



**Freeman & Co. LLC**

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**Asset Management Industry**  
*“Moving from Client Ownership Focus to  
Specialized Product and Service Focus”*

## Table of Contents

<b>INTRODUCTION .....</b>	<b>3</b>
<b>I. TRENDS FOR THE FUTURE.....</b>	<b>4</b>
Product Focus.....	4
Distribution Focus.....	4
Client Ownership Focus.....	5
Specialized Product & Service Focus.....	5
<b>II. ASSET MANAGEMENT ACTIVITY.....</b>	<b>6</b>
Gaining Assets Around the World.....	6
Selling Assets Around the World.....	8
Buying Assets Around the World.....	9
<b>III. BUYERS &amp; SELLERS .....</b>	<b>10</b>
Size of US Activity.....	10
Size of Non-US Activity.....	10
Shopping Sprees.....	11
Consolidator Community.....	12
The Other Buyers.....	12
Changing Acquisition Structures.....	13
Acquisition Strategies.....	15
The Schwab OneSource Effect.....	15
Proliferation of Approved Lists.....	16
Changing Tastes.....	17
Year of the Boutique.....	18
<b>IV. DISTRIBUTION TRENDS.....</b>	<b>19</b>
United States – Going Global.....	19
Overview of Shifting Regional Interest.....	20
Entering New Countries.....	21
Japan – Gaining Access.....	22
Japan – Big Players Benefit.....	23
Japan – US Product Dominance.....	23
Europe – Continued Interest.....	24
Europe – Can Smaller Firms Gain Access?.....	25
<b>V. SPECIALIZED PRODUCT FOCUS .....</b>	<b>26</b>
Non-Core Products.....	26
“No Thanks, Not Right Now”.....	27
<b>VI. CONCLUSION.....</b>	<b>28</b>
<b>VII. PUBLIC COMPANY FINANCIAL COMPARABLES .....</b>	<b>29</b>
<b>INDEX TO COMPANIES .....</b>	<b>30</b>
<b>INDEX TO TABLES .....</b>	<b>31</b>

## Introduction

Welcome to Freeman & Co.'s research report on the global asset management industry. We hope to provide our clients, friends and future clients with an overview of trends in the industry. This report provides real data that will support your views and will identify trends that you may have missed. We draw upon our consulting background to evaluate the industry from a strategic perspective and include our thoughts on how these strategies impact the industry and individual firms.

Freeman & Co. provides in-depth management consulting and strategic advisory services to the financial services industry worldwide. Our highly focused specialization has been invaluable in helping our clients develop and prosper in this dynamic industry. Freeman & Co. offers assistance to companies in the areas of:

- *Strategic Consulting*
- *Performance Improvement Consulting*
- *Strategic Advisory and M&A Services*
- *Compensation and Incentive Plans*

In this report we analyze the asset management industry by region, product, and type of firm conducting transactions. Particular attention is paid to how businesses are positioning themselves and the underlying strategies driving them. Our data is unique because it also includes activity outside of M&A deals. Although M&A activity is important for the multiple buyers and sellers, we examine closely the estimated 40% of activity that is non-M&A related. These transactions – alliances, joint ventures, distribution agreements – are often early indicators of changing trends, deregulation activity and strategic shifts in the industry. We examine these deals from their strategic perspectives, as they often are not purely financial transactions.

Ultimately, the value of our advice is measured by the success of our clients and by our continuing partnership with them. Within this report, you will see our views on how M&A activity is changing the US marketplace and, more importantly, what to expect in the near future. Changes are taking place in the acquisition strategies of US firms and these will affect the prices being paid in the future, sometimes with dramatic effect.

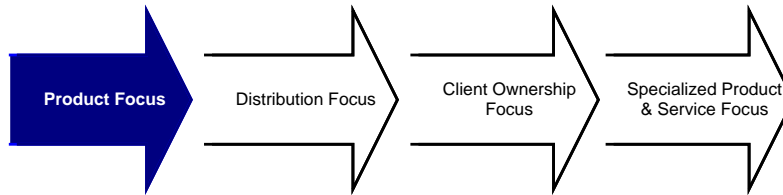
We would like to thank our clients and friends for their continued support of our work. We encourage you to share your thoughts and look forward to hearing from you.

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## I. Trends for the Future

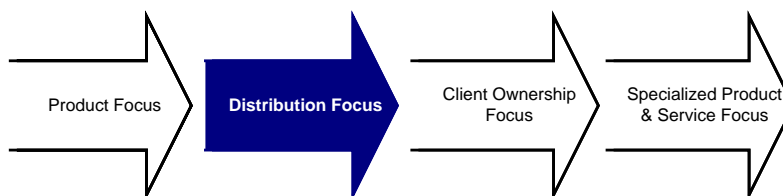
There have been four major themes in the asset management industry in the 1990's as shown below. The first two have completed their current lifecycle; the third has been developing, and the fourth is beginning to emerge.



### *Product Focus*

Asset management company strategies throughout the mid-1990s were *Product Focused*. Mutual funds ranked in the four- and five-star categories by *Morningstar* accumulated large amounts of assets and could grow ten-fold in a two-year period. Freeman & Co. research at the time, 1996, indicated that four-star funds captured 47% and five-star funds captured 49% of all new fund inflows during that year. These two fund categories represented only 8.7% and 23.6%, respectively, of all funds rated by *Morningstar* at the time.

This drove retail firms to acquire funds in the top two categories or to create products that could reach these top tiers. The institutional side of the business was more mature than the retail mutual fund side, so the push for product strengths was not as overwhelming.



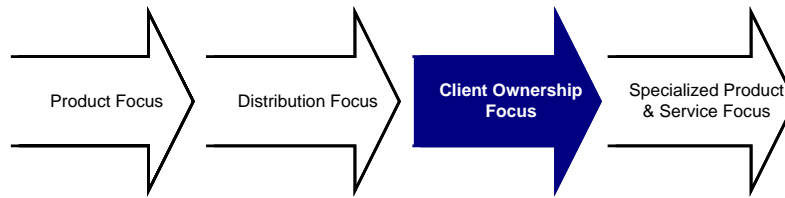
### *Distribution Focus*

The emergence of the *Charles Schwab* OneSource mutual fund platform drove many retail fund firms to alter their strategies to a *Distribution Focus*. Companies now focused on gaining multiple distribution channels using intermediaries. On the mutual fund side, companies pushed to gain access to fund platforms like *Schwab*, *Jack White*, *Muriel Seibert* and others. In the separate account arena, firms marketed broker/dealers to win approval for their wrap account programs. Firms also developed plans to reach financial planners who were using combinations of mutual fund products and separate accounts for their client base.

Institutional firms realized the power of top-performing mutual funds and targeted the small group of fund companies that used sub-advisors. Vanguard is a good example, having hired firms like *Wellington Capital* to manage its products.

Overall, firms with a *Distribution Focus* gained access to distribution platforms and recorded impressive growth throughout the 1990s, and the firms with the best products succeeded.

## I. Trends for the Future



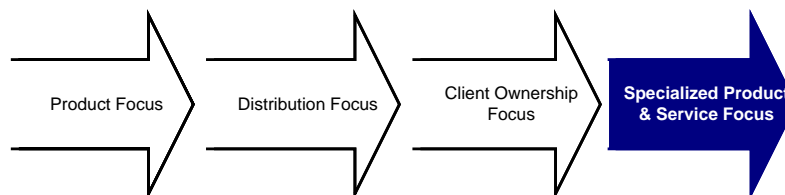
### *Client Ownership Focus*

The shift to a *Client Ownership Focus* was precipitated by two world events: the Asian currency crisis in late 1997 and the Russian debt default of 1998. The shocks resulted in clients withdrawing or transferring their assets through many of the intermediary fund distribution platforms.

#### **Case Study: Charles Schwab's OneSource**

OneSource earns its fees by providing services to mutual funds, such as holding the investor records and producing account statements. When a Schwab client withdraws money from an externally managed fund run by Company A and places it in a Schwab money market fund, the assets and client vanish from Company A's view. Company A has been disintermediated and no longer controls or 'owns' the client.

Fund companies that had relied upon these channels now experienced the downside of the platforms' asset gathering potential. As a result, fund companies are now turning to a *Client Ownership Focus*, whereby they develop strategies and products to ensure they have client information, control and ownership. Fund networks, which allow customers to purchase a select list of approved competitors' funds, are being developed by fund companies. We believe that a *Client Ownership Focus* will be a driving theme within the mutual fund industry for the next three years.



### *Specialized Product & Service Focus*

The next industry stage will be characterized by a *Specialized Product and Service Focus*. We believe this is emerging now as an extension of the *Client Ownership Focus*. After implementing client ownership strategies, companies will develop new service and product extensions that will help draw new customers to them.

Generally, these new areas will be high value-added services or products such as trust and estate services, risk management, hedging instruments, alternative asset classes or offshore products. The delivery of these services and products will ensure close client contact and ownership of the relationship. Target clients will be high net worth individuals, offshore investors and foreign institutions.

