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Rolling Out the Red Carpet

A Blockbuster Year for Fund Management M&A, 2006

Unprecedented transaction activity in the asset management sector during 2006 shattered most entries in the record book, reflecting the powerful forces now reshaping the industry. Fund managers of all sizes are seeking to swiftly secure skills they trust will provide competitive advantage in a marketplace where new demographics, different risk appetites and higher client expectations—particularly regarding value for money—are triggering dramatic changes in demand patterns among retail and institutional customers.

- Strategy is motivating buyers more than ever before, as fund managers no longer paralyzed by a bear market redraw blueprints for future growth. Acquirers during the last cyclical boom in deal flow concentrated simply on building bigger investment firms; this time, they appear centered on building better ones.
- Asset managers, not distributors, are propelling the transaction activity, finally sparking an aggressive (and overdue) product innovation cycle unlike any seen in years. The high demand for alternative investments, unlikely to abate, underscores the industry's hunger for current and future sources of ever-elusive alpha.
- Top-quality targets with sustainable performance, niche expertise and solid client relationships are attracting enthusiastic attention from a wide range of strategic and financial buyers, pushing trade-sale multiples notably upward. Public markets have followed suit, awarding buoyant—perhaps frothy—prices to fund management stocks.
- Financial engineering is an increasingly critical aspect of successful deals, with partial acquisitions, structured earnouts, asset swaps and debt financing all used to create a complicated chemistry of control, liquidity and compensation.
- Deal flow has globalized in concert with markets, portfolios and clientele, with Americans now representing a minority of buyers and sellers in transactions.
- Despite the hype over hedge funds, buyer interest in 2007 also will focus on staples such as long-only international equities, US growth stocks, property, along with private equity, CDOs and structured products.
- As buy-side investors, particularly hedge funds, wield increasing dominance over global liquidity, financial services firms race to provide them state-of-the-art trading tools, fueling transactions in a still-expanding financial technology sector.

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Executive Summary

- Transaction activity in the asset management sector reached new heights. In 2006, buyers spent nearly \$44 billion to purchase 191 firms managing more than \$2.6 trillion. The list included the sector's two largest ever: the **Bank of New York's** purchase of **Mellon Financial** and **BlackRock Financial's** acquisition of **Merrill Lynch Investment Managers**.
- Alternative asset managers overseeing some \$175 billion accounted for 59 transactions, or 31% of targets, in 2006. Interest in single-manager hedge fund firms surged, followed closely by funds of hedge funds. A growing number of other alternatives managers, including private equity firms, property managers and CDO specialists also sold.
- Multiples paid for targets in trade sales reached a three-year apex, with a four-quarter rolling median cresting at roughly 11.3 times EBITDA by year-end 2006. Similar metrics for the public markets approached 14 times EBITDA, a record high. Alternatives managers fetched even higher prices than traditional firms. Estimated profit margins of acquired firms rose mightily and hit the 40% level.
- The lofty valuations inspired record numbers of initial public offerings in the sector, including **Ashmore Capital**, the industry's largest until **Fortress Investment Group** listed in February 2007. Ten firms floated during 2006, most of them doing so in London. Fortress represents the first IPO of a US fund manager in nearly three years.
- Asset managers accounted for acquirers in 42% of transactions, closely followed by both commercial and investment banks. Financial sponsors, driving management buy-outs, represented nearly \$200 billion in acquired assets, trumping all previous years. Diversified firms remained the broad plurality of targets, although buyers acquired a record \$185 billion of private-client assets.
- Partial acquisitions were more prevalent than ever before, with 21 deals involving sales of majority stakes and another 55 in which buyers acquired 50% or less. A growing number of purchasers left equity on the table as an incentive for current management, while many hedge funds were unwilling to cede more than a small stake of their ownership to buyers.
- For the first time, Americans represented a minority of both sellers and buyers. European firms were acquirers in 73 of the transactions in 2006, appearing as aggressive as they did in 1999 and 2000. This time, however, they concentrated on intra-regional opportunities, an indication of attractive opportunities in Europe. Nearly 60 cross-border deals took place. Assets acquired in cross-border acquisitions rose to \$364 billion in absolute terms but fell in relative measures to 14% of all assets changing hands.
- The growing dominance of hedge funds over global trading and liquidity helped spur more than 140 deals in financial technology, with price-to-earnings ratios for quoted fintech firms doubling during 2006 alone.

Overview: Transaction Activity for 2006

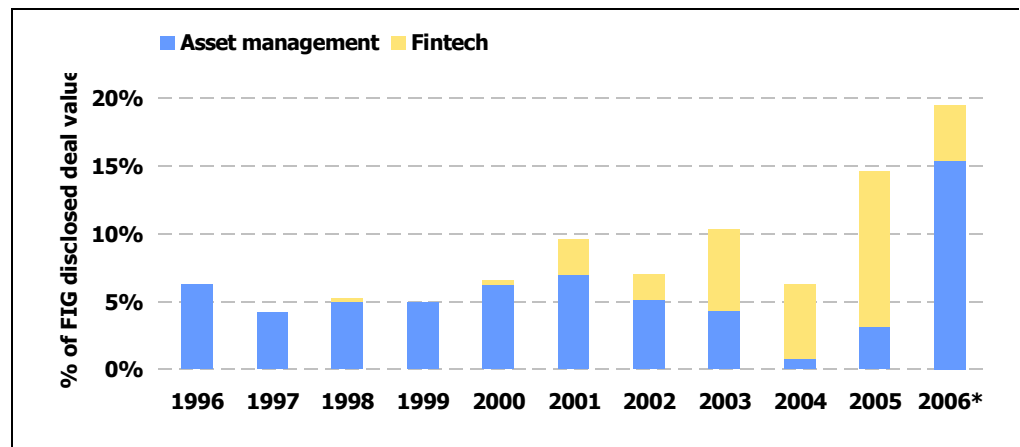
Global fund management was one of several sectors in which deal-making shattered records. Thomson Financial estimates that the disclosed deal value of mergers and acquisitions worldwide during 2006 surpassed \$3.8 trillion, crushing the previous record of \$3.4 trillion set in 2000. Improving corporate earnings, rising public markets worldwide, and leverage that remains cheap in historical context coalesced to create an ideal environment for trade sales.

Buyout firms fuel record levels of M&A worldwide in 2006

Most notably, leveraged buyout activity drove the frenzy, with financial sponsors accounting for a record 20% of disclosed deal value worldwide, and nearly 27% in the United States, during 2006. Private equity firms—still brimming with at least \$250 billion in cash to deploy, according to Private Equity Intelligence—are spurring more, and larger, deals.

Financial-services targets accounted for 15% of disclosed deal value worldwide in 2006, second only to energy companies. Asset management and financial technology together drove a substantial portion of this deal flow, together comprising a 20% slice of sector activity as measured by transaction value.

Exhibit 1: Asset Management and Financial Technology Percentage of Financial-Services M&A

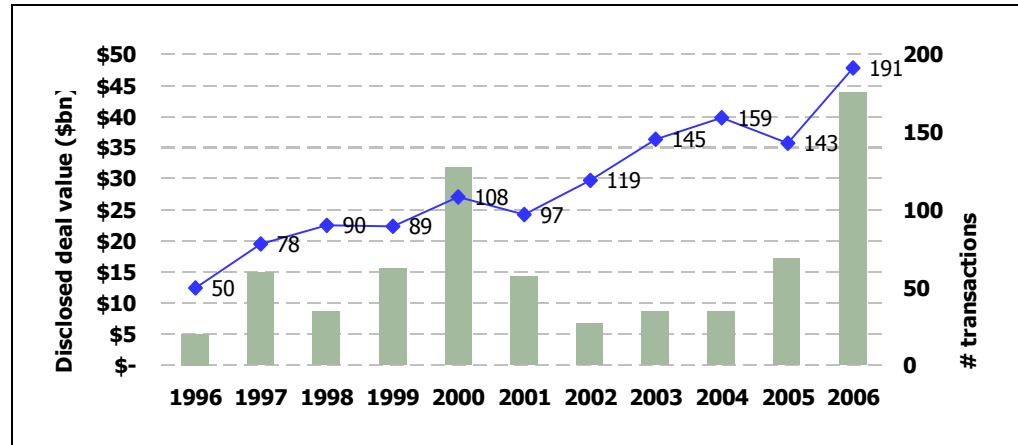


Note: *Classifies Bank of New York/Mellon as asset management. Sources: SNL Financial, Putnam Lovell NBF estimates

Asset management deal flow breaks several records in 2006

Asset management deal activity in 2006 set records in several categories. An unprecedented number of transactions—191—maintained a trend that has seen the number of asset management deals per year nearly double since 2001. Additionally, aggregate disclosed deal value reached \$44 billion, crushing the previous \$31 billion high-water-mark set in 2000.

Exhibit 2: Historical Transaction Activity Involving Asset Management Targets



Note: Includes minority transactions, recapitalizations and IPOs. Source: Putnam Lovell NBF

Deal flow in the industry may have been more torrid than the disclosed metrics indicate. A growing number of transactions involve private-equity firms that need not provide metrics to the marketplace, minority acquisitions that buyers can label immaterial or avoid consolidating in financial statements, and targets such as hedge fund firms and other alternatives managers, none of whom are obliged to disclose detailed financial information.

BAC, BK, BLK spend \$29bn on asset managers

Certainly some key transactions—namely three of the most expensive, as measured by disclosed deal value, ever recorded in the sector—helped shape these record numbers:

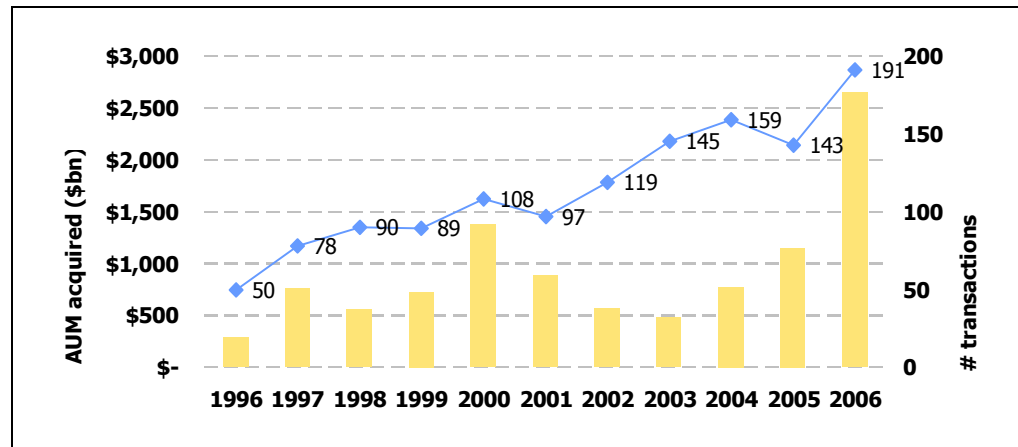
- The **Bank of New York's** purchase of **Mellon Financial**, announced in December, represents the largest-ever fund management acquisition in terms of both assets under management (US\$947 billion) and disclosed deal value (more than \$16 billion). Consolidation in the asset-servicing sector—a low-margin, high-volume business where size is a crucial element of competitive advantage—drove part of the deal: the combined entity will be the world's largest custodian, servicing nearly \$17 trillion and enjoying a lead (for now) over **State Street** (newly combined with **Investors Financial Services**) and **J.P. Morgan**. Most of the deal's value, however, will come from Mellon's asset management operations, which had accounted for two-thirds of year-to-date operating income when the banks announced their marriage. Absorbing Bank of New York's investment operations will boost funds under management at Mellon to more than US\$1 trillion and catapult the asset manager to 10th from 17th in pro-forma global league tables.
- Further underscoring the strategic shift toward core competencies—and away from blindly hard-wiring manufacturing to distribution—**BlackRock Financial** agreed to swap nearly 50% of its capital to **Merrill Lynch** for the latter's asset management group. The deal, valued at more than \$9 billion at announcement, allows Merrill to focus energies on developing open-architecture advisory platforms that further underscore its role as a distribution powerhouse. BlackRock will benefit from its new link to the brokerage as well as from the absorbed fund management unit, which hopes to flourish in an environment designed to properly motivate—through culture and compensation—investment professionals. Perhaps the biggest winner is **PNC Bank**, which sold down part of its 70% stake in BlackRock as part of the transaction.

- Finally, **Charles Schwab & Co.** agreed to sell its **U.S. Trust** private-client unit to **Bank of America** for an estimated \$3.3 billion, representing the largest-ever trade sale, as measured by assets under management, of a private-client investment unit. The deal underscores the Bank of America’s transformation into a true universal bank, offering investment advice for multiple tiers of retail and institutional clients. Leveraging its broad customer base of affluent individuals—and those aspiring to be affluent—the bank may be able to realize more value from the operation than did Schwab, which spent at least \$2.7 billion to buy U.S. Trust in 2000, but only boosted assets under management to \$94 billion from \$86 billion.

AUM changing hands leaps past \$2.6 trillion

The amount of assets under management changing hands through transactions in 2006 outweighed the combined amount of funds involved in deals during the previous three years. Again, mammoth acquisitions helped numbers skyward, with **Merrill Lynch Investment Managers** and **Mellon Financial** accounting for more than half the assets measured. Nevertheless, the median transaction size in terms of assets under management rose 8% during 2006 to \$2.1 billion—just shy of a similar metric of \$2.3 billion recorded in 2000. Larger asset management firms are approaching the market.

Exhibit 3: AUM Acquired in Asset Management Transactions

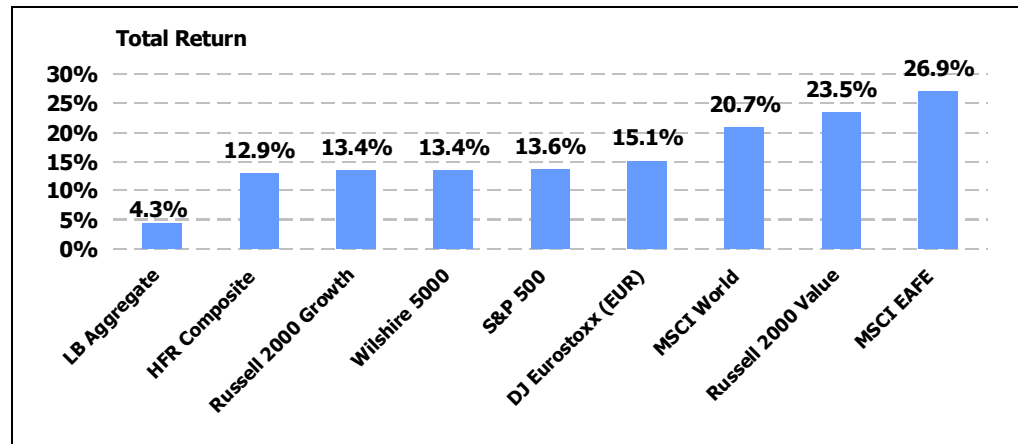


Note: Includes minority transactions, recapitalizations and IPOs. Source: Putnam Lovell NBF

The same, and notably cyclical, trends shaping feverish transaction activity worldwide also have impacted fund management deal flow. Equity markets worldwide posted some of their best returns in three years, shaking off a significant but short-lived second-quarter reversal that forced corrections on several Western European bourses, and inflicted less substantial damage on other OECD capital markets. Capital market conditions, of course, spur or restrain activity in all sectors, but particularly in asset management, where rising stock markets directly boost the fund industry’s asset-based revenues, making fund managers more attractive.

