sector in FIG following Banks and Broker-Dealers and Asset Management.

The largest Business Services deal thus far in 2008 was TH Lee's $710 million recapitalization of MoneyGram International, a money transfer service firm based in Minnesota. The transaction resulted in TH Lee and investment partner Goldman Sachs acquiring 19.9% of the company, which had been in deep financial troubles after using its excess cash to invest in mortgage securities. The consortium had an option to invest up to $775 million in Moneygram, which would be determined by Moneygram's ability to sell certain investment portfolio assets after the deal was completed.

Technology Crossover Ventures was active in business services in LTM 1H 2008, with three of the top ten deals, however each investment was relatively small at between $30 million and $55 million.

TCV's $30 million investment in Zillow marks the third such investment for TCV. It invested in Zillow's Series A and Series B funding rounds in 2005 and 2006, respectively. TheStreet, Money Expert and Zillow all represent investments by TCV in the Information Services sub-sector within Business Services, as all three companies provide asset comparison and valuation services to consumers online. TheStreet.com provides investment advice, Money Expert compares consumer finance products, and Zillow focuses on real estate valuation and information.

PE Activity in BNSS (2004-1H 2008)



Source: Freeman & Co.

Top Ten PE Deals in Business Services (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$MM
1	KKR	First Data Corp.	9/24/2007	$28,678
2	THLee	MoneyGram International Inc	1/16/2008	$710
3	General Atlantic, Hellman & Friedman	Emdeon	2/12/2008	$575
4	Welsh Carson Anderson & Stowe(1)	Ruesch International	9/6/2007	$440
5	Technology Crossover Ventures	TheStreet.com, Inc.	11/15/2007	$55
6	Technology Crossover Ventures	Money Expert Ltd	3/23/2008	$50
7	Technology Crossover Ventures	Zillow, Inc.	9/19/2007	$30
8	FT Ventures	SenSage, Inc.	6/10/2008	$15
9	FT Ventures	Aveksa, Inc.	1/23/2008	$12
10	Edison Venture Fund	PlumChoice	8/16/2007	$5

(1) Exit transaction

Source: Freeman & Co.

In the third section of this report, we shift our focus from sector-specific trends to general trends in FIG PE: (1) Private equity fundraising, with a concentration in distressed debt and syndicated loan funds, (2) European trends in FIG PE, (3) The impact of the credit crunch, (4) Portfolio company maintenance and (5) Hedge fund self-servicing

Fundraising

One current trend in FIG PE is the continued strength in fundraising. The current market turbulence has not had the same negative impact on private equity firms' fundraising capabilities as it has had on the deal making ability of private equity firms. In 1H 2008 PE firms raised $287 billion in capital, $68 billion more than what was raised in 1H 2007 (and 2007 was a record year for PE fundraising). In 1H 2008 there were some notable funds raised. Lightspeed Venture Partners raised $800 million for its eighth fund, the largest venture capital fund raised in 2008. In February, Bain Capital raised $20 billion for its new global buyout fund, which will aim to take advantage of opportunities emerging from the credit crisis. In all, by one estimate by research firm Prequin, PE firms have $450 billion still to spend. There has also been a major uptick in distressed and syndicated loan funds raised as firms scramble to take advantage of undervalued opportunities.

As the debt market has dried up and access to cheap financing has become increasingly difficult, private equity deals have moved towards equity-only transactions. The lack of debt has made it especially hard for major transactions to close, focusing activity in the middle market. PE firms with large piles of cash are unable to finance huge LBOs with debt and are therefore moving into the middle market.

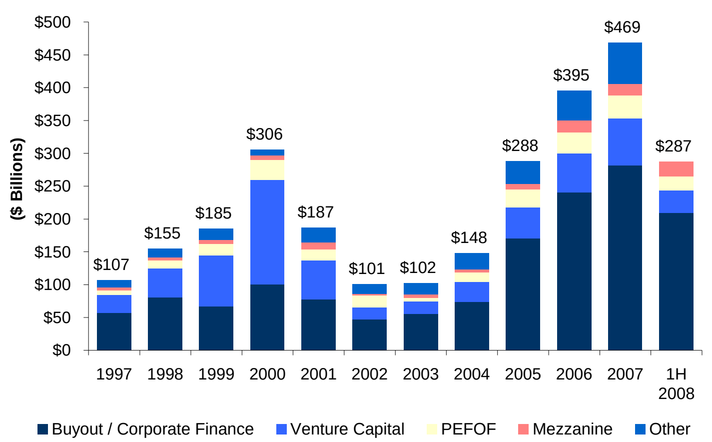
The distressed segment of private equity has seen a significant increase in fundraising and depressed valuations on a number of investment products has created opportunities in:

1. Distressed debt - capital raised is going towards acquisitions of mortgage-backed securities and other products weighing down the balance sheets of large commercial and investment banks
2. Leveraged loans - capital raised is used to finance private equity firm's own deals as willing lenders (banks) are not currently in the market

Going public has been another popular trend amongst private equity firms as of late. Investment funds (limited partnerships) run by KKR and Apollo held public offerings in 2005 and 2006, respectively. Also, two general partnerships, Fortress Group and Blackstone Group, went public in 2007 at the top of the equity markets.