## II. Asset Management Activity

### *Gaining Assets Around the World*

The global asset management industry experienced another strong year in 1999. The US equity markets had a great year, with the S&P 500 gaining over 21%, the fifth straight year of 20+% returns. The NASDAQ composite experienced its best year ever, gaining over 85%. The bond markets suffered in 1999 as the economy continued its growth, and fears of rate increases rose. Total activity in the industry continued on the strength of 1998.

Returns for 1999 were:

- *S&P 500: 21.04%*
- *NASDAQ Composite: 85.59%*
- *Lehman Brothers Aggregate Bond Index: -0.83%*

The total number of transactions increased for the third straight year, with the 112 acquisitions accounting for approximately 64% of the total. The future of the industry looks bright. Deregulation in Japan and the introduction of the Euro present exciting opportunities for both US and global firms. In the US, the long bull market has created a large pool of wealthy clients who drive the demand for financial products and services.

**Number & Type of Global Transactions**

Year	Acquisition	Alliance	Distribution	IPO	JV	MBO	Total
1996	45	2	0	0	1	1	49
1997	90	7	3	2	17	1	120
1998	103	9	21	2	29	2	166
1999	112	20	11	3	27	3	176
<b>Total</b>	<b>350</b>	<b>38</b>	<b>35</b>	<b>7</b>	<b>74</b>	<b>7</b>	<b>511</b>

Source: Freeman & Co., No. 23

US firms continue to be market leaders in entering new markets, developing new products and delivering new services. As US firms expand, we expect to see a *Client Ownership Focus* drive strategy for developing new distribution channels, client bases and geographic regions. Acquisitions will focus on firms with strong client relationships. Firms will only pursue distribution channels that provide close client contact.

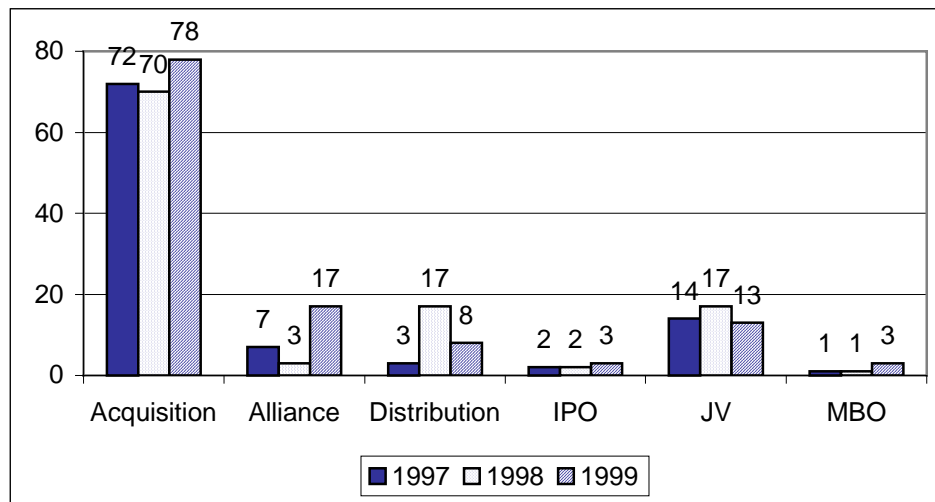
A *Specialized Product and Service Focus* will then evolve as firms build or acquire unique products such as consulting, analytic, trust, custodial and other capabilities to attract new customers. This stage in the industry is emerging, and we expect the core asset management business to expand into related areas through a build or buy strategy.

*Client Ownership  
Focus*

*Specialized Product and  
Service Focus*

## II. Activity in 1999

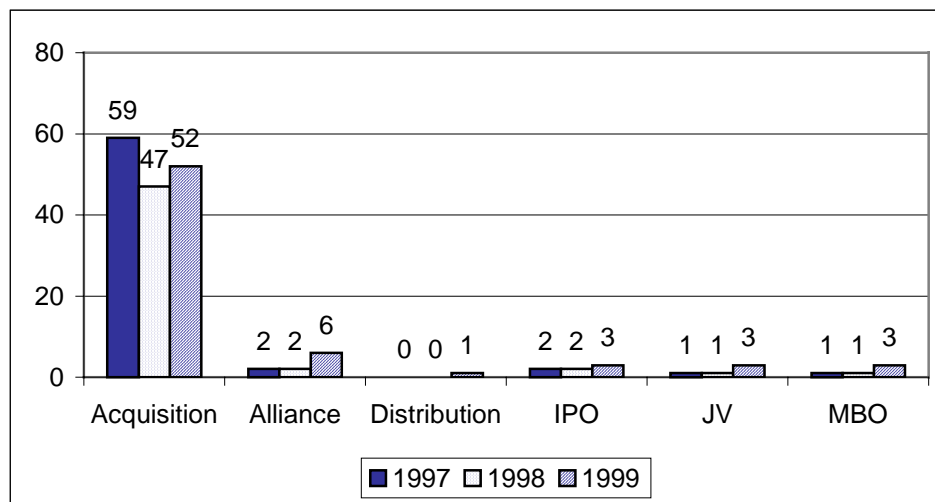
**Number & Type of Transactions**  
(either firm US-based)



Source: Freeman & Co., No. 22

The majority of deal activity involved at least one US firm, representing 122 deals (see chart above), or 69% of total transactions in 1999. US firms have been active in developing cross-border relationships to gain access to new markets. The majority of these deals have involved Japan and Europe; South American activity has been developing recently.

**Number & Type of Transactions in US**  
(both firms US-based)



Source: Freeman & Co., No. 21

Transactions involving only US firms totaled 68 in 1999, slightly surpassing the 1997 level of 65 and up from a low of 53 in 1998. Activity should remain at the current level, with a higher number of non-traditional acquisitions offsetting cautiousness by traditional buyers. The number of US firms completing transactions abroad totaled over 50 for the second straight year.

## II. Activity in 1999

### *Selling Assets Around the World*

The global race to acquire assets continued again in 1999, reaching \$672 billion in assets acquired. This represents a 40% increase over the prior year, yet falls short of the record \$752 billion acquired in 1997. Buyers paid over \$20 billion for acquisitions in 1999. Once again the US was the dominant market, representing 63% of the value of assets sold. The number two selling market was Europe, with activity reaching \$136 billion in assets sold at a cost of \$4 billion, up from a slower 1998.

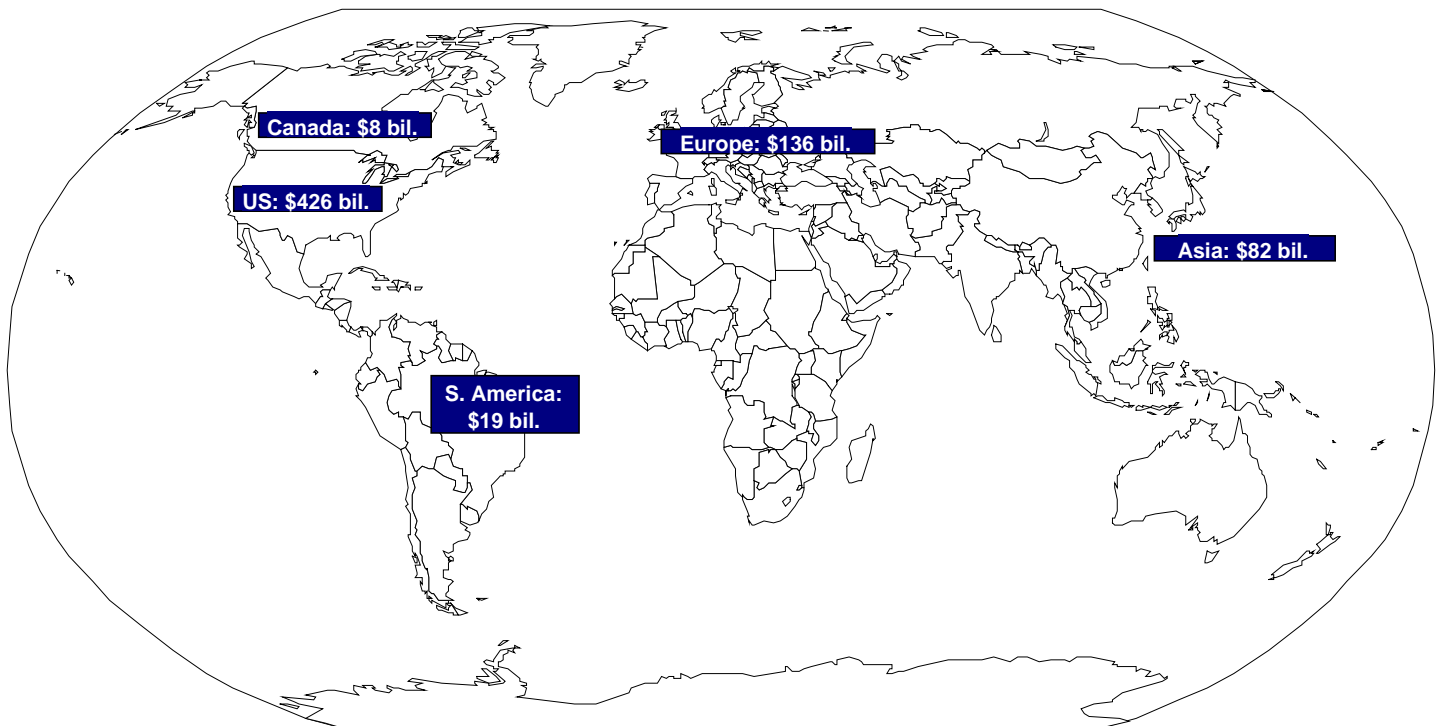
**Acquired Assets Under Management (\$MM) - By Seller Region**

Region	1997	1998	1999	Total
Africa	-	34,910	-	34,910
Asia	21,840	68,982	82,244	173,066
Canada	9,000	11,600	8,304	28,904
Europe	194,595	125,702	136,127	456,424
South America	312	8,285	19,062	27,659
US	525,875	229,280	426,169	1,181,324
<b>Total</b>	<b>751,622</b>	<b>478,759</b>	<b>671,906</b>	<b>1,902,287</b>

Source: Freeman & Co., No. 71

One trend of particular note is the steady increase in South American transactions. We expect this to be an interesting marketplace over the next three years as changing regulation allows US and European firms to compete in their privatized pension systems. In particular, we expect insurance companies to become more significant in these transactions.