Buoyant bourses encourage transaction activity

Exhibit 4: Performance of Major Capital-Markets Indices for 2006



Note: Denominated in US dollars except where noted. Sources: HFR, InvestorForce, InvestWorks, public market data

Deal flow reflects longer-term industrial realignment

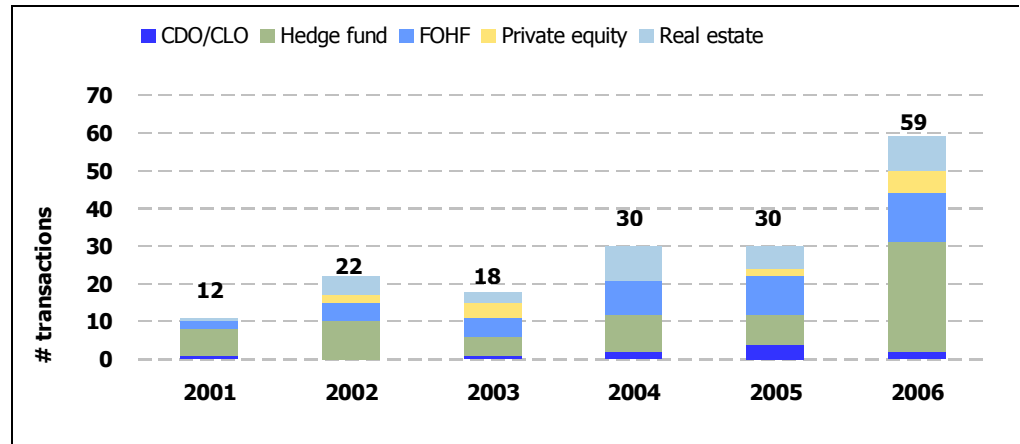
More importantly, however, secular trends particular to the asset management industry—longer-term and less susceptible to market fluctuations—powered the deal flow:

- Demand for absolute return continues to rise: institutional investors seek all-weather portfolios that can guarantee long-term payment obligations to retiring Baby Boomers, who in turn want products and packages that create a constant stream of retirement income. This shift has created equal opportunities for both fund managers who can provide the necessary market outperformance and investment banks with hedging instruments that can sponge away associated risk.
- Increasingly complex financial advice has created more complicated packaging for investment products, many of which now will rely on insurance, derivatives, leverage and other capital markets instruments to manage risk and return to client specifications. As asset-gathering, risk protection, and unearthing alpha become more intricate pieces of a multifaceted marketplace, firms will need to focus on core competencies—shedding businesses in which they cannot compete in order to focus on areas where they can add value. While the separation of manufacturing and distribution in fund management has moved from theory to truism and now borders on cliché, it remains a core—and non-cyclical—driver in current M&A activity.
- As investment offerings that can replicate broad market performance at lower fees multiply, asset managers find themselves forced into one of the most aggressive product development cycles seen in decades. Those without strong non-correlated investment performance are seeking the talent to create and (more importantly) maintain it. The smaller cadre of firms that currently possess such expertise is seeking to protect it from hot money by limiting capacity—and auctioning it to the highest bidder.

These trends play a key role in explaining record levels of interest in alternative asset managers—particularly hedge funds and funds of hedge funds (FOHFs) that promise positive returns, rain or shine. Alternative asset managers accounted for more than 30% of industry management transactions in 2006, a record proportion.

Alternatives managers formed largest group of targets

Exhibit 5: Historical Transaction Activity Involving Alternative Asset Management Targets



Source: Putnam Lovell NBF

FOHFs take back seat to single-manager targets

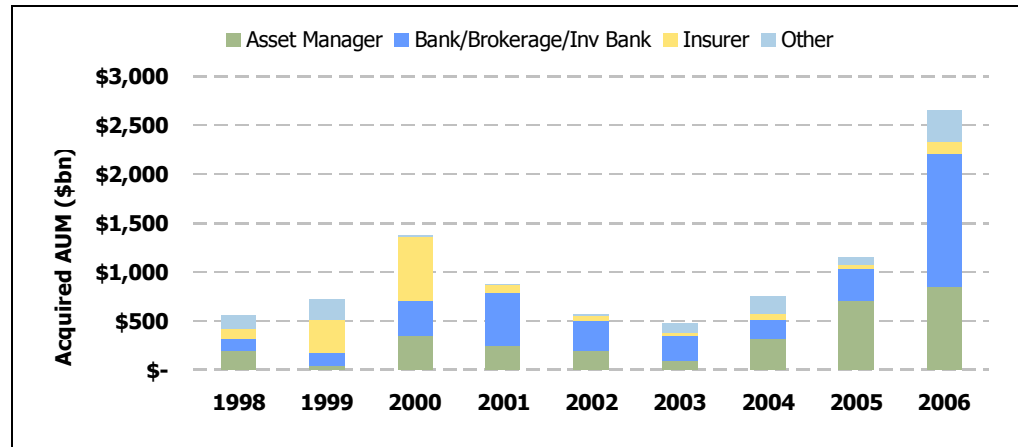
Single-manager hedge funds attracted more attention than ever before, as 29 hedge-fund managers offered equity stakes to buyers or the public during 2006. Purchasers had favored funds of hedge funds in 2005, but a glut of such targets—the number of FOHFs has risen 32% compounded annually since 2001—and the increasing ease of establishing such products is dampening demand for all but assemblers with proven asset-gathering capabilities and consequent scale, such as **Olympia Capital** (in which financial sponsor **Sagard** bought a stake), **Cadogan Financial** (secured by **Fortis**), **NewFinance Capital** (acquired by **Schroders**) and **International Asset Management** (won by **ABN Amro**). Conversely, single-manager hedge funds attracted more attention during 2006 thanks to improving returns and less erratic revenues, as many now offer low-volatility products that drew more money from nervous institutional investors.

Morgan Stanley alone invests in five hedge fund managers

Investment banks—keen to weld more hedge funds to their prime-brokerage, private banking, and corporate investment units—ranked among the more aggressive buyers for hedge funds and funds of hedge funds, often awarding their new affiliates with not only an equity purchase but also a dollop of seed capital. **Morgan Stanley** alone purchased stakes in five hedge fund managers during 2006, redefining the term serial acquirer. **Nomura Securities** made the biggest visible investment, sinking nearly \$900 million in **Fortress Investment Group** in return for a 15% stake before the fund manager’s IPO. **Credit Suisse**, **Lehman Brothers**, and **Merrill Lynch** also bulked up with hedge fund purchases.

Such interest in alternatives on the part of investment banks—coupled with the **Bank of New York’s** purchase of **Mellon Financial**—ensured that non-insurance financial conglomerates, including both retail and investment banks as well as brokerages, drove deal activity as measured by assets under management and disclosed deal value for 2006.

Exhibit 6: AUM Acquired by Acquirer Type



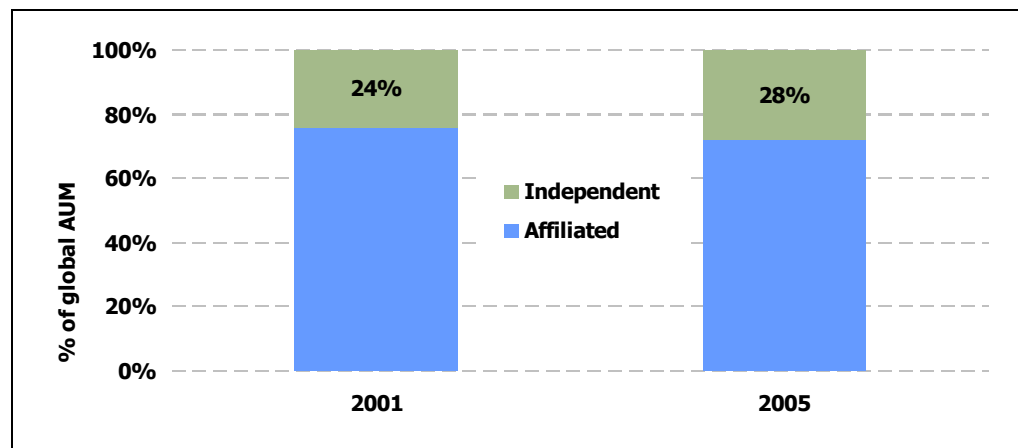
Source: Putnam Lovell NBF

Asset managers prevalent among buyers

Financial conglomerates, however, were far from alone. “Other” acquirers—including financial sponsors and the public markets, two options discussed later in this report—accounted for a record number of transactions last year. Furthermore, a closer examination of the data shows that in nearly half the deals announced during 2006, asset managers purchased other fund firms, representing almost nearly \$850 billion of funds under management, about half of the total if one excludes the outsized **Bank of New York** transaction.

Examining data for the past five years shows that the proportion of managed assets controlled by independent fund managers—those untied to larger financial firms offering distribution—has increased. This further underscores the ongoing separation of manufacturing and distribution, typified by the **Citigroup Asset Management** and **Merrill Lynch Investment Managers** sales but also apparent at various other levels in the fund industry.

Exhibit 7: Assets Under Management by Manager Ownership



Source: *Pensions & Investments*, Watson Wyatt Worldwide, Putnam Lovell NBF estimates

**Fund managers add products,
absorb smaller fund complexes**

Factors spurring asset managers to buy other investment houses during 2006 also included:

- *Product-line extensions.* Deals that secured access to high-demand alternative investment products were prevalent, but fund managers also sought methods to expand their traditional arrays. **Federated Investors**, for example, purchased quantitative-equity specialist **MDT Advisors**, while multi-affiliate **Old Mutual Asset Management** took a 60% stake in small-cap specialist **Copper Rock Capital**.
- *Fund adoptions and consolidations:* Consolidation of smaller fund complexes or certain funds played a role in at least 12 transactions during 2006, with money managers representing the majority of buyers. The deals included one of the largest fund adoptions to date: insurer **Phoenix's** acquisition of a mutual fund complex containing \$10.5 billion from the **Bank of Montreal's** US subsidiary, **Harris Bank**. Like other fund adoptions, Harris' fund management operation will retain management fees from the funds in the form of a sub-advisory contract, while Phoenix, which also purchased the **Turner Strategic Growth Fund** this year, will oversee administration and distribution. Other fund complexes are assimilating the funds they buy, either by bolting them on and replacing the management or (more frequently) merging them with existing products. **T. Rowe Price Associates, Federated Investors** and **American Century Investments** all acquired funds in this manner during 2006; **Unicredit's Pioneer Group**, already with a number of such absorptions under its belt, is seeking similar deals in the marketplace.

Exhibit 8: Selected Mutual Fund Absorptions and Adoptions, 2006

Date	Target	Type	Acquirer	AUM (\$MM)
11/06	Legg Mason (three mutual funds)	Absorption	Santander Securities	\$149
11/06	Neomarkka (portfolio)	Absorption	eQ Bank	\$62
9/06	Kopp Investment Advisors (funds)	Absorption	American Century Investments	314
9/06	Bank of America All-Star Funds (two products)	Absorption	Alps Advisers	1,350
6/06	Sentinel Asset Management (three mutual funds)	Absorption	Federated Investors	93
3/06	Turner Strategic Growth Fund	Adoption	Phoenix Cos.	10
3/06	Harris Investment Management mutual funds (Harris Bank)	Adoption	Phoenix Cos.	10,500
2/06	FBR Funds (two mutual funds)	Absorption	M&T Bank	57
2/06	Preferred Group of Funds (Caterpillar)	Absorption	T. Rowe Price Associates	2,950
1/06	Nissay Asset Management (European funds)	Adoption	Hermes Pensions	843
1/06	Bailard Opportunity Growth funds (three products)	Adoption	HighMark Funds (Union Bank of California)	392
1/06	Framlington Absolute Growth Fund (UK fund)	Absorption	Premier Asset Management	77

Source: Putnam Lovell NBF

- *Channel or packaging access:* Fund managers also have bought other investment firms that tap new clients for the acquiring operation. **Old Mutual Asset Managers**, for example, purchased a 55% stake in **Ashfield Capital Partners** partly to raise its profile in the separately managed account channel within brokerages' fee-based advisory platforms.

Multi-affiliate activity remains important industry catalyst

Multi-affiliate firms continued to drive a portion of asset management activity, representing more than a dozen transactions and more than \$50 billion in assets under management. Multi-affiliate is an umbrella term describing operating companies that expand their product and service offerings through serial acquisition, in part or in full, of smaller fund management boutiques. Some, like quoted **Affiliated Managers Group**, focus on empowering affiliates to make their own decisions and while preserving significant minority stakes for their subsidiaries, while others, such as **Mellon Financial**, seek full ownership, building a wide range of coordinated delivery systems and support for their autonomous boutiques.

Exhibit 9: Selected Multi-affiliate Acquisitions, 2006

Date	Target	% Acquired	Acquirer	AUM (\$MM)
11/06	Hansberger Group	Partial	Ixis Asset Management (Natixis)	\$9,000
11/06	DeGreen Wealth Management	100%	WealthTrust	600
10/06	Chicago Equity Partners	60%	Affiliated Managers Group	11,400
9/06	Ashfield Capital Partners	55%	Old Mutual Asset Management	3,000
6/06	Resnick Investment Advisors	100%	Focus Financial Partners	397
6/06	HoyleCohen	100%	Focus Financial Partners	366
5/06	Walter Scott & Partners	100%	Mellon Financial	27,000
3/06	US Trust Planned Giving Group (Schwab)	100%	Mellon Financial	700
3/06	Independence Investment	100%	City National / Convergent	7,900
2/06	Copper Rock Capital	60%	Old Mutual Asset Management	400

Note: Excludes minority-share transactions and intra-organization mergers. Source: Putnam Lovell NBF

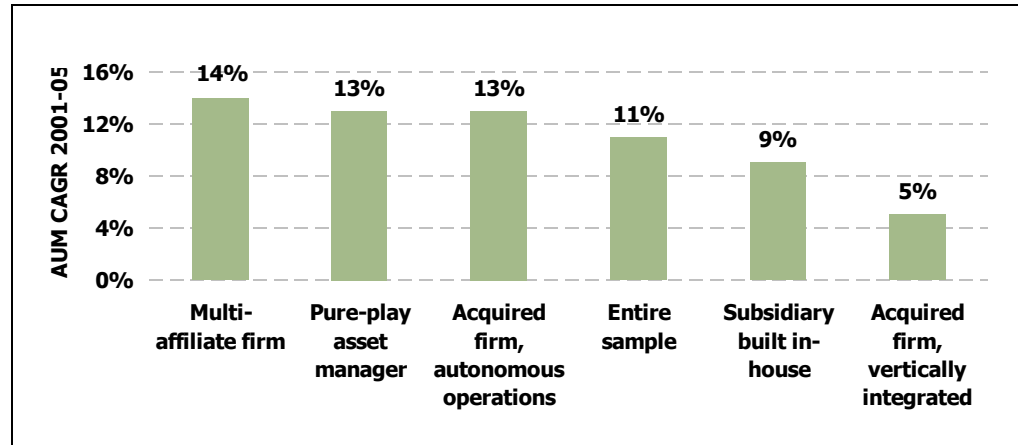
The multi-affiliate model continues to gain interest, not only from asset managers seeking partnership with existing players, but from potential new sponsors. A number of budding multi-affiliate structures are forming in Australia, a marketplace littered with boutiques. Additionally, the asset management arms of a growing number of large European financial services firms have placed multi-affiliate strategies at the cornerstone of their US market entry and global expansion plans.

