Turning Tides

First Half 2010 M&A Activity in the Asset Management Industry

Jefferies & Company, Inc.

Financial Institutions Group

US Group Head
Aaron H. Dorr
adorr@jefferies.com
+1 212.323.3970

International Group Head
Kevin J. Pakenham
kpakenham@jefferies.com
+44 (0)20.7029.8160

After a strong start to the year, the first six months of 2010 reminded us that the full effects of the Great Recession have not yet passed, and caution is called for as investors weather the roller coaster ride of economic data and equity market movements. Market volatility and lingering uncertainty regarding the timing of the global economic recovery have slowed transaction activity in asset management, as independent sellers begin to test the waters and buyers survey the market for strategic acquisition opportunities. Though asset management stocks have been among the worst performers in the first half of 2010, the declines come on the back of strong performance in 2009 and public pricing generally remains far above the March 2009 trough, albeit far below pre-crisis highs. For the asset management industry, 2010 thus far has been a slight pause, though we expect transaction activity to accelerate in the remainder of 2010 and beyond, as more sellers come to market and find eager buyers waiting for them.

- The first half of 2010 showed an overall slump in transaction activity for asset managers by all measures – deal count, AUM transacted, and deal value. This lull signifies a narrowing buyer universe, a tapering off of divestiture activity and a continuing hesitation to transact by independent sellers as they wait for profits and valuations to improve. The flip side of the slowdown in deal activity in 1H10 is a growing backlog in deal activity, which will play out over the next 12-18 months, particularly driven by independent sellers seeking liquidity after standing on the sidelines since the onset of the financial crisis.
- Transaction activity was tame across the deal spectrum of deal sizes, as no 'mega' deals were announced in 2010, in juxtaposition to the big-bang transactions of 2009. Few companies have the wherewithal for big-ticket, marquee transactions; the bulk of those who announced them in 2009 will need time to fully digest them before returning to the market to consider additional deals. Others are avoiding wholly transformational transactions altogether and opting for material but more moderately sized deals.
- The buyer universe has narrowed, as diversified financial companies continue to be seen more as sellers than buyers of asset management businesses, with a few notable exceptions. Money managers have, once again, become the dominant force amongst acquirers, with private equity firms a distant but still robust second place. Attractive valuations have brought a number of new buyers to the market.
- The role of the public markets has continued to strengthen, particularly given the strong year in 2009 for the equity markets. While there hasn't been a new rash of IPOs, the pricing gap between public valuations and transaction multiples makes at-scale managers increasingly consider the IPO option as a more attractive way of monetizing equity than a private sale.
- Cross-border transaction activity has yet to return to pre-recession levels, though buyers continue to focus on expanding their presence and capabilities beyond their home markets. A quarter of transaction activity in 1H10 involved cross-border counterparts and notable buyers are emerging from outside of the US and Europe.

Jefferies

This document is a marketing communication; it is not and should not be construed as investment research.

Table of Contents

Table of Exhibits

Executive Summary

- **Transacted AUM slows after torrid 2009.** After a record-setting year in 2009 marked by mega-deals, the level of transacted AUM in the global asset management sector declined to $437 billion, compared to a staggering $2.7 trillion in the first half of 2009. Transaction activity in the first half of 2010 generally focused on mid-sized product-driven transactions as opposed to the platform acquisitions and large consolidating deals which dominated 2009. Transaction volume during these six months also fell to 51 transactions, a 34% decline over the same period in 2009, while disclosed deal value dropped to just under $6.3 billion, 45% of the total in the first half of 2009.

- **Divestiture activity decelerates.** The wave of divestitures which drove the mega-deals in 2009 is beginning to slow. While divestitures continued to represent near-record percentages of total transaction activity at 45% in the first half of 2010, compared to 51% from the prior year period, the overall number of transactions declined to 23. As expected, corporate sellers, both those that were rumored to be considering sales of their asset management units and those that publicly announced their sale processes, completed transactions in 2010 including **Northwestern Mutual**, **Royal Bank of Scotland** and **KBC Groep NV**.