**Assets Acquired by Seller's Region - 1999**



## II. Activity in 1999

### Buying Assets Around the World

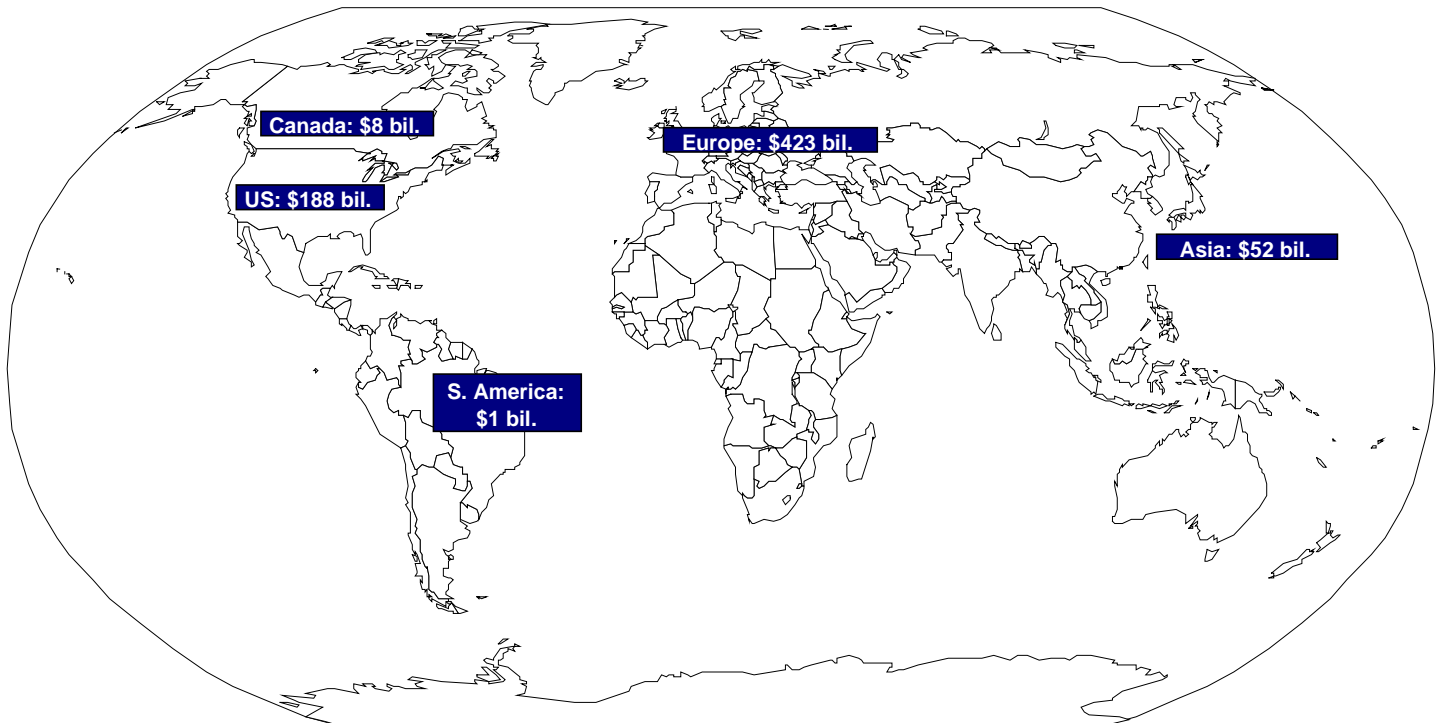
Acquired Assets Under Management (\$MM) - By Buyer Region

Region	1997	1998	1999	Total
Africa	1,000	54,860	-	55,860
Asia	6,140	25,664	52,028	83,832
Canada	-	13,893	8,359	22,252
Europe	229,645	140,003	422,796	792,444
South America	12	-	662	674
US	514,825	244,339	188,061	947,225
<b>Total</b>	<b>751,622</b>	<b>478,759</b>	<b>671,906</b>	<b>1,902,287</b>

Source: Freeman & Co., No. 72

Although the US still conducted a larger number of transactions, European buyers acquired companies of larger value. Many of these transactions were large intra-Europe deals like *Lloyds'* acquisition of *Scottish Widows*, yet others were cross-border deals like *Allianz's* acquisition of *PIMCO* and *Credit Suisse's* acquisition of *Warburg Pincus*. We believe there will be a significantly greater number of large intra-European acquisitions over the next three years as European firms merge to gain the scale necessary to compete in a pan-European marketplace. The third largest manager in France is probably only the twentieth largest manager in all of Europe. European firms will need size and scale to compete across the continent with European rivals and to fend off US firms.

Assets Acquired by Buyer's Region - 1999



### III. Buyers & Sellers

#### *Size of US Activity*

The major trends in the US acquisition market are the concentration of deals among firms with less than \$5B in AUM and the decline in the number of large transactions (>\$10B in AUM). The latter can be attributed to a lack of available firms for sale in this segment. Our data indicates there are approximately only 40 independent, privately owned US asset managers with greater than \$10B in AUM. With this shrinking pool of large, private managers available for sale, we expect the number of deals to remain at current levels for the next three years.

**US Firms Acquired – by Size**

Firm Size (AUM)	1996	1997	1998	1999	Total	% of Total
<\$500MM	13	13	14	14	54	27%
\$500MM - \$5B	16	31	19	29	95	48%
\$5B-\$10B	4	9	5	6	24	12%
+\$10B	8	8	5	4	25	13%
<b>Total</b>	<b>41</b>	<b>61</b>	<b>43</b>	<b>53</b>	<b>198</b>	<b>100%</b>

Source: Freeman & Co., No 60-63

Nevertheless, large public companies could be the next target for M&A activity in one scenario. The bull market has benefited firms, enabling them to pay rising technology and distribution costs. However, a prolonged period of poor returns would hit firms with the dual forces of asset outflows and negative asset returns. Falling revenues, a sizable cost base and shrinking operating leverage could induce public companies to consolidate. We expect firms with between \$10 - \$25B in AUM to be the most vulnerable.

#### *Size of Non-US Activity*

Activity outside the US shows two interesting trends: the increasing number of acquisitions of firms with assets between \$500MM and \$5B, and the slow increase in large-firm acquisitions. We expect the activity in the smaller segment (\$500MM-\$5B) to continue at or above its current levels. The reason for this is that these firms represent a smaller investment for buyers, which are making selective transactions in specific markets. We expect top firms to be acquired in key cities or countries, such as a private bank in Brussels, a pension manager in Brazil or a unit trust manager in Seoul. Regulatory changes - Japanese deregulation, introduction of the Euro and new access to private pensions in South America – will all boost activity.

**Non-US Firms Acquired – by Size**

Firm Size (AUM)	1996	1997	1998	1999	Total	% of Total
<\$500MM	0	4	9	5	18	21%
\$500MM - \$5B	2	4	12	22	40	47%
\$5B-\$10B	0	2	4	3	9	11%
+\$10B	1	3	7	7	18	21%
<b>Total</b>	<b>3</b>	<b>13</b>	<b>32</b>	<b>37</b>	<b>85</b>	<b>100%</b>

Source: Freeman & Co., No 65

For large firms, M&A activity will be concentrated in Europe. These transactions will be split between intra-Europe deals, whose purpose would be to compete in a pan-European market, and cross-border deals with US firms, whose purpose would be to gain access to markets. M&A activity in Japan should be predominantly intra-Japan.

### III. Buyers & Sellers

#### *Shopping Sprees*

In the US, recent M&A activity has been driven by a small number of companies with clearly defined acquisition strategies. The firm that dramatically changed the landscape, *Affiliated Managers Group (AMG)*, did so by making its high-profile majority acquisition of *Tweedy, Browne Company* in 1997. At the time *Tweedy, Browne* had approximately \$4.5B in AUM and was gathering assets quickly through its two mutual funds, which had four- and five-star ratings from *Morningstar*. A successful acquisition allowed *AMG* to speed up its IPO debut to November 1997.

