Issue 9
4th Quarter 2003

March 31, 2004

Asset Management Focus
Freeman & Co.

Inside this issue:

Indices at March 31, 2004:

DJIA	10,358
NASDAQ	1,994
S&P 500	1,126
FTSE 100	4,386
10 Year US Treasury Bond Yield	3.84%
Euro to dollar	$1.23

Will Strong Returns Lead to Increases in Industry Activity?

Capital market returns in 2003 were strong in every asset class, although total returns in equity indexes over the past three– and five-year periods remain negative. The question for the industry is where do we go from here? Alternatives are hot, regulators are looking at every aspect of the industry while firms remain cautious about increasing their expense bases.

The result, as you will see in this report, has been an increase in moderately-sized deals, a lack of many large transactions and heightened activity in alternatives. What do we expect throughout 2004 and into 2005? Continued development of the alternatives segment, an increasing confidence by buyers looking to fill product, client or distribution gaps and an increased awareness of potential regulatory problems.

Performance as of December 31, 2003

Index	Total Return 4Q 2003	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	12.2%	28.7%	-4.1%	-0.6%
NASDAQ	12.1%	50.0%	-6.8%	-1.8%
FTSE 100	10.0%	17.7%	-7.3%	-2.4%
LBGC*	0.0%	4.7%	8.0%	6.7%
HFRI FoF**	5.5%	19.6%	7.2%	11.2%
CSFB/Tremont***	4.5%	15.4%	7.5%	10.0%

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

Summary

Our key findings are:

- Acquisitions totaling 162 were announced in 2003, representing an increase of 34% over 2002's total of 121 deals
- The 4Q03 total of 46 acquisitions represents a 2% decline over the previous quarter, and a 130% increase over the 4Q02 total of 20 deals
- Total assets acquired globally declined for the third straight year to $457 billion, falling 4% from 2002's total of $476B and 46% from 2001's level of $847B
- Average and median deal size declined for the third straight year, with the average deal size falling 29% to $2.8B AUM and median deal size falling 5% to $1.1B AUM from 2002 levels
- Acquisitions involving US companies were up from 59 in 2002 to 73 in 2003, with US assets acquired jumping from $110B to $234B AUM in the same time period
- European deal activity increased as well, rising from 48 to 72 acquisitions from 2002 to 2003, but assets acquired by European firms slumped from $217B to $111B AUM
- In Europe, asset managers are seeing operating margin expansion as investors shift money back into higher yielding products, such as equities, from money market products
- Alternative asset deals covered a wide spectrum: hedge funds, hedge fund of funds, investable hedge fund index products, hedge fund administrators and private equity fund of funds
- We predict hedge fund of fund assets will reach $400B AUM in 2005, up from $260B currently

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Global Deal Activity

Globally, acquisition activity increased significantly in 2003. Aided by tremendous returns in the equity markets, buyers and sellers capitalized on improved AUM levels and increased buying power.

The total of 162 acquisitions in 2003 represents the highest number of deals since Freeman & Co. began tracking the industry activity in 1997-1998. This past year's total is 8% larger than the previous high of 150 in 2000, and 34% higher than 2002's total of 121 acquisitions.

After starting the first quarter of 2003 with a modest 29 acquisitions, the three successive quarters had 40, 47, and 46 acquisitions, respectively. The 4Q03 total of 46 acquisitions represents a 2% decline over the previous quarter, and a 130% increase over the 4Q02 total of 20 acquisitions.

The number of announced joint ventures in 2003 (16) was in line with the total of 2002, however, the total number of announced alliances (2) declined 78% from the previous two years' totals of 9. Management buyouts ("MBO") increased 133% over last year from a total of 3 to 7.

The prospects for continued M&A in the sector will be driven by a number of factors:

- Backlog of interested sellers who would not entertain offers at depressed AUM levels
- Continued regulatory scrutiny
- Valuation and growth expectations of buyers and sellers

Regional Deal Activity

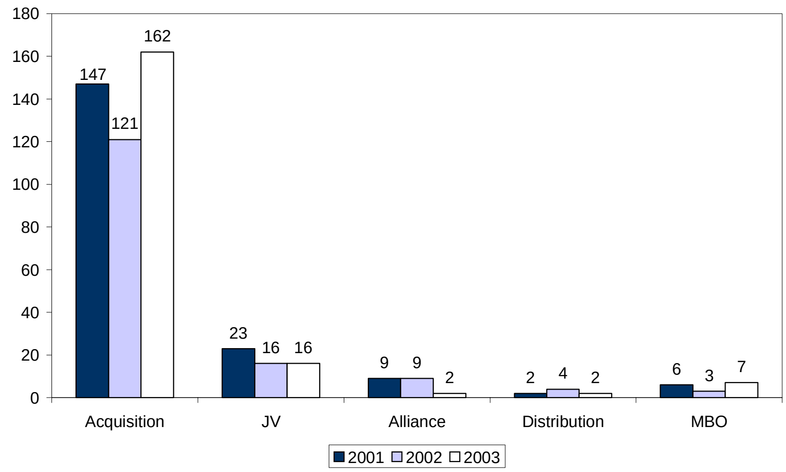
The large proportion of acquisitions in both Europe and the US were intra-continental. Of the 72 acquisitions involving European firms in 2003, 53, or 74% involved both buyers and sellers on the continent. Within this segment, most of the deals (41) were within a single country while 12 of the 53 intra-European acquisitions were cross-border deals.

The majority, 52 of 73 or 71%, of acquisitions involving a US company involved both a US buyer and seller. Only 7 foreign companies acquired US businesses during the year, and of the 7 foreign buyers 3 were Canadian.

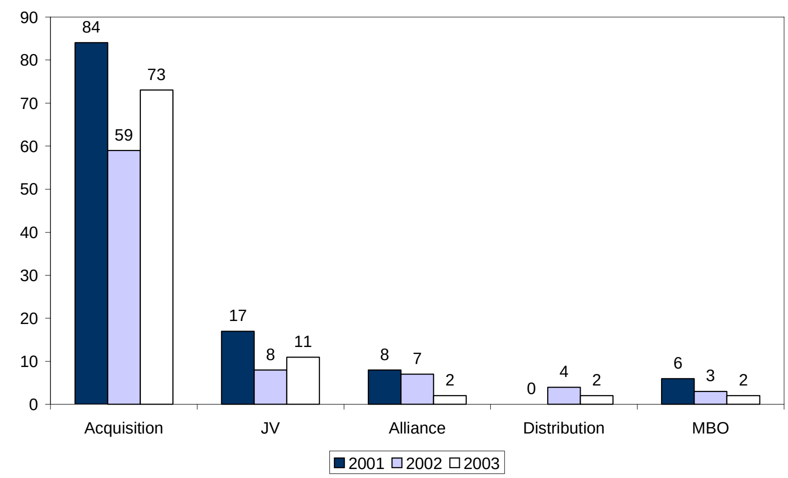
While Europe had been a hot expansion area for US firms post-Euro, in 2003 only 5 US companies made acquisitions in Europe. The long bear market and slow growth prospects have suppressed US firms' appetite for expansion there.