Going public is a way for partners of private equity firms to monetize their holdings in the general partnership and is a source of permanent capital for the firms' funds. Weak capital markets have suppressed the valuations of Fortress and Blackstone and have delayed other firms' entry into the markets. However, two large PE firms, KKR and Apollo, each have plans to go public in the next year. KKR intends to use a unique route to the markets – a reverse merger with their publicly-traded investment vehicle in the Netherlands – rather than the traditional IPO route chosen by both Fortress and Blackstone in 2007.

U.S. Private Equity Fundraising (1997-1H 2008)



Source: Thomson Financial

Distressed Debt / Syndicated Loan Funds

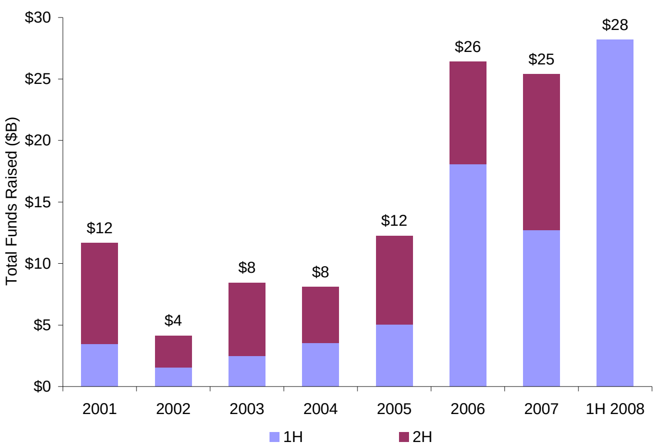
Since the beginning of the credit crisis, banks have taken significant write downs on their outstanding mortgages and loans in an attempt to clear their balance sheets of risky inventory. One of the ways they have done this is by selling their distressed debt to hedge funds and private equity firms. These funds have waited with open arms for banks to come to them with undervalued assets. In response to these conditions, there has been a resurgence of distressed debt private equity funds over the past year. These funds are being used as vehicles to acquire leveraged loans and other extremely toxic debt products. Much of the debt being purchased by private equity firms is buyout loans. These loans are being purchased at a deep discount (sometimes as low as 20 cents on the dollar).

Deal making for outstanding loans and mortgages has been accelerated over the past few quarters. There are a number of key private equity players that are building funds focused on this space including Goldman Sachs, Blackstone, the Carlyle Group and others. The Carlyle Group recently closed a $1.3 billion debt fund, and since April, Apollo, TPG and GSO Capital have purchased between $25 and $30 billion in LBO loans. In April, $12 billion of Citigroup's leveraged loans were acquired by a private equity consortium consisting of TPG, Blackstone and Apollo. In late July, Lone Star Funds (one of the most active firms in distressed debt) agreed to buy $6.2 billion of Merrill Lynch's mortgage-linked investments. Lone Star paid 22 cents on the dollar for the debt, which had a face value of approximately $31 billion. Merrill Lynch even financed 75% of the acquisition. Apollo has been active again recently with the announcement of a $2.2 billion distressed fund to buy poorly performing loans from European banks.

Firms that were previously uninvolved in the sector have begun to enter the market. One notable example is Providence Equity Partners (PEP), who has raised $1 billion for its first-ever debt fund. PEP has historically been focused on conventional PE investments in the Media, Entertainment, Communications and Information sectors. Other large PE firms also are adding significantly to their fixed-income headcount as credit has not traditionally been where the skills of PE firms lie. In January, Blackstone picked up debt specialist GSO Capital Partners for $945 million.

The health of banks' balance sheets is crucial to the leveraged finance market. Cheap financing by banks fueled the buyout boom of 2003 to 2007. But as credit pressures continue, PE firms have found it harder to access sufficient leverage to execute large buyouts. Without cheap financing, these firms will find it harder to post returns consistent with recent years. Acquiring distressed debt will help alleviate balance sheet pressure on banks and lead to a resurgence of deal financing.