Top 10 US Buyers of Firms 1996-1999

Acquirer Name	# of Transactions	Total Assets Acquired	Majority	Minority	100%	Assets <\$5 bil	Assets >\$5 bil
Affiliated Managers Group	12	42,080	10	0	2	10	1
United Asset Management	11	30,950	1	1	9	9	1
Convergent Capital	8	7,070	5	2	0	7	0
Nvest	7	15,464	0	0	6	6	1
Legg Mason	5	10,911	1	0	4	4	1
US Trust Company	5	5,250	0	0	5	5	0
Value Asset Management	4	8,500	3	1	0	4	0
Conning Corporation	4	2,800	0	1	3	2	0
Merrill Lynch	3	187,600	0	0	3	0	2
Scudder Kemper Investments	3	67,570	2	0	1	2	1
<b>Total</b>	<b>62</b>	<b>378,195</b>	<b>22</b>	<b>5</b>	<b>33</b>	<b>49</b>	<b>7</b>

Source: Freeman & Co., No. 64

Due to the success of *AMG*'s partial acquisition strategy, sellers have had a clear alternative to the "100% acquisition" strategy developed by *United Asset Management (UAM)*. Our research shows that *AMG* has surpassed *UAM* in activity over the past four years. Other start-ups with similar strategies also offer an alternative to the 100% acquisition approach pioneered by *UAM*. *Convergent Capital Management (CCM)*, third in the number of acquisitions, follows *AMG*'s strategy of buying less than 100% and leaving significant stakes with management. *Value Asset Management (VAM)* has focused on larger transactions (\$8B in total v. \$7B in total for *Convergent*) and has acquired stakes in four companies from 1996 to 1999.

#### **Case Study: AMG vs. UAM**

We began analyzing the *AMG* business model at the time of its *Tweedy, Browne* acquisition (pre-IPO), and we concluded that *AMG* represented a competitive threat to *UAM*. In the past two years, *AMG* has completed six acquisitions, while *UAM* has made one acquisition. In fact, *UAM* has begun 'un-acquiring' companies, selling *TSA Analytics* to *First Union* in 1998. The change has affected *UAM*'s stock, which is down from a two year high of \$27 to \$16 recently. *UAM* must change its strategy to compete with other acquisition models as well as with integrated asset management companies. Another issue is who will lead *UAM*? – its president announced his departure in November 1999, and the firm has announced a search to replace him as well as the Founder/Chairman/CEO, who is set to retire next year.

### III. Buyers & Sellers

#### *Consolidator Community*

We feel the new consolidators (*AMG*, *CCM*, *VAM*) may experience funding problems. *AMG* clearly has the edge in acquiring firms through its use of cash plus publicly traded stock. We expect *VAM* and *CCM* to have difficulty competing due to their lack of public stock. These firms could offer all cash deals, but it is questionable whether their funding sources would continue to support them when private acquisition multiples are rising and IPO prospects are poor. (Note the performance of *Gabelli* (GBL) and *Neuberger Berman* (NEU) since their respective IPOs).

We are concerned about *AMG's* ability to execute its strategy with second generation shareholders. The first of its purchase obligations of remaining stock comes due in the next two years. Will *AMG* experience the types of problems that have plagued *UAM*? Might second generation shareholders leave to start their own firms? Could a fall in *AMG's* stock effect its financing ability for purchase obligations? *AMG* generally buys the remaining shares at 5x-8x free cash flow. This strategy works well in a flat or rising market, but could experience problems in an environment where assets under management are decreasing.

#### *The Other Buyers*

Aside from the consolidators, there is still a wide range and variation in the type of firms that are buying US-based asset managers. The most prominent buyers are the larger firms – commercial banks, global investment banks and diversified asset managers - though boutiques are a major player in this area too. Still, the consolidators represent the largest group of buyers. One emerging group is domestic investment banks/brokerages. These buyers have been led by firms like *Legg Mason* (LM), with the object of accumulating assets and building fee revenue.

**Type of Firms Buying US Firms & Number of Acquisitions**

Type	1996	1997	1998	1999	Total
Alternative Investments	0	0	2	1	3
Boutique	8	11	7	7	33
Commercial Bank	1	15	7	11	34
Consolidator	8	16	8	9	41
Consolidator Affiliate	3	0	0	0	3
Consulting/Data Provider	0	0	2	2	4
Diversified Asset Manager	9	8	3	6	26
Global Investment Bank	5	3	2	3	13
Insurance	2	3	5	7	17
Insurance/Consolidator	0	2	8	2	12
Investment Bank/Brokerage	2	4	4	7	17
Private Equity/LBO/VC	1	0	1	1	3
Real Estate	0	0	0	1	1
Trust Company	2	2	6	3	13
<b>Total</b>	<b>41</b>	<b>64</b>	<b>55</b>	<b>60</b>	<b>220</b>

Source: Freeman & Co., No 68

Absent among recent buyers have been many large firms such as *Chase* or *Merrill Lynch*. Many of these firms, such as *Chase*, are integrating large acquisitions, while others, such as *Merrill Lynch*, are trying to manage previous investments. The large firms with multiple business lines risk losing market share, assets and brand recognition to firms such as *Janus*, *Putnam* or *T. Rowe Price*, which focus on single-line businesses.

### III. Buyers & Sellers

#### *Changing Acquisition Structures*

As mentioned previously, **AMG** developed a new business model that effected the industry. First, it provided a different acquisition model for sellers of smaller firms (<\$5B in AUM) that allowed sellers to retain direct ownership and to recycle equity to junior employees. The second effect **AMG** had was to provide Wall Street with a second asset management ‘roll-up’ play. The result has been a comparison of currencies – at year-end, **AMG** traded at 14.7x EBIT versus 11.4x EBIT for **UAM**. (See: Section VII. Comparables for more detail.)

The other major change **AMG** and its competitors, **CCM** and **VAM**, have caused is a shift in acquisition structures. Acquisitions classified as “100% acquisitions” like the type **UAM** has made have fallen from 74% of total acquisitions in 1996 to only 52% in 1999. It appears that the problems at **UAM**, plus the new alternatives developed by **AMG** and its peers have impaired **UAM**’s growth-through-acquisition plan. Consequently, we expect **UAM** to change its acquisition strategy. Meanwhile, majority acquisitions increased to a record number - 26 in 1999, an increase of 116% over the previous year. The other dramatic shift has been the shift to minority acquisitions, which composed 21% of deals in 1999.

**Number & Type of Acquisitions**

Acquisition Types	1996	1997	1998	1999	Total
100% Acquisition	31	44	43	49	167
Majority	3	18	12	26	59
Minority	8	9	17	20	54
<b>Total</b>	<b>42</b>	<b>71</b>	<b>72</b>	<b>95</b>	<b>280</b>

Source: Freeman & Co., No. 73

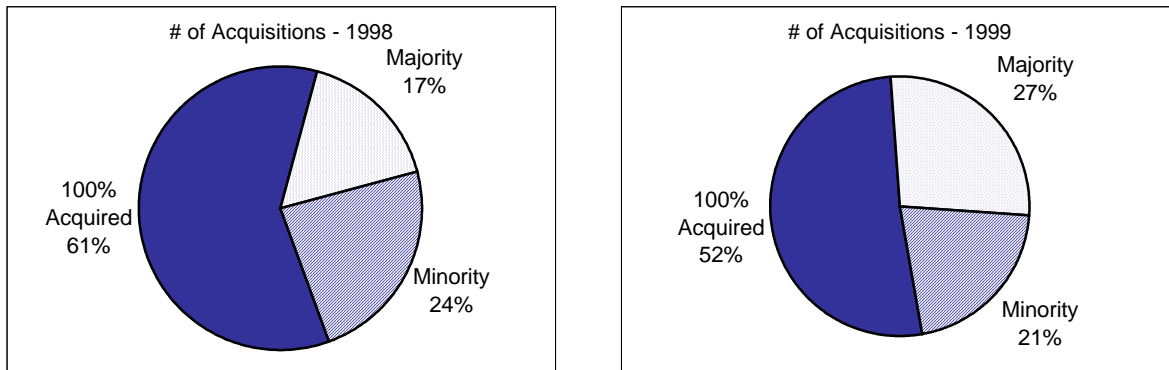
Going forward, we expect that for acquisitions of smaller firms, where the purpose of the transaction is to capitalize owners’ stakes in the business, consolidators will solidify their position as the key buyers and use a majority acquisition deal structure. ‘100% acquisitions’ will be used for middle-tier firms. These will be second or third generation firms where the seller no longer relies upon a limited number of key employees or where the firm has a diverse shareholder base. These middle-tier firms would generally have more than \$5B in AUM as well as multiple product lines and distribution channels that need to be closely integrated with those of the acquirer to achieve synergies and economies of scale.

### III. Buyers & Sellers

#### *Changing Acquisition Structures (continued)*

A surprising trend is the continued use of minority acquisitions. Minority investments are notoriously difficult to structure, particularly if the seller will not define when, how or at what price the investor can increase its stake. In fact, many strategic buyers shy away from these transactions for fear of being held hostage by sellers who ask for unreasonable premiums for the majority stake. Other buyers avoid such acquisition structures since they are reluctant to build someone else's business and then pay a premium to get a majority stake in what they have just built.