It is apparent that the long bear market in equities (which seems to have ended) focused firms on expansion almost solely in their core domestic markets. We believe it may be some time before cross-border deals revive substantially, with the exception of certain asset classes that have strong global growth prospects, such as hedge fund of funds.

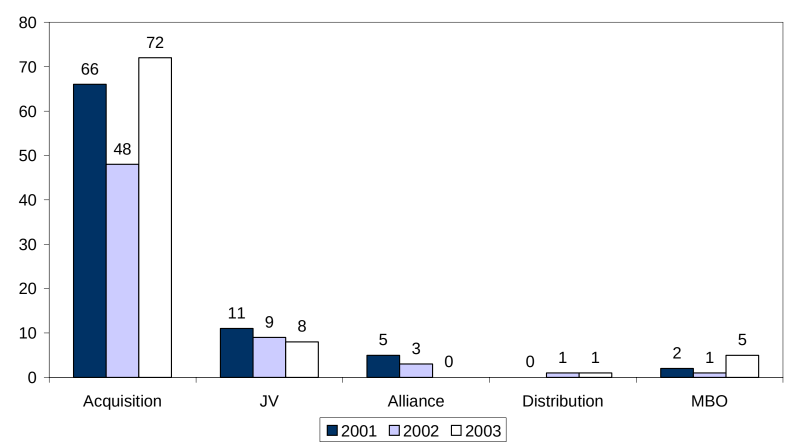
No. of Global Transactions by Year (2001-2003)



No. of Transactions involving US Firms by Year (2001 - 2003)



No. of Transactions involving EU Firms for Year (2001-2003)



Source: Freeman & Co.

US Companies Acquired in 4Q03

Select U.S. Acquisitions for Fourth Quarter 2003

Month	Target	Acquirer	Entity Value $MM	Total Deal AUM ($MM)
10	Metropolitan West Securities Group	Wachovia Corp.		50,000
11	Stein Roe Investment Counsel LLC	Amvescap plc	161	7,300
11	Callidus Capital Management	Allied Capital Corporation		700
10	Church Capital Management	Sterling Financial Corp		600
11	Undiscovered Managers LLC	JPMorgan Fleming Asset Management		450
10	40/86 Advisors Mutual Fund Business	Affiliated Managers Group		400
12	Bank of Hawaii Corporate Trust Business	Bank of New York		

Source: Freeman & Co.

US deal volume improved both in number and volume in 2003 compared to 2002. One of the largest acquisitions in the US during the fourth quarter of 2003 was Wachovia Corp.'s acquisition of Metropolitan West Securities in October. Metropolitan West Securities is a securities lending and short term fixed income asset management firm catering to institutional investors. Another notable transaction during the quarter was Amvescap Plc's purchase of Stein Roe Investment Counsel. The acquisition was one of the few trans-Atlantic acquisitions during the year and it represented the successful exit of a private equity investment for Lovell Minnick Partners (previously Putnam Lovell Capital).

Several familiar buyers made acquisitions in the asset management space during the past quarter, including AMG and JP Morgan Fleming: AMG, through its subsidiary, The Managers Funds, acquired the mutual fund business of 40/86 Advisors (formerly Conseco Capital Management), while JP Morgan Fleming acquired various assets of Undiscovered Managers LLC, including the company's hedge fund business.

While overall US deal activity was stronger in 2003, the fourth quarter saw very few substantial deals announced in the US compared to Europe: during 4Q03 only 2 deals were announced in the US involving assets greater than $1 billion AUM, while in Europe there were 10 such deals over $1 billion AUM in the same time period (see chart below).

European Companies Acquired in 4Q03

Top Ten European Acquisitions for Fourth 0uarter 2003

Month	Target	Acquirer	Entity Value $MM	Total Deal AUM ($MM)
10	Gerrard Management Services	Barclays Plc	356	21,190
12	Pantheon Ventures Ltd.	Frank Russell Co		7,000
12	Bankhaus BethmannMaffei OHG	ABN Amro	134	6,600
12	WestInvest Gesellschaft fuer Investmentfonds n	DekaBank Deutsche Gironzentrale		6,047
12	Bluecrest Capital Management	Man Group	712	3,100
12	Aktiv Forvaltning (Sparebank 1 Gruppen AS)	Alfred Berg Asset Management (ABN Amro Hol	9	2,290
11	Govett Investments Ltd.	Gartmore Investment Management	23	1,720
11	Swiss Life UK Investment Business	King & Shaxson		1,700
11	Banque Notz Stucki SA	Ferrier Lullin & Cie		1,500
10	Merrill Lynch German Private Client Division	UBS Wealth Management AG		1,400

Source: Freeman & Co.

While the number of transactions in Europe was up in 2003 verses 2002, deal volume decreased. Even so, there were 10 acquisitions in Europe involving greater than $1 billion in AUM during the fourth quarter of 2003. These 10 transactions accounted for $53 billion in total. The largest transaction by AUM was Barclays' acquisition of Gerrard Management Services, a UK private client business with over $21 billion in assets. Two of the top 5 largest deals in Europe during the fourth quarter involved alternative investment products. Frank Russell acquired Pantheon Ventures, a $7 billion AUM private equity fund of funds business located in the UK and Man Group acquired a 25% stake in Bluecrest Capital Management, a hedge fund manager with over $6 billion AUM. These two transactions represent very substantial alternative investment transactions in terms of AUM.

Two of the transactions exceeding $1 billion AUM involved the disposal of non-core assets at larger financial institutions. Merrill Lynch disposed of their German private client division with $1.4 billion AUM in a sale to UBS Wealth Management. Another divestiture was Swiss Life's sale of their UK investment business to King & Shaxson. Both of these transactions follow the trend of institutions shedding businesses in non-core markets. We think it is notable that the buyers of both these businesses are either local or have extremeltremely strong franchises in the geographic market.

Moving forward, we believe we will see a few trends in Europe. First, selective non-core divestitures will continue, but at a decreasing pace as markets improve. Second, alternatives, particularly hedge funds and hedge fund of funds will be a key product for firms to add. Lastly, significant increases in growth-driven cross-border acquisitions will not be seen until 2005 or later.

Assets Acquired by Seller Region

Assets Acquired by Seller Region by Year ($MM)

Region	1999	2000	2001	2002	2003
Africa		28,900		11,700	971
Asia	82,244	28,802	26,842	6,797	12,818
Canada	8,304	43,181	48,152	33,830	14,040
Europe	160,057	667,646	115,454	311,294	187,701
South America	19,062	2,122	2,047	3,683	7,890
US	415,067	945,624	655,321	109,541	233,594
Total	**$684,734**	**$1,716,275**	**$847,816**	**$476,844**	**$457,013**

No. of Acquisitions	114	150	147	120	162
Average Size	6,006	11,442	5,767	3,974	2,821
Median Size*	1,675	2,000	1,560	1,200	1,145

Median deal size calculated using only deals with reported AUM

Source: Freeman & Co.