Multi-affiliates argue they can bridge the growing gap between manufacturing and distribution in the industry. Many multi-affiliates grant their organizations independent control over not only investment processes, but also branding and compensation issues. In addition, some, like AMG, leave substantial portions of equity in the hands of management. Such autonomy aims to create a culture that supports and retains key investment talent. Conversely, the multi-affiliate often can lend economies of scale and organizational support to asset-gathering initiatives that prove difficult for some boutiques—creating coordinated marketing efforts for cross-selling, offering a mutual fund complex and retail distribution relationships for shared use by the affiliates, or finding synergies in shared expenses such as back-office systems.

Asset growth appears stronger among multi-affiliates

Detailed analyses of multi-affiliates' collective performance against the industry as a whole are difficult to build given the tendency for some organizations to consolidate publicly disclosed data of their affiliates. This, in turn, creates sampling and survivorship bias. In addition, multi-affiliates historically have favored value equity shops. But a rough calculation of asset growth among affiliates providing unconsolidated data shows that multi-affiliates appear to gather assets at a faster rate than the industry benchmark.

Exhibit 10: Asset Growth of Fund Managers By Business Model



Note: Sample includes 128 US business units where AUM measurements remained discrete during timeframe, permitting post-acquisition analysis. Growth includes market appreciation.

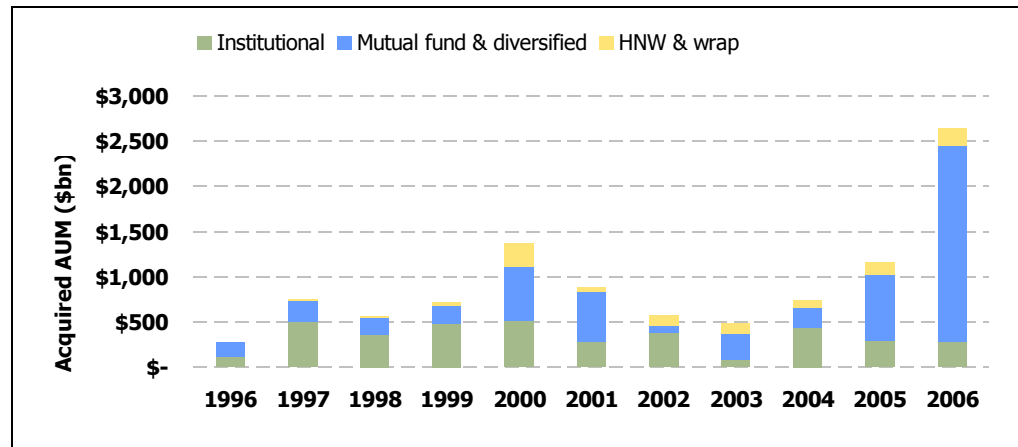
Source: Putnam Lovell NBF analysis of Euromoney Institutional Investor data

Steady interest in firms focused on HNW clientele

Access to high-net-worth individuals was a recurring theme among transactions in 2006, and likely will continue to remain so in 2007. While buyers purchased only 37 private-client firms during the year, the collected group of targets accounted for about \$185 billion of assets under management, the largest amount in six years. **Bank of America's** purchase of **US Trust** comprised about half the business acquired, but a number of other noteworthy deals took place, including:

- **Deutsche Bank's** acquisition of **Tilney Group** from management and buyout firm **Bridgepoint**, marking the German bank's return to UK fund management;
- German financial advisory group **MLP's** successful bid for 57% of **FERI Finance**, a high-net-worth manager built on the Quandt family fortune;
- **Citigroup's** decision to buy **Quilter Holdings** from **Morgan Stanley**, which itself bought Quilter from management six years ago.

Exhibit 11: AUM Acquired by Target Type



Note: Data includes alternative asset manager targets. Source: Putnam Lovell NBF

Some private-client firms struggle to show added value

Private client firms remain attractive targets as asset managers and other financial services firms realize that managing accumulated wealth, rather than retirement assets poised for slower growth thanks to an aging workforce, will be a primary driver of future revenues from fund management. Such transactions remain difficult to price aggressively, however, as many buyers argue that targets only bring client relationships to the table, rather than the open architecture platforms and wider investment product range that many private-client managers lack—and increasingly need. These strategic gaps are becoming more evident as weakening bank secrecy laws in many jurisdictions blunt a competitive advantage on which most private banks once depended.

Fading line between retail and institutional business

Some 42% of the 2006 deal tally, accounting for three-fourths of assets acquired, involved “diversified” targets, firms managing money for both retail and institutional clients. This category will continue to represent the bulk of acquisitions, especially as a growing number of hedge fund managers gather a larger proportion of assets from pension funds and endowments. We estimate that institutional investors will represent at least half the new money gathered by hedge fund managers through 2012. Also, as professional buyers—such as large fund complexes, multi-managers, annuity providers and structured note assemblers—become more influential worldwide in developing investment solutions for individuals, the distinction between “institutional” and “retail” product becomes blurry and irrelevant.

Pricing in Public and Private Markets

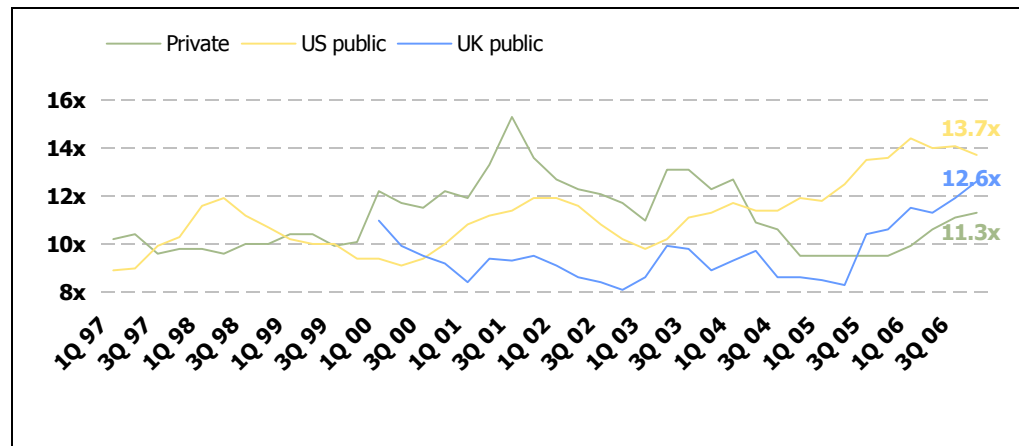
Both quoted and trade-sale multiples rise during 2006

Pricing for targets in fund management trade sales, measured in multiples of run-rate EBITDA, strengthened in 2006, following declining valuations since 2001 and relatively stagnant pricing throughout 2005. Rolling four-quarter medians rose steadily throughout the year, reaching 11.3 times EBITDA by December 2006, the highest level in nearly three years.

Public-private gap expands; record prices for listed US firms

The gap between private- and public-market valuations narrowed slightly during 2006, but is poised to widen again should bourses remain somewhat buoyant. By January 2007, for example, investor doubts about **Legg Mason’s** integration of **Citigroup Asset Management** had eased, following a year in which the Baltimore firm’s stock slumped in the wake of the acquisition. Consequently, the median quoted US fund manager was trading near 15 times EBITDA as this report went to press, with four-quarter rolling metrics achieving their highest levels in a decade. Listed British fund managers boasted slightly smaller but similarly buoyant metrics.

Exhibit 12: Public and Private GCV to Run-Rate EBITDA Multiples



Note: Calculated using a four-quarter rolling median and excludes outliers in some cases. Source: Putnam Lovell NBF

IPO activity swells in London

Lofty public-market multiples in both America and Britain have inspired unprecedented IPO activity for fund managers, particularly in London, where a number of fund managers—particularly those managing hedge funds—sought liquidity from the Alternative Investment Market (AIM), a small-cap bourse with more relaxed listing criteria. The smaller IPOs launched earlier in the year generated lukewarm interest, but those issued as markets recovered in the second half proved lucrative. In total, 10 fund managers sold stakes on exchanges during 2006, a record number.

Exhibit 13: Asset Management IPOs, 2006

Date	Name	Country	AUM (\$MM)	% Float	Proceeds (\$MM) ¹
10/06	Ashmore Capital	UK (LSE)	\$21,000	25%	\$560
3/06	Partners Group	Switzerland (SWX)	8,407	30%	385
11/06	BlueBay Asset Management	UK (LSE)	8,000	33%	359
3/06	Charlemagne Capital	UK (AIM)	5,275	41%	210
9/06	Invista Real Estate Investment Management	UK (LSE)	15,032	45%	194
4/06	HFA Funds Management	Australia (ASX)	1,360	61%	164
3/06	Absolute Capital Management	UK (AIM)	841	100%	120 ²
5/06	Gluskin Sheff + Associates	Canada (TSX)	3,500	26%	119
4/06	City of London Investment Group	UK (AIM)	2,900	25%	21
7/06	Arc Fund Management	UK (AIM)	30	100%	7 ²

Notes: Data converted to US currency at time of announcement. ¹Proceeds do not include overallotments. ²Reflects market capitalization; AIM permits listing without public sale. Source: Putnam Lovell NBF

Fortress, largest IPO to date, may lead others to follow

At year-end 2006, Ashmore represented the largest fund management IPO in history. In February, however, **Fortress Investment Group**—which manages some \$30 billion in private equity and hedge funds—broke that record by selling 8.6% of its equity on the New York Stock Exchange for US\$634 million. The listing followed Fortress's December decision to sell a 15% stake to **Nomura Securities** for \$888 million. Fortress not only marked the most lucrative fund management IPO in history, but also the first sizable flotation of a fund manager in the United States since **Calamos Investments** and **Cohen & Steers** listed in 2004. Fortress represents the first sale of an alternatives manager on an American exchange in nearly 15 years, following the listing of **Tremont Advisers** in 1992.

Growing arguments for listing traditional, alternative firms

The Fortress IPO—and the London listings that preceded it—likely will spur a wider number of fund managers to consider raising capital or siphoning liquidity from the public markets. Strategic issues also are raising interest in public offerings:

- Hedge fund managers argue that listing their firms (or, in Europe where regulations permit it, their funds) on exchanges provides permanent capital; the theory is that the increased liquidity of quoted markets will insulate firms from redemptions or sudden shifts in perceived value. Along these same lines, a number of hedge funds and private equity vehicles listed in London and Amsterdam during 2006.
- Floating an alternatives manager allows retail customers to play the hedge fund and private equity games. As US regulators seek to raise eligibility criteria for accredited investors, one option available to everyone else involves investing in listed fund companies specializing in alternatives.
- Finally, some asset managers, both traditional and alternative, feel public markets are the only means of securing liquidity without compromising the autonomy of their investment process, operational decisions or compensation structures—any of which strategic buyers can alter after becoming owners (although fewer do so unilaterally).

Most asset managers will remain allergic to floating

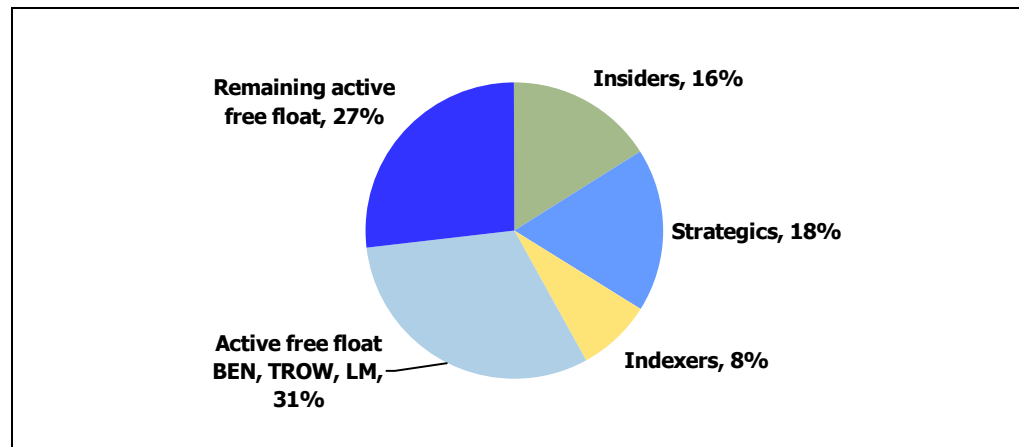
Further fund management IPOs are expected in 2007, if capital markets remain healthy. Nevertheless, such listings will continue to represent a very slim slice of overall transaction activity in the asset management sector. Even during the record year of 2006, IPO proceeds accounted for less than 5% of disclosed—let alone actual—aggregate deal value. Most fund managers maintain their usual complaints about public ownership:

- Mandatory disclosures force unwanted scrutiny of industry-standard compensation practices that appear outsized when viewed against the overall quoted market.
- Public shareholders within the free float trade too frequently on short-term performance issues and fail to understand the long-term and sometimes cyclical nature of many investment processes.
- Finding a broad shareholder base sometimes proves difficult for smaller, non-diversified fund managers, failing to create the liquidity desired when listing.

The last point has become particularly important as more fund managers turn to the London AIM, with its relaxed requirements regarding market capitalization and free float. AIM-listed fund managers trapped in thin liquidity may find themselves unable to sell at optimum prices depending on market conditions. Even within the broad US quoted asset manager sector, which represented roughly \$120 billion of market capitalization at year-end 2006, investors unlikely to sell their shares solely due to price comprised more than 40% of the value, with three companies standing for the majority of the remainder. In short, public markets may not provide asset managers the unfettered liquidity promised when listing.