#### Use of Different Acquisition Structures



Source: Freeman & Co.

Nevertheless, we expect minority investments to increase in the future. Premium properties will be courted by many acquirers and will be able to demand their own terms in many cases. A clear difference will develop between firms that can demand terms from the buyers and those that are viewed as average companies. The difference involves product scarcity and client retention ability, which are reflected in our themes of *Client Ownership Focus* and *Specialized Product and Service Focus*. Firms with unique products, protected distribution channels, sellable stories and desirable histories, etc. will command a premium and can dictate terms to buyers. **Tweedy, Browne** was such a firm.

### III. Buyers & Sellers

#### *Acquisition Strategies*

A more detailed review of past acquisition strategies will guide our analysis of the future of distribution and its implications. The consolidators and other buyers initially targeted large institutional firms or firms with mutual funds. Institutionally focused firms provided a critical mass of assets, strong relationships with consultants and well-defined products. Buyers were attracted to the strong product track records with the hope of leveraging their marketing capability by offering the new products to their clients. Two problems can arise when executing this strategy – first, key portfolio managers can leave and take assets with them (*Marisco Capital* and *Fox Asset Management* being examples). Second, relative track records can change quickly.

#### *The Schwab OneSource Effect*

Another common strategy employed was to target small firms with top-ranked mutual funds. Acquiring the fund would allow a buyer to place it on its fund platform to drive asset growth. *Charles Schwab's* OneSource program allowed small firms with high-ranking products to gain distribution. Such funds were able to raise hundreds of millions of dollars and a larger buyer could leverage this into billions.

#### Total Mutual Fund Industry Net Assets

(\$ billions)

Year	Equity Funds	Bond Funds	Money Market	Total Industry Assets	Schwab Mutual Fund Assets		
					Schwab Assets	% of Industry Total	% of Equity & Bond Funds
1990	245.8	322.7	498.3	1,066.8	n.a.		
1991	411.6	441.4	542.5	1,395.5	n.a.		
1992	522.8	577.3	546.2	1,646.3	n.a.		
1993	749.0	761.1	565.3	2,075.4	n.a.		
1994	866.5	684.0	611.0	2,161.5	n.a.		
1995	1,269.0	798.3	753.0	2,820.3	81.7	2.9%	4.0%
1996	1,750.9	886.5	901.8	3,539.2	117.7	3.3%	4.5%
1997	2,399.3	1,031.5	1,058.9	4,489.7	160.4	3.6%	4.7%
1998	2,978.2	1,195.3	1,351.7	5,525.2	210.6	3.8%	5.0%
1999E	\$3,871.7	\$1,374.6	\$1,486.9	\$6,733.1	\$284.3	4.2%	5.4%
<b>CAGR%</b>	<b>36%</b>	<b>17%</b>	<b>13%</b>	<b>23%</b>			

Source: ICI Mutual Fund Fact Book, 39th Ed., Charles Schwab Annual Reports

n.a.: not available

OneSource earns its fees (a considerable 25-35% of the management fee) by providing a distribution platform and sub-custodian services such as client statements, telephone inquiries, etc. This approach works well except when fund performance dips. Two events dramatically changed the effectiveness of this *Distribution Focus* strategy –

- *Asian currency crisis in 1997*
- *Russian debt default in 1998.*

Accounts at *Schwab's* OneSource sold or shifted mutual fund holdings, leaving the fund companies that had relied on OneSource with billions in asset outflows. Since OneSource acted as the sub-custodian, the individual account holders were unknown to the fund management companies. The

### III. Buyers & Sellers

#### *The Schwab OneSource Effect, continued*

money and the ‘clients’ vanished because **Schwab** acted as the sub-custodian and held all customer information exclusively. Fund companies had been effectively disintermediated by **Schwab** and no longer owned the customer. While OneSource provides the benefit of powerful distribution, the cost of not owning one’s customers is high for managers with poor performance or in volatile markets. These events started the strategic shift from a *Distribution Focus* to a *Client Ownership Focus* among mutual fund companies.

#### *Proliferation of Approved Lists*

Fund companies shifted strategies and began to offer their own OneSource-like programs through which a customer can purchase the company’s as well as competitors’ products. Their objective is to develop a *Client Ownership Focus* and gain a high percentage and penetration of the client’s wallet with proprietary products. We expect many major direct marketing fund companies to follow the example of firms like **Strong Capital**, which has developed multi-company platforms to retain customers.

#### **Selected Firms with Fund Platforms**

Charles Schwab  
Dreyfus  
Federated Investors  
Fidelity Investments  
Strong Capital  
T. Rowe Price  
Vanguard

These firms will try to limit the number of external products offered and will create ‘approved’ lists of external funds that have passed a proprietary due diligence analysis. We expect these ‘approved’ lists to proliferate as fund companies attempt to provide value-added services to capture and retain clients. How this is implemented will affect the types of firms acquired, the distribution strategies of the future, and the success of the *Client Ownership Focus*.

### III. Buyers & Sellers

#### *Changing Tastes*

The shift from a *Product Focus* to a *Distribution Focus* and the current emergence of a *Client Ownership Focus* will have a dramatic effect on the types of firms that are most appealing to buyers.

**Number & Type of US Firms Acquired**

Type	1996	1997	1998	1999	Total
Alternative Investments	0	0	1	2	3
Boutique	1	6	15	19	41
Commercial Bank	0	0	0	1	1
Consolidator	1	0	0	0	1
Consulting/Data Provider	0	4	7	6	17
Diversified Asset Manager	1	7	4	8	20
Global Investment Bank	0	0	1	1	2
Institutional	23	30	18	6	77
Insurance	1	0	0	0	1
Investment Bank/Brokerage	0	0	1	1	2
Mutual Fund	11	7	0	6	24
Private Client	3	8	5	6	22
Private Equity/LBO/VC	0	1	1	0	2
Real Estate	0	1	1	2	4
Trust Company	0	0	1	2	3
<b>Total</b>	<b>41</b>	<b>64</b>	<b>55</b>	<b>60</b>	<b>220</b>

Source: Freeman & Co., No. 67

Diversified asset managers no longer want to make large and expensive acquisitions, and have shifted from a buy to a build focus. The build focus has emerged because of underperforming past acquisitions, a lack of appealing properties, sellers' increasing price demands and new methods for executing build strategies. Large firms are more eager to embrace sub-advisory relationships where they share in revenue and avoid the capital risk of an acquisition. Lift-outs of entire teams are also becoming more prevalent as firms seek lower cost alternatives to get the products and skills they need.

### III. Buyers & Sellers

#### *Year of the Boutique*

Small asset managers (<\$5B in AUM) will become increasingly attractive targets for buyers. Although these smaller firms may not have brand-name recognition or unique products, they often have extremely strong client relationships. Many boutiques are built on high net worth clients and the relationships they provide.

#### **Boutique's Ideal Client**

A boutique firm's ideal client is someone who:

- Has personal assets of \$10MM and
- Owns a company with \$20MM of DB or DC assets and
- Sits on two small foundations with \$40MM endowments.

These boutiques have long-lasting client relationships that are more forgiving of periods of under-performance than do their institutional counterparts. As a result, acquirers are focusing on the boutique segment. We expect the *Client Ownership Focus* to expand acquisitions to include other types of firms and service providers that have strong client relationships such as

- *high net worth consulting firms*
- *trust & estate service providers*
- *alternative investment firms.*

These areas are valuable additions to an existing asset management business, have high client retention rates and would improve client ownership.

## IV. Distribution Trends

### *United States – Going Global*

One major trend for US diversified asset management companies has been global expansion. The US dominates the global asset management industry, with the UK, continental Europe and Japan trailing. The US firms have benefited from ERISA and the proliferation of 401(k) programs. ERISA's rules on funded plans, as opposed to pay-as-you-go plans in other parts of the world, have created a trillion-dollar pool of capital. The 401(k) plan has allowed large mutual fund firms to capture the individual investor while erecting huge barriers to entry due to the technological complexity of providing plan services.

US firms have been busy trying to gain access to markets abroad. 1999 was another strong year with 42 such agreements reached, falling just short of the 45 arrangements in 1998. The transaction methods are different than those employed in the US, which are primarily acquisitions. Only 33% of the deals done by US firms to gain foreign access involved an acquisition. The remaining 67% of arrangements consisted of working alliances (12%), distribution agreements (23%), joint ventures (30%) and new business launches (1%).

**Number & Type of Deals by US Firms to gain Access Abroad**

Transaction Type	1996	1997	1998	1999	Total	% of Total
Acquisition	1	6	13	18	38	34%
Alliance	1	3	0	9	13	12%
Distribution	0	3	16	7	26	23%
JV	0	10	16	7	33	30%
New Business	0	0	0	1	1	1%
<b>Total</b>	<b>2</b>	<b>22</b>	<b>45</b>	<b>42</b>	<b>111</b>	<b>100%</b>

Source: Freeman & Co., No. 31

US firms need local partners to access foreign markets. Most US firms are partnering with large firms overseas to gain marketing and product support and brand-name affiliation. The limited use of new independent business launches by US firms abroad indicates how difficult it is for even the strongest asset managers to build their businesses alone overseas. While US firms have a *Distribution Focus* internationally, they should structure their ventures with a *Client Ownership Focus*.