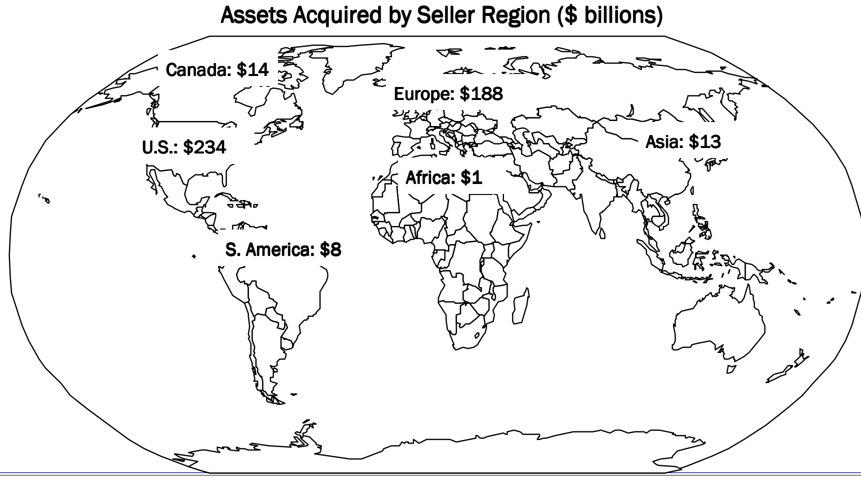
Although the number of acquisitions announced in 2003 increased dramatically over the prior year, the total assets acquired globally declined for the third straight year, falling 4% over the prior year and 46% as compared to 2001. In addition, the average and median deal sizes as measured by AUM fell for the third straight year by 29% and 5%, respectively. The continuing decline is the result of very few large scale acquisitions. In 2003 no acquired companies exceeded $100 billion in assets under management and only four acquisitions involved greater than $50 billion in assets under management. The five largest acquisitions, by assets under management, are listed below:

- American Express' acquisition of Threadneedle Asset Management with $80 billion AUM
- Lehman Brothers' acquisition of Neuberger Berman involving $64 billion in AUM
- Prudential Financial Inc.'s acquisition of Cigna Corp.'s retirement planning business with $52 billion in AUM
- Wachovia's acquisition of Metropolitan West Securities Group totaling $50 billion AUM
- Barclays Plc's acquisition of Gerrard Management Services with $21 billion AUM

All of the transactions listed above involved the sale of a US or European company, which helped to make these two regions the largest sellers of assets in 2003 and is consistent with results for the past 4 years. The US overtook Europe as the largest seller of assets in large part due to the Neuberger Berman, Cigna retirement business and the Metropolitan West Securities Group sales. These three transactions accounted for 71% of the $234 billion of assets under management sold in the US during the year.

Although it has already received plenty of media attention, the acquisition of Neuberger Berman is worth highlighting as it marks the first acquisition of a US public money manager of this magnitude since Fiduciary Trust was acquired by Franklin Resources in 2000. The Neuberger Berman acquisition contributed to further consolidation of an industry whose current public market capitalization is approximately $59 billion.

Assets Acquired by Seller Region ($ billions)



Source: Freeman & Co

Assets Acquired by Buyer Region

Assets Acquired by Buyer Region by Year ($MM)

Region	1999	2000	2001	2002	2003
Africa		33,576		11,700	971
Asia	52,028	9,174	1,802	2,361	10,313
Canada	8,359	8,072	47,926	36,820	23,430
Europe	456,726	870,139	537,727	216,991	110,666
South America	662	122	3,447	885	4,874
US	166,959	795,193	256,915	208,088	306,758
Total	**$684,734**	**$1,716,275**	**$847,816**	**$476,844**	**$457,013**

No. of Acquisitions	114	150	147	120	162
Average Size	6,006	11,442	5,767	3,974	2,821
Median Size*	1,675	2,000	1,560	1,200	1,145

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

Source: Freeman & Co.

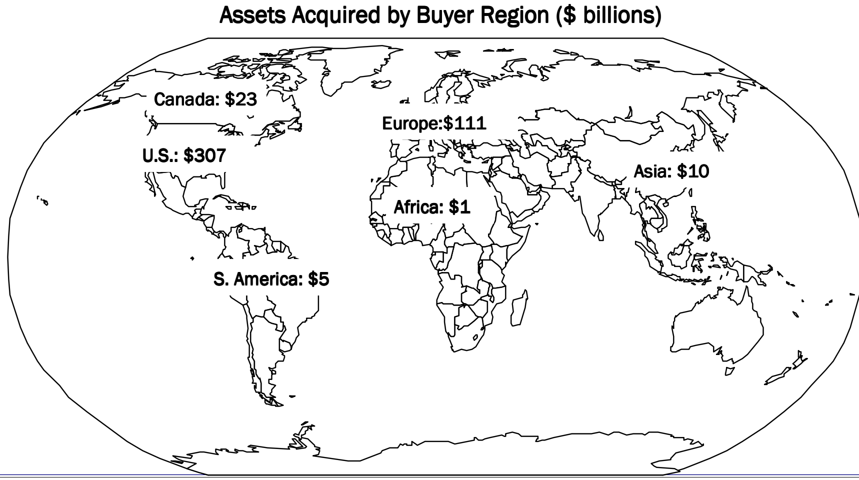
One notable trend is that the US has become a "net buyer" of assets for the second straight year: buying $307B AUM and selling $234B AUM, for a "net buy" of $73 billion. Europe has become a "net seller" for the second straight year selling $187B AUM and buying $111B AUM, for a "net sale" of $76 billion. From 1999 to 2002, Europe's net asset transactions were +$297, +$202, +$423 and -$94 billion AUM. The five year cumulative effect in Europe is+$752 billion AUM. This contrasts with the US, where net asset transactions were -$248, -$151, -$398 and +$98 billion AUM over the same time period. The five year cumulative effect in the US is -$626 billion AUM. We expect to see this continue as the US stock market rebound will encourage US firms to make acquisitions, while large European banks and insurers may continue to sell businesses to improve corporate balance sheets.

US companies accounted for $307 billion, or 67% of the assets acquired during 2003, with a US company representing the buyer in 4 of the top 5 transactions of the year as mentioned on the previous page. Also for the first time in over five years, US firms bought more AUM than European firms. Assets sold and bought in Canada declined during 2003 over the previous two years, but Canada remained the next largest buyer and seller of assets outside of the US and Europe. Asia and South America experienced an increase in both assets sold and bought, although their totals still account for only a small portion of the global total.

