

All Shook Up

M&A and Capital Markets Activity in Global Fund Management, 2007

Putnam Lovell

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Asset management and financial technology once again shattered records for transaction activity in 2007, and largely stood apart from the trauma that America's subprime mortgages inflicted on financial services firms worldwide. The credit crisis highlighted fund management's critical advantage: an ability to generate high, and recurrent, cash flows from a thin balance sheet. But collapsing bourses also underscored the industry's primary liability: its leveraged correlation to the health of global capital markets. As fund managers emerge from the wreckage of January's sell-off, and contend with any further deterioration of equity prices, they must find a way to balance strengths and weaknesses more effectively.

- Buyers remain plentiful and eager to acquire. Financial sponsors, brimming with uncommitted capital and needing plumper dividends, continue to pursue cash-generating asset managers ardently, with generalists and specialists competing for attention. But deprived of leverage, all but the most liquid sovereign funds will bid less aggressively. This will reinvigorate strategic acquirers seeking new skills and products that prepare their asset management and financial technology businesses for a more challenging competitive environment. Cross-border activity will continue to drive deal flow, as asset managers and securities firms race to globalize their products and clientele.
- Dearer credit has done little to dampen interest in financial technology and securities firms. Securities exchanges, broadened by global consolidation, need systems and services that blunt the growing threat from alternative trading venues such as ECNs and dark pools. Asset servicing firms and institutional brokers want innovative tools that appeal to expanding alternative asset managers.
 - Targets, however, grow coy. Many prospects will weather stormy markets on the sidelines, waiting for a recovery to resurrect their pre-correction profit margins. Highly motivated sellers will struggle to attract lush multiples in choppy conditions. And some global financial conglomerates, crunched by a need for capital, may find themselves forced to divest their asset management operations. But quality firms will keep their negotiating leverage, and opportunistic buyers may be disappointed.
- Demand for alternative asset managers is rising as the volatile atmosphere reinforces investor demand for absolute returns, although the punishing global sell-off will provide an acid test that will expose poseur hedge funds highly correlated to the broader markets. Managers with strong, sustainable numbers will attract long-only firms keen to add popular products to their menus. Alternative fund providers, in turn, must stabilize their incentive-fee income with the recurrent asset-based fees traditional fund managers generate. Industry convergence, long discussed as theory, will accelerate.
- Asset management IPOs in 2007 disappointed investors in the short term. In a broader context, however, they confirmed that trade-sale buyers face stiffer competition from the public markets, which have become a viable and potentially vibrant financing alternative for the world's investment houses. Poorly diversified firms without stable earnings need not apply, and the transparency of regulated bourses will repel many sellers. But public investors increasingly recognize the unique attributes of pure-play asset managers, and will reward them with more lucrative valuations as markets recover.

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Executive Summary

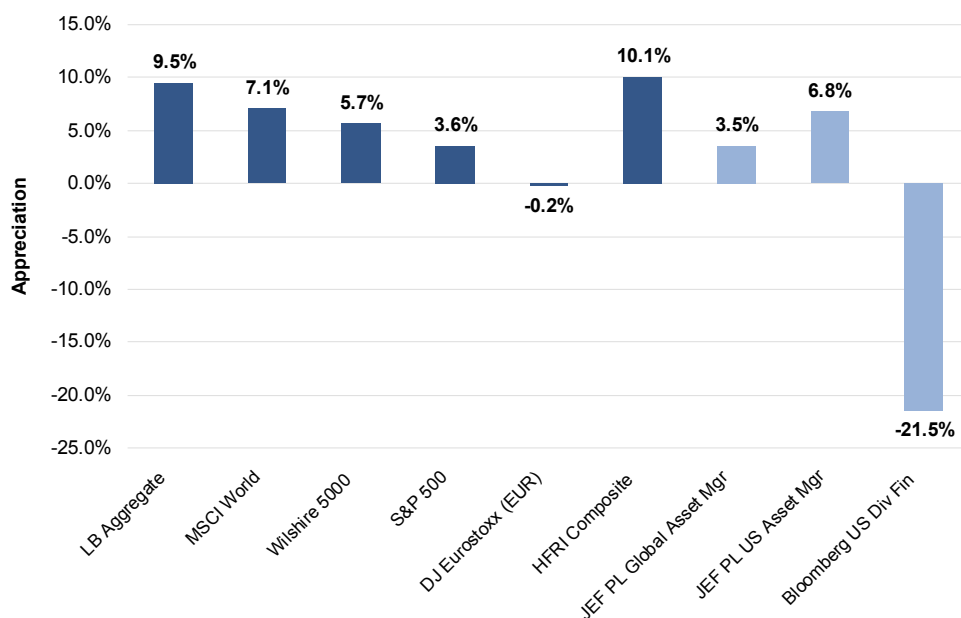
- Amid a global credit crisis, precipitated by US subprime mortgage foreclosures, and turbulent markets worldwide, transaction activity in the global asset management industry once again shattered records during 2007. Buyers spent more than \$51 billion to acquire partial or full ownership of 241 fund managers, well over 2006's chart-topping metrics. Total assets under management changing hands, however, fell to \$2 trillion in 2007, 25% below the previous year's level.
- A growing appetite for alternative asset managers continued to drive deal flow, with such firms representing 32% of the number of transactions announced during 2007, another record. Alternative managers accounted for only one-fourth of the assets acquired in all transactions during 2007, but comprised almost half the disclosed deal value.
- A record number of asset managers, 11, launched initial public offerings during 2007, raising more than \$8 billion in proceeds, an unprecedented amount. Most of the newly floated companies struggled shortly after their market debuts, reflecting choppy market conditions and investor concerns about earnings quality, given the volatility of performance-based fees.
- Conversely, some of their more established counterparts enjoyed a blockbuster year, making asset management one of the few bright spots in financial services. As a group the world's quoted asset managers squeezed out a 3.5% gain during 2007, but some of the broadly diversified US fund managers enjoyed price gains exceeding 25%. The brutal sell-off in January 2008 did erase most of those gains. Markets judged Britain's quoted fund managers—which have more leverage, higher fixed costs and consequently greater sensitivity to macroeconomic conditions—more harshly.
- Financial buyers, including sovereign funds sloshing with cash, played an unprecedented role in transaction activity during 2007. Sponsors, as well as institutional investors securing shares through America's Rule 144(a) private placements and special-purpose acquisition companies, initiated 20% of the transactions announced during 2007 but accounted for nearly half of the disclosed deal value. Dearer credit eroded, but did not erase, financial buyer interest in fund managers: sponsor activity was evenly distributed throughout the year.
- Deal flow reflected the more complicated financial engineering and strategic objectives of many transactions, as buyers executed a record proportion of partial and minority purchases. Acquirers settled for partial stakes in 43% of the deals announced in 2007, including IPOs, while roughly one-third of all transactions involved minority positions.
- Market conditions began to impact pricing, although to a lesser extent than many believed. Overall, median trade-sale multiples remained stable at 11.5 times EBITDA, but included high prices paid for minority stakes in fast-growing alternative asset managers—particularly by liquid sovereign funds. Median pricing for alternative asset managers softened slightly, reflecting the higher proportion of performance fees—which buyers often discount—that many targets generated before markets began to collapse. Multiples may slide in 2008, but most of the softer metrics will reflect quality targets sitting out the market correction, rather than a deeper change in sentiment.

- International expansion remained an important, and intensifying, catalyst to deal flow. A record 39% of all transactions were cross-border, representing 38% of assets acquired, a six-year apex. Americans once again comprised the minority of buyers and sellers, with only one-third of deals involving only American firms. Asian and Australian firms accounted for an unprecedented number of sellers, and began to rank among the more active buyers.
- Transaction activity in financial technology surged to record levels of disclosed deal value, with buyers forking over more than \$21 billion on top of the \$26 billion **Kohlberg Kravis Roberts** paid for its buyout of **First Data**. Payment processors, blessed with strong growth prospects and operating leverage, attracted strategic and financial buyers of all stripes, as did technology that added value to the otherwise staid custody sector. Hedge and private equity fund administrators remained hot properties. Processing and buy-side technology also drove the expansion of quoted financial technology companies: the Jefferies Putnam Lovell FinTech Universe Index returned 11% for the year, compared to 23% last year and 8% in 2005.
- Deal flow within the securities exchange and brokerage space heated up. The broad consolidation among the world's bourses, which reached a fever pitch with the proposed **NYSE Euronext-American Stock Exchange** and **CME Group-Nymex Holdings** mergers in January 2008, helped inflate the shares of quoted stock exchanges by 85% during 2007. Exchanges became buyers themselves, shopping for systems and technology to compete with ECNs, dark pools, and other alternative trading venues.
- **Wachovia's** purchase of **A.G. Edwards** was the opening gambit in an accelerating consolidation endgame among America's retail broker/dealers. But acquirer interest in institutional brokerages, particularly those with special skills that cater to increasingly powerful buy-side investors, surged. Prices for quoted interdealer brokers helped fuel a 23% return for the Jefferies Putnam Lovell Brokerages, Exchanges and Securities Services Index in 2007, compared to 34% the previous year and 14% in 2005.

Introduction: Paranoia Runs Deep

Few readers will want to review the dismal chronology of 2007's subprime mortgage crisis and its painful impact on credit conditions, stock markets, and potentially the global economy itself. Lackluster markets gave way to one of the worst sets of January performance numbers in history, as a punishing global equity correction razed returns in nearly all geographies and sectors. During 2007, however, asset managers largely kept their balance sheets intact, while subprime issues torpedoed the books of other financial services firms.

Exhibit 1: Performance of Major Capital Markets Benchmarks and Financial Sector Indices, 2007



Sources: Bloomberg, Jefferies Putnam Lovell

Asset managers stood apart from the subprime debacle

Between midyear 2006 and January 2008, investment banks wrote down more than \$108 billion of exposure to subprime mortgages, collateralized debt obligations, and other structured securities. Most of the financial sector's capital-raising activities in 2007 involved patching these holes, with Asian and Middle Eastern sovereign funds leaping to the rescue. Asset managers, however, had few such problems, although some invested in structured investment vehicles that lost value from writedowns. Prices for many quoted fund managers rose, while those of most other financial firms collapsed. And the investment firms that sought capital injections did so to create liquidity or fuel strategic expansion, rather than simply to stabilize a listing balance sheet.

Exhibit 2: Recent Capital Injections to Financial Institutions

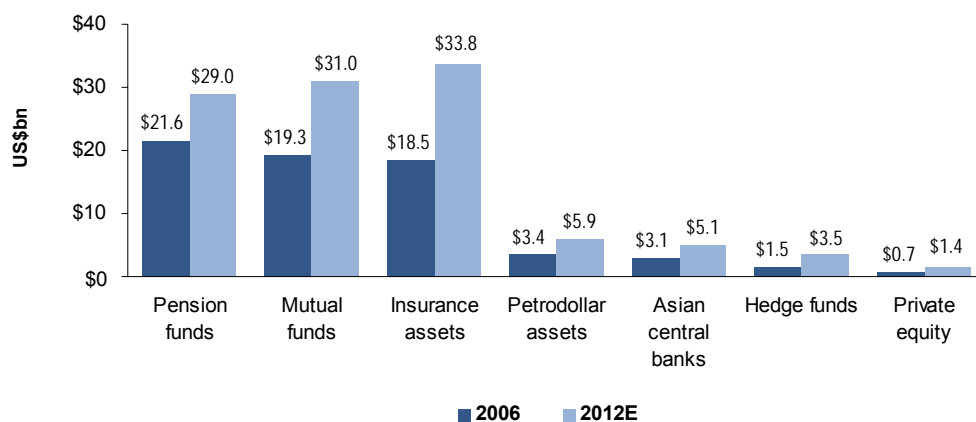
Target	Date	Investment	Stake	Discount	Type	Investor(s)
Citigroup ¹	1/15/08	\$14.5 billion	7.8%	NA	Convertible Preferred Stock	GIC, Kuwait Investment Authority, & Others
Legg Mason	1/14/08	\$1.3 billion	NA	NA	Convertible Notes	Affiliate of Kohlberg Kravis Roberts & Co.
MBIA	1/11/08	\$1.0 billion	NA	NA	Callable Notes	NA
Merrill Lynch ²	12/24/07	\$5.6 billion	12.4%	10.9%	Common Stock and Options	Temasek Capital & Davis Selected Advisors
Morgan Stanley	12/19/07	\$5.0 billion	9.9%	NA	Convertible Notes	CIC China Investment Corporation
UBS ³	12/10/07	\$11.5 billion	12.0%	NA	Convertible Notes	GIC & Saudi Arabian Monetary Authority
MBIA	12/10/07	\$0.5 billion	NA	NA	Common Equity and Warrants	Warburg Pincus
Citigroup	11/26/07	\$7.5 billion	4.9%	NA	Convertible Notes	Abu Dhabi Investment Authority
Och-Ziff	11/14/07	\$1.2 billion	9.9%	5.5%	Common Equity	DIC Sahir
Bear Stearns	10/22/07	\$1.0 billion	6.0%	NA	Equity Swap	CITIC Securities
The Carlyle Group	9/20/07	\$1.4 billion	7.5%	10.0%	Equity	Abu Dhabi Investment Authority
Barclays PLC ⁴	7/23/07	\$5.1 billion	5.2%	NA	Common Stock	China Development Bank & Temasek Capital
Apollo Management	7/6/07	NA	10.0%	NA	Equity	Abu Dhabi Investment Authority
The Blackstone Group	5/22/07	\$3.0 billion	9.4%	4.5%	Non-Voting Common Units	CIC China Investment Corporation
Merrill Lynch	1/15/07	\$6.6 billion	NA	NA	Preferred Stock	KIC, Kuwait Investment Authority, & Mizuho Financial Group
CIBC ⁵	1/15/07	\$2.7 billion	11.1%	6.9%	Common Stock	Li Ka-Shing, Manulife, Caisse de Depot, OMERS, & Others

Notes: Currency converted to US dollars on date indicated. (1) \$6.9 billion contributed by GIC, \$5.6bn contributed by the Kuwait Investment Authority, Capital Research Global Investors, Capital World Investors, the New Jersey Division of Investment, Prince Alwaleed bin Talal bin Abdulaziz Al-Saud, and Sanford I. Weill, \$2bn newly issued to the public. (2) \$4.4 billion from Temasek, \$1.2 billion from Davis Selected Advisors. (3) \$9.7 billion from GIC, \$1.8 billion from SAMA. (4) Barclays is buying back some shares. \$3bn from China Development Bank, \$2bn from Temasek; injection was to fund rejected bid for ABN Amro. (5) \$1.2 billion from the public. Sources: press reports, Jefferies Putnam Lovell

Sovereigns, HFs, PE firms now play key roles in capital markets

Viewed against a broader context, the subprime crisis may mark the final transition of financial power from the sell side to the buy side. Liquidity, and therefore systemic risk, now pools around sovereign funds and alternative asset managers. In a world where lenders are nervous, cash is obviously king. Newly empowered, private equity houses and hedge fund managers will take on more characteristics of universal banks and securities firms.

Exhibit 3: Major Capital Pools Worldwide



Note: Assets may be doublecounted between sources. Depicts most conservative forecasts. Sources: Hedge Fund Research, Venture Economics, Private Equity Analyst, International Financial Services, McKinsey

Any further erosion of macroeconomic conditions obviously will darken the asset management industry's short-term prospects. But the sector's relative placidity in 2007 during what was otherwise a shareholder riot in financial services impressed sponsors and investors with a longer view. And the subprime crisis did nothing to change the industry's most intensive strategic introspection in decades, spurred by changing investor demands and shifting distribution dynamics. Viewed in such context, recent record-setting levels of transaction activity in fund management are less surprising.

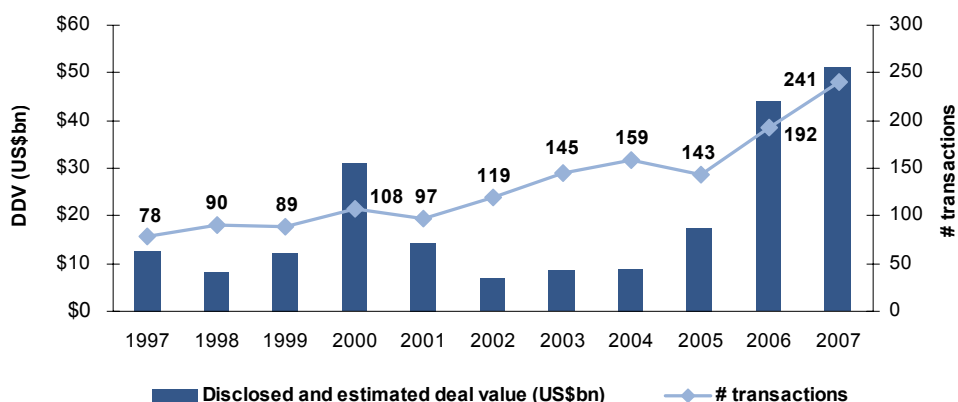
Overview: Transaction Activity in Asset Management for 2007

The gathering gloom of the credit crisis failed to derail another chart-topping year for mergers and acquisitions globally. Thomson Financial estimates that more than 42,000 transactions worth an estimated \$4.5 trillion were announced in 2007, 24% more than the previous year. Worldwide, financial services represented the largest cohort of targets: more than \$730 billion in deal value, thanks to the breakup of **ABN Amro** and the marriage of Italy's **Unicredit** and **Capitalia**. Financial buyers, however, became less prevalent as their leverage dried up. They comprised only 20% of total disclosed deal value, down from 22% in 2006. From August 2007 until year-end, sponsors only announced one deal worth more than \$5 billion, compared to 32 unveiled prior to the end of July. And despite the entrance of cash-rich sovereign funds, financial buyers accounted for only 9% of announced transactions in the fourth quarter—the lowest such metric since March 2004.