**Number & Type of US Firms Transacting with Foreign Firms**

Type	1996	1997	1998	1999	Total
Alternative Investments	0	0	0	2	2
Boutique	0	5	3	7	15
Commercial Bank	0	7	21	13	41
Diversified Asset Manager	2	4	6	8	20
Global Investment Bank	0	0	2	2	4
Insurance	0	5	7	3	15
Investment Bank/Brokerage	0	0	6	2	8
Mutual Fund	0	0	0	1	1
Pension Funds	0	0	0	4	4
Real Estate	0	1	0	0	1
<b>Total</b>	<b>2</b>	<b>22</b>	<b>45</b>	<b>42</b>	<b>111</b>

Source: Freeman & Co., No. 77

## IV. Distribution Trends

### *Overview of Shifting Regional Interest*

US firms concentrated their overseas expansion efforts primarily on the Asian and European countries, as the chart below shows.

**Number & Location of Deals by US Firms gaining Non-US Distribution**

Region	1996	1997	1998	1999	Total	% of Total
Asia	0	10	32	21	63	56%
Canada	0	2	1	1	4	4%
Europe	2	7	12	13	34	30%
South America	0	4	2	6	12	11%
<b>Total</b>	<b>2</b>	<b>23</b>	<b>47</b>	<b>41</b>	<b>113</b>	<b>100%</b>

Source: Freeman & Co., No. 33

### Japan

Asian activity was focused on Japan, which represented 42% of all deals done by US firms seeking regional distribution. Deregulation in Japan was the catalyst for this activity – banks were allowed to sell mutual funds, foreign currency restrictions were lifted and fixed commission rates were removed. Although activity in Japan slowed after the Big-Bang, which authorized mutual fund sales through banks as of December 1998, we expect it to moderate during 2000 upon the enactment of legislation allowing 401(k)-type savings plans later in that year.

### Europe

We expect the European market to be the next area of focus for US firms. The Euro has made it easier and less costly for US firms to enter the European market by:

- *reducing the technological complexity of entering Europe*
- *eliminating the need to establish systems handling a dozen currencies and numerous regulatory environments*
- *reducing cost and complexity for all competitors.*

On the investing side, the Euro favors a pan-European investing approach over single country investing. European-style investing of betting on countries and currencies will shift to industry research and stock selection, skills upon which the US firms have long relied. On the fixed income side, US firms have a great advantage in credit research as Europeans have focused on country, interest rate and exchange rate risk.

European corporations have long relied upon the universal banks in their home countries for their financial needs. A single currency will allow corporations to sell bonds across Europe without currency risk. In fact, a large corporate (high grade and high yield) market is developing. This new bond market presents US firms with the opportunity to gain a first mover advantage over their European counterparts.

## IV. Distribution Trends

### *Entering New Countries*

We expect European countries to remain targets for distribution by US firms. The largest European markets - the UK, France, Italy, Spain and Germany - will be targeted by the largest US firms. Smaller US firms may choose a strategy of targeting smaller markets with the hope of gaining a strong market position -- markets such as the Scandinavian or Benelux regions.

**Number of deals by US Firms to gain Non-US Distribution, by Country**

Distribution Country	1997	1998	1999	Total	% of Total
Australia	0	2	2	4	4%
Belgium	0	1	0	1	1%
Bermuda	0	0	1	1	1%
Brazil	2	0	2	4	4%
Canada	2	1	1	4	4%
Chile	0	0	3	3	3%
France	0	1	4	5	5%
Germany	1	1	1	3	3%
Hong Kong	2	0	1	3	3%
Italy	2	2	0	4	4%
Japan	5	29	12	46	42%
Korea	1	0	1	2	2%
Mexico	2	0	1	3	3%
Norway	0	0	1	1	1%
Offshore	0	0	2	2	2%
Poland	0	0	1	1	1%
Russia	1	1	0	2	2%
Scotland	0	0	1	1	1%
Singapore	0	0	3	3	3%
South Korea	1	0	1	2	2%
Spain	0	1	0	1	1%
Switzerland	0	1	1	2	2%
UK	3	4	3	10	9%
Venezuela	0	1	0	1	1%
<b>Total</b>	<b>22</b>	<b>45</b>	<b>42</b>	<b>109</b>	<b>100%</b>

Source: Freeman & Co., No. 32

We expect that South American activity will increase as regulatory barriers fall, allowing US firms to compete for the privatized pension schemes prevalent in this region. Activity has increased significantly and should continue in the large markets – Mexico, Brazil and Argentina – as well as in Chile.

## IV. Distribution Trends

### *Japan – Gaining Access*

International expansion by global firms was driven by access to the Japanese markets. Changes in regulation have allowed firms to enter Japan more easily and partner with local firms to create products for the Japanese market. In December 1998, Japanese banks were allowed to sell bank-sponsored mutual fund products directly to retail branch customers. The changes allowed foreign financial institutions to compete effectively with local firms.

Foreign firms rushed to compete for the estimated \$10 trillion in household savings, much of which resides in bank deposits earning less than 50 basis points. The result was a proliferation of deals in 1998 as foreign firms sought to offer investment products and business experience to local firms.

- *The Japanese markets are in a period of Product Focus and Distribution Focus.*
- *Firms will eventually migrate to a Client Ownership Focus.*

The ideal candidates for foreign firms were the city-center banks that dominated the banking industry – **Bank of Tokyo-Mitsubishi, Sumitomo Bank, Fuji Bank, Daiwa Bank, Sanwa Bank and Dai-Ichi Kangyo Bank**. Most of these deals were structured as working alliances, joint ventures or product distribution agreements, which allowed foreign firms to gain access to the local customers without incurring huge capital costs.

**Number & Type of Transactions in Japan**  
(either firm Japan-based)

Year	Acquisition	Alliance	Distribution	JV	Total
1996	0	0	0	1	1
1997	0	1	3	3	7
1998	13	4	19	15	51
1999	13	4	2	10	29
<b>Total</b>	<b>26</b>	<b>9</b>	<b>24</b>	<b>29</b>	<b>88</b>

Source: Freeman & Co., No. 40

In 1999, activity fell off dramatically as one would expect. Next year, activity should moderate, but with two possible shifts:

- *First, the legislature plans to introduce final regulations for a 401(k)-type plan late in 2000. This should prompt a smaller wave of deals with consulting, technology and service providers. Firms like **ADP, Mercer, and Watson Wyatt Worldwide** should push to develop alliances to provide services to this new market.*
- *The second shift could be a reshuffling of alliances as Japanese firms merge (Note the **Fuji-DKB-IBJ** merger) and partnerships fail to meet expectations. A second wave of relationships could begin to form over the next two years.*

## IV. Distribution Trends

### *Japan – Big Players Benefit*

The largest global firms, including *Goldman, Sachs* and *Citigroup*, developed relationships to tap the Japanese market. Smaller firms did not have the size and brand name to establish these relationships. The cost of tapping the Japanese market can be enormous for foreign firms. These costs include increased compensation, living adjustments and travel, as well as the costs to develop, market and support products in a foreign language that is not based on the Roman alphabet. Global firms have a distinct advantage in this area due to capital and human resources. We expect those firms that succeed in Japan to spend millions developing their businesses, yet this capital barrier will allow them to solidify their position as the strongest global financial services firms. Smaller firms will miss the opportunity.

**Number & Type of Firms Gaining Distribution in Japan**  
(either firm Japan-based)

Type	1996	1997	1998	1999	Total	% of Total
Commercial Bank	0	1	10	6	17	20%
Consolidator	0	0	1	1	2	2%
Consulting/Data Provider	0	0	0	2	2	2%
Diversified Asset Manager	1	2	14	7	24	28%
Global Investment Bank	0	1	15	5	21	24%
Insurance	0	2	5	5	12	14%
Investment Bank/Brokerage	0	0	4	1	5	6%
Trust Company	0	0	0	3	3	3%
<b>Total</b>	<b>1</b>	<b>6</b>	<b>49</b>	<b>30</b>	<b>86</b>	<b>100%</b>

Source: Freeman & Co., No. 41

### *Japan – US Product Dominance*

An example of US firms' dominance in the global industry is their prevalence in gaining distribution deals in the Japanese market. Including Japan-Japan deals, US firms represented 53% of the transactions; excluding intra-Japan deals, US firms represented 70% of transactions. In most cases Japanese firms provide local distribution, while US or European firms provide products and support. European firms established 19 relationships versus 47 for US firms. The global standard in many cases is really a US standard.