While overall deal volume remains far below the heady levels of 2000 ($457B AUM currently vs. $1,716 in 2000, a drop of 73%), it appears that deal volume has stabilized and appears to be improving if measured by number of deals (up 35% over 2002). Future deal volume should continue to improve as the equity markets remain strong, but regulatory scrutiny in the US will discourage many buyers from pursuing deals: either senior management will be tied up with settling regulatory accusations or they may be hesitant to make purchases fearing potential troubles at the target.

There are some encouraging signs, however. We expect alternative asset classes to continue to remain a strong segment: many large firms lack critical mass, while many small, privately-owned firms have acknowledged the high (and perhaps rising) costs of and competitiveness within distribution channels. Also, the Lehman Brothers acquisition of Neuberger Berman signals that large firms are willing to make large-scale acquisitions, attracted by the low capital requirements, recurring fees and high margins of the industry.

Assets Acquired by Buyer Region ($ billions)



Source: Freeman & Co

Multiple Buyers in 2003

There were a total of 15 multiple buyers of asset management businesses in 2003 accounting for 40 acquisitions involving $210 billion in AUM and a reported $7.0 billion in value. ABN Amro led all buyers with a total of 5 asset management acquisitions, either directly or through subsidiaries. Of the multiple buyers, Lehman Brothers accounted for the greatest amount of AUM acquired ($65.7 billion) and highest purchase prices ($2.6 billion) through its acquisitions of Neuberger Berman and the Crossroads Group.

In addition to ABN Amro, several firms that have been consistent buyers of asset management businesses were active including New Star Asset Management, Dundee Wealth Management and Boston Private Financial Holdings. Since 2000, when United Asset Management and Nvest were acquired, a number of firms have embarked on consolidation or strategic acquisition plans and are consistently in the marketplace. However, firms such as AMG and Boston Private have taken different business routes, notably in either the amount they purchase or the level of integration and distribution synergies.

Asset Management Multiple Buyers in 2003

Year	Acquirer	# of Acquisitions	Value of % Bought $MM	Total Deal AUM $MM
2003	ABN Amro	5	143	8,970
2003	Prudential Financial Inc	4	2,400	52,210
2003	Integrated Asset Mgmt	3	3	N/A
2003	New Star Asset Management	3	217	4,828
2003	Boston Private Financial	3	118	3,974
2003	Principal Financial Group	3	126	3,535
2003	Gartmore Global Investments	3	23	2,943
2003	TA Associates	2	142	N/A
2003	Lehman Brothers	2	2,625	65,700
2003	Wachovia Corp.	2	N/A	50,000
2003	Dundee Wealth Mgmt	2	94	13,040
2003	Tilney Holdings Ltd.	2	8	1,140
2003	C.I. Fund Management Inc	2	107	1,000
2003	Mellon Financial Corp	2	N/A	750
2003	Sterling Financial Corp	2	15	600

Source: Freeman & Co.

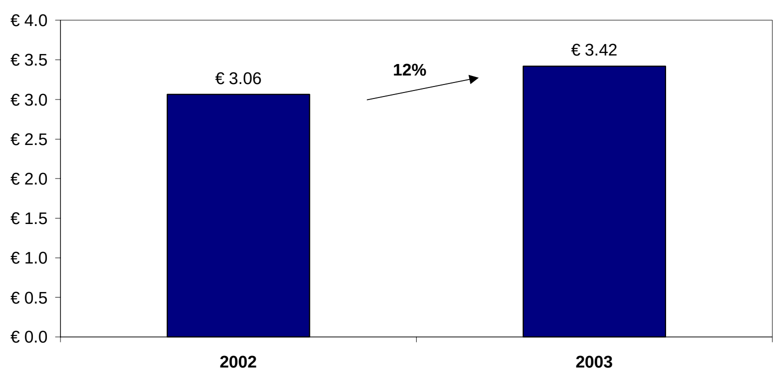
European Trends

Shifting to Europe, the UCITS[1] investment fund market in Europe increased by 12% (or EUR 360 billion) from 2002 to 2003. Of this increase, 49% or €175 billion, was driven by the resumption of demand for equity-based funds in the second half of the year. A close look at the net sales data shows a turnaround in the pattern of net sales in the course of 2003. During the first half of the year, fixed income funds attracted about 85% of new cash flow, whereas 95% of new investment flowed into equity-based funds during the second half of 2003. The shift in demand was driven by the recovery in stock market prices, which started at the end of the first quarter of 2003 and has carried on almost constantly since then.

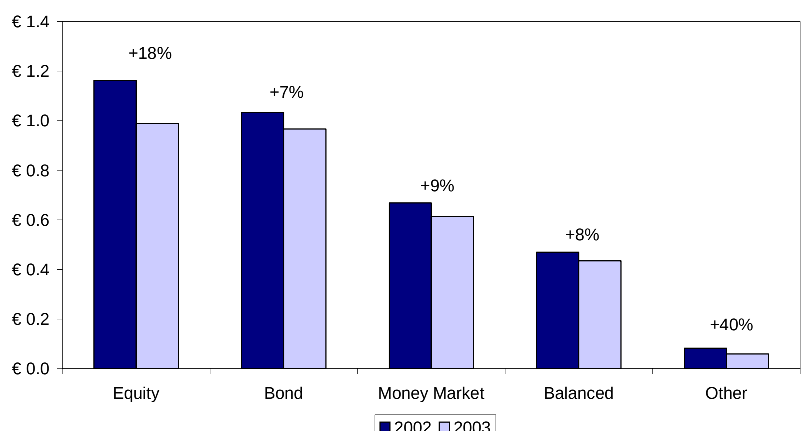
Inflows totaled €168 billion and equity and bond funds doubled the amount of new investment compared to 2002. Conversely, money market fund net inflows have been reduced by half over 2002/03 falling to €46 billion from €96 billion. Investors' shift from money market to equity funds (i.e. from lower to higher margin products) will continue to restore European fund managers' operating margins after 3 consecutive years of deteriorating profits.

In addition, increased allocations to hedge funds and hedge fund of funds, which is not captured in this data, is a positive for the European asset management industry — both products offer significantly higher fee levels and operating margins.