Debt Funds Raised [1] 2004 – 1H 2008



(1) Mezzanine stage, turnaround, and distressed debt funds

Source: Thomson Financial

Largest Debt Funds Raised (LTM)

Fund	Amount Raised ($MM)	Target ($MM)
GS Mezzanine Partners V, L.P.	$20,000	$20,000
Wayzata Opportunities Fund II, L.P.	2,335	5,000
Tennenbaum Opportunities Fund V	2,200	2,000
Harbinger Capital Partners Special Situations Fund, L.P.	2,157	4,000
TCW/Crescent Mezzanine Partners V, L.P.	1,938	2,500
Structured Principal Investing Fund, L.P.	1,000	1,000
Avenue Europe Special Situations Fund, L.P.	867	2,323
Summit Subordinated Debt Fund IV, L.P.	825	-
Ares Special Purpose Credit Opportunities Fund, L.P.	544	700
MHR Institutional Partners III, L.P.	535	3,000
Goldman Sachs Distressed Opportunities Fund IV, L.P.	516	516
Caltius Partners IV, L.P.	500	400
Norwest Mezzanine Partners III, LP	500	-
Northstar Mezzanine Partners V, L.P.	422	500
Accession Mezzanine Capital II (AKA: AMC II)	413	-

Source: Thomson Financial

FIG PE Trends: Europe

Developments in Europe have largely mirrored those in the rest of the world. The deleveraging of European banks and the resulting scarcity of credit is the one issue which continues to dominate the scene in 1H 2008. Other noteworthy themes include:

- Increasing PE focus on financial services given the dramatic valuation changes and capital shortages that have occurred in selected segments
- Increasing number of PIPE (private investment in public equity) deals
- Resilience of PE interest in fee-based rather than capital dependent businesses (e.g. Asset Management and Processing), allowing the middle market deal flow to continue

While overall deal flow has declined in 1H 2008 the period still saw a billion-plus dollar investment in JC Flowers' investments in Hypo Real Estate. 1H 2008 also produced one extraordinary near miss: TPG's proposed and then pulled acquisition of 23% in the quoted bank, Bradford and Bingley. Only time will tell whether TPG's decision to invoke its right to walk away from this deal (following on from rating downgrades) was the right one or not. While fund investors might grumble about the concept of paying private equity fees for public market investing, you can't fault PE executives' determination to put money to work in what they see as potentially once-in-a-cycle (or in selected cases once-in-a-lifetime) investment opportunities.

The PE community will, in our view, continue to spend significant time focusing on opportunities arising from the dramatic valuation changes and capital shortages that have occurred in the financial services landscape over the last year. One example as we write this newsletter is the report that several PE firms have expressed interest in the publically listed buy-to-let firm Paragon. In addition to direct opportunities, spin-offs from capital constrained institutions are growing by the day as the realities of the new world order are sinking in. Secondly, taking a leaf out of developments in the U.S., an increasing number of PIPE deals have been announced in Europe. This too is very much linked to the dramatic declines in selected financial services segments. 3i, for example, has been an active buyer making investments in UK insurance broker Jelf Group and UK insurer Hyperion Insurance Group. We are likely to see more of this in 2H 2008. Finally, Asset Management and other fee-focused businesses continue to see significant demand. Sir Ronald Cohen, for one, has been busy and announced two deals in 1H 2008 through his investment vehicle RIT Capital Partners. Doughty Hanson's announced $1.2 billion acquisition of Silverfleet Capital's interest in TMF, the global outsourced management and account services firm, is another illustration of this theme. We believe the attractiveness of selected mid-scale fee-generating businesses is likely to continue to grow and attract money irrespective of the state of the credit market.

It is clear that deals in the 'billions' are likely to be rare in this credit environment as demonstrated by RBS' decision to exclude private equity interest in the potential divestiture of its UK insurance asset; however, we believe that mid-sized deals will continue and volumes may actually advance.

Top Ten European FIG PE Deals (LTM)

Rank	Private Equity Firm	Portfolio Company	InvDate	Inv$mm
1	CVC(1)	The Automobile Association Limited	9/10/2007	$6,687
2	JC Flowers	Hypo Real Estate Holding AG	6/25/2008	$1,796
3	KKR(1)	Alea Group Holdings AG	7/20/2007	$492
4	JC Flowers, FPK Capital	InvesTorgBank	6/26/2008	$212
5	3i Group	Hyperion Insurance Group	4/2/2008	$99
6	Corsair Capital	HCI Capital AG	2/1/2008	$99
7	Barclays Private Equity(1)	Direct Group Limited	8/6/2007	$81
8	3i Group	Jelf Group PLC	1/29/2008	$59
9	Corsair Capital	HCI Capital AG	10/10/2007	$57
10	3i Group(1)	APAK Group plc	7/20/2007	$24

(1) Exit transaction

Source: Freeman & Co.