**Country of Firms Gaining Distribution in Japan**  
(includes Japan-Japan distribution)

Country	1996	1997	1998	1999	Total	% of Total
France	0	1	2	2	5	6%
Germany	0	0	3	2	5	6%
Hong Kong	0	0	1	0	1	1%
Japan	0	0	12	10	22	25%
Netherlands	0	0	1	0	1	1%
Switzerland	0	0	2	0	2	2%
UK	1	0	2	3	6	7%
US	0	5	30	12	47	53%
<b>Total</b>	<b>1</b>	<b>6</b>	<b>53</b>	<b>29</b>	<b>89</b>	<b>100%</b>

Source: Freeman & Co., No. 42

## IV. Distribution Trends

### *Europe – Continued Interest*

Europe will be the focus region for many global firms since the introduction of the Euro currency changes the structural framework of the European asset management industry and provides firms with numerous opportunities. Firms will move to take advantage of these changes as quickly as possible and seize new opportunities as in Japan. We believe that US firms are well positioned to capitalize on these changes.

Activity in Europe was up again in 1999 with 57 deals, compared to 53 in 1998. The dramatic difference compared to Japan is that 61% of European deals were acquisitions, while in Japan only 30% were acquisitions. This is due to two factors: cross-border intra-European mergers (i.e. France-Belgium), and US firms' long experience with the European markets. We expect that European activity will remain strong for two reasons:

- *European firms will merge to reach the size to compete on a pan-European platform*
- *Non-European firms will target the market due to changes from the implementation of the Euro currency.*

European pension funds were restricted in their investments outside of their domestic markets due to currency risk. The Euro removes this risk and will lead a change towards pan-European investing. Standardization of accounting and regulatory rules will allow managers to compare investments in different countries easily. Sell-side equity research is moving towards pan-European coverage from a country coverage approach, and this change will influence the buy-side.

**Number & Type of Transactions in Europe**  
(either firm European-based)

Year	Acquisition	Alliance	Distribution	JV	MBO	Total
1996	7	1	0	1	0	9
1997	21	3	0	8	0	32
1998	33	2	4	13	1	53
1999	31	5	7	14	0	57
<b>Total</b>	<b>92</b>	<b>11</b>	<b>11</b>	<b>36</b>	<b>1</b>	<b>151</b>

Source: Freeman & Co., No. 50

On the fixed income side, both the corporate and government bond sectors should experience dramatic change and growth. European corporations often relied upon the domestic universal banks for financing; the single currency and standardization of accounting and regulations should allow corporations to issue bonds to a pan-European investing community. Some major changes should result:

- *Research should shift from a country and currency focus to a credit focus as investors no longer predict (non-existent) exchange rate movements.*
- *The high yield market should develop in Europe.*
- *Firms with industry and credit research should succeed in this new environment.*

## IV. Distribution Trends

### *Europe – Can Smaller Firms Gain Access?*

As in the Japanese market, smaller firms will have difficulty gaining access to and surviving in the European market. Activity has been concentrated within the following types of large firms:

- *commercial banks*
- *diversified asset managers*
- *global investment banks*
- *insurance companies*

We think small firms' chances are greater in Europe than in Japan due to their greater familiarity with the European markets as well as the strength of some of their existing relationships. Boutiques, consolidators and insurance subsidiaries have been able to establish beachheads in Europe more easily than in Japan. We believe small firms will continue to develop relationships as domestic firms require products and support to compete on a pan-European basis.

**Number & Types of Firms Gaining Distribution in Europe**

Type	1996	1997	1998	1999	Total	% of Total
Boutique	0	0	2	3	5	3%
Commercial Bank	2	12	14	18	46	30%
Consolidator	1	0	0	1	2	1%
Consulting/Data Provider	0	2	1	1	4	3%
Diversified Asset Manager	2	7	15	11	35	23%
Global Investment Bank	3	5	6	11	25	17%
Insurance	1	3	11	5	20	13%
Insurance/Consolidator	0	1	1	1	3	2%
Investment Bank/Brokerage	0	0	2	3	5	3%
Pension Funds	0	0	0	2	2	1%
Private Bank	0	1	1	1	3	2%
Private Equity/LBO/VC	0	1	0	0	1	1%
<b>Total</b>	<b>9</b>	<b>32</b>	<b>53</b>	<b>57</b>	<b>151</b>	<b>100%</b>

Source: Freeman & Co., No. 51

The challenge to non-European firms will be to maintain these relationships over time. Many market observers expect M&A activity to increase in all industries across Europe as firms expand beyond a domestic focus. This consolidation may force non-European firms to compete to retain their relationships with ever-evolving partners. It is in this future scenario that small firms may lose their footing in Europe.

## V. Specialized Product Focus

### *Non-Core Products*

For the purposes of this report, we have defined products outside of traditional equity, fixed income and cash management as ‘non-core products’. We have examined these non-core products and services because they show activity related to core products. This analysis provides the opportunity to look for firms that are expanding product offerings or taking unique approaches to attracting assets and retaining clients.

These strategies will be driven by a *Specialized Product and Service Focus*. We believe the convergence between traditional firms and consulting/data providers will continue. The latter types of firms often are clients of, or service providers for, asset management firms. Asset managers with significant retail or high net worth client bases will be interested in acquiring value-added tools and analytics for their customers. Many of these could be web-enabled businesses that allow firms to provide data analytics or reporting over the Internet, thus helping asset managers achieve a *Client Ownership Focus*.

**Non-Core Products & Services Gained by Acquisitions**

Product	1996	1997	1998	1999	Total
Alternative Investments	0	0	5	3	8
Commodities	0	1	0	0	1
Consulting/Data Provider	0	1	3	3	7
DC Services	1	2	2	0	5
Derivatives/Currency	1	0	0	0	1
Fund Analytics	0	2	0	1	3
Fund of Funds	0	0	1	1	2
Other	0	2	3	0	5
Pension Funds/IRAs	1	5	7	9	22
Private Clients	2	5	6	14	27
Private Equity	0	1	1	1	3
Real Estate	2	1	2	1	6
Systems	0	0	0	1	1
Trust Services	0	0	0	1	1
Variable Annuities	0	0	0	2	2
<b>Total</b>	<b>7</b>	<b>20</b>	<b>30</b>	<b>37</b>	<b>94</b>

Source: Freeman & Co., No. 81

We expect to see greater activity in the variable annuity and insurance sectors, as changing regulation presents new opportunities for insurance and banking firms to combine. This trend may make the insurance-backed consolidators (*Phoenix* (PXP), *Conning* (CNNG), *Alleghany* (Y), *Nvest* (NEW) and *Liberty* (L)) and their parents particularly attractive to buyers. Such acquisitions would give the buyer an insurance business, a large asset management group and the capacity for offering variable annuities.

The other trend we believe will continue is the development and retaining of a strong private client base. We anticipate interesting combinations of financial planning firms with banks or asset management firms in the future. *National Financial Partners* is acquiring financial planners and insurance agencies and developing a large platform within this fragmented industry. These may be small-sized deals, but they will be driven by the goal of extending client retention.

## V. Product Focus

*“No Thanks, Not Right Now”*

We have compiled a table of those products and services gained through arrangements other than acquisitions. The most popular products gained are mutual funds, which continue to be the leader in this category. Generally, firms want to get access for their fund products, often in new geographies (Asia, Europe, etc.) or in new product markets (variable annuities, offshore funds, and others).

Two areas that we think will show an increase in activity through non-acquisition strategies will be defined contribution services and alternative investments.

- *For defined contribution services, firms will develop ventures to provide new tools to participants, such as on-line retirement calculators, education or other services.*
- *DC service firms will collaborate with Japanese firms as that market introduces a 401(k)-type system.*
- *Traditional firms will partner with alternative investment providers (i.e. **Putnam – Thomas Lee**) in order to provide these unique products to their client base.*

We include hedge funds, private equity and other similar products in the alternative investment arena. The growth in wealth in the US (S&P 500 up 20+% for five straight years) has created a large pool of high net worth investors at traditional firms who have not yet ventured into non-traditional products. Many traditional firms will have trouble buying non-traditional firms due to valuation issues of performance-based revenue. Therefore, we expect to see fewer acquisitions and more partnerships forming in this area.

### Products & Services Gained by Alliances, Joint Ventures and Distribution Agreements

Product	1996	1997	1998	1999	Total
Advisory	0	0	1	0	1
Alternative Investments	0	0	1	0	1
Commodities	0	0	4	0	4
DC Services	0	0	2	6	8
Derivatives/Currency	0	0	2	0	2
Fund of Funds	0	0	0	1	1
Mutual Funds	1	12	28	16	57
Other	0	1	2	0	3
Pension Funds/IRAs	0	0	3	2	5
Private Equity	0	1	0	2	3
Real Estate	0	1	0	0	1
Separate Accounts	0	4	5	2	11
<b>Total</b>	<b>1</b>	<b>19</b>	<b>48</b>	<b>29</b>	<b>97</b>

Source: Freeman & Co., No. 81

## VI. Conclusion

**W**e have provided our clients, friends and future clients with data in this report that is useful in helping to structure and reach decisions. Most importantly, our research is intended to give you ideas about the future and how your firm will be affected by the changing landscape. Lastly, we welcome your questions and comments on our research and hope to have the chance to work with you soon.

**W**e would like to thank and acknowledge all the Freeman & Co. employees who contributed to our research process and report, including Michael Wachsman, Michael MacPhee and others.

**F**or more information about Freeman & Co. and its services for asset management firms, investment banks, and other financial services firms please contact Eric Weber (212/830-6162) or Jim Freeman (212/830-6177).

