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Asset Management Focus

Freeman & Co. LLC

Changing Tides II*

Deal volume, as measured by AUM, is at its highest since 2001. But this measure alone is deceptive in two respects. First, there were two large transactions that drove this AUM volume. These blockbuster deals included Legg Mason's purchase of Citigroup's asset management business ($437 Billion) and Credit Agricole's purchase of Banca Intesa's Nextra unit ($122 Billion), which accounted for 74% of total deal AUM. Second, the underlying reasons for these transactions represent a fundamental strategic shift from growth-driven to business realignment deals. We explore the factors causing this and the strategic responses firms should consider throughout this report.

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Performance as of June 30, 2005

Index	Total Return 1H05	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	-0.8%	6.3%	8.3%	-2.4%
NASDAQ	-5.5%	0.5%	12.0%	-12.3%
FTSE 100	6.2%	14.5%	3.2%	-4.1%
LBGC*	2.8%	7.3%	6.4%	7.7%
HFRI FoF**	1.9%	8.1%	9.4%	6.2%
CSFB/Tremont***	1.3%	8.0%	9.3%	7.3%

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

Indices at 6/30/05:

DJIA	10,275
Nasdaq	2,057
S&P 500	1,191
FTSE 100	5,113
10 Year US Treasury Bond Yield	3.94%
Dollar to Euro	$1.21

Summary:

- The first-half of 2005 saw 83 acquisitions, a slight increase over 78 in 1H04, but powered by two large deals, global assets acquired surged to $755 Billion in 1H05 to a five-year high
- Excluding two jumbo transactions, AUM acquired was still 44% over 1H04 AUM volume. Median AUM returned to 2000 levels
- European M&A activity is robust, with the number of deals surpassing those in the US for the first time since 2001. But many deals reflect realignment and retrenchment, instead of expansion, as the market matures. Asian deals were also up
- Regulatory pressure, marketing issues and operational concerns are making it hard to leverage sales of internal products, forcing firms to choose between manufacturing and distribution
- Alternative deals, particularly hedge funds and HFOF, continued their hot streak despite performance challenges
- Convergence among alternative investments continues, with different asset class firms joining forces and larger firms creating single asset class platforms with multiple products
- Legg Mason's acquisition of Permal reflects the belief that alternatives are needed by large firms to complete their product platform
- Investment banks continue to divest in-house private equity firms to avoid perceived conflicts of interest with one of their largest client segments

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* Changing Tides I was published in March 2001