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars
LTM 1H 2008: 7/1/2007 – 6/30/2008

FIG PE Trends: Impact of the Credit Crunch

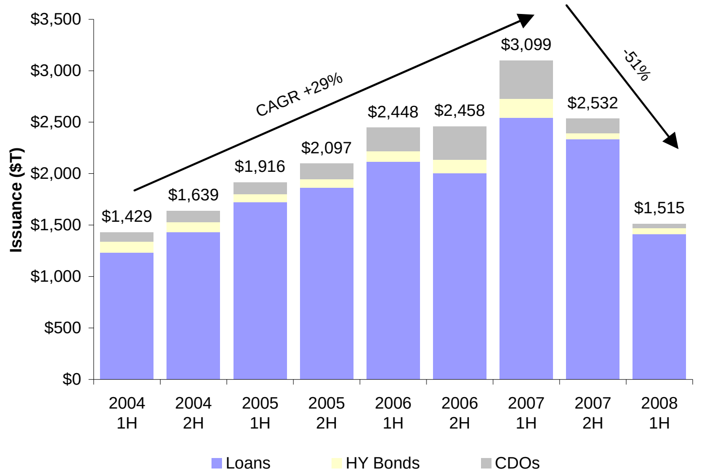
The weak economic environment is due, in part, to a poor credit atmosphere. The relatively cheap debt of the period from 2005 to 1H 2007 was instrumental in the profit-making ability of financial institutions, and it also fueled a large LBO boom. Syndicated loans and high yield bonds, the usual debt vehicles used to finance LBOs, have dropped significantly since their peak issuance levels in 1H 2007. After growing at a CAGR of 29% in the three years from 1H 2004 to 1H 2007, global syndicated loan issuance has fallen 51% from its peak. High yield bond issuance also peaked in 1H 2007 at $185 billion and has fallen to $58 billion in 1H 2008. CDO securitization has fallen 88% from 1H 2007 to just $44 billion in 1H 2008.

Several announced LBOs ended up renegotiated or fell through completely, especially toward the beginning of the credit crunch. Of note in FIG was JC Flowers' high-profile bid for SLM Corporation, which was originally valued at $25 billion. JC Flowers ended up walking away from the deal, citing adverse financial conditions. Many other deals were casualties of the credit crunch, mainly in sectors other than FIG. Some ended up eventually closing at new prices, most notably Clear Channel Communications and HD Supply. Many of the "successful" deals that took place at the tail end of the buyout boom have high portions of distressed debt. First Data, the largest FIG LBO ever, has a strong business but is extremely debt-laden.

The effects of the credit crunch also become evident in credit spreads. By one measure - investment grade corporate bond yields compared to 10-year government yields - the spread has more than doubled from July 2007 to July 2008. This translates to more expensive debt and fewer, smaller LBOs.

Corporate default rates are up as well. There were 43 corporate bond defaults globally in 2008 (through July), compared to 22 in 2007 and 30 in 2006. 41 of the 43 defaults this year have been in the U.S.

Debt Issuance 2004 – 1H 2008



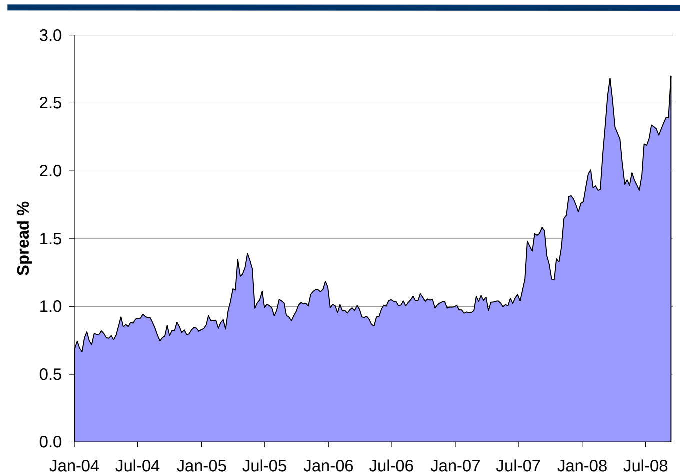
Sources: Freeman & Co., Thomson Financial

Recent Renegotiated and Withdrawn LBOs

Target	Bidder(s)	Original Bid	Final Sale Price	Announced	Closed
Clear Channel Communications	Bain, TH Lee	$27.4 billion	$25.9 billion	11/16/2006	7/30/2008
SLM Corp	**JC Flowers, FFL**	**$25.5 billion**	**n/a**	**4/16/2007**	**n/a**
J Sainsbury	CVC, KKR	$22.5 billion	n/a	4/7/2007	n/a
HD Supply	Bain, Carlyle, CDR	$10.3 billion	$8.5 billion	6/19/2007	9/30/2007
Harman Int'l Industries	KKR, Goldman Sachs	$8.1 billion	n/a	4/26/2007	n/a
Alliance Data Systems	Blackstone	$6.7 billion	n/a	5/17/2007	n/a
United Rentals	Cerberus	$3.9 billion	n/a	7/23/2007	n/a
PHH Corp	Blackstone	$1.7 billion	n/a	3/15/2007	n/a
Myers Industries	Goldman Sachs	$1.0 billion	n/a	4/24/2007	n/a