Another record year for asset management M&A

In the global asset management industry, deal flow once again shattered numerous records during 2007. Buyers announced 241 transactions, including 11 initial public offerings, both of which are unparalleled annual totals. Disclosed and estimated prices paid for fund managers totaled a record \$51.2 billion, a 16% increase over the previous record of \$44.1 billion posted in 2006. IPOs inflated the 2007 metric, but consideration paid during trade sales worldwide also reached a record level of \$43 billion, compared to \$42 billion in 2006.

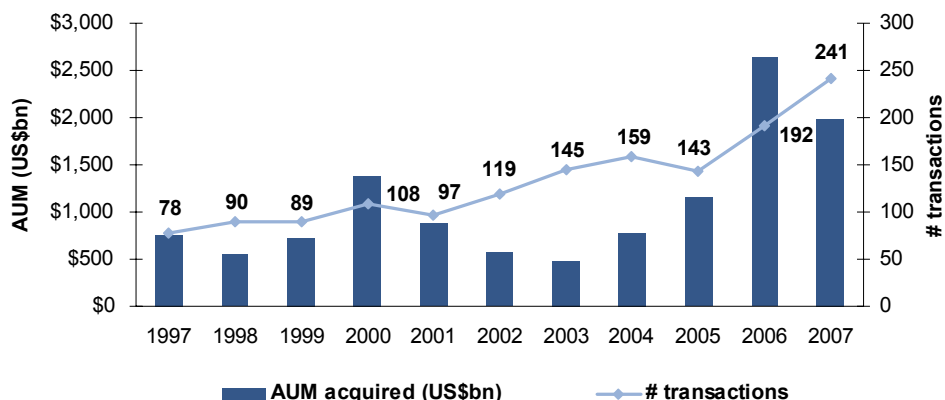
Exhibit 4: Historical Transaction Activity Involving Asset Management Targets



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

Buyers purchased fund managers that oversaw roughly \$2 trillion in assets in 2007, 25% less than the total posted during 2006, a year that included the two largest investment manager purchases in history: **Bank of New York's** union with **Mellon Financial** and **BlackRock's** acquisition of **Merrill Lynch Investment Managers**. These two large deals accounted for 56% of the assets acquired in 2006. The two biggest transactions in terms of acquired assets in 2007—**Power Financial's** purchase of **Putnam Investments** and the management buyout of **Nuveen Investments**—represented only 18% of total assets acquired. Given that the median target size remained around \$1.5 billion of assets under management—close to recent levels of \$2 billion—deal flow in 2007 appears more broad-based, with small and large firms alike engaging in transactions.

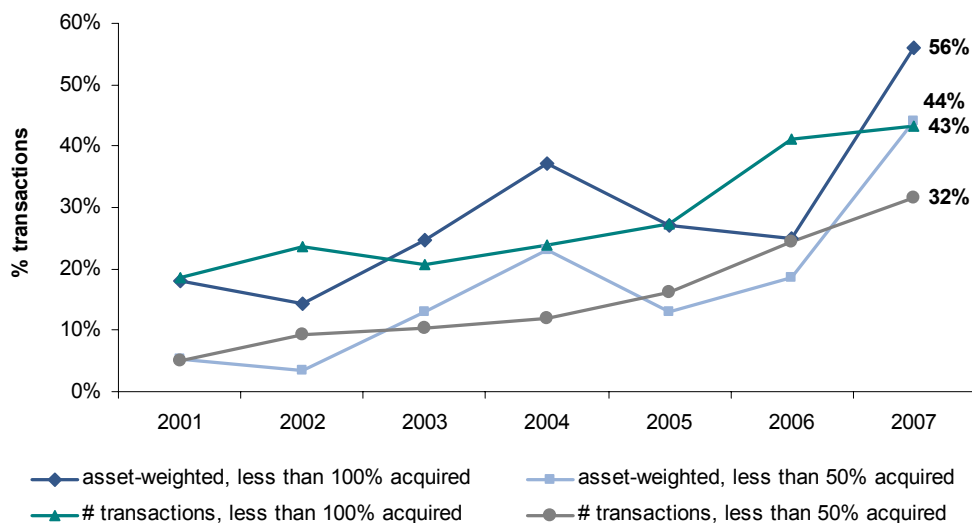
Exhibit 5: AUM Acquired in Asset Management Transactions Worldwide



Note: Includes minority transactions, recapitalizations and IPOs. Removes doublecounting from sellers involved in multiple transactions within a 12-month period. Source: Jefferies Putnam Lovell

The proportion of partial acquisitions rose again, to record levels, in 2007. More than 40% of deals involved equity stakes of less than 100%, and nearly a third concerned minority positions. Asset-weighting the data shows an even more dramatic shift, with the proportion of both partial and minority transactions more than doubling.

Exhibit 6: Partial and Minority Transaction Activity



Note: Includes IPOs. Partials <100% includes all partials <50%. Removes doublecounting from sellers involved in multiple transactions within a 12-month period. Source: Jefferies Putnam Lovell

Alternatives, financial engineering spur minority stakes

Several strengthening trends continue to encourage partial acquisitions. The recent demand for alternative investments is one factor. Executives of management-owned hedge fund managers are often unwilling to part with majority shares. Some argue that further growth will maximize the sale price of their firms, particularly as the universe of buyers expands beyond the current group of investment banks and financial sponsors to include more strategic acquirers. And founders, often refugees from financial conglomerates, usually are reluctant to become employees of a fully owned subsidiary.

Similar forces are affecting traditional asset managers as well. More buyers are realizing that not only does equity provide an effective currency for talent retention, but it also creates an incentive powerful enough to improve investment performance. Several firms are making efforts to create perpetual employee-controlled equity stakes. **Old Mutual's** US multiaffiliate **Old Mutual Asset Managers**, for example, indicated last year that it would share equity with management in each of its subsidiaries.

A broader theme, however, explains the rising prevalence of partial and minority transactions. Increasingly complex financial engineering is required to balance the complicated cocktail of strategic, financial, and structural considerations that successful asset managers must mix. On one hand, sellers seek transactions that maximize value and liquidity without compromising their culture or investment autonomy. Simultaneously, however, they often want buyers to provide capital and distribution that will fuel the firm's next phase of growth. All this rarely comes in a neat package, and consequently buyers and sellers in the asset management sector are agreeing to more intricate, and often multiple, transactions.

For example, at least four alternative asset managers—**Fortress Investment Group, Blackstone Group, Apollo Management, and Och-Ziff Capital Management**—used “belt-and-suspenders” transaction couplets in 2007. Such deals involved the initial sale of a minority stake to a large institutional investor or sovereign fund. Having thus set expectations for pricing, sellers then sold more equity to a larger group of investors—either through public bourses or private-placement exchanges—to provide the necessary dose of liquidity.

Exhibit 7: Selected Pre-IPO and Pre-144(a) Couplet Transactions in Asset Management, 2007

Date	Target	Acquirer	AUM (\$MM)	DDV (\$MM)	% Acq
11/07	Och-Ziff Capital Management	IPO	\$30,100	\$1,147	9%
10/07		Dubai International Corp.		\$1,220	10%
8/07	Apollo Management	Institutional investors via 144A placement	\$15,868	\$828	13%
6/07		ADIA and CalPERS		\$1,200	20%
6/07	Blackstone Group	IPO	\$88,000	\$4,130	12%
6/07		China Investment Corp.		\$3,000	10%
2/07	Fortress Investment Group	IPO	\$29,700	\$634	9%
12/06		Nomura Holdings		\$888	15%

Note: Data converted to US currency at time of announcement. Source: Jefferies Putnam Lovell

This quartet of deals actually best represents the forces that shaped recent transaction activity:

Multiple catalysts shaped recent deal flow

- They were driven by some of the newest members inside a broadening spectrum of both strategic and financial buyers.
- They involved alternative asset managers, which remain some of the most desirable targets, although acquirers are imposing tougher quality standards.
- They were cross-border in nature, underscoring the globalization imperative all asset managers currently face.
- They attempted to capitalize on recent strong pricing before deteriorating capital markets could expose any froth in the market.
- Finally, and most importantly, they either embraced—or pointedly avoided—initial public offerings, reflecting the newly emboldened, but still uncertain, role that public markets are taking in fund management transactions.

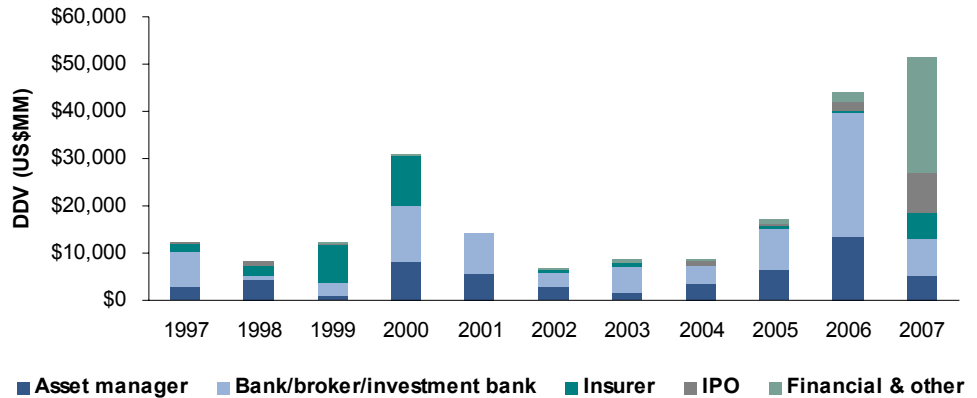
These catalysts will continue to shape transaction activity into 2008 and beyond, although weaker equity markets will certainly diminish their power. Subsequent sections of this report explore these themes in more detail.

Financial sponsors, IPOs play unprecedented roles in 2007

Buyers: A Wider Group of Interested Parties

Transaction activity in 2007 reinforced, with an exclamation point, that two sets of catalysts—one cyclical and financial, the other secular and strategic—are motivating recent record levels of mergers and acquisitions. Financial transactions, including IPOs, have turbocharged recent deal flow, accounting for the majority of annual disclosed and estimated deal value, compared to a similar metric of roughly 10% in 2006. Sponsors and capital markets represented buyers in roughly 25% of deals announced during 2007, but comprised about half the assets acquired.

Exhibit 8: Disclosed Deal Value by Acquirer



Note: Includes minority transactions, recapitalizations and IPOs. "Other" includes individuals, REITs and 144(a) placements. Source: Jefferies Putnam Lovell

Private equity firms drove many of the financial transactions, and the usual suspects remained active. Not only did **TA Associates** fund **Jupiter Asset Management's** MBO from Commerzbank—at a sale price exceeding \$1.4 billion in deal value, the largest involving a European fund manager—it also recapitalized **Arnhold & S. Bleichroeder Advisors** and fund of hedge fund vendor **K2 Advisors** with minority investments. **Hellman & Friedman** took a minority stake in another prominent FOHF firm, **Grosvenor Capital Management**.

Generalists enter the sector: Madison Dearborn-Nuveen

Equally important and indicative of the growing stature of the global asset management industry is the entry of generalist buyout firms into the sector. In June, **Madison Dearborn Partners** paid \$5.75 billion, excluding assumed debt, to facilitate a management-led take-private of **Nuveen Investments**. By any metric, the deal is the largest financial buyout of an asset manager in history, and in terms of disclosed deal value represents the sector's third-costliest transaction ever: 18 times trailing 12-month EBITDA, with the cash portion representing a 20% premium to Nuveen's share price before announcement. During the same month, **Marsico Capital Management** announced it would buy itself back from **Bank of America** for \$2.7 billion—most of which comprised debt backed by **Goldman Sachs** and some of its institutional clients.

Exhibit 9: Largest Financial Sponsor Investments in Asset Managers by Disclosed Deal Value, 2007

Date	Target	Country	Type	Acquirer	Country	DDV (\$MM)	% Acq
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)	US	\$5,750	100%
6/07	GLG Partners	UK	Div	Freedom Acquisition Holdings (SPAC)	US	\$3,571	100%
6/07	Blackstone Group	US	Div	China Investment Corp.	China	\$3,000	10%
6/07	Marsico Capital Management	US	Div	MBO (GS syndicated debt)	US	\$2,700	100%
3/07	Jupiter Asset Management	UK	MuFu	MBO (TA Associates)	US	\$1,456	100%
9/07	Carlyle Group	US	Div	Mubadala Development Co.	UAE	\$1,350	8%
10/07	Och-Ziff Capital Management Group	US	Div	Dubai International Capital	UAE	\$1,220	10%
6/07	Apollo Management Group	US	Div	CalPERS and Abu Dhabi Investment Authority	UAE	\$1,200	20%
5/07	Oaktree Capital Management	US	Div	Institutional investors via 144A	US	\$880	15%
8/07	Apollo Management Group	US	Div	Institutional investors via 144A	US	\$828	13%

Note: Data converted to US currency at time of announcement. See **Appendix** for largest financial sponsor investments in asset managers by AUM acquired. Source: Jefferies Putnam Lovell

Only days after the announcement of these blockbuster debt-heavy deals, two **Bear Stearns** hedge funds collapsed from subprime mortgage exposure, an event now regarded as the opening note of alarm among lenders. Yet data shows that financial sponsors and MBOs accounted for a roughly equal number of deals in the first and second halves of 2007. None of the later deals were as large as those in the first semester—and pricing, as discussed in the next section, may change as a result of costlier leverage. But private equity houses continue to actively seek asset managers as investments.

Dearer leverage has failed to discourage financial buyers

Going forward, there are few signs that financial sponsors will lose their ardor for fund managers, and more signals that generalist firms are crowding into the field. The gap between public-market and trade-sale multiples for fund managers remains in place, creating a healthy arbitrage that buyout firms can exploit through a public exit. Nuveen and Marsico remain exceptions: most financial sponsors rarely employ dramatic leverage when buying asset managers. Without debt to boost returns, more private equity firms seek to make up the difference through cash flow, which asset managers amply provide with their sizable profit margins. Most importantly, private equity coffers are filled with uninvested capital from institutional investors, and more is coming. Private Equity Intelligence estimates that as of September 2007, roughly 72% of institutional investors surveyed sought to increase their commitments to private equity, and consequently nearly 1,200 private equity funds remained in the fundraising market, seeking to gather more than \$600 billion in additional commitments.

In addition, the array of financial buyers is more varied than ever. Sovereign funds in Asia and the Middle East invested in at least five fund managers during 2007, mostly in private placements immediately preceding IPOs of alternative asset management firms. Replete with capital from petrodollars and foreign exchange reserves, the world's sovereign funds currently hold between \$2 trillion and \$3 trillion, and the pool likely will expand to \$10 trillion by 2012. The state-controlled vehicles favor asset managers for their potential financial returns and for access to professional portfolio management skills. Sovereign funds will remain significant and aggressive participants in fund management transactions for the foreseeable future.

Exhibit 10: Sovereign Fund Investments in Fund Managers, 2007

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	DDV (\$MM)	% Acq
10/07	Och-Ziff Capital Management	US	HF	Dubai International Corp.*	UAE	\$30,100	\$1,220	10%
9/07	Carlyle Group	US	PE	Mubadala Development Co.	UAE	\$76,000	\$1,350	8%
6/07	Apollo Management	US	PE	Abu Dhabi Investment Authority	UAE	\$15,868	NA	20%**
6/07	GLG Partners	UK	HF	Isthmar	UAE	\$20,000	NA	3%
6/07	Blackstone Group	US	PE	China Investment Corp.	China	\$88,000	\$3,000	10%

Notes: Data converted to US currency at time of announcement. Sovereign funds do not include government-managed pension systems. The Thai Government Pension Fund purchased Siam City Asset Management during 2007. *Dubai International technically is not a sovereign fund, but family assets belonging to Dubai's ruler. **CalPERS and ADIA invested \$1.2 billion for a 20% stake in Apollo. Source: Jefferies Putnam Lovell.

Special-purpose acquisition companies (SPACs), which have become more common in several sectors, have also targeted asset management. In June 2007 blank-check company **Freedom Acquisition Holding** spent \$3.5 billion in a reverse merger that took London hedge fund manager **GLG Partners** public on the New York Stock Exchange. That transaction was reportedly the largest SPAC combination executed to date in the United States. The trend is growing as **Tailwind Financial**, a SPAC which raised \$100 million in April 2007, announced its acquisition of alternatives multiaffiliate **Asset Alliance Corp.** in January 2008.

Big SPAC attack

SPACs targeting small asset managers are not new: **Titanium Acquisition**, a SPAC listed on the Alternative Investment Market in London in June 2007, quickly bought three small US fund managers, and **Highbury Financial**, a SPAC engineered by principals of investment bank **Berkshire Capital**, acquired the US mutual fund business of **ABN Amro Asset Management** in 2006. But the GLG reverse merger made SPACs credible alternatives for larger, more industrialized, asset management firms. As of January 2008, at least seven SPACs continue to shop for initial business combinations specifically with financial services companies, with asset managers high on their wish lists.