Free float among US quoted fund managers is elusive

Exhibit 14: Ownership of US Quoted Fund Management Companies, 2006

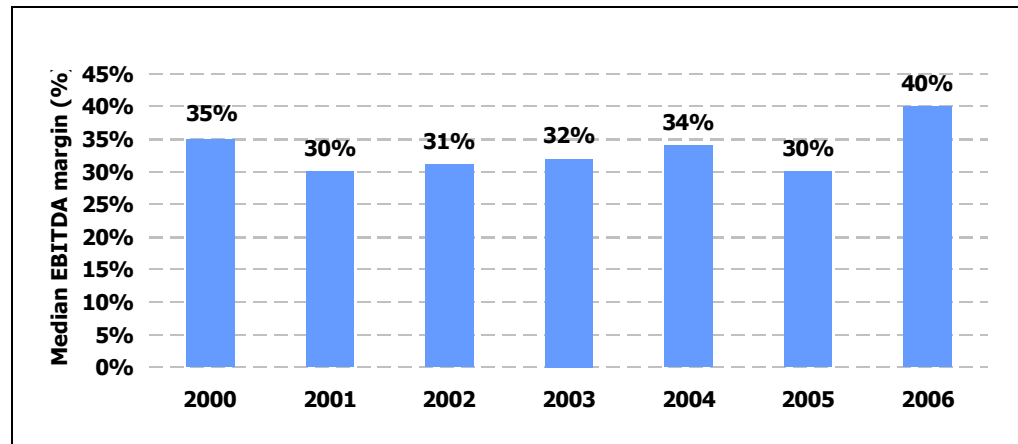


Notes: Calculated using most recent data available. "Strategics" include MER/PNC in BLK; Axa in AB.
Sources: SEC, Thomson Financial, Putnam Lovell NBF analysis

Profit margins hit six-year high

Trade sales drive the wide majority of transaction activity in global fund management, and will continue to do so for the foreseeable future. Buyers' increasing ardor for fund managers, particularly higher-margin institutional firms and alternatives specialists, becomes even more evident after juxtaposing rising multiples with the fact that asset managers are reporting record levels of EBITDA margins. Sampling 2006 trade-sale targets with adequate disclosed or estimated financial information for analysis found a median EBITDA margin of 40%, the highest in at least six years and well above the 30% and 35% metrics often used as long-term heuristics for overall profitability in fund management.

Exhibit 15: Median EBITDA Margins of Trade-Sale Targets

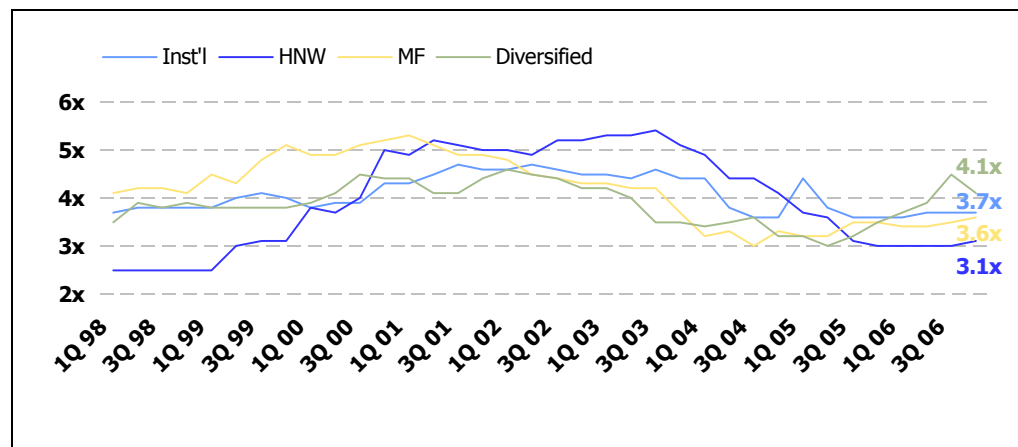


Note: Margins calculated using data trailing 12 months. Source: Putnam Lovell NBF

MF, HNW firms have higher costs, weaker revenue metrics

During the second half of 2006, few fund managers of any type traded for less than four times revenues, particularly when alternatives managers were targets. Exceptions mostly involved situations where buyers consolidated smaller fund complexes at lower prices. The trend lines depicted below, which represent the median points of widely ranging data, should rise further during 2007.

Exhibit 16: GCV to Run-Rate Revenue Multiples By Target Type



Note: Calculated using a four-quarter rolling median and excludes outliers in some cases. Source: Putnam Lovell NBF

Multiple factors, including the following, strengthened private-market pricing in 2006:

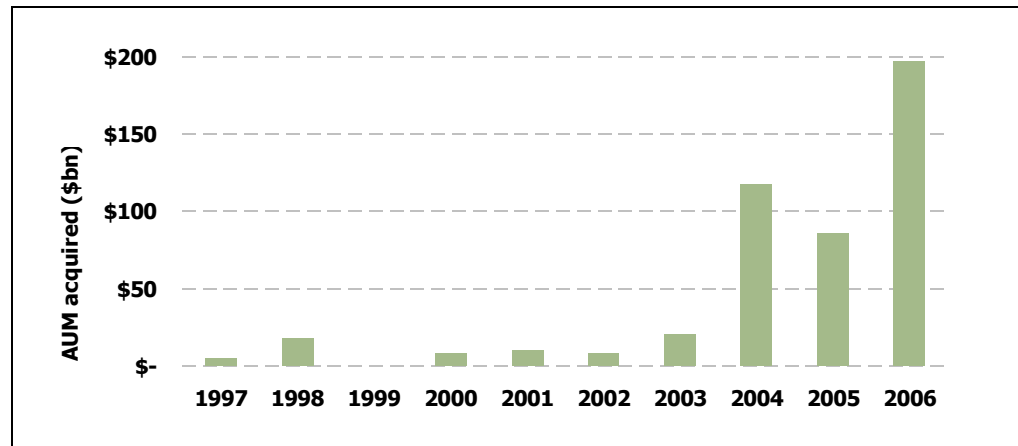
- Cash flow among many asset management firms, particularly hedge funds and institutional asset managers, further improved as capital markets continued to rise. Resurgent fund flows worldwide injected new revenues into asset managers benefiting from low capital intensity and consequent high marginal profit. Buyers sought access to such cash streams, particularly if they could secure an asset manager believed to be in an early stage of its growth cycle—*i.e.*, before capacity constraints create issues.
- Perhaps more importantly, strategy continued to drive a high proportion of fund management deals. Finally shaking off the malaise of the 2000-03 bear market—and now attempting to find secure footing as demographic and technological shifts set off the most violent realignment of the fund management industry seen in 25 years—buyers are drawing entirely new blueprints for their fund management operations and appear willing to pay premium prices for targets that they feel would represent strategic solutions. Firms with differentiated products, sustainable performance, unique access to clients otherwise hard to reach, or any combination thereof, can demand scarcity premiums from buyers anxious to achieve growth objectives.

Strategic demand for key skills strengthening buyers’ bids

Financial sponsors remain competitive acquirers

Growing competition from financial sponsors also continues to drive trade-sale prices northward. Desperate to put their capital to work, financial sponsors now compete toe-to-toe with strategic buyers for attractive targets in all sectors, including fund management, where they accounted for nearly \$200 billion of assets under management changing hands during deals in 2006—a record amount in absolute terms.

Exhibit 17: AUM Acquired by Private Equity Firms



Note: Includes recapitalizations. Source: Putnam Lovell NBF

MBOs benefiting from abundant private equity

As in 2005, two factors continue to drive private-equity firms toward investment houses. The first is a rising number of management buyouts among fund management houses. At least a dozen such transactions—including the largest in history, the **Hellman & Friedman**-backed executive takeover of **Gartmore Investment Management** from US insurer **Nationwide**—took place in 2006, and private-equity houses funded many of them. MBOs are becoming a more prevalent tool for letting fund management executives participate directly in the firm's dividends while simultaneously maintaining autonomy over their investment processes.

Exhibit 18: Selected Financial Buyer Acquisitions in 2006

Date	Target	Country	Acquirer	Country	AUM (\$MM)
5/06	Artisan Partners LP (minority)	US	Recap (Hellman & Friedman)	US	\$48,851
5/06	Gartmore Investment Management	UK	MBO (Hellman & Friedman)	US	44,900
8/06	Munder Capital Management (90%)	US	MBO (Crestview Partners, Grail Partners)	US	25,100
11/06	Metropolitan West Asset Management (33%)	US	MBO	US	18,200
10/06	Black Diamond Capital Management (undisclosed)	US	MBO/recap	US	9,000
5/06	Hamilton Lane Advisors (12%)	US	Recap	US	8,100 ¹
4/06	ABN AMRO US mutual funds	US	MBO (Highbury Financial)	US	6,000
8/06	Olympia Capital (45%)	France	Sagard	Canada	4,800
2/06	Focus Financial Partners (majority)	US	Summit Partners	US	3,500
3/06	Liberty Ermitage Group (60%)	UK	MBO (Caledonia Investments)	UK	2,400

Note: ¹Discretionary assets. Source: Putnam Lovell NBF, company reports

Buyout firms leverage widening pricing gap

Secondly, and perhaps more importantly, private equity investors continue to see a comfortable and exploitable arbitrage between trade-sale valuations and those received by quoted fund managers in the US and UK. This pricing gap, nearly non-existent in 2003, had widened dramatically by the first quarter of 2006. These dynamics attract not only long-time financial sponsors of fund managers—such as **TA Associates**, **Hellman & Friedman**, **Apax Partners** and **Caledonia Investments**—but also more generalist buyout firms and merchant banks, plus newcomers funded specifically to acquire fund managers.

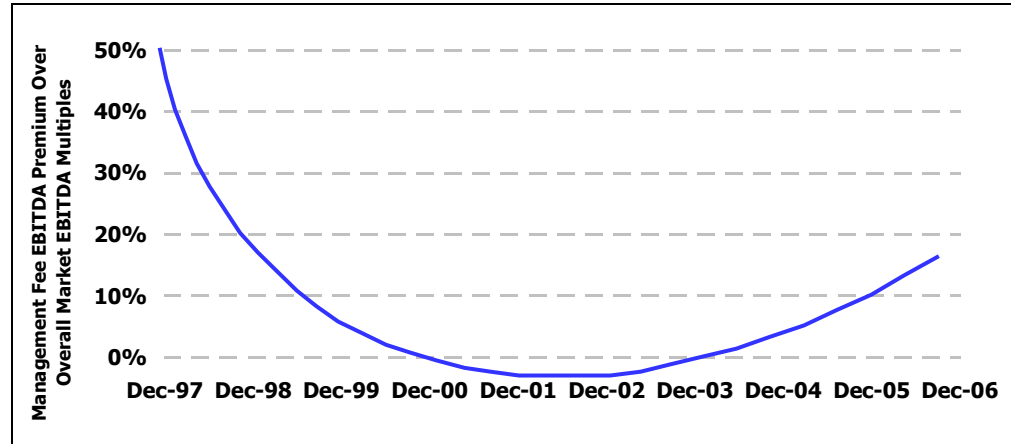
The record proportion of transactions involving alternative asset managers also appeared to help boost trade-sale multiples in 2006. Valuations of hedge funds and funds of hedge funds have grown more complex as savvy buyers discount more volatile performance-fee revenues and profits against steady, annualized cash flows from management fees. However, an analysis of recent deals reveals a trend toward paying higher relative trade-sale multiples (*i.e.*, compared to those multiples paid during transactions in the same year for traditional fund managers) for management-fee EBITDA within funds of hedge funds, a group representing transactions that have been more transparent and—until recently—more frequent than those involving single-manager funds. By the first quarter of 2006, trend lines appeared to prove that buyers were paying higher multiples for management fees attached to FOHFs than the prices they were paying within the overall asset management marketplace.

Record interest in alternatives affecting pricing metrics

More aggressive pricing, if it is taking place, would partly reflect the stronger expected future growth rates for hedge funds and FOHFs—growth rates of 20% compounded annually, compared to 5% to 8% for standard investment products—that most believe will be necessary to meet voracious demand for absolute-return products. Additionally, there has been a visible improvement in the discount rates within hedge fund and FOHF manager valuations. This signals increasing familiarity with a young alternative asset management sector moving into adolescence, thanks to a longer history of the industry, more research available on key competitors, and a growing universe of valuation benchmarks set by precedent transactions.

Rising premiums applied to hedge fund, FOHF managers...

Exhibit 19: Estimated Premium Paid for Management Fees from FOHF Managers



Note: Data reflects trend line of precedent acquisitions. Premium estimates are relative, not absolute, measures comparing multiples of run-rate EBITDA of FOHF management fees with multiples paid for EBITDA among entire sample trade-sale targets (e.g., a 20% premium reflects 12x instead of 10x).
 Source: Putnam Lovell NBF analysis

...but such ardor will cool as long-only, long-short converge

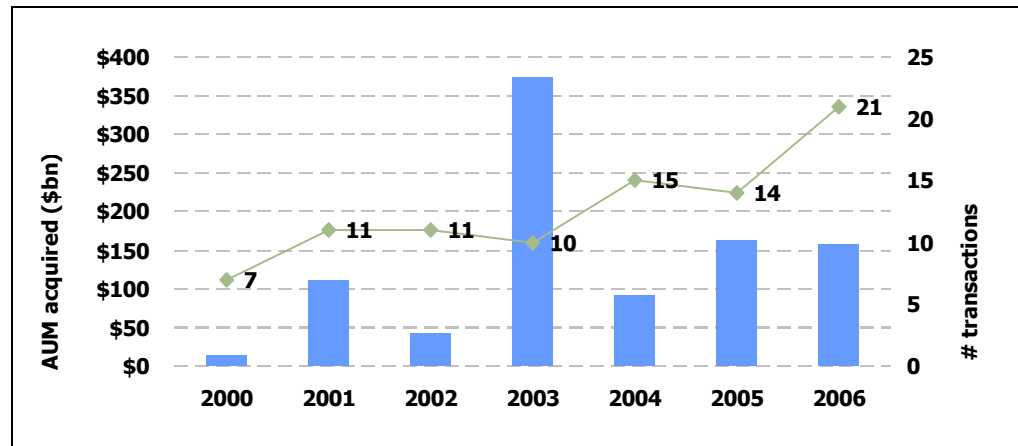
This trendline, however, masks a more complex reality, characterized by a significant spread in the multiples paid for recent alternative asset managers. Top-quality managers and those occupying leading market positions in niche sub-segments of the alternative investment industry are grabbing above-average multiples, thanks to their scarcity and expected ability to generate net new fund flows above industry averages. FOHF managers—and, at least as depicted by the limited data available, single-manager hedge fund firms—unable to prove sustainable competitive advantages are receiving multiples matching or below those paid for asset managers in the aggregate.