European Fund Industry: Total UCITS' AUM (Euros Trillions)



European AUM by Product Family 2002 - 2003 (Euros Trillions)



Source: FEFSI

[1] "UCITS" is used in this note in the sense of publicly offered open-end funds investing in transferable securities and money market funds

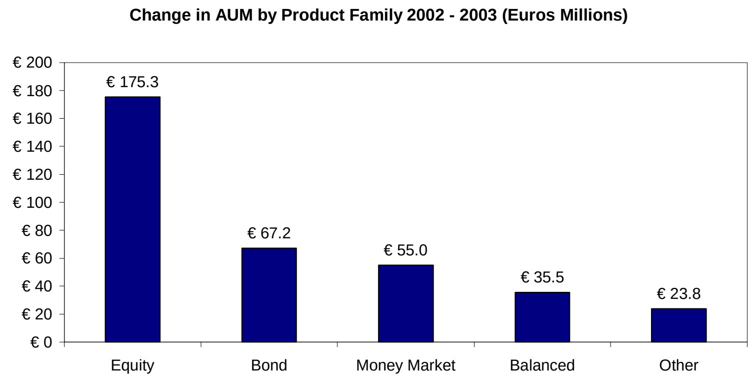
European Trends

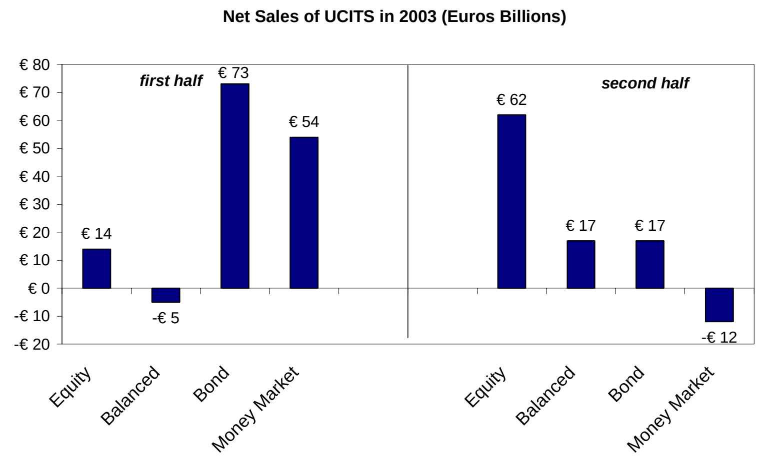
Declining revenues due to asset erosion and increased investors' interest for low margin products (fixed income) had a significant impact on the asset managers' profitability during the past three years. We believe that businesses that managed to maintain or improve profitability during this time period belong to one of the following groups:

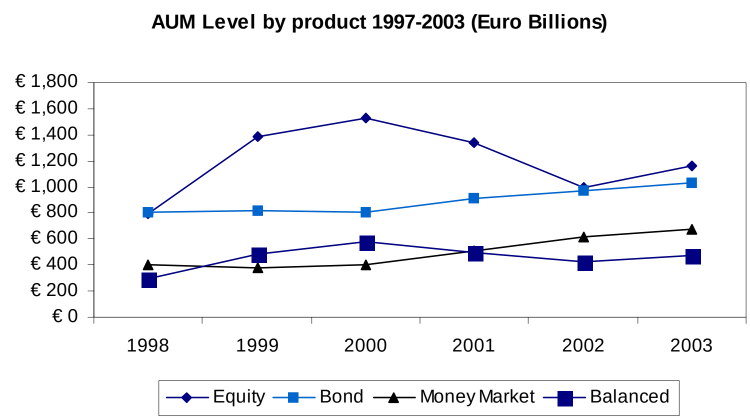
- Fixed-income specialized asset managers benefiting from a focus on bond management skills, credit expertise and strong returns in a declining rate environment
- Large diversified asset managers with strong brand name and a flexibility to adjust their cost structure in line with declining revenues
- Benefits from newly acquired subsidiaries (for example, Putnam Investments acquired the London-based high-yield manager "New Flag Asset Management" in July 2002)
- Multi-style equity managers with top quartile-ranked products that match the in-favor management styles that have dominated the last three years equity investment cycle:
    - Index equity funds in 2001
    - Value equity funds in 2002
    - Technology funds in first half of 2003
    - Small Caps in second half of 2003

We believe that if low interest rates continue and stock markets continue their recovery over the next few years, we should see additional assets transferred from money market to equity and balanced funds. We estimate the transfer of assets to happen progressively over 2004–2005 and reach a total annual amount of €200-250 billion, which will bring net assets invested in equity funds back to 1999-2000 levels of €1.4–1.5 trillion. We estimate that money market funds are over-invested and that on average European asset levels for this specific asset class hover around €400 billion (average level during 1997–2000). The change in product mix should help generate an additional €1.2–1.5 billion in revenue or €400-500 millions in profits[2] per annum.

Additionally, these figures do not account for the additional revenue and earnings opportunities if investors shift assets out of money market funds into hedge fund and hedge fund of fund assets. For this shift we would generally expect incremental increases in revenue and pre-tax profits of 100-200 basis points and 50-100 basis points, respectively. For each €100 billion shifted, this would add €1-2 billion in revenues and €500 million — 1 billion in pre-tax profits to the industry — quite a substantial boost. If one were to assume pre-tax profit value mutiples of 10x, this asset shift to alternatives would create €5-10 billion in new firm value, although much of this would be at private firms.







Source: FEFSI

[2] Assuming average fees on equity funds of 80 basis points, average fees on money market funds of 20 basis points and operating costs equal to 2/3 of revenues

M&A Activity in Europe

European Asset Management Deal Activity

	2002	2003	No. Change	% Change
Number of Acquisitions	48	72	24	50%
European Buyer	10	12	2	20%
European Target	6	7	1	17%
Intra-Europe	32	53	21	66%

Source: Freeman & Co.

The European asset management industry has started positioning itself to increase profitability. In 2003, European merger & acquisition activity intensified as the total number of asset management related deals involving at least one European party increased from 48 to 72, a 50% increase over 2002 levels. Intra-European transactions increased by 66% from 32 in 2002 to 53 in 2003. The number of corporate transactions tracked in 2003 is close to the peak, reached in 2000 when our research team identified 80 transactions involving a European firm. Although at similar levels, the number of deals in 2000 vs. 2003 have different realities: in 2000 the M&A activity was driven by firms with growth/expansion plans, whereas in 2003 it has been largely fuelled by firms that are retrenching and exiting non-core markets. We believe that businesses acquired in a 2003 type of environment are less risky and have a higher chance to be successfully integrated in the post-acquisition phase: prices paid are generally lower, cost savings are higher and expectations are lower.

Adapting to the changing landscape, European money managers are developing capabilities in new or increasingly important areas like wealth management, fund of hedge funds and institutional penetration to reach certain goals such as: better servicing of specific segment needs (e.g. private banking), broadening customer bases, gaining distribution access, expanding global reach, diversifying revenues and selectively disposing of assets and operations to refocus efforts elsewhere.

While European firms seek to realign or restructure their asset management businesses, foreign managers, especially from the US, have always coveted the region for its immense growth potential. Ownership of funds is low by American standards, as is investment in equities. The expertise and economies of scale that US managers enjoy should allow them to compete effectively against European asset managers in terms of products, but distribution — both its costs and complexity in Europe have hindered many US firms' efforts.

We expect foreign firms to make more inroads in the markets that rely upon consultants. Due to the increasing size and complexity of pension funds we expect use of consultants to rise significantly on the Continent in the coming years. Since US can compete effectively in building institutional quality products (encompassing research, risk management, portfolio optimization, etc.) they have a strong chance to get on the recommended lists of consultants. While initially this may be for specialized mandates, foreign firms should be able to compete for core asset class mandates. We expect to see a gradual increase of market penetration in Europe by foreign firms (predominately US-based) that will follow a pattern of: increasing use of consultants, winning specialized mandates and finally winning core mandates.