Exhibit 11: US Financial Services SPACs Issued, 2007

Date	SPAC	IPO proceeds (US\$MM)
11/07	Prospect Acquisition	\$250
10/07	Triplecrown Acquisition	552
10/07	Inter-Atlantic Financial	69
8/07	Alternative Asset Management Acquisition	414
4/07	Tailwind Financial	100
2/07	Union Street Acquisition	100
2/07	Dekania	100

Note: Grail Investment Corp. filed a SPAC with the SEC in January 2008, aiming to raise at least \$200 million with a specific focus on the asset management sector. Source: Jefferies & Company, Inc.

SPACs likely will continue prowling for asset managers in 2008, particularly if more of them come to market. Last year was a breakout year for blank-check companies, which represented 23% of IPOs in the United States and 18% of proceeds raised during flotation, according to Dealogic. January 2008 issuance has been even more feverish. A growing number of investors, particularly hedge funds, favor SPACs over private equity—where exits often take at least four years and limited partners have little say over portfolio investments in the meantime. Blank-check companies typically only have two years at most to acquire a target and are quickly liquid, an advantage in volatile markets. Like other financial sponsors, SPACs like the high margins asset managers produce.

Blank-check companies will not prove ideal solutions for all fund managers, particularly if their proliferation invites inexperienced dealmakers into the market, poisoning buy-side interest in such issues. Additionally, high-quality fund managers may prefer strategic or financial buyers that would not only offer similar prices but provide veteran management, product development opportunities and wider distribution. But in the current environment, SPACs stand out among the few available wellsprings of capital. Well-managed and properly capitalized SPACs do offer fund managers some advantages. A reverse merger into a blank-check company provides a target firm with public currency at a negotiated price, without the disclosures or time-consuming road show that IPOs require. GLG chose a SPAC because it allowed the hedge fund firm to custom-tailor the transaction, enjoy a degree of insulation from less successful IPOs of alternatives firms, realize a significant tax benefit, and avoid scrutiny. Two days after Freedom

Acquisition disclosed its deal, American regulators announced a settlement with GLG regarding accusations of illegal short-selling.

Asset managers of all sizes usually dislike the transparency an IPO requires, as it forces them to reveal compensation schemes and, in some cases, details of their business strategies. Consequently a number of alternatives managers in the United States elected to help pioneer fourth-market trading venues where institutional investors could trade unregistered shares, created under SEC Rule 144(a), with one another. Both issues offered through **Goldman Sachs'** pilot-project GSTRUE 144(a) exchange platform, launched in May, were alternative asset managers: **Oaktree Capital Management** and **Apollo Management**. Apollo also issued unregistered shares through a similar trial system at **J.P. Morgan** called 144(a) Plus. Both market-makers have since abandoned their proprietary systems in favor of a new industrywide unregistered equity exchange called Portal Alliance, overseen by **Nasdaq**.

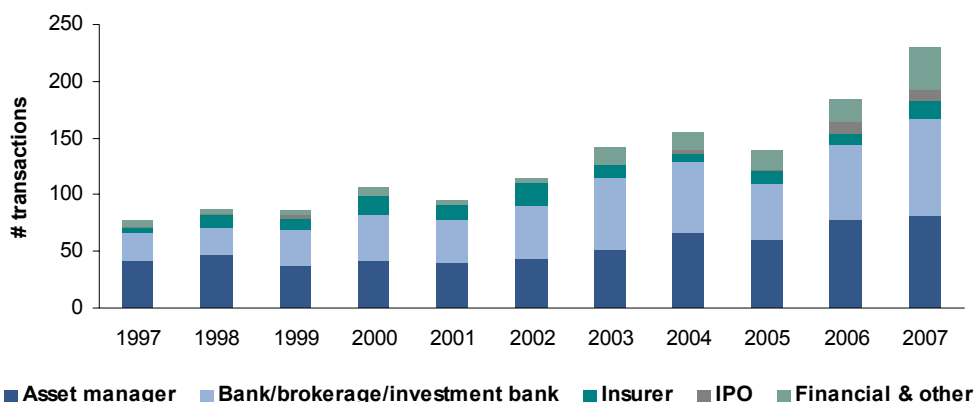
Private-placement sales will become more common

Portal Alliance is expected to open its doors in early 2008, and asset managers are likely to rank among the first issues on the new platform. The fourth market is as vibrant as the public markets: Dealogic says companies raised \$300 billion through Rule 144(a) equity during the first nine months of 2007, compared to \$215 billion through IPOs. Less disclosure is required, and reporting is less onerous. Institutional investors that purchase Rule 144(a) shares are often already clients of asset management firms, understand the industry's nuances and compensation pressures, and tend to be more patient than the public markets, which usually punish short-term investment underperformance with disproportionate venom—a phenomenon explored in a subsequent section. Consequently, expect a number of asset managers to dip their toes into Portal Alliance, selling shares potentially as pre-initial public offering placements.

A wider array of financial sponsors—including SPACs, sovereign funds and other qualified institutional buyers—will join private equity houses in seeking stakes of asset management operations during 2008. Their ability to create flexible and innovative transaction structures, and their willingness to accept minority positions, will appeal to fund managers increasingly looking for tailored deals that simultaneously meet different objectives. Sovereign funds, highly liquid, are particularly well placed to buy fund managers.

Nevertheless, deprived of cheap leverage and saddled with correcting equity markets, other financial sponsors may find it more difficult to compete for prized properties, particularly against strategic buyers, for whom acquiring new product skills and clients is critical for survival. Though smaller in size, the deals involving strategic buyers in 2007 represented 75% of the total number. Asset managers alone drove one-third of all deals announced last year.

Exhibit 12: Historical Transaction Activity Among Asset Management Targets by Acquirer



Note: Includes minority transactions, recapitalizations and IPOs. "Other" includes individuals, REITs and 144(a) placements. Source: Jefferies Putnam Lovell

Strategic catalysts driving deal flow are more secular and more powerful in the long term. All parts of the industry's value chain—manufacturing, assembly, distribution and financial advice—have been upturned not only by unprecedented market volatility but also by the most revolutionary changes the industry has faced in a quarter century. Demographic trends are shifting demand patterns, creating tension between accumulation and preservation objectives among both retail and institutional investors. Customers are willing to pay higher fees for absolute gains, not relative returns. Asset-gathering and investment opportunities are now global in nature. And alpha has become ever more elusive, encouraging fiercer competition. (A companion Jefferies Putnam Lovell report, *After the Belle Époque*, outlines this transition.)

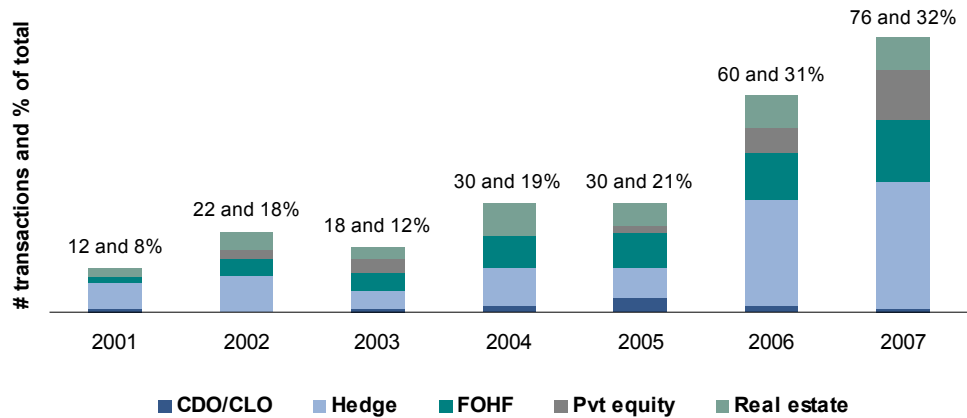
Strategic forces still drive the wider number of deals

Asset managers, particularly those reliant on revenues from long-only mutual funds, realize existing strategies are insufficient. Consequently, one of the most aggressive product development cycles in the industry's history will continue to fuel transaction activity, as firms seek talent and skill sets needed to satisfy their clients' changing demands. Acquiring, rather than building, such expertise involves significant integration risks, particularly surrounding personnel retention, but provides incumbent revenue, performance records and credibility. A growing part of this product-led acquisition agenda focuses on alternative investments.

Sellers: An Array of Alternative Managers

Alternative asset management firms remain the most popular targets in asset management transactions, accounting for a record 32% of transactions announced during 2007. Such shops comprised nearly half the disclosed and estimated value of last year's deals, despite only involving 26% of the acquired assets under management.

Exhibit 13: Historical Transaction Activity Involving Alternative Asset Management Firms



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

Avid interest in hedge funds, funds of hedge funds

As in previous years, hedge funds and funds of hedge funds were the most common alternative asset managers purchased. Such firms also accounted for many of the IPOs in 2007, discussed later in this report. Wall Street firms fueled a record number of trade sales involving hedge fund managers during 2007. Three US investment banks alone—**Merrill Lynch**, **Morgan Stanley**, and **Lehman Brothers**—accounted for one-fourth of hedge fund manager acquisitions, representing some 40% of assets acquired, during the 18 months ending June 2007. Once subprime exposure gutted their balance sheets, however, Wall Street firms mostly backed away from further purchases. Beleaguered **Merrill Lynch** flipped its minority stake in **GSO Capital Partners** to **Blackstone Group**—which purchased all of GSO for \$930 million in January 2008—after only seven months. The need to conserve capital amid weak market conditions may lead to more unwinding of minority transactions, raising questions about the strategic benefits these deals were supposed to provide both buyers and sellers.

Exhibit 14: US Investment Bank Purchases of Hedge Fund Managers, 2006–07

Acquirer	Date	Target	AUM (\$MM)	% Acq
Citigroup	4/07	Old Lane Partners	\$4,500	100%
Goldman Sachs ¹	10/07	Winton Capital Management	\$10,000	10%
Lehman Brothers	3/07	D.E. Shaw Group	\$29,000	20%
Lehman Brothers	1/07	Spinnaker Capital Group	\$5,000	20%
Lehman Brothers	11/06	BlueBay Asset Management	\$8,000	5%
Merrill Lynch	5/07	Sterling Stamos Capital Management	\$4,000	minority
Merrill Lynch	5/07	GSO Capital Partners ²	\$8,000	minority
Merrill Lynch	10/06	DiMaio Ahmad Capital LLC	\$3,000	minority
Morgan Stanley	11/07	Traxis Partners	\$1,500	20%
Morgan Stanley	3/07	Abax Capital	\$1,000	minority
Morgan Stanley	12/06	Brookville Capital Management	\$221	100%
Morgan Stanley	11/06	Lansdowne Partners	\$12,000	19%
Morgan Stanley	10/06	FrontPoint Partners	\$5,500	100%
Morgan Stanley	10/06	Avenue Capital Management	\$12,000	15%
Morgan Stanley	6/06	Oxhead Capital Management	\$100	100%

Notes: Data converted to US currency at time of announcement. (1) Stake reportedly acquired by a GS fund. (2) Sold to Blackstone in January 2008. Source: Jefferies Putnam Lovell

Weakness among Wall Street's biggest players creates an opportunity for strategic buyers, who have remained steadfast in their interest in hedge fund firms. During the second half of the year, multiboutique **Affiliated Managers Group** purchased undisclosed minority stakes in two alternative asset managers: hedge fund manager **ValueAct Capital** and credit specialist **Blue Mountain Capital Management**. Such deals used AMG's 2004 partial purchase of **AQR Capital Management** as a template and significantly reoriented the multiaffiliate's products and economics toward alternative investments. Global private client manager **EFG International** fully acquired **Marble Bar Asset Management**—quietly cashing out minority shareholder **Lehman Brothers** in the process—and **PRS International Consulting**, which offers alternative investments to its high-net-worth clientele. **Ameriprise Financial's Threadneedle Investments** successfully won control of **Convivo Capital Management** in London.

Volatile markets may raise further interest in hedge funds—if they can perform

Despite—and possibly due to—collapsing equity markets, trade sales of hedge fund firms should remain vibrant in 2008, particularly if public markets becomes a less attractive option for liquidity (as discussed in the subsequent section on IPOs). Cash-flush private equity houses remain ardent shoppers, perhaps more so now that investment banks have less capital to spend. More importantly, strategic buyers, recognizing that correcting equity markets further emphasize the need for absolute return and vehicles, will more proactively seek hedge fund managers that could help build such products. Spurred by a survival instinct, long-only firms will make convergence-motivated transactions more of a reality than a theory.

Prospective buyers who believe pricing will soften, however, may be sorely disappointed, as discussed in a subsequent section on multiples. Strategic buyers for hedge funds will prove far pickier than their financial counterparts. For their institutional and professional-buyer clientele, they will need solid performance statistics, some degree of industrial risk control to placate nervous plan sponsors, a product suite wide enough to support further innovation and—most important—capacity for transitioning assets from collapsing long-only mandates. Few hedge fund firms have such attributes, raising their scarcity value. A large mass of remaining hedge fund managers, bloated by overproliferation, will find it difficult to stand out and attract assets in less forgiving markets.

Though mostly absent in deals involving single-managed hedge fund deals, convergence did drive significant transaction activity among funds of hedge funds. Sellers sought distribution from larger financial services firms, which in turn hoped to attract more corporate clients by placing FOHFs at core of their alternative investment arrays. FOHFs, which ostensibly reduce volatility by investing through multiple hedge funds, remain the more prevalent vehicles for institutional hedge fund exposure, both among risk-conscious pensions and more aggressive endowment and family offices. **BlackRock** will spend up to \$1.7 billion to place **Quellos Group** at the centerpiece of its alternatives menu, emulating a similar strategy employed by **Legg Mason**, which has helped direct greater dollops of institutional money to **Permal Group**, the FOHF firm it acquired in 2005. London hedge fund firm **Key Asset Management** likely will play a similar role within the product lineup of Swedish bank **SEB**.

Consolidation continues to reshape FOHF marketplace

The largest FOHFs, many of which are now linked to larger distributors, continue to enjoy strong organic growth. The largest and most sophisticated institutional investors are shifting to multistrategy funds and building hedge fund portfolios themselves. But many pension plans, painfully aware of their fiduciary obligations, would rather rely on better-informed FOHFs to select managers. Family offices and endowments also continue to raise exposure to FOHFs, which they view as diversification instruments. Nevertheless, consolidation pressure will motivate many smaller FOHFs to consider a merger. As with all assembled products, FOHFs have slimmer margins than their single-managed cousins, and therefore require greater scale to thrive. With only \$400 million under management, South African FOHF specialist **Blue Ink Investments** saw few reasons to avoid a bid from **Sanlam's Octane Holdings** alternatives unit. Private equity houses appeared to position themselves for future transactions: **TA Associates** bought a significant minority in **K2 Advisors**, while **Hellman & Friedman** purchased a stake in **Grosvenor Capital Management**, one of the largest remaining independent FOHFs.

A dozen private equity houses sold either partial or full ownership stakes—twice as many as did so last year, breaking a record. Large buyout firms drove much of the activity, approaching either public bourses or institutional investors through private placements. They sought permanent capital for the general partnership as well as currency to buy other asset managers that could diversify revenues; clearly, liquidity concerns also played a pivotal role in decisionmaking. **Carlyle Group** sold an 8% stake to **Mubadala Development Corp.**, a sovereign fund controlled by the United Arab Emirates, in what appears to be a pre-IPO transaction. **Kohlberg Kravis Roberts** filed a registration statement, but the credit drought has delayed, if not cancelled, its market debut.

Exhibit 15: Largest Private Equity Fund Manager Transactions by Acquired AUM, 2007

Date	Target	Country	Acquirer	Country	AUM (\$MM)	% Acq
6/07	Blackstone Group ¹	US	China Investment Corp.	China	\$88,000	10%
9/07	Carlyle Group	US	Mubadala Development Corp.	UAE	\$76,000	8%
6/07	Apollo Management ²	US	CalPERS and Abu Dhabi Invnt Authority	UAE/US	\$15,868	20%
5/07	Ares Management ³	US	Institutional investors via 144A placement	US	\$13,000	20%
8/07	Standard Life Investments PE	UK	MBO	UK	\$6,852	40%
1/07	Aldus Equity	US	Deutsche Bank	Germany	\$3,000	minority
12/07	Metalmark Capital	US	Citigroup	US	\$1,200	100%
6/07	Cyrte Investments	Netherlands	Aviva	UK	\$670	100%
8/07	Esprit Capital Partners	UK	Draper Fisher Jurvetson	US	\$560	100%
10/07	Penta Capital	UK	Old Oak Holdings	UK	\$414	40%

Notes: Data converted to US currency at time of announcement. Oaktree Capital Management is characterized as a hedge fund manager. (1) Subsequently sold 12% to the public in an IPO. (2) Subsequently sold 13% to institutional investors via a 144(a) placement. (3) Reportedly enlisted several non-US institutional investors in the placement.

Source: Jefferies Putnam Lovell

But not all deals with private equity targets involved giant buyout firms and capital-markets offerings. Strategic buyers snapped up smaller buyout private equity shops: **Citigroup** acquired **Metalmark Capital**, and **Deutsche Bank** purchased a minority stake in **Aldus Equity**. **Old Oak**, the parent company of the Toscafund hedge fund, diversified its product line through the acquisition of private equity firm **Penta Capital**. And executives at in-house buyout funds successfully rebelled against their parent companies, with the largest such deal involving **Standard Life's** agreement to sell 40% of its private equity arm to management.