Sources: Freeman & Co., Thomson Financial

Credit Spreads: US Govt. 10-Yr vs. IG Corp[1]



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

Source: Bloomberg

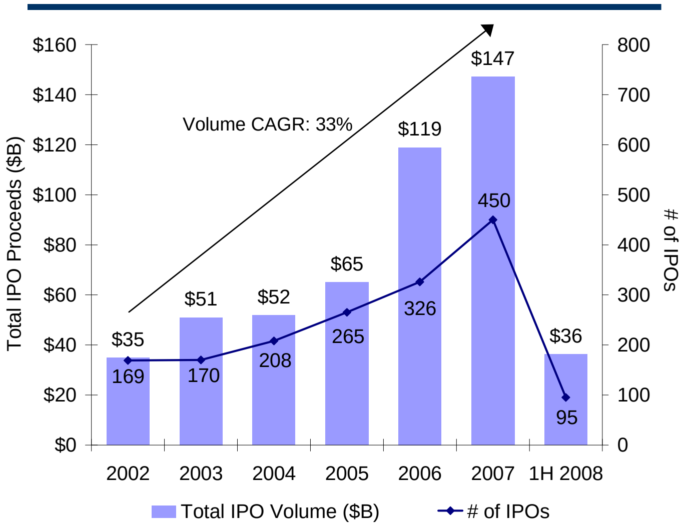
FIG PE Trends: Portfolio Company Maintenance

As discussed, traditional private equity exit routes are providing fewer opportunities for PE firms to monetize their investment in the FIG sector. Lackluster capital markets have led to fewer portfolio company IPOs; the credit crunch has resulted in fewer initial and secondary LBOs; and a lack of liquidity at strategic buyers – financial institutions – have all meant that the focus of PE firms has shifted to maintaining and improving the strength of their portfolio companies. Solidifying existing portfolio companies in this type of market will ultimately help drive higher valuations in the future. Many FIG portfolio companies are as affected by the current credit crunch as the PE firms themselves, which makes this period of focusing on portfolio company operational issues all the more crucial.

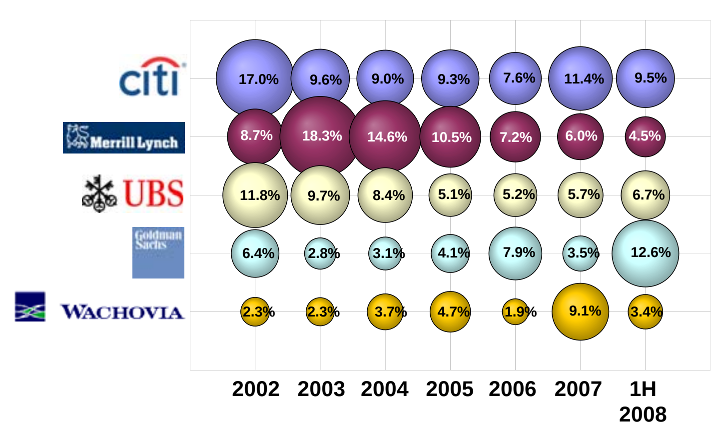
PE firms can also use their new capital originated from recent strong fundraising efforts to secure the balance sheets of their portfolio companies. Another option is to bolt-on businesses to their existing portfolio companies in order to gain scale or enhance an existing business model to achieve industry leadership. A recent example is 3i's orchestration of the merger between Fulcrum Group, a global hedge fund administrator backed by 3i, and Butterfield Fund Services, a provider of administration services for traditional asset managers and a division of The Bank of N.T. Butterfield & Son headquartered in Bermuda. 3i supported the combined company with an additional investment which created a top-tier independent alternative asset fund administrator with over 1,000 clients and $100 billion in assets under administration. Another example is Shinsei Bank's acquisition of a stake in the investment bank Duff & Phelps, which at the end of last year created a strategic alliance for valuation-related services in Asia in a deal worth $54 million. Overall, the value of portfolio company M&A deals increased at a CAGR of 103% from 2004 to 2007, outpacing the 38% CAGR for buyouts.

Much has been made about whether private equity firms ultimately add value to their portfolio companies, and several recent studies have weighed in on the subject in favor of PE firms. In the U.S., Canada, Europe and the UK, Ernst & Young found that portfolio companies of private equity firms have surpassed the financial performance of publicly-listed companies for the third straight year. Most of the growth at portfolio companies was organic revenue growth rather than from add-on acquisitions, and private equity firms are improving businesses' operations much in the way that management and strategic buyers can. A separate study by Financial News in the UK found that due to the recently implemented Walker requirements, many portfolio companies in the UK are releasing financial statements and have shown that revenue for portfolios grew at an average rate of 32% from 2006 to 2007, outpacing non-PE-backed companies.