Consequently, the average premium for hedge funds and FOHF assemblers will stop growing, and possibly reverse, in the short term. While hedge funds and FOHFs will keep expanding faster than more mature long-only vehicles in the short term, product proliferation and adoption continues to whittle away the differential between growth rates for alternative and traditional products. In addition, long-only managers have been quick to expand their repertoire to include alternatives as well as portable-alpha strategies with similar demand and revenue characteristics to hedge funds. Equally, alternatives managers are starting to seek broader long-only product sets, partly to placate their growing institutional client base. In short, as the line between “traditional” and “alternative” asset managers fades away—turning more into a distinction between long-only and long-short—pricing metrics will converge.

High number of partial acquisitions

Finally, growing interest in alternative asset managers—as well as the rise of financial sponsors described earlier—are both factors contributing to a record number of partial acquisitions in 2006, both in terms of majority acquisitions (*i.e.*, involving stakes between 51% and 99%) and minority acquisitions, a category that includes recapitalizations and follow-on acquisitions. A record number of buyers, particularly financial sponsors, allowed management to retain partial ownership, or provided more equity for management, during transactions in 2006. **Guardian Life Insurance** left 35% of **RS Investments** in the hands of management, while buyout firms backing **Munder Capital Management’s** executives won a 10% stake for them as part of a deal with former owner **Comerica**.

Exhibit 20: Transactions Involving Equity Stakes Between 51% and 99%

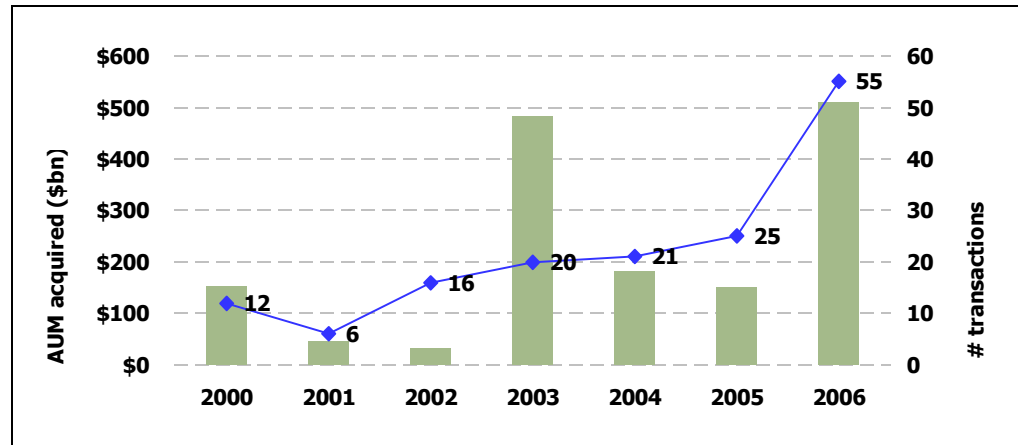


Source: Putnam Lovell NBF

Many hedge funds unwilling to sell more than minority stakes

The number of transactions involving stakes of 50% or less surged to a record level in 2006, double the 2005 number of minority acquisitions and representing a record amount of assets under management. Some cyclical trends explain the phenomenon. There were a high number of follow-on acquisitions, such as **BNP Paribas’** purchase of the remaining 30% of global bond manager **Fischer, Francis, Trees & Watts** that it did not already own; **Janus Capital** also took the opportunity to buy more shares in its **Enhanced Investment Technologies (Intech)** subsidiary. A significant number of recapitalizations in the tumultuous Chinese fund management industry—where only minority stakes are on offer in most cases—also played a part. The largest factor in the record number of minority transactions, however, was the alternative asset management segment, where many hedge fund managers elected to sell only partial stakes to larger institutions providing distribution and, in many cases, seed capital. Nearly half of the minority trade sales involved hedge fund managers apparently unwilling to cede additional equity to buyers—or making small, strategic deals prior to their flotation.

Exhibit 21: Transactions Involving Equity Stakes Between 1% and 50%



Note: Includes IPOs and recapitalizations. Source: Putnam Lovell NBF

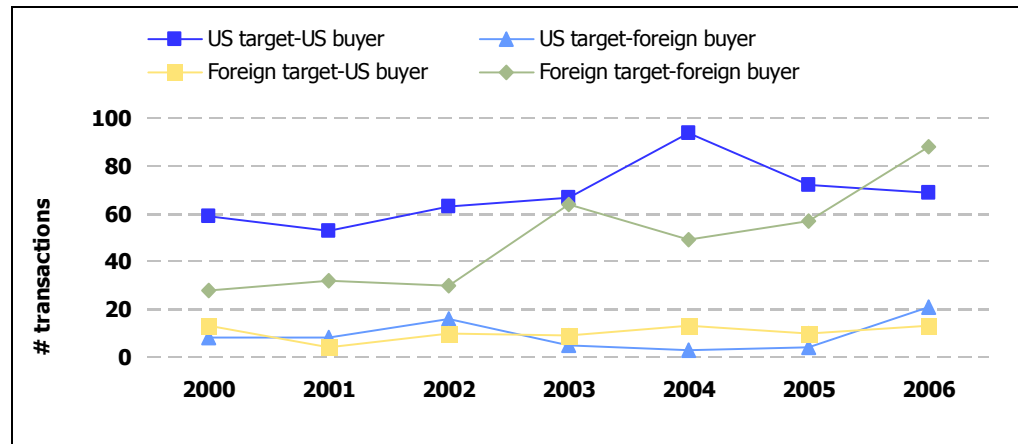
Buyers, of course, still use pricing as a way to gain longer-term strategic and economic control over targets. Recent activity has pushed up the control premium—the median difference in multiples between majority and minority acquisitions across the past decade—to nearly two times EBITDA. The premium has faded slightly in recent months due to the apparent dearth of top-performing, diversified alternatives firms willing to sell majority stakes, implying that firms that offer a controlling position will earn an attractive price. It also shows that buyers have appeared willing to forgo minority discounts during their latest hedge fund acquisitions.

Global Expansion and Its Impact on Deal Flow

Record activity involving firms outside the United States

For the first time in history, non-US firms comprised both the majority of targets and the majority of acquirers in deals announced during 2006. As measured by assets under management, however, transaction activity involving firms outside America appeared less dramatic, due to the huge transformational deals occurring among stateside asset managers. American fund managers, however, were only targets in 47% of announced transactions, with other US firms representing the buyers in seven out of eight cases. US organizations only represented 43% of acquirers making purchases in 2006.

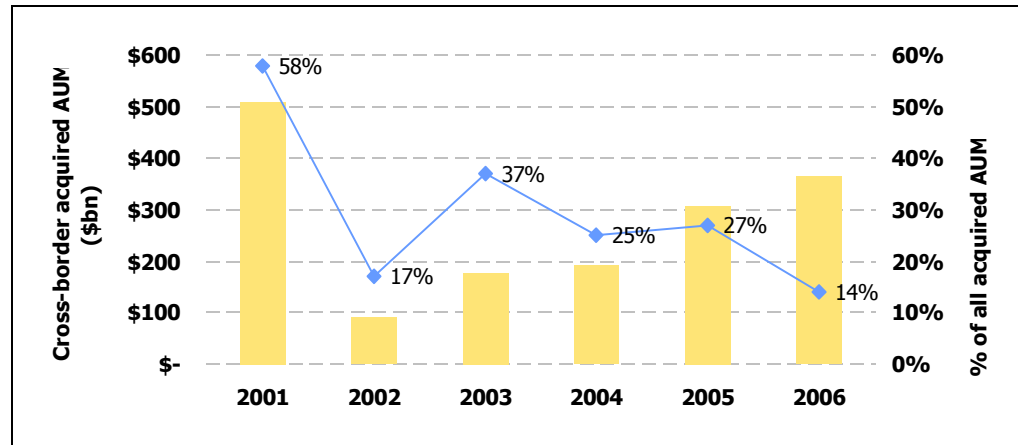
Exhibit 22: Transaction Activity by Provenance of Buyers and Sellers



Source: Putnam Lovell NBF

While cross-border transactions represented a slim proportion of assets acquired during fund management deals in 2006, a number of cross-border deals—59—represented the most assets acquired through international transactions in five years.

Exhibit 23: Cross-Border Transactions in Asset Management



Source: Putnam Lovell NBF

European buyers active once again

Nearly 40% of the targets in 2006 fund management transactions involved European buyers, a record amount in relative and absolute terms of the number of deals. These sales only represented 14% of assets acquired worldwide during the year. Nevertheless, this activity has inspired comparisons to the last large boom in asset management M&A, when European banks and insurers grabbed trophy American fund managers. Deal flow this time is different:

- In two out of every three deals in 2006, European buyers targeted asset managers within Europe. In 2000, by contrast, non-European firms accounted for nearly half the targets purchased. The change reflects the continued evolution of Europe's fund management marketplace, now approaching the US market in size and complexity.
- IPOs played a far greater role, as eight European fund managers listed during 2006, most on London's AIM but also on the LSE and in Zürich.
- A substantial amount of activity centered on rifle-shot deals aimed at securing talent within London's burgeoning hedge-fund community, rather than acquiring large institutionalized product platforms.

Deal flow from Continent to surge as firms realign

The European fund management industry, particularly the portion domiciled on the Continent, is poised for dramatic realignment during the next few years, and these strategic shifts are likely to impact deal flow substantially. As Europe stumbles toward a truly single market, regulatory and practical forces continue to erode, although not yet eliminate, the competitive advantages of geography on which many of the Continent's larger banks and insurers have partly, if not primarily, relied. Cross-border consolidation—along the lines of recent deals such as **Unicredit's** acquisition of Germany's second-largest bank, **Hypovereinsbank**, and **Santander's** takeover of UK building society **Abbey**—will become more common, re-arranging the chessboard of European finance.

The asset management divisions of European banks and insurers will play important roles in this game. Fund management represents steady, non-cyclical cash flows that will augment a parent bank's negotiating power with potential partners. This becomes particularly evident when viewed against the backdrop of public markets: at last measure, analysts typically priced European banks at an average of 10 times forward earnings, but valued the banks' fund management operations at a multiple of 15.

**New industry dynamics
shaping European M&A**

Systemic changes in Europe's fund management industry also are coloring the more complex relationships between Continental banks and the fund management operations they own:

- Retail banks increasingly represent less attractive distribution for captive fund managers. Pure asset management products now compete with structured notes, unit-linked insurance policies, and other products guaranteeing constant yield. Consultants with StructuredRetailProducts.com estimate that European firms issued roughly \$170 billion of structured notes in 2006, outpacing net sales of equity-objective mutual funds in Europe. Burnt by first investing in funds at the apex of the technology-stock bubble, many rank-and-file Continental investors remain risk-intolerant. Retail-branch investors focus on cash funds and guaranteed-return funds.
- Professional buyers and institutions drive most fund sales in Europe today—nearly 80% at last measure, according to data assembled by FERI Fund Market Information. Such clients want to see high-grade investment processes, innovative and aggressive product development, and sustainable performance. They are less interested in the branding benefits on which some locally-focused fund managers still rely.
- Conversely, fund managers within European banks increasingly want freedom to build an international clientele, particularly as awakening American interest in global portfolios (described in more detail in subsequent sections) provides a wider group of prospective customers for their core European equity products.
- UCITS, the single passport for European mutual funds, finally has become prevalent and workable, despite remaining (and likely ongoing) technical issues with its implementation. FERI FMI now estimates that the wide majority of net new inflow into the European fund industry comes from products domiciled in Dublin and Luxembourg and cross-registered in multiple jurisdictions. Such fund vendors, a group that includes a rising number of non-European firms, have benefited from the decision among Europe's private banks to slowly, and partially, open their distribution architecture as a way of providing their affluent clients with top-performing investment products and innovative investment ideas. Furthermore, most Asian jurisdictions now recognize the UCITS passport, giving European fund managers a fast track into the faster-growing fund management marketplaces in the Far East.
- Finally, regulators among European governments are outlining potential consumer-protection and anti-trust advantages of more clearly separating fund managers from their distributors, especially given the prospect of more bank mergers. The European Commission appears to agree, as it begins to propose disclosure requirements and other regulations regarding advice provided in fund sales.

Some European banks will divest their asset managers...

All of these trends will encourage increased levels of transaction activity in Continental Europe through the end of the decade. European banks holding asset management properties that cannot compete on a global level—or whom they are unwilling to support with advantages beyond simple, local distribution—will consider divesting the investment operations in order to unlock their value and deploy the capital elsewhere. **Commerzbank** has been unwinding the asset management acquisitions it made during the 1990s, fueling speculation about its London-based subsidiary **Jupiter International Group**. **WestLB** swapped a large proportion of its asset management operations for half of a joint venture with **Mellon Financial**. **Banca Intesa** sold 65% of its asset manager **Nextra** to **Crédit Agricole**, before horsetrading after the Italian bank's merger with competitor **SanPaolo IMI** forced Intesa to buy it back.

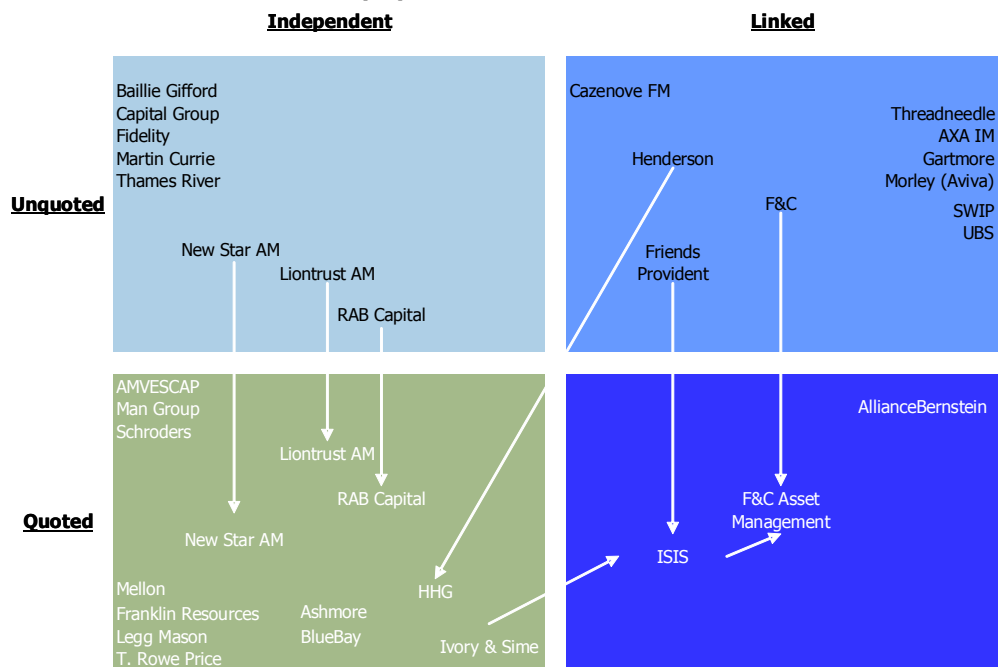
...others will grow theirs, or even spin them out

European banks leaving the fund management arena will find enthusiastic buyers among those building global asset management operations. **BNP Paribas** in France, Italy's **Unicredit**, **Deutsche Bank**, and Benelux companies **Fortis** and **Rabobank** all acquired further fund management operations during 2006. In addition, to achieve the product breadth and geographic reach to be true global competitors, European banks are likely to start considering innovative approaches to corporate development. Spinouts may become more popular if European investors welcome the flotation of **Eurizon Financial**, the bundled asset management and insurance operations of **Intesa SanPaolo**, later this year. In addition, expect a number of European banks to consider swapping their fund management operations for stakes in larger investment houses, either privately held or publicly traded. Such combinations will create firms with the capital base and cash flows necessary to grow at a competitive rate, while maintaining strategic access to key product for the bank's clients.