Record number of private client firms sold during 2007

Alternatives may have been one of the sexier themes driving transaction flow during 2007, but several other types of sellers came to market as well. Among them were a record number of private client firms and wealth managers, almost all of them sold to strategic, and often consolidating, acquirers. Many of the targets were high-end financial advisory practices in America, but the most prominent involved offshore banks, mostly in Switzerland. **Rabobank** bought another 18% of Geneva's **Bank Sarasin**, while **Crédit Agricole** acquired the Swiss firm's Luxembourg-based subsidiary. Italian insurer **Generali** agreed to buy **Banca del Gottardo** for \$1.6 billion, ending the **Swiss Life** subsidiary's long search for a suitor. Activity also extended beyond the Alps: **American Express** sold its international private banking unit to **Standard Chartered** for \$1.1 billion.

Exhibit 16: Largest Private-Client Transactions by Acquired AUM, 2007

Date	Target	Country	Acquirer	Country	AUM (\$MM)	% Acq
1/07	Bank Sarasin	Switzerland	Rabobank Groep ¹	Netherlands	\$52,500	18%
11/07	Banca del Gottardo	Switzerland	Assicurazione Generali	Italy	\$31,336	100%
6/07	Oppenheim Pramerica	Germany	Sal. Oppenheim jr. & Cie. ²	Germany	\$21,538	50%
9/07	American Express Bank	US	Standard Chartered	UK	\$20,000	100%
5/07	Walbrook Group	UK	Barclays	UK	\$16,987	100%
5/07	Silvercrest Asset Management	US	Vulcan	US	\$8,000	minority
3/07	Lydian Wealth Management	US	City National Corporation	US	\$7,300	100%
2/07	Rockwater Capital	Canada	CI Investments	Canada	\$4,097	100%
6/07	Capital & Finance Asset Management	Belgium	Bank Delen (Finaxis)	Belgium	\$3,655	90%
12/07	A&G Asset Management	Spain	EFG International	Switzerland	\$3,609	72%

Notes: Data converted to US currency at time of announcement. (1) Rabobank already owned 28% of Sarasin. (2) Oppenheim bought remainder of JV from departing partner Prudential. Source: Jefferies Putnam Lovell

The offshore private banking segment, particularly in Switzerland, will continue to consolidate throughout 2008, representing one of the few areas in asset management where cost rationalization spurs transactions. Swiss private banks, particularly those that are owned and managed by employees, face mounting challenges. Demands for more sophisticated products, technology and compliance are compressing profit margins. Tax amnesties and anti-terror initiatives continue to erode bank secrecy, traditionally one of Switzerland's competitive advantages but now something that Singapore offers to a greater degree. Selling Swiss banks will continue to fuel pan-European private banking consolidators such as **EFG International**, which acquired a flotilla of private-client managers during 2007, the largest of which was Spain's **A&G Asset Management**.

Quant techniques still attractive, despite recent performance

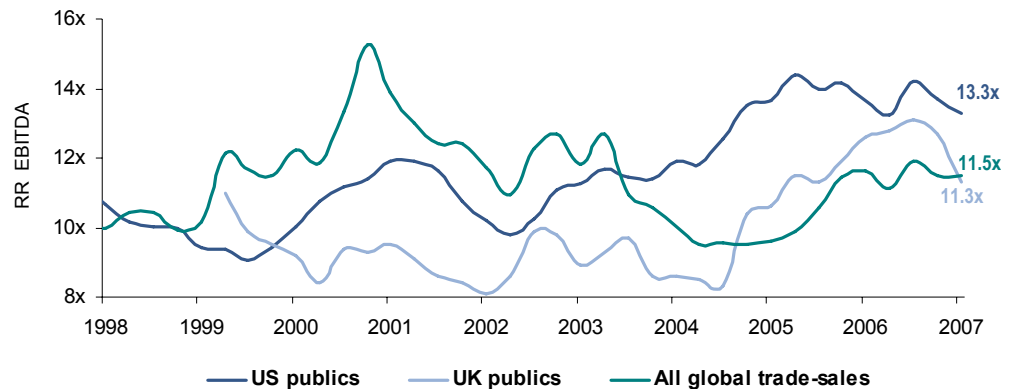
Quantitative techniques also remained in favor, despite the fact that market volatility torpedoed several black-box portfolios in the second half of 2007. Many believe that heavy losses in quant portfolios derailed a potential IPO at **AQR Capital Management**, minority controlled by multiaffiliate **Affiliated Managers Group**. While they have become more discerning about quantitative strategies, and consequently have raised due diligence standards, strategic acquirers remain eager buyers, seeking building blocks of scalable long/short products to satisfy institutional demand. **Nuveen Investments** bought **Hyde Park Investment Strategies** shortly before its MBO. **Morgan Stanley** acquired **Affinity Investment Advisors**, and the **Natixis Global Asset Management** multiaffiliate bought **AlphaSimplex Group**.

With the notable exception of **Putnam Investments** and **Nuveen Investments**, American mutual fund businesses were mostly absent from the 2007 deal flow. Consolidation explained almost all the remaining handful of transactions, mostly fund adoptions and absorptions, involving only American long-only funds. The others involved either MBOs or specialist purchases, such as **Sentinel Asset Management's** acquisition of **Citizens Advisers**, one of the largest US socially-responsible fund groups. Buyers clearly prefer asset managers that can service institutional, professional-buyer and high-net-worth segments, not just retail fund distribution outlets. US fund complexes without such client bases increasingly will only attract attention from the industry's few consolidators—themselves often vulnerable fund complexes, looking to scale as a solution—or foreign buyers seeking a sizable US foothold.

Trade-Sale Pricing: Bargain-Hunters Beware

Rolling four-quarter median prices for trade sales worldwide fell slightly during the second half of 2007, but remained above 11 times EBITDA, as they have since mid-year 2006. The range of multiples recorded, however, kept expanding in both directions, impeding efforts to generalize any commentary about valuations of fund managers. The wider spectrum of buyers and sellers with increasingly multifaceted objectives has led to more complicated financial engineering, and consequently greater variety in transaction structures.

Exhibit 17: Pricing as Multiples of Run-Rate EBITDA: Trade-Sale Versus Public Markets



Notes: Private-market multiples reflect four-quarter rolling medians and include all trade sales worldwide. Public-market multiples reflect four-quarter rolling median multiples of most recently reported run-rate EBITDA. US cohort excludes BX, EPHC, FIG, GLG, GROW, OZM, WPL. UK cohort excludes ACMH, IPX. Source: Jefferies Putnam Lovell

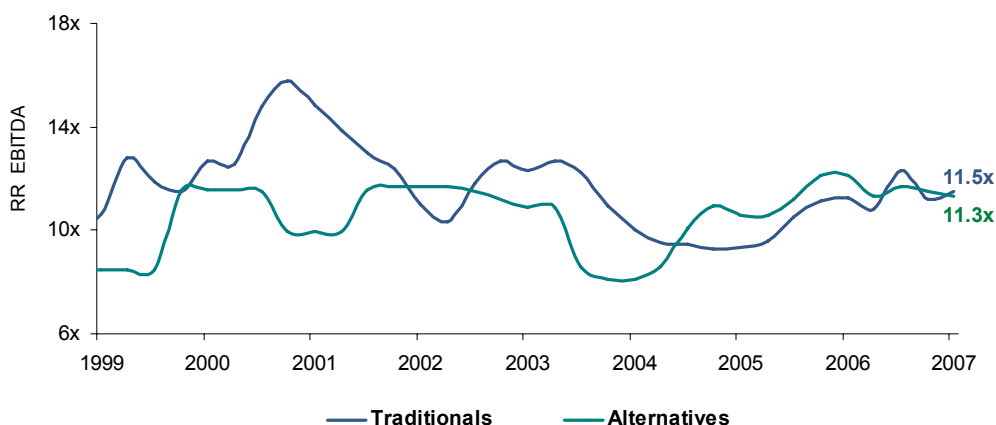
Without leverage, sponsors may struggle to bid against strategics

Overall median trade-sale prices for the record number of majority transactions during 2007 do not differ dramatically from aggregate metrics. This traditionally has not been the case for the past five years, during which buyers paid a median premium of roughly 20% for control. Historically, MBOs accounted for a large number of minority transactions, where both parties had an interest in cutting a price low enough to facilitate the buyout and permit adequate equity recycling. Even during 2007, private equity firms backing MBOs still usually paid 8 times EBITDA or less, even for majority or full ownership, with **Madison Dearborn Partners'** purchase of **Nuveen Investments** a dramatic exception. But as cash-rich sovereign funds, coveting fast-growing alternative asset managers, entered the arena, they bid high enough to trump strategic investors, inflating median prices paid by financial sponsors.

Multiples for alternative asset firms remain mostly stable

Pricing for alternative asset managers softened slightly during 2007, but this reflects the higher incentive fees that most firms began to report. Multiples applied to management fees remained strong and steady. Buyers continue to discount performance-based earnings materially, and current market conditions will reinforce the practice. Investor demand for non-correlated investments continues to fuel the growth of hedge funds and private equity vehicles. A more volatile equity market means the bulk of new money will seek managers with existing products and proven track records, rather than a glut of start-ups and copycat firms that cannot differentiate themselves. Many analysts believe assets in alternative investment products will swell as much as 20% compounded yearly in the near term, compared to the traditional 7% to 8% long-term annual growth rates attributable to long-only portfolios.

Exhibit 18: Trade-Sale Pricing as Multiples of Run-Rate EBITDA: Traditional Versus Alternative Firms



Notes: Multiples reflect four-quarter rolling medians and include all trade sales worldwide, majority and minority. Alternatives include hedge funds, FOHFs, private equity, real estate, and CDO/CLO firms.
Source: Jefferies Putnam Lovell

Managers offering hedge funds still sell for a wide range of prices, reflecting each seller's different mix of stable management fees and volatile incentive-based income, as well as each buyer's different tolerance for the resulting variability in earnings. Pricing for funds of hedge funds has been more robust, given the emphasis on asset-based assembly fees and strong institutional demand for such products.

Sellers may vote to wait out volatile markets

Clearly the global equity market correction will directly impact absolute prices in trade sales of fund managers, as revenue and EBITDA are highly reliant on the level of assets under management. In addition, performance fees will dry up, and will not recover in lockstep with market rallies, at least until managers recapture their high-water marks. But brutal bourses have led to speculation that trade sale multiples may drop, favoring opportunistic buyers. That may not be the case:

- Core multiples will soften slightly further, but only because fewer deals will involve highly attractive sellers. Strategy may motivate buyers, but targets—particularly employee-owned shops with younger founders—may have enough resources to wait out the storm until restoring former profit levels. Quality firms will step to the sidelines. Deal flow will center on less attractive firms that seek to raise capital or secure distribution. Without negotiating leverage, these deals will occur at lower multiples.

- The projected future asset growth rates that drive higher multiples for alternative asset managers will actually rise more in volatile markets, helping convince a wider proportion of retail and institutional investors to diversify their long-only portfolios. The most recent boom in alternatives usage stems from the last bear market in 2001, when a few key hedge funds preserved and enhanced capital amid the downturn, providing the entire asset class with a halo.
- Sovereign funds, the most liquid capital sources on the planet, remain fascinated with financials, especially asset management. They can easily outbid opportunistic buyers trading with less liquid currency. Private equity houses may now lack leverage, but those successful at fundraising will be cash-flush, providing them a similar advantage as buyers. Still, unlike sovereign funds, buyout firms have investors that demand hefty returns, and will be less likely to pay top dollar, particularly in a gloomy economic environment.
- Finally, and perhaps more importantly, trade-sale buyers may still need to compete with the multiples that public markets offer, although at year-end the prices of Britain's quoted fund managers fell to trade-sale levels, spurring speculation about increased take-private activity. Since year-end 2005 public markets have applied ever-richer multiples to quoted fund managers, creating a healthy arbitrage with trade sales that buyout firms sought to exploit. The hefty valuations also encouraged the recent flotilla of flotations, with 21 asset managers worldwide issuing IPOs since January 2006.

Plummeting prices for asset managers in January 2008, plus the poor performance to date of the 2007 fund management IPOs, has chilled expectations regarding more IPOs of fund managers in the immediate term: while both buyout firm **Kohlberg Kravis Roberts** and US growth equity specialist **Turner Investments** have filed offering documents with the SEC, neither has yet signaled a desire to come to market. The long-term picture for publicly traded fund managers, however, may not be so bleak. In February 2008, **Julius Baer** announced plans to spin off its US asset management subsidiary in an IPO.

Public Markets: IPOs in a Broadening Quoted Sector

The rash of asset management IPOs initially appears counterintuitive. All but one of the 11 fund houses that floated during 2007 traded below their initial offer price by year-end. Some lost value on their first day of trading, and many plunged under water before the end of their first month in the public markets. **Value Partners**, the first asset manager to float in Asia outside Japan, was the sole fund manager to eke out a positive return in 2007.

Record number of IPOs in 2007, but many suffered after launch

Exhibit 19: Asset Management IPOs and their Performance in 2007

Date	Target	Country	AUM (\$MM)	Proceeds (\$MM)	% float	% return at Dec 2007
12/07	BT Investment Management	Australia	\$36,556	\$270	40%	-8.1%
11/07	K2 Asset Management	Australia	\$589	\$210	100%	-14.0%
11/07	Record Currency Management*	UK	\$54,700	\$183	25%	-8.6%
11/07	Value Partners	HK	\$5,700	\$374	24%	3.0%
11/07	Och-Ziff Capital Management	Switzerland	\$30,100	\$1,174	9%	-14.3%
11/07	Gottex Fund Management Holdings	US	\$36,556	\$535	28%	-4.2%
10/07	Pzena Investment Management	US	\$36,556	\$110	10%	-36.7%
6/07	Blackstone Group	US	\$88,000	\$4,130	12%	-24.3%
5/07	Platinum Asset Management	Australia	\$18,033	\$573	25%	-11.8%
2/07	Fortress Investment Group	US	\$29,900	\$634	9%	-15.7%
2/07	Polar Capital	UK	\$3,300	\$37	15%	-1.5%

Notes: Data converted to US currency at time of announcement. *AUM reflects overlay assets.
Source: Jefferies Putnam Lovell

Short-term performance aside, the most recent IPOs mark the beginning of a new era of capital raising for fund management houses. In 2006 and 2007, 21 asset managers went public—more than floated in the previous 10 years. The 2007 vintage IPOs raised a record \$8 billion of proceeds. Six of the offerings rank among the industry’s largest ever, led by **Blackstone Group**, which raised more than \$4 billion.

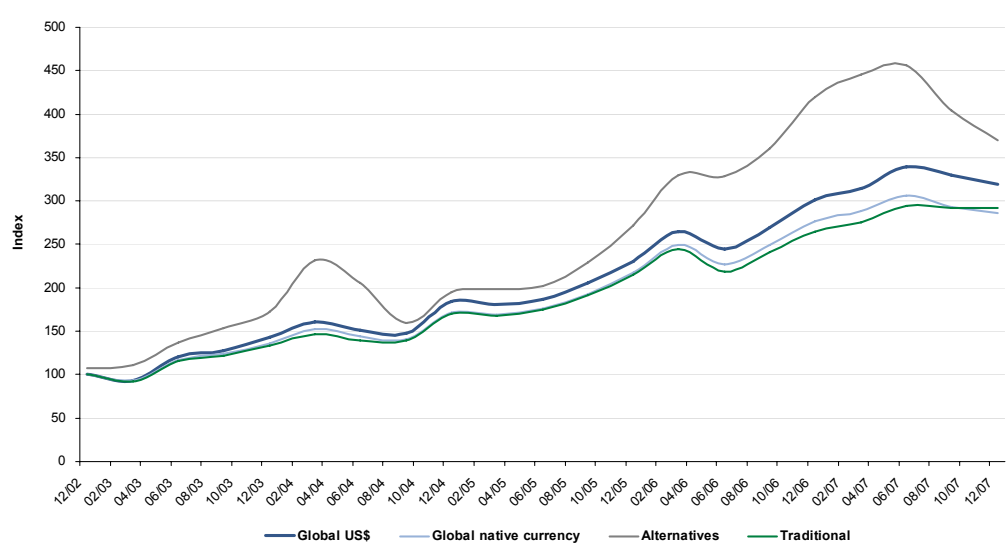
Exhibit 20: All-Time Largest IPOs in Asset Management

Date	Target	Country	Type	Type	DDV (\$MM)	% Float
6/07	Blackstone Group	US	Div	Alternatives (PE)	\$4,130	12%
11/07	Och-Ziff Capital Management Group	US	Div	Alternatives (HF)	\$1,147	9%
2/07	Fortress Investment Group	US	Div	Alternatives (HF)	\$634	9%
5/07	Platinum Asset Management	Australia	Div	Long/short global	\$573	25%
10/06	Ashmore Group	UK	Div	Alternatives (HF)	\$560	25%
11/07	Gottex Fund Management Holdings	Switzerland	Div	Alternatives (FoHF)	\$535	28%
3/98	Waddell & Reed Financial	US	MuFu	Long-only MF	\$499	34%
7/04	Azimut Holding SpA	Italy	MuFu	Long-only diversified	\$467	65%
3/06	Partners Group	Switzerland	Div	Alternatives (HF)	\$385	30%
11/07	Value Partners	HK	Div	Alternatives (HF)	\$374	24%

Notes: Data converted to US currency at time of announcement. **Bold** reflects new for 2007. *AUM reflects overlay assets. Source: Jefferies Putnam Lovell

For the short-term, public market conditions for fund managers worldwide have darkened. Until recently, the Jefferies Putnam Lovell Global Asset Management Index surged, tripling in dollar-denominated terms between year-end 2002 and its recent apex in June 2007. Seven years on, quoted fund managers were twice as valuable as they were at their last zenith, in June 2000, shortly after the technology-stock bubble popped. But the index, a market capitalization-weighted benchmark which currently comprises 71 asset managers traded on exchanges in 10 countries, slumped nearly 7% in local currency terms during the second half of 2007 and plunged 11% during January 2008 alone.