Global FIG IPO Proceeds



Global FIG IPO Underwriting Fee Market Share



Source: Thomson Financial

InvDate: Closing date of investment (if investment is pending, then announcement date is shown) **Inv$MM:** Total amount invested in U.S. dollars
LTM 1H 2008: 7/1/2007 – 6/30/2008

FIG PE Trends: Hedge Fund Self-Servicing

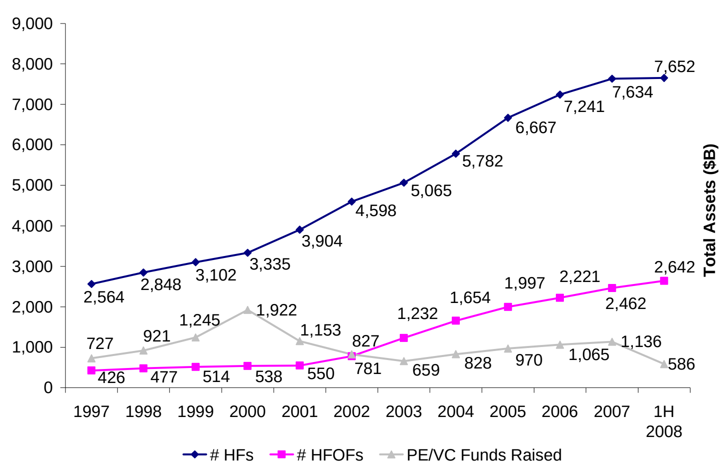
Hedge funds and other alternative asset managers rely on and are paying substantial fees to fund administration providers. This development has introduced a new trend – hedge funds are starting to enter the administration business either directly under the general partnership of the management company or as a separate entity altogether. Many hedge funds and other asset managers have developed administration capabilities in-house to service their own funds. It is a natural progression for these firms to open the back office infrastructure to outside parties. The trend started in the traditional asset management industry, and the alternative asset industry has matured to a stage in its life cycle where it has the ability to offer outsourced administration. In the past, it has mainly been prime brokers that have provided these back office services to hedge funds.

In February 2006, the Greenwich-based hedge fund, Paloma Partners, spun off its servicing operations to JP Morgan. Paloma had gone through significant AUM loss and its back office operations had outgrown the needs of its own funds. It was reasoned that the business would be more profitable servicing outside hedge funds. Later in 2006, Black River Asset Management, the hedge fund arm of commodities company Cargill, spun off its back office, which is currently called LaCrosse Global Fund Services. In the beginning of 2007, Citadel, a large hedge fund based in Chicago, spun off its administration platform, now called Citadel Solutions LLC, making it available to outside hedge funds. Citadel had also found that the business could be profitable if opened up to third parties, as long as they were willing to use its services.

The transition from internal back office of a hedge fund, to an independent provider of fund administration services is not without its challenges. First, this entails that the businesses must be able to sustain themselves separately, meaning they need sufficient institutional structure with experienced management. They also need to be able to draw customers, who are potential competitors of the original hedge fund business and who may need to be convinced that the new servicing firm is truly independent.

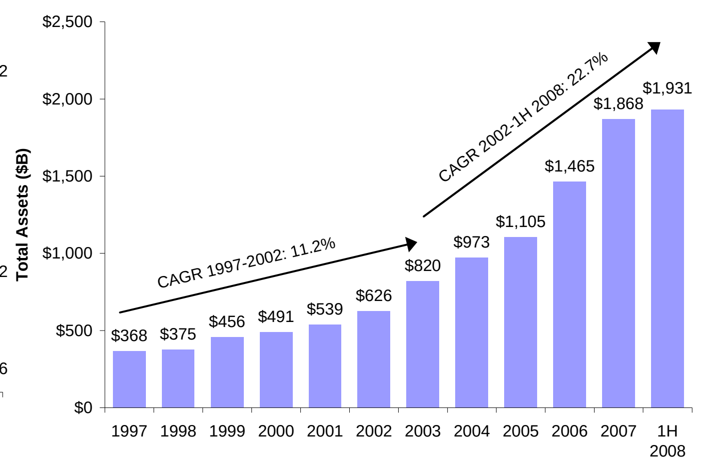
Several independent start-ups have also been successful in filling a void in the marketplace. OpHedge launched in 2005 and has since expanded significantly. GlobeOp, which has been backed by private equity firm TA Associates since 2003, is in the top ten administration firms in terms of single-fund assets under administration, with AUA of over $100 billion. As hedge funds and other asset managers continue to proliferate, administration will continue to prove to be a viable business.