UK fund managers increasingly decoupled from distribution

The UK asset management marketplace, with its wide client base of final-salary schemes and more complicated distribution dynamic of financial advisors, continues to develop differently than its Continental counterpart. The same global trends encouraging independence from distribution, as well as buoyant public markets, have been shaping recent UK realignment.

Exhibit 24: UK Transaction Activity Dynamic



Source: Putnam Lovell NBF

UK retail firms fight for attention in open market

In Britain's retail fund industry, the ongoing process of depolarization—*i.e.*, the end of regulations prohibiting banks and insurers from simultaneously selling proprietary and nonproprietary product—so far has made little impact on the industry, with independent financial advisors still driving most new fund sales. The growing influence of open-architecture distribution platforms, however, is weakening some retail fund managers' traditional ties to advisors. Service-agent supermarkets run by **Fidelity Investments**, **Old Mutual's Skandia** and the **CoFunds** consortium have assumed many of the administrative and back-office functions retail fund managers often offered advisors, removing one of their key defenses against competitors with stronger performance. Consequently, firms with weaker returns have been forced to retool themselves as multi-managers—flows into funds of funds in Britain have grown to record levels—or consider more drastic strategic options.

Institutional firms spar with investment banks over LDI

In the institutional arena, old-guard asset managers also face rising competition on a number of fronts. Now saddled with augmented pension funding requirements made transparent through adoption of the FRS 17 accounting standard, a growing number of companies with defined benefit plans argue they need so-called liability-driven investment strategies to guarantee obligations to retirees. There is an estimated \$120 billion of UK pension money already in LDI strategies, which often use swaps and other derivatives to ensure future payments, and sometimes involve pension funds trading assets for guaranteed cash flows from structures run by investment banks. Even pension plans wary of such dramatic solutions have adjusted their asset allocations in favor of absolute-return alternatives, property, and asset-liability modeling portfolios, rather than the large balanced mandates which have been the typical staple products for UK institutional fund managers. This has forced innovation within the larger British asset management houses; **Schroders**, for example, put a fraction of its large cash pile to work in 2006 by investing in FOHF vendor **NewFinance Capital** and acquiring European property specialist **Areal Fund Management**, aiming to offer a product set more aligned to changing demands of UK pension fund sponsors.

More deals seek to tap Asia's expanding markets

Transaction activity among Asian asset managers remained brisk. As in past years, a significant amount of the deal flow remained intra-regional. Mainland China saw some of its first fund-management mergers, notably **CITIC Securities'** decision to merge **China Asset Management** with its own mutual fund operations, a transaction that involved \$5 billion of assets and ranked among the year's 10 largest deals involving retail complexes. New regulations forcing financial services companies to hold majority stakes in only one asset manager, evolving bank distribution power that favors captive subsidiaries, and whiplash product-development cycles—from bonds to cash to stocks and perhaps back again—are creating dramatic growing pains in China's fund industry, the world's fastest-growing. Further mergers are expected as the industry continues to recapitalize itself amid a flood of new Sino-foreign joint-venture entrants.

In addition, a widening number of foreign buyers seek targets in Asia. Global asset managers want broader footprints in Asia ex-Japan, where assets under management are expected to grow at least 10% per annum in the short term—compared to a similar metric of 8% worldwide—thanks to macroeconomic expansion and rising levels of individual wealth.

- Korea continues to attract significant attention, especially as high-net-worth investors finally begin to show interest in overseas equity exposure. UBS announced its plans to buy 51% of Daehan Investment & Securities, one of the country's largest asset managers, from current owner Hana Bank—although as of January 2007 the government had yet to approve a final agreement.

- Several asset management firms continue to prowl India for targets. Franklin Resources bought out its private-equity minority partner to fully consolidate its Indian mutual fund company, while in early 2007 UBS purchased Standard Chartered Bank's Indian asset management subsidiary. Scarcity premiums for Indian targets, currently high, may fade as a flotilla of start-up boutiques set sail.
- Finally, ING Group purchased ABN Amro's Taiwanese fund management company in March, merging it with its local operations to create the island's largest asset management company.

Some Asian firms are likely to become acquirers in their own right during the next few years. Japanese asset managers, newly energized as deflation fades away, are seeking the hedge funds that their pension-plan clients—still facing unfunded liabilities despite the imminent retirement of baby boomers—crave. Besides **Nomura Securities'** 15% investment in **Fortress Investment Group**, Japanese long-short specialist **Sparx Group** snapped up Hong Kong's **PMA Capital Management**, the largest hedge-fund manager in Asia ex-Japan. Singaporean banks and—over time—Chinese institutions also are likely to emerge as buyers.

More Canadians will rank among buyers in 2007

Canadian firms accounted for a low percentage of 2006 deal flow, either as buyers or sellers, but **Power Financial's** acquisition of **Putnam Investments**, announced in February 2007, may change that dynamic. Independent fund managers feel palpable margin squeeze as banks implement sales strategies designed to highlight the extraordinarily high costs of distribution in the Canadian mutual fund marketplace. The consequent competitive pressure has forced some deals focused on consolidation and evacuation, with global player **Legg Mason** essentially retreating from that marketplace. Stronger Canadian fund managers, however—armed with a commodity-fueled currency near a cyclical high and hungrier for international expertise following Ottawa's decision to ditch remaining curbs on foreign investments—are now more likely to consider buying foreign operations. **Sun Life Financial's** decision to hold **MFS Investment Management** despite a high-publicity auction in early 2006 underscores that several Canadian firms consider global asset management a strategic priority.

Transaction activity set to erupt in Australia

Australia represents a country where deal flow will become more vibrant during the short-term. Transaction activity last peaked in Australia in 2000, as the nation's major banks gorged by vertically integrating—with mixed results—a sizable number of the independent financial planners that drive fund distribution. Three of the banks also snapped up some of the nation's largest fund managers, including **BT Funds Management** (bought by **Westpac**), **Colonial First State Investment Management** (acquired by **Commonwealth Bank of Australia**) and multi-manager **MLC** (secured by **National Australia Bank**). The challenges in linking manufacturing and distribution, now evident worldwide, appeared early in Australia. Banks quickly began to support multi-manager dynamics that have since fueled the growth of more than 100 boutique asset managers, most handling highly concentrated chunks of a rapidly rising Australian equity market.

Such vendor proliferation is unsustainable should the Sydney bourses cool even slightly, and the resulting concerns about liquidity, strategy or both will trigger a number of transactions, with sellers enjoying a wide selection of potential acquirers. Besides the growing number of multi-affiliate sponsors within the country's borders, more private-equity firms are seeking fund management targets in Australia, realizing that the nation's compulsory retirement savings system—through which 9% of each annual payroll is earmarked for investment management—creates fund flows with higher growth and lower volatility than global norms. This year's listing of **HFA Asset Management** and the thick multiples quoted Australian fund managers receive also make the public markets an attractive option. Pricing has been

aggressive: quoted financial services firm **IOOF Holdings** paid more than 25 times expected 2008-09 net profit for the 22% of **Perennial Investment Partners** it did not already own.

Perhaps most importantly, the rapid ascent of domestic equities has raised pressure on Australians to diversify the portfolios globally, boosting demand for foreign securities. This will drive foreign fund managers to consider Australian expansion more seriously, and push local firms to build, or buy, global investment capabilities. Purchasing foreign operations also would allow Australian fund managers to open export markets, a key consideration in an asset management marketplace with only 20 million customers.

Likely Targets in 2007

Long-only strategies remain in substantial demand

Product-line extension, a key ingredient in record transaction activity in 2006, will continue to shape rationale for many transactions in 2007 and beyond. Plain-vanilla fundamentals still apply: despite the sometimes breathless discussion about alternatives and the looming end to defined benefit plans, most surveys find that institutional investors worldwide, and particularly in Europe, indicate they expect immediate allocation shifts to favor long-only global equities. In both the United States and Europe, the traditional domestic-and-foreign asset allocation is slowly giving way to large global mandates. Fueled by new money, assets in US institutional mandates for global portfolios grew slightly faster than traditional international ex-US awards during the past three years, despite the fact that the MSCI World index trailed its more popular cousin, the EAFE benchmark.

Demand for strong international equity capabilities is particularly acute in America, where international-equity products represented nearly two-thirds of net new inflow into equity-oriented mutual funds, a record, during 2006. A sagging dollar explains part of the new demand. Secular catalysts, however, also are playing a role. The increasingly cross-border nature of both companies and the exchanges on which they trade, the further demise of self-directed—and therefore insular—investing among US individuals, and the developing envy for the long-term macroeconomic growth rates in China and India are making global portfolios more permanent retail and institutional fixtures. **Mellon Financial's** aggressive pursuit of **Walter Scott & Partners** underscores the rising demand for workhorse international and global equity portfolios able to support substantial new capacity.

Exhibit 25: US Mutual Fund Net Flows by Selected Asset Class

Flows in US\$ bn Asset class	2000	2001	2002	2003	2004	2005	2006
US growth	\$168	(\$8)	(\$28)	\$27	(\$7)	(\$11)	(\$18)
US blend	\$38	\$51	\$24	\$48	\$47	\$9	\$10
US value	(\$50)	\$44	\$32	\$38	\$67	\$36	\$14
International equity	\$32	(\$12)	\$12	\$41	\$90	\$128	\$153
All equity	\$261	\$74	\$37	\$205	\$287	\$244	\$232

Source: Strategic Insight

Int'l, growth equity will drive 2007 fund flows

In the United States, fund managers expect that investors will once again favor growth stocks, an asset class largely out of favor since 2000 but now back in the spotlight as large-cap growth performance revives. As interest for value equity funds visibly cools, US fund managers are preparing to bolster their growth-stock arrays. Some bellwether buyers already have made bets on growth-equity specialists: **Affiliated Managers Group**, for example, bought a 60% interest in **Chicago Equity Partners**. In addition, several fund adoptions, described earlier in this report, involved growth-stock vehicles.

Interest in alternatives shifts to deeper alpha

Alternatives will retain their current sex appeal, although the further institutionalization of hedge funds and FOHFs has moved such vehicles into the mainstream. The torrent of new money earmarked for hedge funds--\$110 billion in 2006, roughly equal to new commitments in 2005 and likely the ballpark for 2007—ensures a higher degree of correlation to broader market benchmarks. Consequently, buyers are looking to new frontiers for non-correlated returns. Several of the larger transactions involving alternatives managers in 2006—such as **Amvescap's** purchase of private-equity firm **WL Ross & Partners**, or **Unicredit's** acquisition of collateralized-debt specialist **Vanderbilt Capital**—had nothing to do with hedge funds. Further focus on new, truly alternative, investments will drive deal flow in 2007.

Exhibit 26: Largest Alternative Asset Manager Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	Type	AUM (\$MM)
12/06	Fortress Investment Group (15%)	US	Nomura Securities	Japan	PE/HF	\$29,800
4/06	Vanderbilt Capital Management	US	Unicredit (Pioneer)	Italy	CDO/CLO	13,000
10/06	Lansdowne Partners (19%)	UK	Morgan Stanley	US	HF	12,000
10/06	Avenue Capital Management (15)	US	Morgan Stanley	US	HF	12,000
10/06	Black Diamond Capital Management (undisclosed stake)	US	MBO	US	HF	9,000
4/06	Hamilton Lane (12%)	US	Recap	US	PE/HF	8,100 ¹
5/06	FrontPoint Partners	US	Morgan Stanley	US	HF	5,500
8/06	Olympia Capital	France	Sagard	Canada	FOHF	4,800
6/06	Paul Capital Partners	US	Bank of Ireland	Ireland	PE FOF	4,000
9/06	Ospraie Management	US	Credit Suisse	Switzerland	HF	4,000

Notes: Excludes IPOs. Data converted to US currency at time of announcement. ¹Discretionary AUM.
Sources: Putnam Lovell NBF, company reports.

ETF vendors will become hotter properties

As alpha becomes more elusive, beta will become an even cheaper commodity. Assets in exchange-traded funds already have surged past the \$500 billion mark, growing more than five times faster than the industry as a whole. Much of the sector's recent growth has come from customers outside the United States; global mega-indexer **Barclays Global Investors** snapped up European ETF specialist **Indexchange**, formerly a subsidiary of Germany's **HypoVereinsbank**, with an aggressive bid. As large vendors of plain-vanilla ETFs apply further pricing pressure, innovative competitors that can defend slightly higher fees will become even more valuable. **Amvescap** bought ETF builder **PowerShares Capital Management** not only to recapture flows leaving the actively managed AIM and Invesco complexes, but also to capitalize on the firm's unique indexing strategies. Private equity is pouring into other vendors with differentiated ETF strategies, such as **WisdomTree Capital Management** and **XShares Advisors**. Further such investments are likely if the US regulators permit the sale of actively managed ETFs.

Asset allocators will enjoy a renaissance thanks to PPA

Firms that can show long-term, and sustainable, competence in asset allocation, particularly on a global level, also will find several suitors, particularly in the United States. Lifecycle funds are now sizable staple options inside 401(k) plans. In addition, the newly activated Pension Protection Act will favor the creation of industrial-sized, multi-asset default options within defined contribution schemes. These trends will continue to favor the growth of multi-manager operations such as **Russell Investment Group** and **SEI Investments**. They also will spur some firms to build more proprietary asset-allocation products—perhaps leveraging third-party managers, now that the SEC appears more relaxed about the use of unaffiliated sub-funds within registered funds of funds.

Expect further consolidation in 401(k) administration

As a side note, the Pension Protection Act's new, and in some cases weightier, requirements are encouraging further rationalization among 401(k) recordkeepers, a dynamic bound to impact mutual fund complexes heavily reliant on investment-only defined contribution fund flows. **Power Financial** subsidiary **Great-West Life**, the new parent of **Putnam Investments**, bought DC administration operations from **US Bancorp** and **MetLife** during 2006. **Charles Schwab & Co.** paid \$115 million for **Nationwide Financial's** recordkeeper, **The 401(k) Company**. Buyers argue that despite razor-thin profits from the recordkeeping business, administration platforms are critical components of rollover retention strategies designed to keep control of assets even after individuals retire and leave a company.