Exhibit 21: Jefferies Putnam Lovell Global Asset Management Index Performance, 2002–07



Notes: 100 = year-end 2002. Index is weighted by fully diluted market capitalization. Source: Jefferies Putnam Lovell

Correction masks long-term factors encouraging asset management IPOs

As this report went to press, it remained difficult to gauge the true change in public pricing sentiment, as most companies had yet to report fourth-quarter earnings. But there were several indications that public multiples were falling from their recent record highs, as markets began to discount expectations for future asset growth, the principal value driver in fund management stocks. Prices started to particularly soften in the UK, where fund firms often face higher fixed costs, incur more debt, and consequently prove more sensitive to changing market conditions.

These short-term dips, however, mask more powerful, longer-term trend: the public markets have become viable sources of financing and liquidity for privately held fund managers worldwide, and now represent strong competition to strategic and financial buyers alike. The yawning depreciation of the newest quoted investment firms, many of which watched their shares sink within days of their IPO, seems to say otherwise. Many of last year's IPOs, however, shared characteristics that disappointed potential shareholders, particularly institutional investors that typically would rank among the most enthusiastic buyers:

- Limited voting rights discouraged many investors from taking sizable stakes in the newest traded fund managers. Most of the 2007 flotations involved parsimonious stakes: the asset-weighted average for the 11 IPOs was 13%. Additionally, voting rights in the newly quoted firms are either absent or severely limited, leaving power in the hands of founders through separate share classes or supervoting stock. Such provisions are common among quoted fund managers, who are reluctant to let fickle public markets interfere with the long-term nature of their investment processes, or tamper with their lucrative compensation packages. In an age of active corporate governance, however, investors seek the power to voice dissent and reshape policy.
- Public markets frown on key-person risk, regardless of an organization's long-term track record. Both **Platinum Asset Management** and **Pzena Investment Management** have investment techniques dependent on their founders. When their performance faltered in 2007, investors grew skeptical that either Platinum or Pzena was worth more than the current mojo of their majordomos. Key-product risk also displeased prospective buyers: **Och-Ziff Capital Management** admitted that nearly two-thirds of its assets resided in one large fund. If its returns wobble, so will investor confidence.
- Opaque financial statements win few fans in queasy markets. Several of the alternative investment firms that went public in 2007 intertwined their fund's dividends and carried interest with the profits generated by the management company—understandably, given that the former directly impacts the latter, particularly in the case of hedge funds and private equity. Varying accounting methods, however, led different observers to different conclusions. Each alternative manager provided different earnings guidance, if any was available at all. Dazed and confused regarding the quoted alternative managers' true value compared to others, many investors simply sold when markets began to weaken. **GLG Partners** may have received a better initial reception because investors could see the trade-sale price its SPAC parent initially paid—setting a benchmark against which to judge future performance. Other alternative asset managers hoped sovereign funds would perform a similar function.
- Institutional investors historically purchase quoted fund managers for their annuity-like earnings, derived from asset-based management fees. While these rise and fall with equity prices, they are regularly levied on portfolios and never fully disappear. Performance-based fees, however, are more volatile. If performance sinks, not only do incentive fees evaporate, but they take longer to return in recovering markets as managers need to regain high-water marks. Carried interest, only realized upon exiting an investment, is even lumpier and more uncertain. Institutional investors worry about the quoted asset managers that rely heavily on performance-based fees for earnings.

Exhibit 22: Performance-Fee Ratios For Selected Alternative Asset Managers, 2007

Company	Time frame	Management fees	Incentive fees
FIG	YTD Sep-07	50%	50%
FIG	3Q 2007	54%	46%
BX	YTD Sep-07	47%	53%
BX	3Q 2007	69%	31%
GLG	3Q 2007	37%	63%
GLG	CY 2006	32%	68%
OZM*	CY 2006	32%	68%

Note: *OZM realizes most incentive fees in the fourth quarter. Sources: Company reports, Jefferies Putnam Lovell

Investors want broadly diversified long/short firms

- Investors in listed fund managers continue to seek a broadly diversified product line and client mix. They favor global asset managers with a wide range of long-only and long/short capabilities—not simply buyout firms or hedge fund managers or property investors. Alternatives firms are realizing this and working to diversify their business lines. Investors cheered when **Blackstone Group** announced its plans to acquire hedge fund manager **GSO Capital Management**. And **Blackrock**, which spent much of 2007 enhancing its alternatives array, was one of the year's fastest-appreciating asset management stocks, surging past **Franklin Resources** to become the world's largest publicly traded fund manager in January 2008.

Public market investors like the growth story that alternative asset managers present, but they also want to see characteristics more akin to the broadly diversified fund managers they trust. While the IPOs fared poorly, some of the established asset managers—particularly those whose earnings are dependent on stable management fees—watched their share prices soar in 2007. Hope for further transformational mergers such as **Blackrock's** purchase of **Merrill Lynch Investment Managers**, as well as the richly priced **Nuveen Investments** LBO, clearly added doses of take-private merger-arbitrage fizz to the sector. Nonetheless, with the notable exception of **Legg Mason**—a busted integration story the markets appeared unwilling to believe in the short term—many diversified asset managers, particularly those in America, appreciated handsomely.

Exhibit 23: Stock Performance of the Largest Quoted Fund Managers Worldwide, 2007

Company	Country	Fully-diluted market cap US\$	% change 2007, native currency
GAMCO Investors	US	1,943	79%
BlackRock	US	25,327	42%
T. Rowe Price	US	16,076	39%
Janus Capital	US	5,600	31%
Waddell & Reed	US	3,011	31%
Invesco	US	13,128	30%
Eaton Vance	US	5,366	29%
Federated Investors	US	4,187	18%
Schroders	UK	7,377	15%
Affiliated Managers Group	US	3,513	11%
Calamos Investments	US	2,928	9%
Large-cap quoted fund managers*			9%
AGF Management	Canada	2,653	6%
CI Financial	Canada	8,081	6%
Ashmore Group	UK	3,781	4%
Partners Group	Switzerland	3,573	3%
Investors Group	Canada	13,339	2%
Franklin Resources	US	28,037	0%
Man Group	UK	19,344	-1%
AllianceBernstein	US	6,526	-4%
Foreign & Colonial Asset Management	UK	1,879	-7%
BlueBay Asset Management	UK	1,351	-9%
Aberdeen Asset Management	UK	2,139	-9%
Azimut	Italy	1,877	-12%
Rathbones	UK	889	-12%
Perpetual	Australia	2,410	-14%
RAB Capital	UK	912	-14%
Legg Mason	US	9,822	-23%
Cohen & Steers	US	1,193	-23%
Hendersons	UK	1,801	-27%
Sparx Asset Management	Japan	955	-40%
New Star Asset Management	UK	824	-67%

Notes: Includes all Jefferies Putnam Lovell Global Asset Management Index components exceeding \$1 billion in fully diluted market capitalization at year-end 2006. DundeeWealth excluded due to recapitalization triggered by Bank of Nova Scotia investment. *Dollar-denominated asset-weighted average. Sources: Bloomberg, Jefferies Putnam Lovell

Clearly the punishing January 2008 sell-off has dimmed enthusiasm for asset manager IPOs, at least for the short term. And fund managers traditionally distrust bourses, where many firms believe pricing is more emotional, control is too fractured, reporting is too onerous and disclosure is too revealing. Additionally, most of the industry's houses are specialist boutiques that remain too small and focused to attract the attention of broader markets. But when markets recover, more fund managers than ever before will revisit IPOs for several reasons:

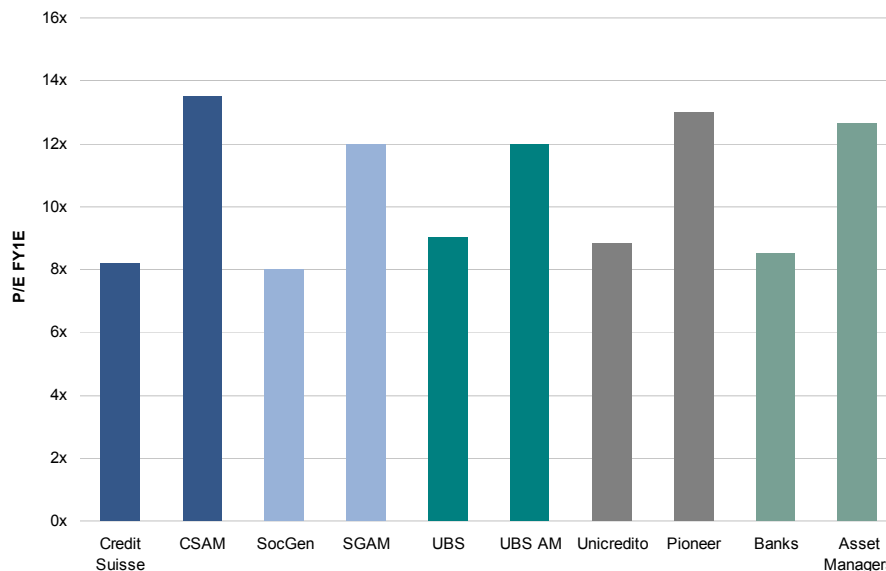
- Increasingly, markets worldwide regard asset management as a stand-alone sector, separate from other financials. The subprime debacle hammered this home: as a group, and particularly in the United States, quoted asset managers rose in value while banks and brokerages crumpled. The trend is also longer-term in nature, however. Ten years ago, vertically

More asset managers will overcome their fear of flotation

integrating fund managers with other financial services companies was the dominant strategy. A smaller group of more disparate companies with varying histories—US mutual fund firms, UK private-client brokers, even railroads—comprised the quoted asset management sector. Some of these firms went public almost accidentally, rather than strategically. More recently, growing evidence (discussed in a companion Jefferies Putnam Lovell report, *After the Belle Époque*) indicates that in many cases, fund managers perform better as pure-play enterprises. Consequently, investors will look for more stand-alone fund managers to buy, particularly if they are industrial-grade, diversified, multi-asset and multi-client businesses.

- Even as markets began to falter in late 2007, markets continued to apply higher multiples to asset management cash flows than those derived from other financial businesses, favoring the higher growth potential and (for now) less volatile fees of fund management operations. This is likely to motivate public spinoffs of asset management subsidiaries. Australia's **Westpac Group** spun out its fund management arm, **BT Investment Management**, in December 2007. The financial objective of the IPO was clear: to decouple BT's potentially higher embedded value from Westpac's more mundane multiple. But the spinoff also created a currency directly related to asset management earnings—a critical tool for talent retention and recruitment. Sum-of-the-parts analyses of European investment banks reveal similar value gaps, and many may consider similar spinoffs, especially if they need to conserve or find cash to repair their balance sheets.

Exhibit 24: Estimated Multiples for Captive Asset Managers in Europe, 2007



Sources: Jefferies Putnam Lovell analysis of broker research

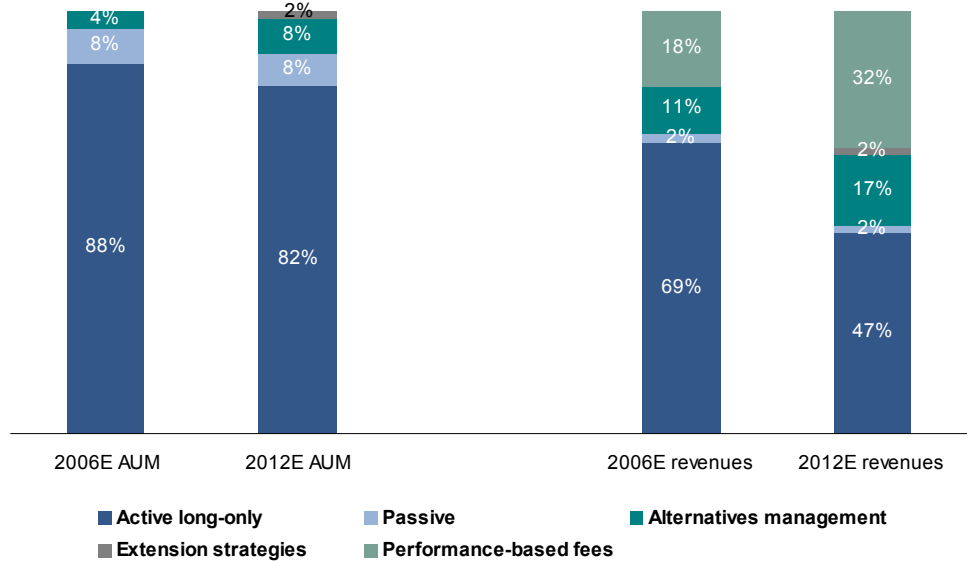
- Financial sponsors, now holding stakes in several large fund managers, have a vested interest in a healthy stand-alone quoted asset manager sector. It represents the most attractive, if not the only feasible, exit for many of their investments.

As private equity firms and financial conglomerates float their fund managers to unlock their full value, in theory they should create a virtuous cycle that adds more attractive firms to the quoted sector, increasing its value and credibility, and encouraging further IPOs. Additionally, a growing number of fund managers will conclude that partial or full flotation provides them necessary liquidity and an effective currency without compromising their operational autonomy.

Rising performance-based fees could erode earnings quality

Reality, of course, has a nasty habit of complicating theory. As mentioned earlier, investors have bought asset management stocks for their earnings growth, but also for their earnings stability. Yet the strong demand for alternative investments has resulted in the increased use of less stable performance-based fees, which by 2012 will account for nearly one-third of the industry's revenue. Investors increasingly will favor the asset managers that are successful in hedging this increased volatility by diversifying their businesses and maintaining their growth.

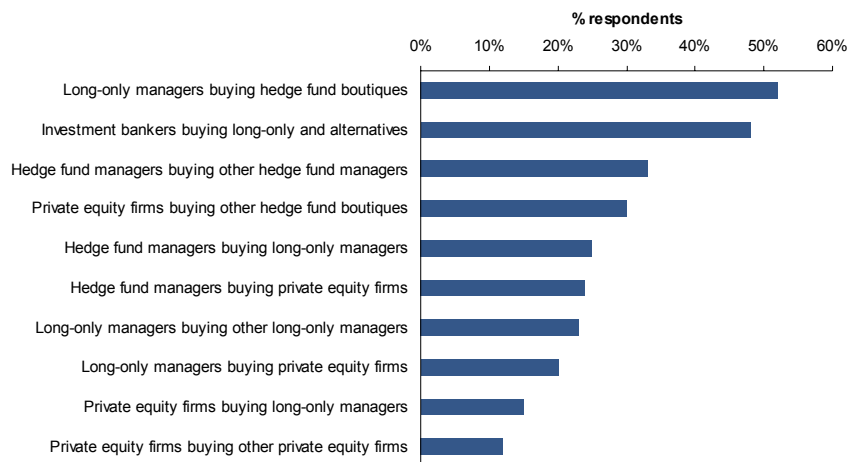
Exhibit 25: Global Asset Management AUM and Revenues by Source



Sources: *Pensions & Investments*, Hedge Fund Research, Jefferies Putnam Lovell

Convergence of the traditional and alternative asset management sectors—blending asset-based and performance-related revenue—becomes essential. In the long run, the most successful publicly traded fund managers will be those that convince investors they can deliver both growth and stability. These are the investment firms that public markets will welcome with open arms and thick multiples. Such themes will dominate asset management M&A discussions worldwide during 2008.

Exhibit 26: Opinions on Convergence Demand and Impact on Asset Management M&A, 2007



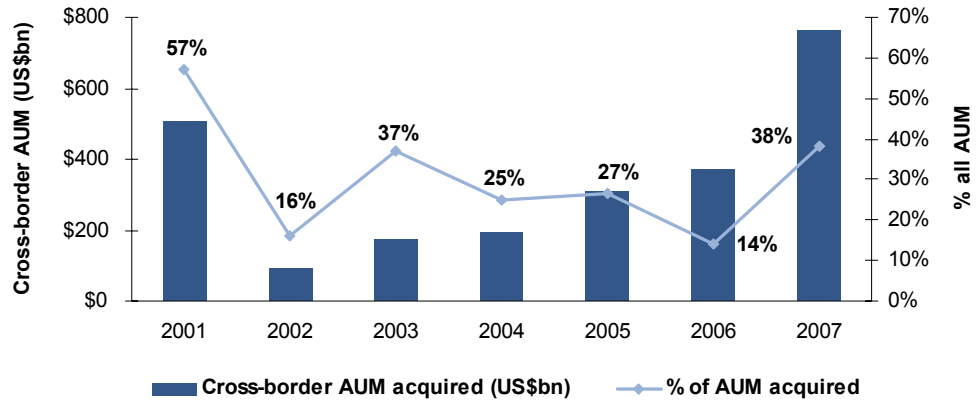
Source: KPMG, Create Research

Cross-border expansion continues to drive transactions

Globalization: Europe's Expansion and Asia's Advance

Cross-border expansion, in search of both skills and clients, remains one of the most important long-term catalysts in transaction activity among fund managers. More than 39% of all trade sales announced during 2007 were international, an unprecedented proportion. Targets of cross-border deals represented more than 38% of assets acquired in 2007, the highest level posted since 2001, when **Deutsche Bank's** acquisition of **Zurich Scudder Investments** accounted for an unusually high level of total acquired assets.