In the retail market where distribution is dominated by large banks and insurance companies (or bancassurers) we believe that we are unlikely to see more than 20% of flows open to third party branded products in the next few years, although we think this will be a two stage process, with mass retail banks remaining rather "closed" while private banks, brokers and advisors networks will have a far wider degree of choice for their investors. Large universal banks will develop preferred partner programs, placing product from five to seven fund suppliers alongside their proprietary product. As such, it is unlikely that an independent asset manager will consistently gain more than 20% of the flows from a single distribution platform. With intense competition across the industry, it is unlikely that any single product provider will gain more than 3-5% of the assets on open-architecture platforms industry-wide. This implies that it will take many years for independent asset managers to build the scale necessary to make retail asset management profitable without acquisitions and joint-ventures, while favoring the large asset management firms such as Fidelity, Putnam and Capital Research.

As a result, independent asset managers will place greater focus on distribution channels through private banks, brokers and financial advisors. As usual this will create the competitive struggle over the percentage of total revenue that product manufacturers and distributors capture. For the retail market we expect to see market share split with a high market share captured by "own label, in-house" products, a few large manufacturers dominating branded sales (e.g. Fidelity) and a small number of successful specialists or niche brands.

European Divestitures (Source: Freeman & Co.)

Distressed / Declining / Rationalized fims	Seller's country	Type of business	Entity	Buyer's country	Buyer
Edinburgh Fund Managers	Scotland	Retail Fund Management	N/A	UK	New Star Asset Management
Edinburgh Fund Managers	Scotland	Asset Management	N/A	UK	Aberdeen Asset management
Edinburgh Fund Managers	Scotland	Private Client	N/A	UK	Tilney Investment Management
Exeter Investment Group	UK	Mutual Funds	N/A	UK	New Star Asset Management
Zurich Financial Services	US	Hedge Fund Structured Products	Zurich Capital Markets	France	BNP Paribas
Zurich Financial Services	UK	Asset Management	Threadneedle	US	American Express
Zurich Financial Services	Switzerland	Private Client	Zurich Investment Bank	Switzerland	AIG Private Bank Ltd.
Swiss Life	UK	Institutional Fund Management	Swiss Life UK Invesment Ltd	UK	King & Shaxson
Swiss Life	Switzerland	Private Client	Schweizerische Treuhandgesellschaft	Liechtenstein	LGT Group
Swiss Life	Switzerland	Asset Management		Switzerland	AIG Private Bank Ltd
Merill Lynch	Germany	Private Client	ML German Private Client Division	Switzerland	UBS Wealth Management AG
Lloyds TSB Group Plc	France	Private Client		Switzerland	UBS AG
HypoVereinsBank	Switzerland	Private Client	Bank von Ernst	UK	Coutts Private Bank

Alternative Investments

The alternative investment industry continues to experience both rapid change and rapid growth. At its core, growth is being driven by institutional demand for hedge funds, due to their strong absolute returns in a low interest rate environment and their low correlation to traditional asset classes. We expect this trend to continue for a variety of reasons: equity markets offer strong long-term returns but have high short-term volatility, fixed income has offered healthy returns recently but rates appear to be headed up, private equity lacks liquidity and mark-to-market values, and real estate lacks liquidity and mark-to-market values while being sensitive to rising interest rates.

As a result the hedge fund industry continues to grow at a rapid rate, according to estimates by Hedge Fund Research Inc. hedge fund assets reached $817 billion in 2003. The same report showed that industry assets grew 31% over the prior year end total. At this rate the hedge fund industry could reach $1 trillion in assets by the end of 2004. Hennessee Group estimated the hedge fund industry to be $76 billion in 1995, if the industry reaches $1 trillion next year it will have grown 1,216% in 10 years at a compound annual growth rate of 29%.

The hedge fund of fund (HFOF) industry has grown equally fast. In our prior reports we had estimated the HFOF industry size at $79 billion in 2000, with potential size of $260 billion by 2005. Industry growth has exceeded our original projections. For example, now there is an Institutional Investor (II) Top 50 HFOF list — the original list in 2002 had total assets of $170 billion and 2003 listed $210 billion among these firms, a growth rate of 23.5%. Among other firms we believe there is an additional $50 billion under management, placing industry assets at our $260 billion projections — but two years earlier than expected.

Recent Hedge Fund Allocations

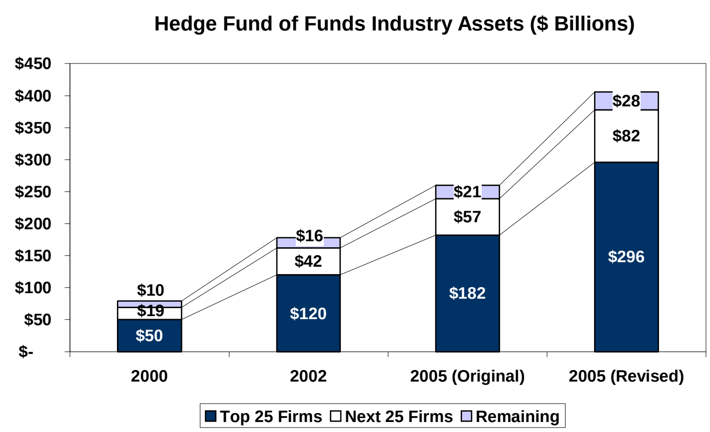
- CalPERS plans to allocate 2-4% of its $138 billion of assets ($2.8—$5.5 billion) to absolute return investments
- Municipal Employee's Retirement System of Michigan gave $40 million, roughly 1% of its $4.3 billion assets to Money Management Group in a global macro hedge fund
- Shropshire (England) County Council hired Quellos Group and Man Investments to manage 10% or $111 million of its $1.1 billion pension fund
- New School University hired Blue Orchid, a hedge fund of funds, to manage $5 million. The $125 million endowment currently allocates 24% to alternatives

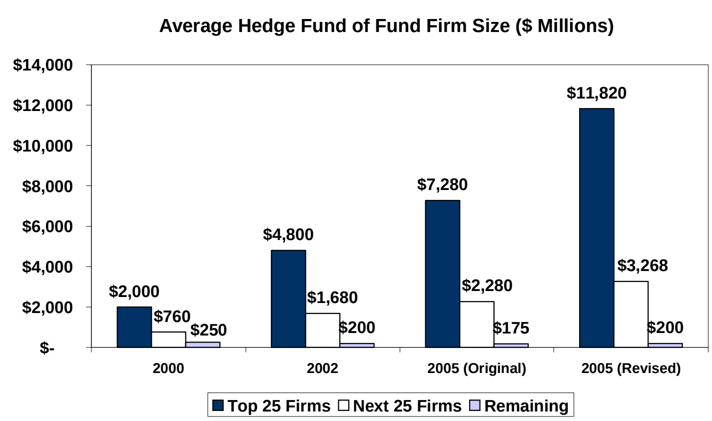
Source: Pensions & Investments, Hedgeworld.com

Segmenting the market, the top 25 firms grew by 25% adding $32.1B AUM to reach a total of $158.3B; the next 25 firms grew at 19% adding $8.4B to reach $51.8B AUM. The average firm sizes among these two market segments is changing as well: the top 25 firms now average $6.3B AUM, while the next 25 firms average $2.1B AUM. These numbers are up from $5.0 billion and $1.7B, respectively. This highlights the growing disparity in size between these two groups. In fact, we know of at least two firms that have each added $5B AUM from their totals in the Top 50 List. These firms' total asset increases of $10 billion are staggering, since it represents 31% of industry growth last year according to the II data. It is not unrealistic to expect the HFOF industry to reach $350B by December 2004 and $400B by December 2005, up from our estimate of $260B currently.

