

Issue 19
 1st Half 2009

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Asset Management Focus

Freeman & Co. LLC

Humpty Dumpty had a Big Fall

While all the king's men have been repairing the global financial system, the asset management sector has been going through two major changes. The first change has been a spike in very large, transformational deals driven by capital or consolidation needs. Examples include the BlackRock/BGI and SocGen/Credit Agricole asset management deals. The second has been a significant drop of 30-40% in the number of acquisitions as most firms focus on stabilizing their businesses. The extreme volatility in market returns and asset flows makes it difficult to form confident projections about the future of asset managers and hence their valuations. The return of M&A activity in late 2009 and in 2010 is likely to track the stabilization in market volatility, asset flows and the return of confidence.

Performance as of June 30, 2009

Index	Total Return 1H 2009	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	3.2%	-26.2%	-8.2%	-2.2%
NASDAQ	16.4%	-19.6%	-5.5%	-2.2%
FTSE 100	-4.2%	-24.5%	-10.0%	-1.0%
BGC*	0.6%	5.3%	6.2%	4.8%
HFRI**	9.5%	-10.1%	1.2%	5.0%
FTSE Hedge***	-7.8%	-20.8%	-8.3%	-4.0%

*Barcap Govt./Credit Index

** Hedge Fund Research Institute Fund Weighted Composite

***in US\$ terms

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Indices at 6/30/09:

DJIA	8,447
Nasdaq	1,835
S&P 500	919
FTSE 100	4,249
10 Year US Treasury Bond Yield	3.52%
USD per GBP	\$1.66
USD per EUR	\$1.41

Summary:

- **Deal Activity / M&A:** There were 74 acquisitions of asset managers in 1H 2009, a 38% decrease from 119 in 1H 2008. The number of transactions with AUM greater than \$10 billion also dropped, falling 36% to 9 in 1H 2009 from 14 in the same period last year. However, total deal AUM increased to \$2.7 trillion from \$1.7 trillion in FY 2008 driven by Blackrock's acquisition of Barclays Global Investors (\$1.5 trillion AUM).
- **Fund Flows:** Flows into equity mutual funds have turned positive in 1H 2009, reflecting a return to riskier assets; hedge fund flows are still negative (but were -\$43 billion in 2Q 2009 compared to -\$152 billion in 4Q 2008); in illiquid products, capital raising fell precipitously with PE AUM raised in 1Q 2009 of only \$45 billion compared to \$472 billion in FY 2008.
- **Retail & Retirement Savings:** US households have lost about \$12 trillion, or 20%, of net worth, with 1/3 of losses linked to real estate, 1/3 linked to equities and the remainder in other investments. Individuals will need to increase savings rates and consider other sources of retirement funding such as reverse mortgages and life settlement products.

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