**T**o request additional copies of this report, please contact Eric Weber (212-830-6162).

## VII. Public Company Financial Comparables

## Investment Management Company Valuations

## Freeman &amp; Co.

	Fiscal Year	Enterprise Value (EV) <sup>1</sup>	Market Cap \$MM	2/8/00 Share Price	Last 12 Months			Net Income <sup>4</sup>	EV/ EBITDA	EV/ EBIT	Price/ Earnings	Latest Qtr.
					Revenue	EBITDA <sup>2</sup>	EBIT <sup>3</sup>					
<b>Diversified</b>												
Federated Investors (FII)	12/31	2,223.7	1,821.6	22	583.9	285.2	222.2	125.3	6.4x	10.0x	14.5x	9/30
Pioneer Group (PIOG)	12/31	523.4	458.9	17 5/16	325.6	(13.9)	(62.7)	(72.9)	n.a.	n.a.	n.a.	9/30
Franklin Resources (BEN)	9/30	9,256.2	8,856.2	35 1/8	2,262.5	672.3	539.1	426.7	13.2x	17.2x	20.8x	9/30
Gabelli (GBL)	12/31	508.8	458.8	15 7/8	162.3	57.0	56.2	51.1	8.1x	9.1x	9.0x	9/30
John Nuveen (JNC)	12/31	1,129.2	1,129.2	36	341.1	167.7	153.8	89.4	6.7x	7.3x	12.6x	9/30
Waddell & Reed (WDR)	12/31	1,865.5	1,865.5	30 15/16	330.5	155.6	150.4	90.7	12.0x	12.4x	20.6x	9/30
Eaton Vance (EV)	10/31	1,603.9	1,603.9	43 1/16	349.0	141.9	77.9	45.1	11.3x	20.6x	35.6x	10/31
T Rowe Price (TROW)	12/31	4,438.0	4,438.0	36 11/16	986.4	407.9	376.1	234.6	10.9x	11.8x	18.9x	9/30
Neuberger Berman (NEU)	12/31	1,244.8	1,244.8	24 15/16	701.3	448.4	436.9	294.1	2.8x	2.8x	4.2x	9/30
Blackrock (BLK)	12/31	167.1	167.1	18 9/16	409.9	125.3	108.1	52.5	1.3x	1.5x	3.2x	9/30
								<b>Average</b>	<b>8.1x</b>	<b>10.3x</b>	<b>15.5x</b>	
								<b>Median</b>	<b>8.1x</b>	<b>10.0x</b>	<b>14.5x</b>	
<b>Insurance</b>												
Liberty (L)	12/31	942.6	942.6	19 15/16	687.2	329.2	177.7	105.1	2.9x	5.3x	9.0x	9/30
Phoenix Investment Partners (PXP)	12/31	546.9	295.7	6 3/4	265.1	93.6	60.3	25.4	3.2x	9.1x	11.7x	9/30
Alleghany (Y)	12/31	1,796.8	1,379.9	189	1,258.0	226.3	206.5	106.9	6.1x	8.7x	12.9x	9/30
Conning (CNNG)	12/31	156.4	156.4	11 1/8	89.8	26.0	23.6	13.8	6.0x	6.6x	11.3x	9/30
								<b>Average</b>	<b>4.5x</b>	<b>7.4x</b>	<b>11.2x</b>	
								<b>Median</b>	<b>4.6x</b>	<b>7.7x</b>	<b>11.5x</b>	
<b>Consolidators</b>												
Affiliated Managers Group (AMG)	12/31	980.0	821.7	37 9/16	312.4	95.4	70.7	36.9	8.6x	13.9x	22.3x	9/30
United Asset Management (UAM)	12/31	1,794.4	916.5	15 5/8	893.2	309.1	172.1	62.2	3.0x	10.4x	14.7x	9/30
								<b>Average</b>	<b>5.8x</b>	<b>12.1x</b>	<b>18.5x</b>	
<b>Bank/Trust Companies</b>												
US Trust (UTC)	12/31	2,407.8	2,407.8	129	511.1	141.0	120.5	73.2	17.1x	20.0x	32.9x	9/30
Wilmington Trust (WL)	12/31	1,819.7	1,651.7	49 15/16	412.8	195.4	179.2	119.3	8.5x	10.2x	13.8x	9/30
Fiduciary Trust (FCNY)	12/31	260.1	260.1	35 3/4	168.1	39.4	30.9	18.5	6.6x	8.4x	14.1x	9/30
								<b>Average</b>	<b>10.7x</b>	<b>12.9x</b>	<b>20.3x</b>	
								<b>Median</b>	<b>8.5x</b>	<b>10.2x</b>	<b>14.1x</b>	
<b>Limited Partnerships</b>												
Nvest - Operating Partnership (NEW)	12/31	1,100.5	830.5	18 5/8	656.6	182.8	133.4	107.1	4.5x	8.3x	7.8x	9/30
Pimco Advisors - Holding Co & Subs (PA)	12/31	1,957.3	1,876.8	37 7/8	944.2	284.5	201.1	200.8	6.6x	9.7x	9.3x	9/30
Alliance Capital Mgt Holding L.P. (AC)	12/31	7,122.7	6,720.7	39 1/4	1,632.9	630.1	458.2	374.9	10.7x	15.5x	17.9x	9/30
								<b>Average</b>	<b>7.3x</b>	<b>11.2x</b>	<b>11.7x</b>	
								<b>Median</b>	<b>6.6x</b>	<b>9.7x</b>	<b>9.3x</b>	
<b>Overall</b>												
								<b>Average</b>	<b>8.0x</b>	<b>11.3x</b>	<b>16.3x</b>	
								<b>Median</b>	<b>6.7x</b>	<b>10.0x</b>	<b>14.1x</b>	

## Notes

- 1 Enterprise Value (EV) includes equity plus long term debt
- 2 Excludes tangible depreciation and amortization of acquired contracts and deferred sales charges
- 3 Excludes extraordinary items and minority interest expense/income
- 4 Excludes extraordinary items and minority interest expense/income

## Index to Companies

ADP, 22  
Alleghany, 26  
Allianz, 9  
AMG, 11, 12, 13  
Bank of Tokyo, 22  
CCM, 11, 12, 13  
Chase, 12  
Citigroup, 23  
Conning, 26  
Convergent Capital Management, 11.  
    See CCM  
Credit Suisse, 9  
Dai-Ichi Kangyo Bank, 22  
Daiwa Bank, 22  
First Union, 11  
Fox Asset Management, 15  
Fuji Bank, 22  
Gabelli, 12  
Goldman, Sachs, 23  
Jack White, 4  
Janus, 12  
Legg Mason, 12  
Liberty, 26  
Lloyds, 9  
Marisco Capital, 15  
Mercer, 22  
Merrill Lynch, 12  
Mitsubishi, 22  
Morningstar, 4, 11  
Muriel Seibert, 4  
National Financial Partners, 26  
Neuberger Berman, 12  
Nvest, 26  
Phoenix, 26  
PIMCO, 9  
Putnam, 12, 27  
Sanwa Bank, 22  
Schwab, 4, 15, 16  
Scottish Widows, 9  
Strong Capital, 16  
Sumitomo Bank, 22  
T. Rowe Price, 12  
Thomas Lee, 27  
TSA Analytics, 11  
Tweedy, Browne, 11, 14  
UAM, 11, 12, 13  
Value Asset Management. See VAM  
VAM, 11, 12, 13  
Warburg Pincus, 9  
Watson Wyatt Worldwide, 22  
Wellington Capital, 4

## Index to Tables

Number & Type of Global Transactions.....	6
Number & Type of Transactions .....	7
Number & Type of Transactions in US .....	7
Acquired Assets Under Management (\$MM) - By Seller Region .....	8
Assets Acquired by Seller's Region - 1999 .....	8
Acquired Assets Under Management (\$MM) - By Buyer Region.....	9
Assets Acquired by Buyer's Region - 1999.....	9
US Firms Acquired – by Size .....	10
Non-US Firms Acquired – by Size .....	10
Top 10 US Buyers of Firms 1996-1999.....	11
Type of Firms Buying US Firms & Number of Acquisitions .....	12
Number & Type of Acquisitions.....	13
Use of Different Acquisition Structures .....	14
Total Mutual Fund Industry Net Assets.....	15
Number & Type of US Firms Acquired .....	17
Number & Type of Deals by US Firms to gain Access Abroad .....	19
Number & Type of US Firms Transacting with Foreign Firms .....	19
Number & Location of Deals by US Firms gaining Non-US Distribution.....	20
Number of deals by US Firms to gain Non-US Distribution, by Country .....	21
Number & Type of Transactions in Japan .....	22
Number & Type of Firms Gaining Distribution in Japan .....	23
Country of Firms Gaining Distribution in Japan .....	23
Number & Type of Transactions in Europe.....	24
Number & Types of Firms Gaining Distribution in Europe .....	25
Non-Core Products & Services Gained by Acquisitions .....	26
Products & Services Gained by Alliances, Joint Ventures and Distribution Agreements .....	27
Public Company Financial Comparables.....	29



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