Mid-sized broker-sold complexes still feel the heat

A final point: sellers will be as motivated as buyers. Mid-sized broker-sold US mutual fund complexes continue to suffer between the proverbial rock and hard place. Many firms lacking either manufacturing skill to attract clients or distribution scale to crush competition will fail to post the standard expected growth rates or profit margins expected of the industry. A growing number of fund groups in this unenviable position are seeking help from either strategic buyers—often larger complexes that can support a large, technically proficient sales force that today's distributors, who act more as professional buyers, expect—or financial sponsors able to write checks to new talent lifted out from competing operations. Manufacturing prowess in the fund management industry may remain fragmented among boutiques and diversified providers, but the business of actually packaging and administering mutual funds—given its compliance burden, a lower-margin proposition—will continue to consolidate.

**Sector expansion rate doubled
between 2005 and 2006**

Financial Technology Transaction Activity

Growth in the Putnam Lovell NBF Fintech Universe Index, a composite of 154 quoted financial technology stocks, soared 38% in 2006, trouncing most major broad-market benchmarks and growing twice as fast as it did during 2005. The index's components can be found in the FinTech Universe monthly Indices and Insights report, jointly produced by Putnam Lovell NBF and International Data Corporation. The monthly report is available at www.putnamlovellnbf.com.

Exhibit 27: Annual Performance of the Putnam Lovell NBF FinTech Universe Index and Subindices

Subindex	2005	2006
Global financial extranets	-17%	115%
EU banking software	55%	83%
Buy-side software and technology	-19%	66%
Order execution services	12%	43%
Custodian banks	11%	42%
Securities brokerages	4%	29%
Major diversified services vendors	65%	27%
Channel banking and CRM	1%	20%
Straight-through processing, messaging and middleware	-1%	18%
Liquidity pools	21%	18%
Electronic funds transfer / ETS	10%	17%
North American banking software	19%	17%
Organized exchanges	2%	14%
Market data and financial information	79%	14%
Payroll, HR and benefits	7%	4%
Sell-side trading technology	19%	0%
Outsourcing vendors	-4%	-17%
Insurance technology and software	218%	-20%
Putnam Lovell NBF FinTech Universe Index	19%	38%

Source: Putnam Lovell NBF

Cyclical factors explain performance within some of the sub-indices. For example, universal banks struggling to implement the European Union's Markets in Financial Instruments Directive (MiFID) poured money into banking software in a furious effort to make their information-technology infrastructure comply with Europe's new rules mandating best-execution transactions. MiFID implementation is a pressure test for traditional financial technology vendors, who now face competition from niche-specialist software providers—particularly those focused on derivatives, on which MiFID's more onerous requirements fall—and large-scale generalist IT providers who smell the money flowing into compliance upgrades.

Hedge funds and buy-side shaping fintech demand

The more powerful drivers in financial technology transactions, however, remain systemic, as the buy side—notably the quick-trading hedge funds that now drive global liquidity—seeks software to buttress its growing domination of global trade flow. Consequently, large financial institutions with sell-side pedigrees are more willing to pay for the systems and platforms that institutional investors use and want. Such strategic rationale drove **Nomura Securities** to pay buyout firm **Silver Lake Partners** nearly \$1.2 billion for control of electronic brokerage **Instinet**, a transaction that has helped drive order-execution systems stocks upward. Sell-side firms remain on the prowl for firms with strong direct-market-access (DMA) platforms, particularly those that can handle the rapid-fire, multiple-asset-class trading for which hedge funds are known.

Algorithmic trading support represents key differentiator

Bidders for Instinet particularly coveted the firm's algorithmic trading systems, codenamed Nighthawk. Quant-driven algorithmic trading—often used to seek out the murky-sounding “dark liquidity” in which hedge funds plumb for alpha—may soon account for as much as one-half of trading volume, according to Aite Research. So far investment banks control most of this trading, but some specialists have emerged. One of them, agency broker **Miletus Trading**, used its quant-driven techniques to attract a successful bid from **Liquidnet** shortly after the new year. Algorithmic trading also played a key role in the **Royal Bank of Canada's** decision to buy **Carlin Financial Group** and its electronic trading platform. Carlin's clients include smaller hedge funds and professional traders, fodder for RBC's prime-brokerage operations. Options-trading systems also remain hot: Chicago-based **Thinkorswim** sold to investor-education vendor **InvesTools** for \$350 million in September.

Like Miletus, other agency brokerage operations have sought to realign their offerings in an effort to attract and retain hedge funds. The **Bank of New York** reconfigured its agency brokerage offerings into **BNY ConvergeEx**, a new partially-held subsidiary. ConvergeEx's other primary shareholder, **GTCR Golder Rauner**, is a private-equity firm able to raise capital to support the technology R&D treadmill required to remain competitive. As part of the same transaction, the bank bought order management specialist **Eze Castle Software**, a strategic move that mirrored **ITG's** acquisition of **Macgregor** in July 2005. In both cases buyers were motivated by the buy side's need for more highly integrated order and execution management capabilities. Now, institutions will find it much easier to trade through ConvergeEx and ITG despite the “broker neutrality” of their OMS offering. The ConvergeEx reconfiguration will trigger competitive responses from other agency-brokerages and the firms that service them, although there are fewer attractive OMS vendors who can easily help achieve such objectives.

Custody deals focus on both scale and skills

The asset servicing elements of the **Bank of New York-Mellon Financial** transaction has elevated consolidation pressure in the custodial banking segment. More importantly, the deal has focused attention on the value-added services—and the need to offer them at scale—that win attention from buy-side players. Securities lending is critical to prime brokers who support short selling and other related strategies for hedge funds, and specialists offering innovative technology supporting such functions are attracting not only strategic buyers, mostly custodians, but also financial sponsors. **ESecLending**, a firm offering an innovative Web-based platform for securities lending, convinced **TA Associates** to back a management buyout from owner **Old Mutual**.

Hedge fund administration also played a role in the BNY-Mellon transaction. Most of the largest hedge fund administrators have grown through acquisition, benefiting further from the growing economies of scale in the middle- and back-office functions. In February 2007 **State Street** purchased crosstown rival **Investors Financial Services** for more than \$4 billion, creating not only the world's second-largest global custodian but also its largest hedge fund administrator. The deal follows earlier consolidation plays, such as **J.P. Morgan's** purchase of the back-office operations of **Paloma Partners**. With the ownership of the **Bisys** hedge fund

administration business likely to change, and the **Citco** group still facing a liquidity event following its 2005 MBO, significant competitive realignment will continue in this segment.

Arms race explodes over electronic forex platforms

The buy side also is driving interest in electronic foreign-exchange platforms. Celent, a consultancy, estimates that hedge funds, which are power users of forex derivatives, will help push daily foreign exchange volumes from roughly \$2 trillion to beyond \$3 trillion before 2010. Financial sponsors have made bets on exponential growth, with **Technology Crossover Ventures** buying a stake in bank consortium-controlled **FXAll** earlier in the year. Strategic acquires, anxious to hold and expand their current market share, are even more aggressive. Trading platforms **ICAP** and **Knight Capital** bought forex platforms **EBS** and **Hotspot FX**, respectively, during early 2006. In January 2007, **State Street**, a forex market leader, paid a premium \$564 million to grab **Currenex** and its leading-edge technology.

Not only buy-side dynamics but also the further globalization of capital markets continues to promote mergers among the world's securities exchanges. The **New York Stock Exchange's** protracted \$14.3 billion acquisition of **Euronext** will spark other cross-border alliances. The challenges of building global exchanges, however, remain quite formidable, as **Nasdaq** discovered after its hostile bid was spurned by the **London Stock Exchange**.

Suitors hover over few remaining independent TAMPs

Finally, turnkey asset management platforms (TAMPs)—an acronym designed to describe the third-party administration and recordkeeping technology underlying the advice delivery platforms at the heart of several managed account programs—remain in demand, particularly as both banks and service agents seek to offer fee-based portfolio management services that can compete effectively with those in place in the wirehouse channel. **Genworth Financial**, a TAMP consolidator, added mutual fund wrap specialist **AssetMark Investment Solutions** to its platform in mid-2006. Other banks, insurers and platform sponsors continue to circle the few remaining independent TAMPs, most of which now can command a scarcity premium.

Exhibit 28: Median EV/LTM EBITDA Multiples for Selected Putnam Lovell NBF FinTech Universe Subindices

Subindex	Q4 2005	Q4 2006
North American banking software	12.5x	22.4x
EU and rest-of-world banking software	11.9x	27.5x
Buy-side software and technology	12.3x	10.8x
Channel banking and CRM	10.6x	10.7x
Electronic funds transfer / ETS	11.9x	11.0x
Insurance technology and software	14.3x	18.7x
Market data and financial information	12.1x	13.1x
Major diversified vendors	15.4x	14.0x
Order execution services	19.4x	16.0x
Organized exchanges	12.5x	28.1x
Outsourcers	8.8x	16.8x
Payroll, HR and benefits	11.3x	15.0x
Sell-side trading technology	13.6x	18.3x
STP, messaging and middleware	11.1x	17.0x
Median Putnam Lovell NBF FinTech Universe	12.2x	16.0x

Note: Sectors equally weighted. Source: Putnam Lovell NBF

Conclusion

The tectonic realignment of investor demand we described in last year's report has started to shake the industry into action. Further work, however, is required. As employees become retirees worldwide in an environment of low long-term interest rates, their needs will require more complicated advice. Those necessarily complex solutions can command higher management fees, but investors' growing focus on absolute return means investment products must deliver what they promise on the label. And end-user cost will be thrown into even starker relief as the proliferation of derivatives and exchange-traded funds makes beta ever-cheaper and more plentiful. Asset managers must define and defend their current value propositions in order to maintain their margins.

Those who cannot do so will need to innovate, spurring further transactions. This is what makes this cycle of M&A activity more sustainable, and arguably more crucial in the long term, than the one that ended with a loud pop in 2000. Deals cut in the last decade focused solely on scale, blindly linking manufacturing and distribution to gather assets without regard for capacity. The transactions within the current cycle, however, center on building asset managers with sustainable competitive advantages, created by adding investment capabilities, supporting infrastructure for more complicated clients and distribution, and fueling product development. Most importantly, the evolving structures in recent deals appear more than ever to focus on talent acquisition and retention: the precious human capital which is the industry's primary, if not sole, strategic asset.

Consequently, we expect the following during the next 12 months:

- Another year of vibrant, and perhaps record, deal flow is very likely if capital markets cooperate. Macroeconomic forecasts remain neutral but placid, financial sponsors are flush with uninvested capital, and many firms are only just starting to draw their blueprints for the strategic overhaul most require to compete forcefully in the future. Additionally, listed US fund managers alone still sit on more than \$9 billion in free cash.
- The furor over hedge funds and FOHFs will begin to subside as the products become more commodity-like in nature. Investment banks already are building structured products that mimic hedge fund returns, and long-only managers are adapting long-short strategies where suitable and profitable. Players with strong, sustainable performance or niche strategies always will command (and deserve) premiums, but some buyers will focus more on finding the next frontier of alpha: be it private equity, infrastructure leasing, dark liquidity, or (most likely) something else. As hedge funds become an even more serious business, strategy considerations—not ones linked to lifestyle—will drive deal activity.
- Given current valuations, another strong season for fund-management flotations and spinoffs is quite possible. Fears about losing focus on long-term strategy and failing to find adequate liquidity in crises, however, will spur the vast majority of sellers to continue electing trade sales and auctions. This does not preclude innovative transactions that attempt to blend the best aspects of both markets: for instance, swapping large fund management subsidiaries or affiliates for sizable, or even majority, strategic stakes in listed companies can provide both currency and control if properly structured.
- Cross-border considerations will drive many firms to consider further transactions, especially if the US dollar continues to weaken. More asset managers view geographic diversification of both products and clients as insurance against market turbulence. As portfolios globalize, fund managers will discover that their core offerings will appeal to a growing group of professional buyers. The continent of Asia and the entrepôt of Dubai—two places where the growth story is only just beginning—will be centers of attention.

Appendix**Exhibit 29: Largest Asset Management Transactions by Acquired AUM, 2006**

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)
12/06	Mellon Financial	US	Diversified	Bank of New York	US	\$947,000
2/06	Merrill Lynch Investment Managers	US	Diversified	BlackRock	US	544,000
11/06	US Trust (Charles Schwab)	US	Private client	Bank of America	US	94,000
1/06	LSV Asset Management (SEI) (8%)	US	Institutional	Recap (LSV Employee Group)	US	59,189
5/06	Artisan Partners (undisclosed)	US	Diversified	Recap (Hellman & Friedman)	US	48,851
2/06	Intech (Enhanced Investment Technologies) (5%) ¹	US	Diversified	Janus Capital Group	US	45,000
5/06	Gartmore Investment Management	UK	Diversified	MBO (Hellman & Friedman)	US	44,900
7/06	Ampega Investment (30%) ²	Germany	Diversified	Recap (Talanx AG)	Germany	43,343
11/06	Stanlib (63%) ³	S. Africa	Diversified	Liberty Group	S. Africa	41,383
6/06	Fischer, Francis, Trees & Watts (30%) ³	US	Institutional	BNP Paribas	France	38,000

Notes: Data converted to US currency at time of announcement. ¹Janus already owned 78%. ²Disposal of Putnam Investments stake; Talanx owned remainder. ³Acquirer already owned remaining equity outstanding.

Sources: Putnam Lovell NBF, company reports.

Exhibit 30: Largest Asset Management Transactions by Disclosed Deal Value, 2006

Date	Target	Country	Acquirer	Country	DDV (\$MM)
12/06	Mellon Financial	US	Bank of New York	US	\$17,619 ¹
2/06	Merrill Lynch Investment Managers	US	BlackRock	US	9,602
11/06	US Trust (Charles Schwab)	US	Bank of America	US	3,300
7/06	Bouwfunds	Netherlands	Rabobank	Netherlands	1,078
12/06	Fortress Investment Group (15%)	US	Nomura Holdings	Japan	888
7/06	WM Advisors	US	Principal Financial Services	US	740
10/06	FrontPoint Partners	US	Morgan Stanley	US	400
9/06	Kempen & Co.	Netherlands	Van Lanschot	Netherlands	384
7/06	WL Ross & Co.	US	Amvescap plc	UK	375
11/06	Indexchange Investment AG	Germany	Barclays plc	UK	305

Note: Excludes Ashmore, BlueBay, and Partners Group IPOs. Data converted to US currency at time of announcement. ¹At close on day of announcement; DDV includes asset servicing business. Sources: Putnam Lovell NBF, company reports

Exhibit 31: Largest Mutual Fund Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	AUM (\$MM)
12/06	NWD Investment Management (retail funds)	US	Nationwide Mutual Insurance	US	\$27,100
7/06	WM Advisors	US	Principal Financial Services	US	26,400
7/06	Daehan ITMC (51%) ¹	S. Korea	UBS	Switzerland	20,400
11/06	Indexchange Investment	Germany	Barclays plc	UK	19,340
2/06	Woori Asset Management (30%)	S. Korea	Credit Suisse	Switzerland	13,523
3/06	Harris Investment Management (funds)	US	Phoenix Cos.	US	10,500
12/06	DWS Investments Italia	Italy	Anima Sgr	Italy	9,164
4/06	ABN Amro Asset Management (funds)	US	Highbury Financial entities	US	6,000
11/06	Franklin Templeton Asset Management (25%) ²	India	Franklin Resources	US	5,276
3/06	China Asset Management (41%)	China	CITIC Securities	China	5,050

Note: Data converted to US currency at time of announcement. ¹UBS still awaiting government approval at year-end.