Number of Alternative Asset Managers



Source: Thomson Financial, HFR

Hedge Fund and HFOF AUM



Source: HFR

Freeman & Co. PE Coverage

Private Equity Firm	City	State/ Nation
3i Group PLC	New York	NY
ABN Amro Capital Limited	Amsterdam	Neth.
ABS Capital Partners	Waltham	MA
Advent International Corporation	Boston	MA
Allied Capital	Washington	DC
Alpine Investors, Inc.	San Francisco	CA
American Capital Strategies, Ltd.	Bethesda	MD
Apax Partners	London	UK
Aquiline Capital Partners	New York	NY
Ascent Venture Partners	Boston	MA
Bain Capital Partners, LLC	Boston	MA
Barclays Private Equity Limited	London	UK
BC Partners	London	UK
Bessemer Venture Partners	Larchmont	NY
Blackstone Group	New York	NY
Bluff Point Associates	Westport	CT
Brera Capital Partners	New York	NY
Bridgepoint Capital Limited	London	UK
Capital Z Financial Partners	New York	NY
Castle Harlan	New York	NY
CCP Equity Partners	Hartford	CT
Cedar Hill Capital Partners	New York	NY
Centerbridge Partners	New York	NY
Centre Partners Management	Los Angeles	CA
Century Capital Management, Inc.	Boston	MA
Cerberus Capital Management, LP	New York	NY
Charlesbank Capital Partners LLC	Boston	MA
Charterhouse Capital Partners	London	UK
Chess Ventures	San Francisco	CA
CIBC Capital Partners	Boston	MA
Circle Peak Capital LLC	New York	NY
Corsair Capital LLC	New York	NY
Court Square Partners	New York	NY
CVC Capital Partners	London	UK
D.E. Shaw & Co. LP	New York	NY
Diamond Castle Holdings	New York	NY
DLB Capital	Wilton	CT
Edison Venture Fund	Lawrenceville	NJ
Endicott Group, The	New York	NY
Evercore Capital Partners	New York	NY
FdG Associates	New York	NY
Fidelity Ventures	Boston	MA
FPK Capital	London	UK
Friedman, Fleischer & Lowe	San Francisco	CA
Frontenac Company	Chicago	IL
FT Ventures	San Francisco	CA
General Atlantic LLC	Greenwich	CT
Great Hill Partners	Boston	MA
GTCR Golder Rauner LLC	Chicago	IL
Guggenheim Partners	Chicago	IL
Hellman & Friedman	San Francisco	CA
Hermes Private Equity	London	UK
HIG Ventures	Miami	FL
Hovde Private Equity	Washington	DC
Infinity Point	New York	NY
Insight Venture Partners	New York	NY

Private Equity Firm	City	State/ Nation
Inter-Atlantic Group	New York	NY
ITOCHU Financial Services, Inc.	New York	NY
JC Flowers + Co.	New York	NY
JMI Equity	Baltimore	MD
Kohlberg & Company	Mt. Kisco	NY
Kohlberg Kravis Roberts & CO.	New York	NY
Lee Equity Partners, LLC	New York	NY
Lightyear Capital	New York	NY
Lindsay Goldberg LLC	New York	NY
Lithos Capital Partners LLC	Westport	CT
Lovell Minnick Partners LLC	Rolling Hills Estates	CA
Madison Dearborn Partners, Inc.	Chicago	IL
Marlin Equity Partners	El Segundo	CA
Matlin Patterson	New York	NY
Menlo Ventures	Menlo Park	CA
Metalmark Capital	New York	NY
NewSmith Capital Partners	London	UK
Nikko Principal Investments	London	UK
Oak Hill Venture Partners	Menlo Park	CA
Old Lane	New York	NY
One Equity Partners	New York	NY
Parthenon Capital	Boston	MA
Phoenix Equity Partners	London	UK
Post Capital Partners	New York	NY
Promethean Investments	London	UK
Questor Management Company	Southfield	MI
Resolution PLC	London	UK
Rosemont Investment Partners	West Conshohocken	PA
Scale Venture Partners	Foster City	CA
Sequoia Capital	Menlo Park	CA
Shattan Mendel Enterprises	New York	NY
Silchester International Investors	London	UK
Silver Lake Partners	Menlo Park	CA
Spectrum Equity Investors	Boston	MA
Sterling Partners	Northbrook	IL
Stone Point Capital LLC	Greenwich	CT
Strategic Investment Group	Arlington	VA
Stripes Group	New York	NY
Summit Partners	Boston	MA
Sun Capital Partners Ltd.	London	UK
Susquehanna International Group	Bala Cynwyd	PA
TA Associates	Boston	MA
Technology Crossover Ventures	Palo Alto	CA
Texas Pacific Group	New York	NY
The Carlyle Group	Washington	DC
Thomas H. Lee Partners, L.P.	Boston	MA
Union Square Capital Partners	New York	NY
Updata Partners Venture Capital	Edison	NJ
Vantage Point Venture Partners	San Bruno	CA
Venturion Capital	New York	NY
Vestar Capital Partners	New York	NY
Vulcan Capital	Seattle	WA
Warburg Pincus	New York	NY
Welsh Carson Anderson & Stowe	New York	NY
XL Capital Investment Partners	New York	NY
Zurich Alternative Asset Management	New York	NY