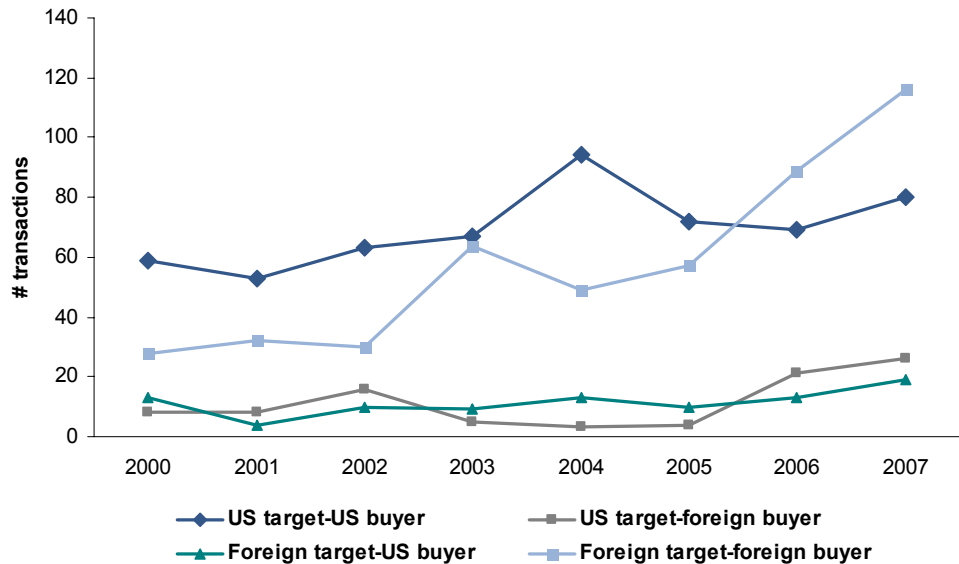
Exhibit 27: Cross-Border Transactions in Asset Management



Source: Jefferies Putnam Lovell

American firms represented a minority of buyers and sellers, similar to 2006. In fact, nearly half of the transactions announced during 2007 did not involve US firms at all—a similar proportion to 2006 but much higher than previous years. Deals only involving US firms accounted for about a third of the transactions recorded during 2007, compared to half of the transactions announced during 2005.

Exhibit 28: Cross-Border Transactions in Asset Management: US Versus Ex-US



Source: Jefferies Putnam Lovell

European firms wielding more influence over industry M&A

European firms, both as buyers and sellers, remain a sizable and important component of transaction activity. A more detailed geographic analysis of buyers and sellers reveals that nearly one-fourth of all asset management transactions announced during 2007 occurred within Europe, a similar proportion to that recorded in 2006.

Exhibit 29: Cross-Border Transactions in Asset Management by Buyer and Seller Provenance

2007	Buyers				
Sellers	US	Europe	Asia	ROW	Sum
US	33%	5%	3%	3%	44%
Europe	4%	24%	1%	0%	29%
Asia	3%	8%	9%	0%	19%
ROW	1%	1%	0%	4%	7%
Sum	41%	38%	13%	8%	100%

2006	Buyers				
Sellers	US	Europe	Asia	ROW	Sum
US	36%	9%	1%	2%	47%
Europe	4%	25%	1%	0%	30%
Asia	2%	3%	9%	0%	14%
ROW	0%	3%	0%	6%	8%
Sum	43%	39%	11%	7%	100%

2005	Buyers				
Sellers	US	Europe	Asia	ROW	Sum
US	51%	1%	0%	1%	54%
Europe	5%	21%	1%	0%	27%
Asia	1%	3%	11%	0%	15%
ROW	1%	0%	0%	4%	4%
Sum	57%	25%	13%	5%	100%

Note: Data indicates proportion of transactions. Asia includes Australia; rest of world includes South America and Africa. Numbers may not foot due to rounding. Source: Jefferies Putnam Lovell

The newly muscular euro is only a small, and highly cyclical, influence on increased transaction activity among Europe's financial houses, with longer-term and more secular trends likely contributing to increased deal flow during 2008 and 2009, if capital markets cooperate. The same trends that will encourage large European financial houses to spin off their fund management groups—the drought of captive retail fund flows, coupled with larger sectorwide mergers and higher valuations for asset managers—will also drive a number of transformational trade sales. In 2007, **Banca Intesa**, now part of the Italian **Intesa San Paolo** juggernaut, reversed its 2005 decision to sell 65% of **Intesa Asset Management** to France's **Crédit Agricole**, following horse-trading between its parent and the French bank over branches in Italy. But this is unlikely to prevent similar transactions as a growing number of European retail banks realize they cannot field truly competitive asset management products. European asset manager MBOs will become more common—**Jupiter Asset Management's** deal stole the limelight, but employees at **Julius Baer's** London-based global debt arm and **Standard Life's** private equity operation also bought their shops during 2007.

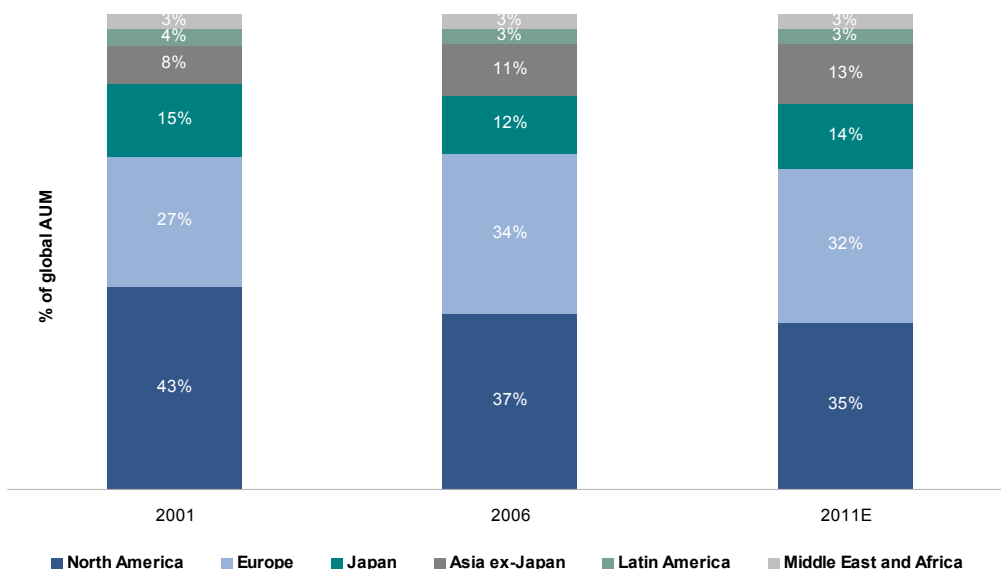
Product development trends are also raising interest in Europe’s fund management houses, particularly if more shake loose from their parent conglomerates. Many European asset managers offer products in high demand among global investors. This is clearly the case regarding alternative investments, as the proliferation and growth of hedge fund managers in London’s Mayfair district has been largely unabated until now. UK firms represented more than one third of the hedge fund managers involved in transactions during 2007. That list includes deals such as **GLG Partners’** \$3.5 billion reverse merger with a quoted American blank-check company, **Swiss Reinsurance’s** decision to buy 15% of **Brevan Howard Asset Management**, and serial acquirer **EFG International’s** acquisition of **Marble Bar Asset Management**.

Buyers seek int’l product skills, local distribution in Europe

Buyers are also mining Europe’s fund houses for major long-only ingredients—particularly and obviously, European equity and debt—that they can add to the global equity portfolios increasingly sought by retail and institutional clients worldwide. US mutual fund houses are especially hungry for these skills. In both 2006 and 2007, international and global products attracted half of all net new flows to US long-term mutual funds, a trend underway even before the dollar began its descent. Demand factors explain transactions such as global bond specialist **European Credit Management’s** majority-stake sale to **Wachovia**, one of its primary subadvisory clients. The **Bank of Montreal** dipped a toe in foreign waters with its purchase of **Pyrford International**. And while the **Caisse Centrale de Reéscompte** is known mostly for its French cash funds, a smaller but well performing European equity product line likely caught the eye of **UBS**, which bought CCR from **Commerzbank**. Strong, and saleable, independent European equity operations are currently few in number, and therefore highly prized.

Acquirers purchased stakes in a record number of Asian and Australian fund managers during 2007. The Pacific Rim will house the world’s fastest-growing asset management marketplaces during the next five years, and global firms are seeking footholds that provide both local products and potential distribution. European firms have been particularly aggressive in Asia, where many regulators have permitted the sale of cross-registered UCITS from Dublin and Luxembourg.

Exhibit 30: Investable Assets Worldwide by Region



Source: Boston Consulting Group

Surging interest in Asian fund managers

China and Hong Kong accounted for nearly half the Asian targets acquired during 2007, with the rapidly expanding mainland marketplace continuing to seduce foreign fund managers. By some estimates China's retail investment products attracted more than \$130 billion of net new money alone. A white-hot local stock market helped tripled the size of the asset management marketplace, to \$440 billion, during 2007. And new Qualified Domestic Institutional Investor (QDII) quotas allowed Chinese investors to allocate at least \$20 billion for overseas investment—a figure J.P. Morgan reckons will rise to \$90 billion by year-end, although its estimates predate the market correction. Much of the money has been placed with foreign fund managers.

Foreign buyers, permitted to buy up to 49% of Chinese fund managers, still play a role in local deal flow. Dutch insurer **Aegon** acquired the maximum allowed stake in **Industrial Fund Management**, Italy's **Intesa SanPaolo** bought 49% of **Penghua Fund Management**, and **Nikko Asset Management** of Japan took a 20% stake in **Rongtong Fund Management**. But a growing proportion of transaction activity is intramural. Despite such rapid growth, Beijing continues to worry that the market is overserved by dozens of mutual fund managers, many of which reside on capital foundations fractured among multiple, and occasionally warring, shareholders. Consequently the government reportedly has become stingier with new licenses, hoping to encourage some internal consolidation that could create stronger, and potentially better managed, fund managers. **Citic Securities**, for example, bought out other shareholders in both **China Asset Management** and **Citic Fund Management** to fully consolidate the two groups, creating China's largest mutual fund management house. At the end of the year, **China Merchants Securities** bought out an investment trust's 48% stake in **Bosera Asset Management** to become the fund manager's majority owner. Similar rationalizing deals are expected in 2008.

India, where mutual fund assets expanded 70% during 2007, was the second-most popular Asian destination among buyers. India's largest fund manager, **Reliance Capital Asset Management**, sold a 5% stake to hedge fund manager **Eton Park Capital Management** for \$127 million. But winning New Delhi's approval for cross-border transactions does not appear easy. Regulators failed to approve **UBS's** bid for **Standard Chartered's** Indian mutual fund operation. As this report went to press, StanChart sought a new buyer. A number of Indian fund managers are likely to attempt flotation if markets applaud the IPO of **UTI Asset Management**, the former state-owned mutual fund manager that had been expected to float by April 2008, although recent market conditions may change that.

Interest in other Asian marketplaces is on the rise. Despite market doldrums, asset managers are seeking footholds in the sizable Japanese fund management marketplace, where a large number of baby boomers are starting to retire. Desperate to shore up unfunded liabilities, Japanese pensions have become the world's largest consumers of hedge funds, and retail investors have become more enamored of mutual funds, particularly those offering monthly dividends. **Commerzbank**, continuing its worldwide divestiture of non-German asset management activities, sold its Japanese asset management arm to **Fortis**. Few independent Japanese-owned fund managers exist, but more spinoffs from major conglomerates are possible in 2008 and 2009, particularly if **Nikko Asset Management** successfully floats. Other notable Asian fund manager acquisitions include **ING Investment Management's** purchase of Korea's **Landmark Investment Management** from **Morgan Stanley's** private equity unit, as well as **Deutsche Bank's** acquisition of a 60% stake in **Far Eastern Asset Management** in Taiwan.

IPOs, notably those of **Platinum Asset Management** and **BT Investment Management**, represented the most sizable Australian transactions during 2007, as local firms took advantage of buoyant equity markets inflated by the commodities boom. Quoted **IOOF Holdings** secured the 22% of **Perennial Investment Partners** that it did not already own (although, as Perennial is a multiaffiliate, the holding company owns only partial stakes in several of its boutiques). The most interesting deals, however, involved foreign evacuations. **Natixis Global Asset Management** sold its Australian subsidiary to management in a private-equity financed buyout, while **Deutsche Asset Management** offloaded most of its loss-making Sydney operation to **Aberdeen Asset Management**. Such transactions underscore the dilemma that Australia's vibrant fund management marketplace presents foreign entrants. The nation boasts disproportionately strong and steady asset growth, thanks to its compulsory retirement savings regime, but also involves complicated local packaging and solidly entrenched local competition. Weaker foreign players in Australia are likely to reassess their strategies during 2008.

Securities Exchanges and Brokerage Firms: Transaction Activity

Securities exchanges drive significant deal flow in 2007

Broader consolidation among the world's financial exchanges, as well as investment interest in bourses serving emerging markets, dramatically impacted M&A among securities firms during 2007 and into 2008: in January, **NYSE Euronext** proposed to marry its longtime archrival, the **American Stock Exchange**, and **Nymex Holdings** entered exclusive discussions with **CME Group**. By comparison, transaction activity among broker/dealers—at least those avoiding damage from the subprime contagion—remained largely tactical and smaller in scale, with **Wachovia's** purchase of **A.G. Edwards** providing a notable exception. Financial buyers played a key role in the sector's deal flow, at least before credit began to tighten dramatically during the second half of the year.

Feverish merger activity, and the expectation of more to come, nearly doubled the share prices of publicly traded securities exchanges worldwide during 2007, with bourses representing the fastest-growing component of the Jefferies Putnam Lovell Brokerage, Exchange and Securities Services Index. Components of both the brokerage and FinTech Universe indices, which together comprise 129 financial technology and securities brokerage stocks, can be found in the FinTech Universe monthly Indices and Insights report. While neither index matched the blistering returns reported in 2006, both handily beat most broader-market benchmarks for 2007.

Exhibit 31: Performance Metrics for the Jefferies Putnam Lovell Securities and Financial Technology Indices and Subindices

Subindex	2005	2006	2007
Channel banking and CRM	-20%	36%	51%
Buy-side software and technology	5%	30%	40%
Straight-through processing, messaging and middleware	-8%	21%	40%
North American banking software	12%	-7%	37%
Payroll, HR and benefits	16%	9%	19%
Outsourcing vendors	16%	36%	15%
Electronic funds transfer / ETS	0%	13%	11%
EU banking software	-22%	82%	4%
Sell-side trading technology	3%	27%	2%
Order execution services	7%	47%	0%
Major diversified services vendors	1%	4%	-1%
Market data and financial information	15%	19%	-2%
Insurance technology and software	-2%	-16%	-16%
Jefferies Putnam Lovell FinTech Universe Index	8%	23%	11%
Organized exchanges	59%	73%	85%
Interdealer brokers	38%	42%	51%
Custodian banks	5%	20%	18%
Retail securities brokerages	33%	21%	15%
Institutional securities brokerages	8%	30%	-5%
Jefferies Putnam Lovell Brokerage, Exchange and Securities Services Index	14%	34%	23%

Note: The index was reconstituted in 2007, and returns are presented pro forma. Source: Jefferies Putnam Lovell

Most securities exchanges face multiple competitive threats: new regulations that could compress margins, capital flows that are increasingly cross-border in nature, and the rising acceptance of alternative trading venues, such as electronic communications networks (ECNs) and dark pools. Scope and scale have become necessary to compete effectively for listings and trading volume. The chief executive of the **Chicago Stock Exchange**, itself regarded as an imminent takeover target, argued that any bourse supporting less than 50 million trades a day will quickly become unprofitable. And last year's union between **NYSE Group** and **Euronext**, activated in April, created the world's first transatlantic stock exchange, heralding a new phase of global competition. Auctions for exchanges, especially those with a specialty focus, have become aggressive and occasionally hostile: even the **Winnipeg Commodity Exchange** became the object of a bidding war.

Globalization has been a primary catalyst for consolidation. **Deutsche Börse** aims to combine the **International Securities Exchange**, which it won for \$2.8 billion in a heated auction, with its **Eurex** unit to create a transatlantic derivatives exchange. Spurned by other foreign partners, **Nasdaq** finally secured a European foothold after a bruising battle with **Borse Dubai** for Scandinavia's **OMX**; the final agreement involves the UAE firm buying OMX for \$4.9 billion and swapping it for a 20% stake in Nasdaq. **NYSE Euronext** and a group of financial sponsors spent \$460 million for a 20% stake in India's **National Stock Exchange**, the most prominent of the nation's 22 trading venues. Lucrative bids are convincing other exchanges to consider tie-ups. At year-end, the **Taiwan Stock Exchange** announced plans to sell a minority stake to a global partner, and the **Tokyo Stock Exchange**, mulled broader global alliances with exchanges in Singapore and America.