²Remaining 25% purchased from Hathway Investments (Raheja group). Sources: Putnam Lovell NBF, company reports.

Exhibit 32: Largest Institutional Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	AUM (\$MM)
1/06	LSV Asset Management (SEI) (8%) ¹	US	Recap (LSV employee group)	US	\$59,189
2/06	Enhanced Investment Technologies (Intech) (5%)	US	Janus Capital	US	45,000
6/06	Fischer, Francis, Trees & Watts (30%) ²	US	BNP Paribas	France	38,000
5/06	Walter Scott & Partners	UK	Mellon Financial	US	27,000
5/06	Institutional Capital Corp.	US	New York Life Insurance	US	14,107
8/06	Cundill Group	Canada	IGM Financial	Canada	13,731
4/06	Vanderbilt Capital Advisors	US	Unicredit Pioneer	Italy	13,000
10/06	Chicago Equity Partners (60%)	US	Affiliated Managers Group	US	11,352
5/06	Hamilton Lane Advisors (12%)	US	Recap	US	8,100 ³
3/06	Independence Investment	US	City National Corp.	US	7,900

Note: Data converted to US currency at time of announcement. ¹Also ranks as fifth-largest of all time. ²BNP already owned 70% of FFTW. ³Discretionary assets only. Sources: Putnam Lovell NBF, company reports.

Exhibit 33: Largest Private Client Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	AUM (\$MM)
11/06	US Trust (Charles Schwab) ¹	US	Bank of America	US	\$94,000
9/06	FERI Finance AG (57%)	Germany	MLP	Germany	12,700
10/06	Tilney Group	UK	Deutsche Bank AG	Germany	12,598
12/06	Quilter Holdings (Morgan Stanley)	UK	Citigroup	US	11,000
11/06	Kempen & Co.	Netherlands	Van Lanschot	Netherlands	8,067
12/06	Hedging-Griffo	Brazil	Credit Suisse	Switzerland	7,521
11/06	WealthTrust (Morgan Keegan)	US	MBO (Circle Peak Capital)	US	6,500
7/06	DNCA Finance (34%)	France	Gruppo Banca Leonardo	Italy	3,800
11/06	Bank of America private banking units	US	Banco Itau Holding	Brazil	3,700
2/06	Focus Financial Partners (majority)	US	Summit Partners	US	3,500

Note: Excludes IPOs. Data converted to US currency at time of announcement. ¹Also ranks as largest private-client manager deal of all time. Sources: Putnam Lovell NBF, company reports.

Exhibit 34: Largest Hedge Fund and FOHF Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	Type	AUM (\$MM)
11/06	Lansdowne Partners (19%)	UK	Morgan Stanley	US	HF	\$12,000
10/06	Avenue Capital Group (15%)	US	Morgan Stanley	US	HF	12,000
10/06	Black Diamond Capital Management (undisclosed)	US	MBO	US	HF	9,000
11/06	BlueBay Asset Management (38%) ¹	UK	IPO and Lehman Brothers (5%)	UK/US	HF	8,000
10/06	FrontPoint Partners	US	Morgan Stanley	US	HF	5,500
8/06	Olympia Capital (45%)	France	Sagard	Canada	FOHF	4,800
12/06	RAB Capital (4%) ²	UK	Mittal family	UK	HF/FOHF	4,700
11/06	Atlas Capital UK holdings	UK	MBO	UK	FOHF	3,600
10/06	DiMaio Ahmad Capital (minority)	US	Merrill Lynch	US	HF	3,000
11/06	Polar Capital (14%)	UK	XL Capital	Bermuda	HF	2,600

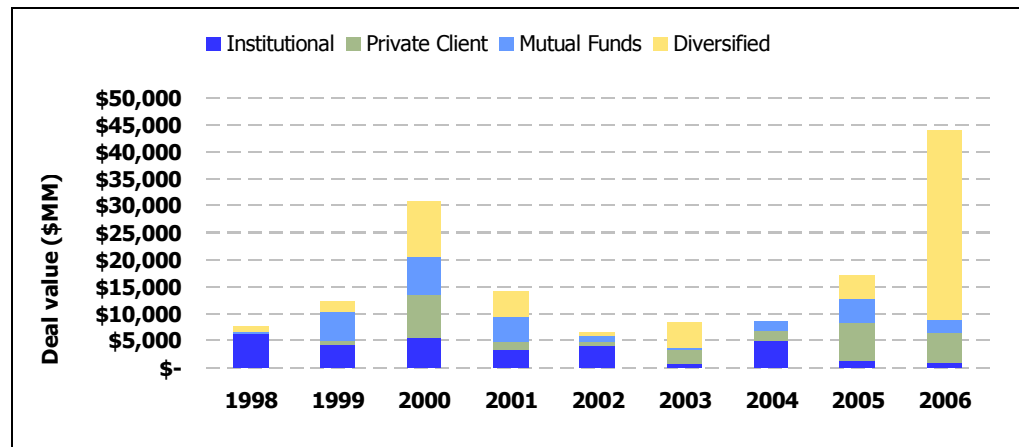
Notes: Excludes firms with < 50% AUM in HF or FOHF. Data converted to US currency at time of announcement. ¹Blends two transactions. ²Private placement at discount. Sources: Putnam Lovell NBF, company reports.

Exhibit 35: Largest Cross-Border Transactions by Acquired AUM, 2006

Date	Target	Country	Acquirer	Country	AUM (\$MM)
5/06	Gartmore Investment Management	UK	MBO (Hellman & Friedman)	US	\$44,900
6/06	Fischer, Francis, Trees & Watts (30%) ¹	US	BNP Paribas	France	38,000
12/06	Fortress Investment Group (15%)	US	Nomura Holdings	Japan	29,700
5/06	Walter Scott & Partners	UK	Mellon Financial	US	27,000
7/06	Daehan ITMC (51%) ²	S. Korea	UBS AG	Switzerland	20,400
11/06	Indexchange Investment	Germany	Barclays plc	UK	19,340
2/06	Woori Asset Management (30%)	S. Korea	Credit Suisse	Switzerland	13,523
4/06	Vanderbilt Capital Advisors	US	Unicredit Pioneer	Italy	13,000
10/06	Tilney Group	UK	Deutsche Bank	Germany	12,598
11/06	Lansdowne Partners	UK	Morgan Stanley	US	12,000

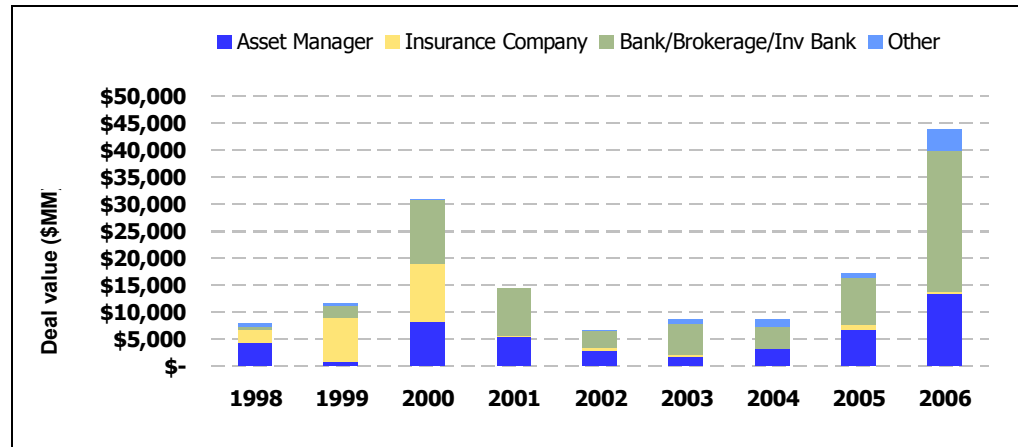
Note: Data converted to US currency at time of announcement. ¹BNP Paribas already owned 70% of FFTW. ²UBS still awaited government approval at year-end. Sources: Putnam Lovell NBF, company reports.

Exhibit 36: Disclosed Deal Value by Target Type



Source: Putnam Lovell NBF

Exhibit 37: Disclosed Deal Value by Acquirer Type



Source: Putnam Lovell NBF

Exhibit 38: All-time Largest Asset Management Transactions by Acquired AUM

Date	Target	Country	Acquirer	Country	AUM (\$MM)
12/06	Mellon Financial	US	Bank of New York	US	\$947,000
2/06	Merrill Lynch Investment Managers	US	BlackRock Financial	US	544,000
6/05	Citigroup Asset Management	US	Legg Mason	US	437,000
9/01	Zurich Scudder Investments	Switzerland	Deutsche Bank	Germany	278,000
11/99	PIMCO Advisors (69%)	US	Allianz AG	Germany	256,163
6/00	United Asset Management	US	Old Mutual	S. Africa	203,150
2/07	Putnam Investments	US	Great-West Life (Power Financial)	Canada	192,000
9/97	Mercury Asset Management	UK	Merrill Lynch	US	176,330
6/95	Wells Fargo Nikko Investment Advisors	US/Japan	Barclays plc	UK	171,900
10/99	BlackRock Financial	US	IPO	US	142,000

Note: Data converted to US currency at time of announcement. Sources: Putnam Lovell NBF, company reports.

Exhibit 39: All-time Largest Asset Management Transactions by Disclosed Deal Value

Date	Target	Country	Acquirer	Country	DDV (\$MM)
12/06	Mellon Financial	US	Bank of New York	US	\$17,619 ¹
2/06	Merrill Lynch Investment Managers	US	BlackRock Financial	US	9,602
9/97	Mercury Asset Management	UK	Merrill Lynch	US	5,326
9/05	Global Asset Management & 3 private banks	Switzerland	Julius Baer	Switzerland	4,600
4/00	Robert Fleming Holdings (asset management)	UK	Chase Manhattan Bank	US	4,100
2/07	Putnam Investments	US	Great-West Life (Power Financial)	Canada	3,900
6/05	Citigroup Asset Management	US	Legg Mason	US	3,700
6/00	Sanford C. Bernstein & Co.	US	Alliance Capital Management	US/France	3,500
11/06	US Trust (Charles Schwab)	US	Bank of America	US	3,300
11/99	PIMCO Advisors (69%)	US	Allianz AG	Germany	3,238

Notes: ¹At close following announcement. Data converted to US currency at time of announcement.

Sources: Putnam Lovell NBF, company reports.

Exhibit 40: All-time Largest Asset Management IPOs

Date	Target	Float %	Country	Proceeds (\$MM)
2/07	Fortress Investment Group	9%	US	\$634
10/06	Ashmore Capital	25%	UK	560
3/98	Waddell & Reed	34%	US	499
7/04	Azimut Holding	65%	Italy	467
3/06	Partners Group	30%	Switzerland	385
10/05	HCI Capital	58%	Germany	384
10/04	Calamos Asset Management	20%	US	360
11/06	BlueBay Asset Management	33%	UK	357
5/98	Federated Investors	65%	US	334
10/99	Neuberger & Berman	15%	US	232

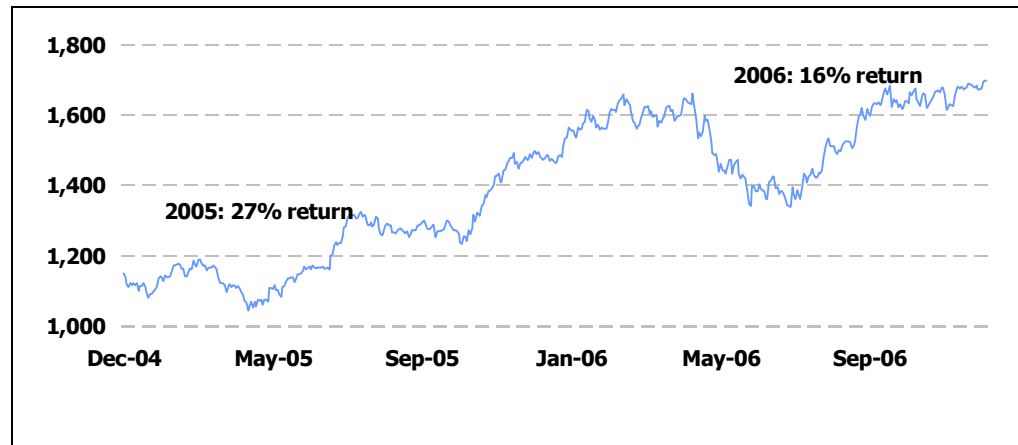
Notes: Data converted to US currency at time of announcement. Proceeds before fees and excluding overallotment options. Sources: Putnam Lovell NBF, company reports.

Exhibit 41: Largest Listed Fund Managers Worldwide, February 2007

Asset Manager	Country	Market capitalization (\$MM) ¹	AUM (\$MM) ²
Franklin Resources	US ³	\$32,362	\$552,900
Man Group	UK	23,398	56,800 ⁴
BlackRock Financial	US	22,882	1,124,627
Legg Mason	US	14,219	944,800
T. Rowe Price Associates	US	13,898	334,700
IGM Financial	Canada	11,739	119,364
Fortress Investment Group	US	11,220	29,000 ⁴
Amvescap	UK/US	10,122	462,600
AllianceBernstein	US	7,986	716,895
Schroders	UK	6,707	239,457 ⁴

Notes: ¹At 12 Feb 2007. ²At 31 Dec 2006. ³Also trades in London. ⁴At 30 Sep 2006. Data converted to US currency as of 12 Feb 2007. Sources: Putnam Lovell NBF, Thomson, Bloomberg, company reports

Exhibit 42: Recent Putnam Lovell NBF US Index Performance



Notes: US Index comprises asset-weighted composite of AMG, AVZ, AB, BLK, CLMS, CNS, EV, FII, BEN, GBL, JNS, LM, JNC, TROW, WDR, WHG, WPL. Base = 100 at 31 December 1990. Source: Putnam Lovell NBF.

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