There are numerous advantages large firms have including a larger asset base to compound, ability for large pension plans to make sizable allocations to them without breaching concentration limits (e.g. no more than 10% of assets) and usually an affiliation with a large, branded financial services firm.

We expect to see two other segments of firms develop. The first will consist of medium- to large-sized privately owned firms. A number of investors will always gravitate to these types of firms (HFOF or long-only) as they appreciate the entrepreneurial spirit and founder continuity of these firms. However, only a limited number of firms will differentiate themselves in the view of institutional investors to reach a level of $3-5B AUM in the next two years. Second, we expect to see an increase in small firms' positioning and differentiation. This differentiation may occur along client, distribution channel, investment process or geographic themes — but will lead to strong success for those firms that execute their strategies well.





Source: Institutional Investor, Freeman & Co. estimates

Alternative Investments Deal Activity

Notable Alternative Investment Transactions of 2003

Mo	Year	Partner 1 / Target	Partner 2 / Acquirer	Total Deal AUM ($MM)	Transaction Type
10	**2003**	**Zurich Benchmark Series[3]**	**Lyra Capital LLC**	**1,300**	**MBO - FOF**
10	2003	GlobeOp Financial Services	TA Associates		ACQ - HF Admin
10	2003	Lyra Capital LLC	Dow Jones Indexes		JV - HFOF
10	2003	Lighthouse Partners Ltd.	Zacks Investment Research		Alliance - HF
11	2003	Forum Financial Group	Citigroup Inc.		ACQ - HF Admin
11	2003	HVB Alternative Investments	Ramius Capital Group	1,800	JV - HF
11	2003	Callidus Capital Management	Allied Capital Corporation	700	ACQ - CDO
11	2003	Center for Financial Research & Analysis	TA Associates		ACQ
11	2003	Refco Alternative Investments LLC	Abbey Capital Ltd.		JV
11	2003	Sal Oppenheim Private Equity FoF	CAM Private Equity	120	ACQ - PE FOF
11	2003	Pohjola-Suomi Private Equity	ProVenture		ACQ - PE FOF
12	2003	Pantheon Ventures Ltd.	Frank Russell Co	7,000	ACQ - PE FOF
12	2003	Hamilton Lane Advisors	Investor Group Consortium		ACQ - PE FOF
12	2003	Bluecrest Capital Management	Man Group	3,100	ACQ - HF
12	2003	Starview Capital Management	Lyra Capital LLC	1,300	JV - HFOF
12	2003	Absolute Capital	ABN Amro		ACQ

Source: Freeman & Co

The alternative investments sector experienced a strong level of activity across a variety of products during the final quarter of 2003 . As more investors are making allocations to alternative investments (hedge funds, hedge fund of funds, private equity, distressed, etc.) the alternative sector continues to be one area of tremendous growth for the investment industry. Large pension funds and endowments are increasingly making allocations to alternatives, with portfolio targets of 10% or higher. This has been the primary growth driver and has led to an increase in product development in the alternative sector.

As expected, large financial institutions are trying to capitalize on the growth of the segment through acquisitions and partnerships involving a diverse group firms, including:

- Hedge Funds (Man Group's acquisition of Bluecrest Capital Management)
- Hedge Fund of Funds (partnership between HVB Alternatives and Ramius Capital to merge their fund of funds businesses)
- Hedge Fund Index-related Products (Capital Z backing the management buyout of the Zurich Institutional Benchmarks—Lyra Capital and, subsequently, the partnership between Lyra Capital and Dow Jones to publish hedge fund indices)
- Private Equity Fund of Funds (Frank Russell's acquisition of Pantheon Ventures)
- Hedge Fund Administration (Citigroup's acquisition of Forum Financial Group)

One particularly interesting development during the fourth quarter of 2003 were the acquisitions or recapitalization of two of the world's largest private equity fund of funds business. As a relatively small sub-sector of the alternative investments industry, the private equity fund of funds space saw a round of consolidation as three companies in total were acquired. First, Frank Russell acquired Pantheon Ventures, a UK-based company with over $7 billion in AUM. Second, an investor group, which included Bill Gates' investment office, acquired a stake in Hamilton Lane Advisors, one of the largest private equity advisors/fund of funds in the US. Additionally, Sal Oppenheim sold a small private equity fund of funds business with $120 million AUM.

Another notable transaction was Man Group's 25% minority acquisition of Bluecrest Capital Management, a $3 billion hedge fund. Traditionally, we have felt that acquisitions of hedge fund managers (vs. hedge fund of fund managers) were less likely to occur, due to several potential concerns, including key man risk and volatility of earnings. As the education level regarding hedge funds increases among potential buyers, we believe firms will devote more attention to creatively solving the major risk elements in buying a hedge fund. Already there is a trend for hedge funds to become large, multi-product firms with institutional quality infrastructure. As this continues, overall revenue volatility and key man-risk should decrease at these firms. As this occurs, it will be easier to create successful deal structures that mitigate risks of performance fees, single product performance and key person risks.

In the hedge fund of fund industry, there has been a clear separation between the large firms (above $5-7 billion AUM) such as Ivy, Blackstone and UBS, and the small– and mid-sized firms. This is being driven by the selection practices of the trustees, CIOs and advisors at institutional investors. We believe many institutional investors have chosen a two-pronged strategy for allocating assets to hedge fund of funds. First, they are choosing to allocate 75-85% of hedge fund AUM to one of the top 10 firms. This is driven by trustees desire for a globally recognized, well-capitalized partner, for what an asset class that is still perceived to have headline and other risks. The remaining 15-25% of hedge fund AUM is allocated to a smaller firm, generally one that has a unique approach or whose partners have a special background (former global head of trading at a bank). The result is a large number of smaller firms competing for a smaller slice of the AUM pie. Additionally, picking two firms allows institutional investors to better educate themselves about hedge fund products by comparing and contrasting the approach of both firms. It also gives the investor an on-line back-up to review any situation if there is a problem with any hedge fund investments.