Intramarket merger activity also accelerated. Within the United States, **Nasdaq** continued its buying spree, spending more than \$700 million to purchase not only the world's third-largest market for options, the **Philadelphia Stock Exchange**, but also its northern neighbor, the **Boston Stock Exchange**. Rationalization also redrew boundaries inside Europe's ostensibly single market, with the **London Stock Exchange** swallowing Milan's **Borsa Italiana** for \$2.2 billion in stock, and subjecting the LSE to the vagaries of Italy's notoriously fickle institutional investors.

Exhibit 32: Selected Securities Exchange Mergers and Acquisitions, 2007

Date	Target	Acquirer	Deal value (US\$MM)
12/07	Montreal Stock Exchange	TSX Group	\$1,293
11/07	Bovespa (10%)	General Atlantic	450
11/07	Philadelphia Stock Exchange	Nasdaq	652
10/07	Boston Stock Exchange	Nasdaq	61
6/07	Borsa Italiana	London Stock Exchange	2196
6/07	Winnipeg Commodity Exchange	Intercontinental Exchange	37
5/07	OMX	Nasdaq	3700
4/07	International Securities Exchange	Deutsche Boerse (Eurex)	2800
4/07	Armenian Stock Exchange	OMX	NA
1/07	National Stock Exchange of India (20%)	NYSE, Goldman Sachs, General Atlantic, Softbank	460

Source: Jefferies Putnam Lovell

Exchanges need scale to fight ECNs, dark pools

Exchanges also view mergers as a way to better compete with off-exchange electronic trading platforms. Aite Consulting believes electronic communications networks (ECNs) and so-called dark pools—internal and independent trading systems which usually do not quote prices—already account for 25% of global trading volume and could comprise as much as 40% by 2011. Fourth-market transactions through opaque dark pools are becoming more prevalent as institutions seek to maximize value of resident order flow and simultaneously provide solutions that minimize market impact.

Both buy-side and sell-side firms, as well as the exchange themselves, increasingly are buying access to darker liquidity. **NYSE Euronext**, for example, announced plans to build a joint venture with **Block Interest Discovery Service (BIDS)** and its automated trading system. The new venue, designed for large trades, will wed dark-pool and displayed-quote execution. Exchanges also will likely seek technology firms that balance trade orders among multiple dark pools. Companies such as **OES Markets Group**, which provide access to both dark and displayed liquidity pools, are advantageously positioned in this environment. ECNs continue to attract investors as well, primarily strategic in nature. **Goldman Sachs** and **Citadel Investment Group** both bought chunks of **Knight Trading's DirectEdge** ECN. In January 2008, **J.P. Morgan Chase** and **Deutsche Bank** joined at least five other market-makers as part-owners of **BATS Trading**, a two-year-old ECN that is now America's third-largest equity-trading center. During the same month, 13 securities houses bought minority positions in **Chi-X**, the electronic trading system controlled by **Nomura Holdings' Instinet**.

ECNs and dark pools may become even more attractive thanks to new regulations: America's Regulation National Market System (NMS), adopted in October, and its European Union equivalent, the Markets in Financial Instruments Directive (MiFID), which supposedly went live in November, although most EU member states have yet to install the necessary enabling legislation. Both sets of rules call for counterparties to route trades through markets that offer the best price. MiFID's impact on Europe may extend even further: when fully implemented,

the directive will strike down local laws that force parties to use a member state's national exchange. This will level the playing field for so-called "multilateral trading facilities"—electronic venues for large trades—fragmenting European order flow among new entrants and stimulating intense cross-border competition that will force the continent's traditional exchanges to adapt or merge. Conversely, because the new regulations also encourage transparent pricing, dark pools will find it increasingly advantageous to join forces at some level with bourses that display quotes.

Supporting by the growing power of dark pools, algorithmic trading technologies are blossoming, particularly systems that support innovative techniques as well as the standard time-weighted and volume-weighted formulae. Automated trading suffered several blows during 2007, as critics accused algorithms and their proponents of failing to weather market volatility—or, even worse, possibly amplifying it. But many hedge funds still use specialized formulae to sniff out elusive market arbitrage, a fact that spurred **Knight Trading's** \$60 million acquisition of **EdgeTrade**. Additionally, institutional investors use algorithmic trading to shatter large block trades into bite-sized pieces—critical when using dark pools, as the smaller trades are less apt to trigger price disclosures. Dark pool **Liquidnet** purchased algorithmic specialist **Miletus Trading** partly to provide trade-splitting tools to its client base of large institutional investors. Financial sponsors have become more interested in black-box trading. In May, **General Atlantic** took a minority stake in **Global Electronic Trading Company**, better known as **GETCO**. The deal followed **Technology Crossover Ventures'** investment in **Automated Trading Desk** in early 2007.

Specialized institutional brokerages remain attractive

Acquirer interest in institutional brokerages rose as market volatility climbed during the second half of 2007, particularly among specialized derivative brokers and future commission merchants (FCMs) that have been enjoying increased business from hedge funds. Private equity firms **Spectrum Equity Investors** and **Technology Crossover Ventures** secured a majority stake in **R.J. O'Brien & Associates**, America's largest independent futures brokerage. **Convergex**, the agency brokerage controlled by the **Bank of New York Mellon**, bought options trading technology firm **Liquidpoint**. And **Investment Technology Group** spent \$22 million to secure **RedSky Financial**, a broker that services Chicago-based options traders. Institutional broker/dealers also acted as buyers, particularly keen to purchase firms developing technology that anticipates looming changes in options trading. Penny pricing and increased electronic trading will reshape options markets dramatically, just as similar changes fundamentally redefined equity markets. Such shifts will create similar demand for options-oriented algorithmic trading, dark pools, and off-exchange trading systems.

IPOs of such specialized intermediaries were rare during the second half of 2007, apparently discouraged by the disappointing \$2.9 billion flotation of **MF Global**, which claims to be the world's largest futures and options brokerage. Conversely, shares in **FCStone** more than doubled in value between the commodity risk manager's March IPO and year-end 2007. And shares in quoted **eSpeed**, an electronic interdealer fixed income platform, appeared to rally when ultimate owner **Cantor Fitzgerald** announced plans to combine it with its wholly owned **BGC** unit in a \$1.3 billion stock merger that will create a large fixed-income trading platform that supports both voice and electronic execution.

Institutional brokerages also used acquisitions to improve their direct access and trading capabilities, which attract hedge funds and other buy-side clients. **Interactive Brokers**, another institutional broker which went public in early 2007, bought **FutureTrade Technologies**, a direct-access platform that provides equity and options trading to 200 institutional clients. Financial sponsors **Technology Crossover Ventures** and **Continental Investors** led a minority recapitalization of **TradingScreen**, which provides execution solutions to buy-side investors across multiple asset classes. Wall Street firms also continued to augment their investments in direct market access and electronic market-making technology, with **Citigroup** spending \$680 million on **Automatic Trading Desk**, the most recent element of its electronic

Regional brokers face consolidation endgame

trading suite—a transaction which provided **Technology Crossover Ventures** an unusually quick monetization of its investment.

The long-term realignment from regional to national distribution among America's retail brokerages entered its final act in 2007, following **Wachovia's** \$6.9 billion purchase of **A.G. Edwards**. The deal underscores consolidation pressure within the brokerage industry: if America's largest independent broker/dealer outside New York saw strategic merit in a merger, regional firms only will be able to survive if they clearly differentiate their services—mostly through advice delivery and product menus—or by joining larger nationwide players. Additionally, the technology budgets required to keep advisors competitive are burdensome for the major wirehouses, let alone smaller players.

Scale, consequently, has become an imperative. **Stifel Financial**, for example, bulked up through its \$91 million purchase of **Ryan, Beck & Co.** in January. Other than consolidators, however, few buyers are interested in retail brokerages. One exception in 2007 was **Houchens Industries**—a conglomerate that owns grocery chains and a tanning supply wholesaler, among other businesses—which purchased independent-minded **Hilliard Lyons** from **PNC Financial Services Group**.

The same threats are present online, with **Citadel Investment Group's** rescue of **E*Trade Financial** only delaying the inevitable rationalization of the nation's electronic brokerages. Hobbled by the subprime mortgages it sold, E*Trade paid for Citadel's \$2.55 billion cash infusion with high-yield debt, a 20% equity stake, favorable refinancing terms on existing loans from Citadel, and a Faustian deal to route 40% of orders for exchange-listed stocks—and virtually all exchange-listed derivatives options trades—through a Citadel-owned unit for the next three years. Even so, such a deal may only buy time. Activist hedge funds have become more vocal about demanding further consolidation among key players.

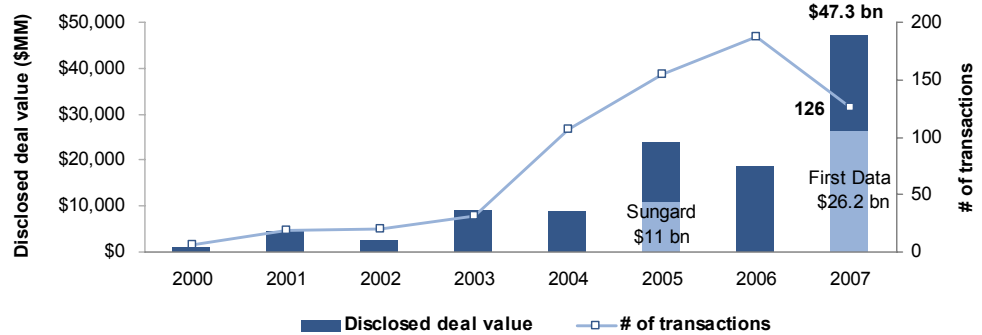
The race to create global securities exchanges—supporting trades in multiple formats and among several different asset classes—will shape transaction activity in the securities and brokerage arena throughout 2008. Trading floors, both real and virtual, will expand, and off-exchange execution platforms will hold even more influence. Connectivity to all sources of liquidity, both dark and displayed, has become essential. Brokerage firms and the vendors that service them will need to add the scale and skills necessary to fight on a worldwide battlefield where new regulations are removing artificial barriers to competition, peeling back the last layers of insulation around profit margins in trading. Most importantly, securities firms will need to further invest in innovative technology, particularly systems that process all types of market and payment data.

Financial Technology: Transaction Activity

Strong levels of fintech transaction activity

Strategic and financial buyers combined spent nearly \$50 billion on US-headquartered financial technology companies during 2007, exceeding 2006 levels—even after excluding **KKR's** \$26 billion take-private buyout of payment processor **First Data**. The average value of financial technology deals—which includes transactions targeting banking technology, investment technology, outsourcing and payment processing firms, among others—also swelled in 2007, with bigger, if fewer, transactions taking place.

Exhibit 33: Acquisitions of US Financial Technology Firms



Note: "Financial technology" includes banking technology, investment technology, outsourcing and payment processors. Source: SNL

Many observers expected the debt-laden **First Data** transaction, the sector's largest trade-sale transaction to date, to collapse in perilous credit markets. Nevertheless, creditors came forward, attracted by the long-term growth prospects for payment processors, and mollified by more stringent terms as well as par-value discounts. KKR's investment banks managed to syndicate nearly 70% of the debt despite the lending drought. Large strategic acquisitions involving processors also took place. Giant **Fiserv** sought to solidify its market position and expand its client base through a \$4.4 billion purchase of **Checkfree**. The target company supports online bill payment systems and offers a range of other institutional data processing services, including infrastructure for brokerage-driven managed account programs.

Sell-side trading technology firms remained among the most highly valued components of the Jefferies Putnam Lovell Financial Technology Universe Index, aside from European banking software. Final enactment of MiFID signals that the multiples for EU software firms, many of which recently specialized in implementation technology, likely have reached a peak.

Exhibit 34: Median Multiples for the Jefferies Putnam Lovell Securities and Financial Technology Indices and Subindices

Subindex	2005	2006	2007
Europe and rest of world banking software	11.5x	27.4x	35.3x
North American banking software	14.6x	18.5x	18.1x
Sell-side trading technology	12.7x	17.4x	16.0x
Order execution services	15.7x	15.0x	14.5x
Channel banking and CRM	10.1x	10.3x	13.5x
Major diversified services vendors	12.7x	12.6x	11.4x
Electronic funds transfer / ETS	9.3x	10.7x	10.8x
Market data and financial information	11.7x	13.1x	10.7x
Insurance technology and software	16.3x	16.4x	10.5x
Buy-side software and technology	12.9x	10.7x	10.5x
Outsourcing vendors	8.1x	11.6x	10.5x
Payroll, HR and benefits	12.3x	14.7x	9.1x
Straight-through processing, messaging and middleware	11.5x	19.4x	8.9x
Jefferies Putnam Lovell FinTech Universe Index	12.3x	14.7x	11.6x
Organized exchanges	12.2x	25.8x	22.9x
Interdealer brokers	7.6x	8.6x	13.3x
Jefferies Putnam Lovell Brokerage, Exchange and Securities Services Index	10.4x	17.7x	16.4x

Note: The index was reconstituted in 2007, and multiples are presented pro forma. Multiples reflect trailing 12 months. Source: Jefferies Putnam Lovell

Custodians bolstering services for alternative asset managers

Alternative investments reshaped the usually staid custody and fund administration sector during 2007, as the desire to service expanding hedge funds, funds of hedge funds and private equity vehicles fueled transaction activity. **State Street** spent \$4.5 billion to acquire crosstown rival **Investors Financial**, a combination that created the world's largest hedge fund administrator. It also swallowed **Palmeri Fund Administration**, which services private equity funds. The Palmeri deal was, in part, a competitive response to **Citigroup's** \$800 million purchase of **Bisys Group's** custody business, considered one of the world's largest private equity fund administrators. European giant **CACEIS**, jointly owned by **Crédit Agricole** and **Natixis**, augmented its alternative fund administration capabilities by buying **Olympia Capital International**. In January 2008, **Deutsche Bank** purchased hedge fund administrator **HedgeWorks**, enhancing its alternative fund services and better positioning the bank to compete against bundled offerings provided by larger prime brokers. Financial sponsors also made investments, with **3i Group** purchasing an undisclosed stake in hedge fund administrator **Fulcrum**. Public offerings of fund administrators did not fare as well. By year-end 2007, **GlobeOp Financial**, which made its AIM debut in July, had lost 30% of its value.

Exhibit 35: Selected Custody and Fund Administration Acquisitions, 2007

Date	Target	Acquirer	Deal value (US\$MM)
10/07	Administar Services Group	Computershare	\$ 32
8/07	Palmeri Fund Administration	State Street Corporation	NA
7/07	Olympia Capital International	Caceis	NA
7/07	Pioneer Investments KAG	Societe Generale	NA
7/07	Fulcrum (undisclosed stake)	3i	57
6/07	Northern Trust International Fund	IFG Group	6
5/07	Fiserv's advisor services business	TD Ameritrade	375
5/07	Bisys Group (investment services unit)*	Citigroup	800
3/07	Exelbank	BNP Paribas Securities Services	NA
3/07	Northport	SS&C Technologies	5
2/07	Corp trust assets of TD Bank Financial	Computershare	NA
2/07	U.S. Stock Transfer Corporation	Computershare	NA
2/07	Integrated Investment Services	J.P. Morgan Chase	NA
2/07	Investors Financial Services	State Street Corporation	4,438

Notes: *Citi purchased Bisys, then sold its retirement and insurance servicing arms to J.C. Flowers.
Source: Jefferies Putnam Lovell

The large **State Street** and **Citi** deals ensure that alternative fund administrators will further consolidate during 2008. The growing size of key players in the alternative asset management sector—especially within funds of hedge funds, a rapidly concentrating marketplace—will favor industrial custodians. Larger administrators will benefit from economies of scale. Finally, institutional investors and regulators will demand more transparency from both hedge funds and private equity vehicles, convincing more asset managers to outsource these labor-intensive tasks.

Buyers seek specialized trading technology to offer clients

Asset servicing firms also acquired other specialized technology to offer their buy-side clients. Electronic foreign exchange continued to attract many buyers as daily forex volumes spiraled past the \$3 trillion mark—nearly a 70% increase over levels posted in 2004, according to the Bank of International Settlements. **State Street** paid \$564 million for **Currenex**, planning to integrate it with its existing FXConnect platform. Massive interdealer broker **Icap** spent \$247 million to purchase **Traiana**, an electronic forex settlement specialist. Such transactions

have galvanized stock exchanges. The **Chicago Mercantile Exchange** joined forces with **Reuters** to create FX Marketspace, a platform that supports not only cash spot trades but also forex derivatives. Other deals involving buy-side technology vendors include the sale of **LatentZero**, an order management software firm with a significant asset-manager client base, to sell-side execution management system specialist **Fidessa**, formerly known as **Royalblue**, which has agreed to pay as much as \$125 million.

Payment processing firms continue to attract financial sponsors, thanks to their stable cash flows and relatively strong operating leverage. **Fidelity National Financial** teamed up with buyout firm **T.H. Lee Partners** to grab **Ceridian**, and **Fidelity National Information Corp.** and **eFunds** merged. The rich multiples for payment processors—valued for relatively predictable revenues and strong operating leverage—led some financial conglomerates to spin off their data-crunching units. **Marshall & Ilsley** floated its **Metavante Unit**, while **Synovus** spun off its 81% stake in **Total System Services**.

