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2nd Half 2005

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Asset Management Focus

Freeman & Co. LLC

Size Matters

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The second half of 2005 continued much of what we saw in the first half: robust activity, including a return of large transformational deals that drove transacted AUM to the highest levels seen since 2000. Firms of all types sought to add scale to their operations, and to take steps to focus their activities on their core capabilities. For some, like Legg Mason, this has meant exiting distribution and focusing on product manufacturing. For others, the approach has been to meet clients' demands for open architecture and best of breed products by focusing on distribution. These firms have created strong demand for providers of technology and analytic solutions. And while many firms are going back to basics, there continues to be demand for alternative acquisitions.

Performance as of December 31, 2005

Index	Total Return 2H05	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	5.8%	4.9%	14.4%	0.5%
NASDAQ	7.2%	1.4%	18.2%	-2.3%
FTSE 100	11.7%	21.2%	17.0%	1.5%
LBGC*	-0.4%	2.4%	3.7%	6.1%
DJ Balanced HF**	2.6%	1.6%	N/A	N/A
S&P HF Index***	2.7%	2.7%	5.9%	N/A

*Lehman Brothers Govt./Credit Index

**Dow Jones Hedge Fund Balanced Portfolio Index

***S&P Hedge Fund Index

Indices at 12/31/05:

DJIA	10,718
Nasdaq	2,205
S&P 500	1,248
FTSE 100	5,619
10 Year US Treasury Bond Yield	4.39%
Dollar to Euro	\$1.18

Summary:

- In 2005 there were 164 acquisitions, compared to 150 in 2004. As a result of a handful of very large deals, global AUM acquired leaped to a five year high of \$1,117 billion versus \$410 billion in the previous year
- 2005 was distinguished by the return of large, transformational transactions, headlined by the exchange of Legg Mason's brokerage business for Citigroup's asset management business. This trend is continuing into 2006, with the announcement of Merrill's exchange of its asset management business for a 50% interest in BlackRock
- Facing higher compliance costs and other issues, firms of all sizes are making efforts to increase the scale of their operations
- The Legg/Citi deal, Credit Agricole's acquisition of Banca Intesa's \$122 billion asset management business, and other deals reflect a decision to focus on manufacturing or distribution, rather than try to "push" proprietary product internally
- Despite a challenging return environment and a desire by some firms to go "back to basics", interest in acquiring alternative managers continues. We are seeing a second wave of alternative transactions, as companies previously concentrating in HFOF begin to add other products to round out their alternative platforms

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