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

US Public Money Managers—Valuations

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

Company Name	End AUM ($ bils)	Stock Price 3/31/04	Equity Value	Enterprise Value (a)	LTM (12/31/2003) Revenue	LTM (12/31/2003) EBITDA	LTM (12/31/2003) EPS	Enterprise Value as a Multiple of LTM Revenue	Enterprise Value as a Multiple of LTM EBITDA	PE Ratio LTM	Equity Value % AUM
Diversified (b)											
Blackrock	$ 309.4	$ 61.17	$ 3,928.1	$ 3,378.5	$ 598.2	$ 249.6	$ 2.36	5.6x	13.5x	25.9x	1.3%
Eaton Vance	83.6	38.12	2,644.1	2,624.5	555.2	180.6	1.58	4.7	14.5	24.1	3.2%
Federated Investors	197.9	31.43	3,429.2	3,527.6	823.2	354.2	1.82	4.3	10.0	17.3	1.7%
Franklin Resources	336.7	55.68	14,054.1	14,146.2	2,825.2	914.8	2.25	5.0	15.5	24.8	4.2%
Gabelli	27.6	40.28	1,216.6	1,122.5	207.4	75.7	1.65	5.4	14.8	24.4	4.4%
SEI Investments	90.6	33.00	3,722.5	3,507.4	636.2	223.0	1.27	5.5	15.7	26.0	4.1%
Janus Capital	151.5	16.38	3,958.3	3,126.9	994.7	395.9	0.86	3.1	7.9	19.0	2.6%
T Rowe Price	190.0	53.83	7,214.1	6,815.3	994.9	409.7	1.77	6.8	16.6	30.4	3.8%
Waddell & Reed	36.6	24.52	2,038.6	2,120.4	451.2	156.6	1.09	4.7	13.5	22.6	5.6%
TOTAL	**$ 1,423.8**		**$ 42,205.7**	**$ 40,369.4**			**AVERAGE**	**5.0x**	**13.6x**	**23.8x**	**3.4%**
							MEDIAN	**5.0**	**14.5**	**24.4**	**3.8%**
Insurance											
Nuveen Investments	$ 95.4	$ 27.86	$ 2,699.9	$ 2,844.7	$ 452.0	$ 253.3	$ 1.50	6.3x	11.2x	18.6x	2.8%
Holding Companies											
Affiliated Managers	$ 91.5	$ 54.58	$ 1,687.7	$ 2,140.2	$ 495.0	$ 219.9	$ 1.85	4.3x	9.7x	29.5x	1.8%
Bank / Trust Companies (c)											
Boston Private Finl	$ 10.4	$ 28.00	$ 771.6	$ 771.6	$ 131.4	$ 43.2	$ 1.05	5.9x	17.9x	26.8x	7.4%
Wilmington Trust	32.3	37.37	2,505.1	2,505.1	519.7	229.3	2.02	4.8	10.9	18.5	7.8%
TOTAL	**$ 42.7**		**$ 3,276.7**	**$ 3,276.7**			**AVERAGE**	**5.3x**	**14.4x**	**22.6x**	**7.6%**
Limited Partnerships											
Alliance Capital	$ 474.8	$ 36.80	$ 9,311.3	$ 9,102.4	$ 2,732.8	$ 791.4	$ 2.09	3.3x	11.5x	17.6x	2.0%
Overall **TOTAL**	**$ 2,128.2**		**$ 59,181.3**	**$ 57,733.4**							
							HIGH	6.8x	17.9x	30.4x	7.8%
							AVERAGE	5.0	13.1	23.2	3.8%
							MEDIAN	4.9	13.5	24.3	3.5%
							LOW	3.1	7.9	17.3	1.3%

Source: Publicly available SEC filings, Bloomberg and IBES estimates.
Note: All figures have been adjusted for extraordinary and non-recurring items.
(a) Enterprise Value calculated as Equity Value plus Net Debt (Total Debt less Cash & Cash Equivalents).
(b) EV and BEN fiscal year end of October and September and have been calendarized.
(c) Enterprise Value excludes cash.

Source: SEC Filings

US Public Money Managers— AUM Analysis

ENDING AUM ($ in billions)

Quarter Ending	3/31/2002	6/30/2002	9/30/2002	12/31/2002	3/31/2003	6/30/2003	9/30/2003	12/31/2003
Diversified								
Blackrock	$ 238.1	$ 249.8	$ 245.9	$ 272.8	$ 273.6	$ 286.3	$ 293.5	$ 309.4
Eaton Vance	59.2	54.8	55.6	55.8	57.9	64.3	75.0	83.6
Federated Investors	177.6	185.0	180.9	195.4	195.7	202.4	194.1	197.9
Franklin Resources	274.5	270.4	247.8	257.7	252.4	287.0	301.9	336.7
Gabelli	25.9	23.2	20.2	21.2	20.1	22.5	23.2	27.6
SEI Investments	79.0	76.8	72.2	78.0	78.2	85.7	87.4	90.6
Janus Capital	190.5	161.5	139.0	138.4	132.7	149.8	146.5	151.5
T Rowe Price	159.8	148.8	131.6	140.6	139.9	161.2	168.9	190.0
Waddell & Reed	32.3	29.1	25.6	28.1	27.5	31.7	32.9	36.6
TOTAL	**$ 1,236.9**	**$ 1,199.4**	**$ 1,118.8**	**$ 1,188.0**	**$ 1,178.0**	**$ 1,290.8**	**$ 1,323.3**	**$ 1,423.8**
Insurance								
Nuveen Investments	$ 69.5	$ 68.5	$ 76.9	$ 79.7	$ 81.4	$ 88.3	$ 90.1	$ 95.4
Holding Companies								
Affiliated Managers	$ 81.4	$ 74.1	$ 68.5	$ 70.8	$ 68.4	$ 77.3	$ 81.9	$ 91.5
Bank / Trust Companies								
Boston Private Finl	$ 6.8	$ 6.5	$ 6.0	$ 6.4	$ 6.8	$ 8.3	$ 9.4	$ 10.4
Wilmington Trust	37.0	31.7	29.1	28.9	22.6	30.9	30.7	32.3
TOTAL	**$ 43.8**	**$ 38.2**	**$ 35.1**	**$ 35.3**	**$ 29.4**	**$ 39.2**	**$ 40.1**	**$ 42.7**
Limited Partnerships								
Alliance Capital	$ 452.2	$ 412.5	$ 368.7	$ 386.6	$ 386.3	$ 426.2	$ 473.8	$ 474.8
OVERALL TOTAL	**$ 1,883.8**	**$ 1,792.7**	**$ 1,668.0**	**$ 1,760.4**	**$ 1,743.5**	**$ 1,921.8**	**$ 2,009.2**	**$ 2,128.2**
% Change		*(4.8)%*	*(7.0)%*	*5.5%*	*(1.0)%*	*10.2%*	*4.6%*	*5.9%*

Source: SEC Filings

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