Financial sponsors less active in fintech space during 2H2007

Nevertheless, a number of proposed buyouts in the sector failed to survive the credit crunch. **Silver Lake Capital** and hedge fund **ValueAct Capital** terminated their proposed \$2.25 billion acquisition of data-management firm **Acxiom**, and **Blackstone Group**, citing regulatory hurdles, seeks to back out of its announced \$7.8 billion take-private offer for **Alliance Data Systems**. Some private equity firms, meanwhile, have begun to harvest their investments. **GTCR Golder Rauner** sold its stakes in **Transfirst** and **Skylight Financial** in 2007. In addition to the aforementioned AIM flotation of **GlobeOp**, **TA Associates** sold **Smartstream Technologies** to the investment arm of the **Dubai International Financial Center**, which will likely use Smartstream's straight-through processing technology in the data infrastructure for the emirate's exchange. **General Atlantic** and **Spectrum Energy Investors** sold some of their stakes in risk-software vendor **RiskMetrics Group** through a successful \$245 million January 2008 IPO that exploded 36% in value on the day of its launch.

Strategic considerations will drive vibrant deal flow in financial technology during 2008. If hedge funds prove they can successfully weather increased market volatility, their expanded use will promote further appetite for systems that support and enhance their trading strategies globally, across multiple asset classes. Both exchanges and ECNs will use technology as a weapon in their war for market share. Under fire from several fronts, dealers will need to protect their dwindling margins by streamlining their proprietary systems with innovative implants. And financial buyers, attracted by the long-term demand potential, may return to the table—although perhaps now on a more even footing with strategic buyers, given more conservative lending conditions. As with asset management, however, pricing remains linked to the health of global capital markets.

Conclusion

The crushing January correction reminded fund managers worldwide that their revenues float on a cyclical tide, one that rises and falls in direct, and dramatic, correlation to asset prices worldwide. The industry remains, to an uncomfortably high level, a leveraged bet on the performance of equity markets. Whether the subprime crisis was the cause or only an accelerant of the blaze that has torn through bourses worldwide, asset managers will feel the heat for the rest of 2008, if not longer. Weaker capital markets will deflate asset levels, sapping the primary source of growth for an industry that, given its perpetual war for high-cost investment talent, is clumsy at rationalizing costs or extracting operational leverage.

Yet the asset management sector has fared relatively well in the current financial meltdown, and its unique characteristics reveal why investors will continue to prize it. Without need for significant capital, asset managers mostly have avoided the liquidity crises confronting the wider financial services industry. Profit margins, while currently depressed, are still envied elsewhere in finance. And while performance-based fees continue to raise earnings volatility—the industry’s greatest long-term issue—at its heart asset management remains an annuity, with asset-based fees providing recurrent revenue.

Nevertheless, conditions remain turbulent. We expect the following trends to unfold during the next 12 months:

- Transaction activity in the fund management sector will cool from the unprecedented levels set during 2007, but remain solid and vibrant, driven by the secular demand for higher-growth alternative investments. Many prospective sellers will elect to wait for sunnier markets, and resurrected record profits, before returning to the auction block.
- Multiples will soften overall, although pricing for alternative asset managers will remain firm. Weaker valuations will mostly involve target firms forced to sell into an uncertain or sinking market. The lack of leverage may hobble financial sponsors as well, but buyout firms will continue to shop aggressively in the asset management and financial technology aisles.
- Alternative asset managers will account for a record proportion of deals in 2008. Depressed equity markets have sharpened the argument for the convergence of traditional and alternative asset management. Long-only players will step up their search for long/short skills. Alternative firms, looking to dampen the revenue volatility from performance-based fees, will seek more asset-based fees to improve earnings quality.
- Public markets will remain a viable source of liquidity for asset managers. Even in current market conditions, proliferating SPACs will provide fund managers with access to quoted capital. And the number of IPOs will resume climbing once markets recover. As asset management becomes a more clearly defined, understood and independent sector within financial services, its higher-value attributes will shine through. Multiples paid for quoted fund managers globally will rebound with a broad market, reinforcing the arbitrage with trade-sale prices that motivates financial buyers.
- Cross-border transaction activity will continue to drive a growing portion of deal activity, especially if any economic downturn in the United States gains momentum, or lasts longer, than it does elsewhere in the world. Asia’s long-term promise remains bright, and US asset managers must fulfill their customers’ voracious demand for international securities—an appetite unfulfilled even before stock markets shuddered.
- Financial technology firms will continue to attract attention, at least from strategic buyers, as exchanges gird themselves for conflict with alternative trading venues, custodians look for innovations that differentiate themselves from each other, and buy-side firms seek further methods of out-trading a subprime-ravaged sell-side.

Appendix

Exhibit 36: Largest Asset Management Transactions by Acquired AUM, 2007

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	% Acq
2/07	Putnam Investments	US	MuFu	Power Financial Corporation	Canada	\$192,074	100%
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)	US	\$166,000	100%
1/07	Nextra	Italy	Div	Intesa Sanpaolo ¹	Italy	\$99,654	65%
6/07	Marsico Capital Management	US	Div	MBO	US	\$94,000	100%
6/07	Blackstone Group	US	Div	China Investment Corp. ²	China	\$88,000	10%
9/07	Carlyle Group	US	Div	Mubadala Development Co.	UAE	\$76,000	8%
9/07	DundeeWealth Inc.	Canada	Div	Bank of Nova Scotia ³	Canada	\$61,070	18%
11/07	Record plc ⁴	UK	Inst	IPO	UK	\$54,700	25%
1/07	Bank Sarasin	Switzerland	PvtCl	Rabobank Groep ⁵	Netherlands	\$52,500	18%
9/07	Arnhold & S. Bleischoeder	US	Div	TA Associates	US	\$43,500	minority

Notes: Data converted to US currency at time of announcement. (1) AUM reflects original AUM of JV as details of assets transferred were not disclosed. (2) Blackstone also sold a 12% stake to the public in June. (3) Management also bought 16% of DundeeWealth from shareholders in January. (4) AUM reflects overlay mandates. (5) Rabobank already owned 28% of Sarasin. (6) Actual identity of institutional investors was not disclosed.

Source: Jefferies Putnam Lovell

Exhibit 37: Largest Asset Management Transactions by Disclosed Deal Value, 2007

Date	Target	Country	Type	Acquirer	Country	DDV (\$MM)	% Acq
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)	US	\$5,750	100%
6/07	Blackstone Group	US	Div	IPO	US	\$4,130	12%
2/07	Putnam Investments	US	MuFu	Power Financial Corporation	Canada	\$3,900	100%
6/07	GLG Partners	UK	Div	Freedom Acquisition Holdings*	US	\$3,571	100%
6/07	Blackstone Group	US	Div	China Investment Corp.	China	\$3,000	10%
6/07	Marsico Capital Management	US	Div	MBO	US	\$2,700	100%
6/07	Quellos Group (fund of funds business)	US	Div	BlackRock	US	\$1,700	100%
11/07	Banca del Gottardo	Switzerland	PvtCl	Assicurazione Generali SpA	Italy	\$1,636	100%
3/07	Jupiter Asset Management	UK	MuFu	MBO (TA Associates)	US	\$1,456	100%
9/07	Carlyle Group	US	Div	Mubadala Development Co.	UAE	\$1,350	8%

Notes: Data converted to US currency at time of announcement. *SPAC engineered reverse IPO. Prior to the reverse, Istithmar and Sal. Oppenheim each took a 3% stake in GLG. Source: Jefferies Putnam Lovell

Exhibit 38: Largest Mutual Fund Transactions by Acquired AUM, 2007

Date	Target	Country	Acquirer	Country	AUM (\$MM)	% Acq
2/07	Putnam Investments	US	Power Financial Corporation	Canada	\$192,074	100%
1/07	DundeeWealth	Canada	MBO (Dundee Wealth Management) ¹	Canada	\$61,070	18%
3/07	Jupiter Asset Management	UK	MBO (TA Associates)	US	\$37,516	100%
12/07	Bosera Asset Management	China	China Merchants Securities ²	China	\$33,990	48%
12/07	Reliance Capital Asset Management	India	Eton Park Capital Management	US	\$19,747	5%
5/07	Macquarie-IMM Investment Management	S. Korea	Goldman Sachs Asset Management	US	\$10,800	100%
9/07	Nationwide Financial Services' US equity business	US	Aberdeen Asset Management	UK	\$7,000	100%
2/07	Gadish provident fund	Israel	Plainfield Asset Management LLC ³	France	\$4,963	100%
4/07	Penghua Fund Management	China	Intesa Sanpaolo	Italy	\$3,535	49%
9/07	Commerz International Capital Management	Japan	Fortis NV	Belgium	\$3,500	100%

Notes: Data converted to US currency at time of announcement. (1) Management also bought 16% of DundeeWealth from shareholders in January. (2) China Merchants already owned 28% of Bosera. (3) Consortium led by Plainfield. Source: Jefferies Putnam Lovell

Exhibit 39: Largest Institutional Transactions by Acquired AUM, 2007

Date	Target	Country	Acquirer	Country	AUM (\$MM)	% Acq
11/07	Record plc*	UK	IPO	UK	\$54,700	25%
10/07	Pzena Investment Management	US	IPO	US	\$28,900	10%
1/07	European Credit Management	UK	Wachovia Corp. (Evergreen Investments)	US	\$26,000	70%
1/07	Research Affiliates	US	Nomura Holdings (Nomura Asset Management)	Japan	\$19,000	10%
5/07	Arrowstreet Capital	US	MBO	US	\$18,900	NA
12/07	Asset Allocation & Management Company	US	Stone Point Capital/Keefe, Bruyette & Woods	US	\$17,200	majority
6/07	Morley Financial Services	US	Principal Financial Group	US	\$14,000	100%
4/07	Fiduciary Asset Management	US	Piper Jaffray Companies	US	\$8,730	100%
11/07	KG Redding	US	Brookfield Asset Management	Canada	\$6,000	100%
3/07	K2 Advisors	US	TA Associates	US	\$5,500	minority

Notes: Data converted to US currency at time of announcement. Announced transactions only. *AUM reflects overlay mandates. Source: Jefferies Putnam Lovell

Exhibit 40: Largest Hedge Fund and Fund of Hedge Fund Transactions by Acquired AUM, 2007

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	% Acq
5/07	Oaktree Capital Management	US	HF	Institutional investors via 144A (GSTRUE)	US ¹	\$43,000	15%
11/07	Och-Ziff Capital Management Group	US	HF	Dubai International Corp. ²	UAE	\$30,100	10%
3/07	D.E. Shaw Group	US	HF	Lehman Brothers	US	\$29,000	20%
10/07	Grosvenor Capital Management	US	FOHF	Hellman & Friedman	US	\$24,000	32%
6/07	GLG Partners LP	UK	HF	Freedom Acquisition Holdings ³	US	\$20,000	100%
6/07	Quellos Group (fund of funds business)	US	FOHF	BlackRock.	US	\$17,400	100%
10/07	Brevan Howard Asset Management	UK	HF	Swiss Reinsurance	SWI	\$17,000	15%
11/07	Gottex Fund Management Holdings	Switzerland	FOHF	IPO	SWI	\$14,000	28%
10/07	Winton Capital Management	UK	HF	Goldman Sachs Asset Management ⁴	US	\$10,000	10%
5/07	GSO Capital Partners	US	HF	Merrill Lynch	US	\$8,000	20%

Notes: Data converted to US currency at time of announcement. (1) Actual identity of institutional investors not disclosed. (2) Och-Ziff also sold a 9% stake to the public in November. (3) SPAC engineered reverse IPO. Prior to the reverse, Istithmar and Sal. Oppenheim each took a 3% stake in GLG. (4) Apparently a Goldman buyout fund holds the stake. Source: Jefferies Putnam Lovell

Exhibit 41: Largest Cross-Border Transactions by Acquired AUM, 2007

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	% Acq
2/07	Putnam Investments	US	MuFu	Power Financial Corporation	Canada	\$192,074	100%
9/07	Carlyle Group	US	Div	Mubadala Development Co.	UAE	\$76,000	8%
1/07	Bank Sarasin	Switzerland	PvtCl	Rabobank Groep ¹	Netherlands	\$52,500	18%
3/07	Jupiter Asset Management	UK	MuFu	MBO (TA Associates)	US	\$37,516	100%
11/07	Banca del Gottardo	Switzerland	PvtCl	Assicurazione Generali SpA	Italy	\$31,336	100%
9/07	Martin Currie	UK	Div	Crestview Partners and Jacob Rothschild	US	\$28,879	25%
1/07	European Credit Management	UK	Inst	Wachovia Corp. (Evergreen Investments)	US	\$26,000	70%
10/07	Caisse Centrale de Réescmpte Group	France	Div	UBS AG	Switzerland	\$24,164	100%
6/07	GLG Partners LP	UK	Div	Freedom Acquisition Holdings ²	US	\$20,000	100%
9/07	American Express Bank	US	PvtCl	Standard Chartered	UK	\$20,000	100%

Notes: Data converted to US currency at time of announcement. (1) Rabobank already owned a 28% stake in Sarasin. (2) Prior to the reverse, Istithmar and Sal. Oppenheim each took a 3% stake in GLG. Source: Jefferies Putnam Lovell

Exhibit 42: Largest Financial Investments in Asset Managers by Acquired AUM, 2007

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	% Acq
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)	US	\$166,000	100%
6/07	Marsico Capital Management	US	Div	MBO	US	\$94,000	100%
9/07	Carlyle Group	US	Div	Mubadala Development Co. (sovereign)	UAE	\$76,000	8%
9/07	Arnhold and S. Bleichroeder Holdings	US	Div	TA Associates (PE)	US	\$45,800	minority
5/07	Oaktree Capital Management	US	Div	Institutional investors via 144A (GSTRUE)	US	\$43,000	15%
3/07	Jupiter Asset Management	UK	MuFu	MBO (TA Associates)	US	\$37,516	100%
9/07	Martin Currie	UK	Div	Crestview Partners and Jacob Rothschild (PE)	US	\$28,879	25%
10/07	Grosvenor Capital Management	US	Div	Hellman & Friedman (PE)	US	\$24,000	32%
6/07	GLG Partners	UK	Div	Freedom Acquisition Holdings (SPAC)	US	\$20,000	100%
5/07	Arrowstreet Capital	US	Inst	MBO	US	\$18,900	NA

Notes: Data converted to US currency at time of announcement. (1) Rabobank already owned a 28% stake in Sarasin. (2) Prior to the reverse, Istithmar and Sal. Oppenheim each took a 3% stake in GLG. Source: Jefferies Putnam Lovell

Exhibit 43: All-Time Largest Asset Management Transactions by Acquired AUM

Date	Target	Country	Type	Acquirer	Country	AUM (\$MM)	% Acq
12/06	Mellon Financial Corporation	US	Div	Bank of New York Company	US	\$947,000	100%
2/06	Merrill Lynch Investment Managers	US	Div	BlackRock	US	\$544,000	100%
6/05	Citigroup Asset Management	US	Div	Legg Mason	US	\$437,000	100%
9/01	Zurich Scudder Investments	US	Div	Deutsche Bank AG	Germany	\$278,000	100%
11/99	PIMCO Advisors	US	Inst	Allianz AG	Germany	\$256,153	69%
6/00	United Asset Management (UAM)	US	Inst	Old Mutual	UK	\$203,150	100%
2/07	Putnam Investments	US	MuFu	Power Financial Corporation	Canada	\$192,074	100%
9/97	Mercury Asset Management	UK	Inst	Merrill Lynch & Co.	US	\$176,330	100%
6/95	Wells Fargo Nikko Investment Advisors	US	Inst	Barclays Plc	UK	\$171,900	100%
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)	US	\$166,000	100%

Notes: Data converted to US currency at time of announcement. Bold indicates new entry for 2007. Source: Jefferies Putnam Lovell

Exhibit 44: All-Time Largest Asset Management Transactions by Disclosed Deal Value

Date	Target	Country	Type	Acquirer	Country	DDV (\$MM)	% Acq
12/06	Mellon Financial Corporation	US	Div	Bank of New York Company ¹	US	\$17,619	100%
2/06	Merrill Lynch Investment Managers	US	Div	BlackRock	US	\$9,602	100%
6/07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners)²	US	\$5,750	100%
9/97	Mercury Asset Management	UK	Inst	Merrill Lynch & Co.	US	\$5,326	100%
9/05	Global Asset Management & 3 private banks	Switzerland	PvtCl	Julius Baer	Switzerland	\$4,600	100%
6/07	Blackstone Group	US	Div	IPO	US	\$4,130	12%
4/00	Robert Fleming Holdings asset management div	UK	Div	Chase Manhattan Corp	US	\$4,100	100%
2/07	Putnam Investments	US	MuFu	Power Financial Corporation	Canada	\$3,900	100%
6/05	Citigroup Asset Management	US	Div	Legg Mason	US	\$3,700	100%
6/07	GLG Partners LP	UK	Div	Freedom Acquisition Holdings³	US	\$3,571	100%

Notes: Data converted to US currency at time of announcement. Bold indicates new entry for 2007. (1) Value at close on day of announcement. (2) Excludes assumed debt. (3) Prior to the reverse, Istithmar and Sal. Oppenheim each took a 3% stake in GLG. Source: Jefferies Putnam Lovell

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