

Issue 15
1st Half 2007

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New York • Paris • London

Asset Management Focus

Freeman & Co. LLC

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Robust First-Half, Uncertain Future

What a difference a summer makes!

Through mid-year, deal activity, particularly with alternative asset firms, was robust reaching about \$800 billion AUM – set to outpace 2 of the past 3 years' volume. The first six months also included unprecedented IPOs of hedge fund and private equity firms.

But during summer holidays, the market plunged, credit spreads widened, liquidity dried up and those IPOs have dropped 10-25% from their offers and 30-50% from their highs.

It makes one ready for the end of summer vacation.

Performance as of June 30, 2007

Index	Total Return 1H07	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	7.0%	20.6%	11.7%	10.7%
NASDAQ	7.8%	19.9%	8.3%	12.2%
FTSE 100	6.2%	13.3%	14.0%	7.3%
LBGC*	1.0%	6.0%	3.8%	4.7%
HRFI FoF**	7.5%	14.4%	12.1%	11.2%
FTSE Hedge***	4.1%	7.1%	4.7%	5.6%

*Lehman Brothers Govt./Credit Index

** Hedge Fund Research Institute Fund Weighted Composite

***in US\$ terms

Indices at 06/29/07:

DJIA	13,409
Nasdaq	2,603
S&P 500	1,503
FTSE 100	6,608
10 Year US Treasury Bond Yield	5.03%
USD per GBP	\$2.00
USD per EUR	\$1.35

Summary:

- **Deal activity:** strong in the first half of 2007, highlighted by Power Corporation's acquisition of Putnam Investments (\$192.0 billion AUM) and Madison Dearborn Partners LLC's purchase of Nuveen Investments Inc. (\$166.0 billion AUM)
- **M&A:** there were 94 acquisitions in the first half, compared to 84 in the first half of 2006, and total deal AUM reached close to \$800 billion for the third straight first half; private equity firms will continue to target the industry for deals
- **Alternatives:** hedge funds and other alternative firms continue to interest acquirers, notably major investment banks who are looking to satisfy the increased demand from institutional and high-net-worth clients for more alternative investment choices
- **IPOs:** 1H07 saw the beginning of US alternative firms going public, exemplified by private equity firm Blackstone and private equity/hedge fund Fortress Investment Group
- **Mutual Funds:** the US industry faces growth challenges with household penetration and net inflows flat. Firms need to pursue new product areas, longevity/mortality risk products and "de-accumulation" solutions for retirees

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