Freeman & Co. PE Activity

Capital Raising

$50,000,000 investment in
Broadpoint.
by
MatlinPatterson
MatlinPatterson Global Opportunities Partners II, L.P.
The undersigned acted as financial advisor to the Board of Directors of First Albany Companies, Inc.
September 21, 2007
Freeman & Co. Securities LLC

LEERINK SWANN
has sold a minority interest to
Lovell Minnick Partners LLC
March Group
The undersigned acted as financial advisor to Leerink Swann & Company
July 23, 2007
Freeman & Co. Securities LLC

ESP
ESP has been recapitalized and received a growth equity investment from
Bear Stearns
Credit Suisse
SIG Susquehanna Growth Equity, LLC
The undersigned acted as advisor to ESP Technologies, LLC
May 17, 2007
Freeman & Co. Securities LLC

$5.5 billion AUM
K2 ADVISORS
has sold a minority interest to
TA Associates
Acted as financial advisor to K2 Advisors LLC
April 30, 2007
Freeman & Co. Securities LLC

$24 billion AUM
CERES
has completed an equity recapitalization sponsored by an undisclosed
Financial Sponsor
as provider of financing
The undersigned acted as financial advisor to Ceres Capital Partners
January 31, 2007
Freeman & Co. Securities LLC

The Bank of New York GTCR Eze Castle Software
have merged
The Bank of New York Eze Castle Software
to form
BNY ConvergEx Group
Acted as financial advisor to GTCR
October 2, 2006
Freeman & Co. Securities LLC

$1.3 billion AUM
LYRA CAPITAL LLC
has completed the management buyout of
Zurich Benchmark Series
from
ZURICH CAPITAL MARKETS
Acted as financial advisor to Zurich Capital Markets, Inc.
October 16, 2003
Freeman & Co. Securities LLC

GUGGENHEIM
has made an investment in
CRT Capital Group LLC
Acted as financial advisor to CRT Capital Group
February 2002
Freeman & Co. Securities LLC

Private Equity Exits

citigroup
has acquired
LAVA
Acted as financial advisor to Citigroup Inc.
August 2004
Freeman & Co. Securities LLC

The $2.8 billion AUM hedge fund of funds
GUGGENHEIM
has been acquired by
Bank of Ireland Asset Management
Acted as financial advisor to Guggenheim Capital
January 31, 2006
Freeman & Co. Securities LLC

CONSTELLATION
has been acquired by
SG Corporate & Investment Banking
Acted as financial advisor to Constellation Financial Management Company LLC, FEP Holdings LP &its affiliates
July 17, 2003
Freeman & Co. Securities LLC

NEOVEST High Performance Trading Technology
has been acquired by
JPMorgan
Acted as financial advisor to Neovest Holdings, Inc.
September 1, 2005
Freeman & Co. Securities LLC

$1.7 billion AUM
LYRA
its holding company
URSA *and* STARVIEW
have been acquired by
CRÉDIT AGRICOLE STRUCTURED ASSET MANAGEMENT
Acted as financial advisor to Ursa Capital
September 14, 2006
Freeman & Co. Securities LLC

PE Firms	Transaction
Capital Raising	
MatlinPatterson	Cash infusion into First Albany Companies (Nasdaq: FACT)
Lovell Minnick	Sale of a minority interest in Leerink Swann
Bear Stearns PE, Susquehanna	Recapitalization and growth equity into ESP
TA Associates	Buyout of minority interest in K2 Advisors
Undisclosed Financial Sponsor	Equity recapitalization and management buyout of Ceres Capital Partners
GTCR	GTCR joined Bank of New York and Eze Castle Software to form a new company: BNY ConvergEx Group
Capital Z	MBO of Zurich Benchmark Series by Lyra Capital
Guggenheim	Investment in Credit Research & Trading
Private Equity Exits	
TA Associates	Purchase of Lava Trading by Citigroup
Guggenheim	Purchase of Guggenheim Alternative Asset Management by Bank of Ireland Asset Management
Oak Hill, JP Morgan Partners, One Equity	Sale of Constellation Financial to Societe Generale
CCP Equity	Sale of Neovest to J.P. Morgan Chase & Co.
Capital Z	Sale of Lyra Capital to Credit Agricole Structured Asset Management

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

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- *Reports of My Death Were Greatly Exaggerated* (September 2008)
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- *Inaugural Issue: Buyouts Breakout* (August 2006)

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

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