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Asset Management Focus

Freeman & Co. LLC

Reports of my Death were Greatly Exaggerated

The credit crisis has had a material impact on many parts of the asset management industry, but similar to Mark Twain's note about his life, the industry is not dead. Some products within the industry have died, such as CDOs and auction rate securities, but the industry will continue to grow, just as it did after the Internet bubble. We highlight a number of these promising areas. Lastly, M&A activity has been robust globally, and while slower in the US it is expected to increase as banks realign their businesses.

Performance as of June 30, 2008

Index	Total Return 1H 2008	Total Return 1 Year	Total Return Annualized 3 Yr	Total Return Annualized 5 Yr
S&P 500	-11.9%	-13.1%	4.4%	7.6%
NASDAQ	-13.6%	-11.9%	3.7%	7.2%
FTSE 100	-10.8%	-11.6%	6.9%	10.7%
LBGC*	1.0%	7.2%	3.8%	3.6%
HFRI**	-1.0%	1.3%	9.6%	10.0%
FTSE Hedge***	-6.7%	-10.0%	1.8%	10.9%

*Lehman Brothers Govt./Credit Index

** Hedge Fund Research Institute Fund Weighted Composite

***in US\$ terms

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Indices at 6/30/08:

DJIA	11,350
Nasdaq	2,293
S&P 500	1,280
FTSE 100	5,626
10 Year US Treasury Bond Yield	3.98%
USD per GBP	\$1.97
USD per EUR	\$1.57

Summary:

- **Deal Activity:** There were 119 acquisitions in 1H 2008, a 28% increase from 1H 2007. Reported deal AUM reached \$906 billion compared with \$1.35 trillion in full year 2007 and the highlight of 1H 2008 was Ping An Insurance Company of China's acquisition of a 50% stake of Fortis Investment Management (\$381 billion AUM).
- While 1H 2008 activity on an annualized basis exceeds the levels of 2007, the sharp decrease in US buyer activity indicates that the credit crunch has had a greater impact on US companies than on those located abroad.
- **Credit Crisis:** The ongoing credit crisis has hit banks and other financial institutions hard, forcing some to divest asset managers and creating opportunity for aggressive buyers. We believe many banks will consider raising capital by divesting product manufacturing and keeping their distribution capabilities.
- **Emerging Markets:** Sustained GDP growth across many emerging economies coupled with increasing interest in local equity markets will benefit specialist asset managers. Already, specialist and regional money managers are seeing levels of funds grow, which we expect will soon be followed by an increase in M&A interest.
- **Retirement Products:** As economic uncertainty puts renewed pressure on retirement savings, new products such as life-cycle funds and managed payout funds have emerged to help investors insure that they will have adequate retirement income. In addition, products such as reverse mortgages and life settlements are gaining ground as a way for investors to raise funds for retirement.

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