- **Independent managers yet to return to the market.** Independent sellers maintained their stance from 2009 and were largely absent from the market throughout the first half of 2010, although their share of total activity increased. Awaiting more stable equity markets and hopeful for the return of valuations closer to pre-2008 levels, independently owned asset managers are largely prepared to wait it out. Twenty eight independently owned managers transacted during the first six months of 2010, 26% below the prior year period's level. A few, lone independent managers did transact, including core equity specialist **Atalanta Sosnoff**, which sold a stake to **Evercore Partners** and UK-based **Thames River Capital**, which was acquired by **F&C Asset Management**.

- **Public multiples come down to earth and trade-sale multiples improve.** Stock prices of global publicly traded asset managers, which had increased by over 70% during 2009, declined by 18% during the first half of 2010 as volatility returned to the broader markets. Earnings multiples came down with stock prices, as 2010 forward earnings multiples for US asset managers, which hit 17.5x at year-end 2009, declined to just under 14.0x at June 30, 2010. Average trade-sale multiples may have finally turned a corner in by the end of June, as median rolling four-quarter run rate EBITDA multiples, which had fallen to 8.0x in the fourth quarter of 2009, increased to 9.1x.

- **Public markets remain an attractive route to liquidity.** The IPO window remained open in 2010, despite the choppy market environment which erupted in the second quarter, brought on by a looming sovereign debt crisis and growing fears of a return to recession. Following the trail of the two IPOs which were completed in 2009, only one asset manager floated in 2010 – **Jupiter Fund Management**. Fewer strategic buyers and a continuing gap between public market and trade-sale multiples will continue to drive at-scale sellers to look to the public markets for liquidity.

- **Pure-play asset managers lead the pack with new players emerging.** As most large, diversified financial institutions have exited the market, pure-play asset management firms were the most active acquirers of asset managers this year, accounting for 41% of the announced transactions and 41% of the acquired AUM. Ever-present **Affiliated Managers Group** completed two transactions during the first six months of 2010 and **Fortress Investment Group** acquired fixed income specialist **Logan Circle Partners**. New faces appeared in the M&A market to begin to fill the gap left by vacating financial institutions. India's **Religare Enterprises** and **Hinduja Group** both completed their inaugural asset management transactions out of their home markets, with stated intentions of pursuing further acquisitions.

- **Independent managers lead industry consolidation.** Asset managers were once again buyers venturing out of home markets. The need to globalize still drives a significant portion of transaction activity, as cross-border transactions accounted for 25% of deal volume. This represents a rise over 2009 but is far below the 2006-2008 levels. Hinduja Group's acquisition of **KBL European Private Bankers** with nearly $60 billion in AUM, marked Hinduja Group's entrance into the European wealth management market and was the largest transaction completed in the first half of 2010, as measured by both disclosed deal value and AUM.

- **Deals involving alternative managers reach record levels.** Deal activity involving alternative asset managers reached a record level in 2010, representing 45% of deal activity in the asset management sector, compared with nearly half that level, 25%, in the first half of 2009. Transactions ranged from large strategic deals, most notably **Man Group's** acquisition of **GLG Partners**, to smaller divestitures, including **SkyBridge Capital's** acquisition of **Citi Alternative Investments** from **Citigroup**. Deal activity involved targets in several asset classes including hedge funds, real estate, CDO/ CLOs and private equity fund-of-funds (PEFoF), with three PEFoF firms trading through June 2010 – a record number for a six-month period. The largest PEFoF transaction completed in the first half of 2010, Northwestern Mutual's divestiture of **Pantheon Ventures**, marked the second largest alternative transaction completed during the period in terms of AUM transacted, just behind Man Group's acquisition of GLG Partners, and the largest control acquisition of an asset manager in the private equity sector ever.

- **Regulatory and tax environment impact much less than feared.** The evolving regulatory environment will continue to affect the asset management industry and the broader financial markets as the governments of the world's major economies seek to prevent a repeat of the Great Recession. However, the industry breathed a sigh of relief as the details of the current regulatory reforms were released. The much-feared "Volcker Rule", which in its original form intended to strip proprietary trading out of US banks and bank holding companies, looks unlikely to accelerate divestitures or spin-outs of banks' proprietary trading operations and alternative asset management businesses. While income and capital gains taxes in the US and Europe are expected to increase in 2011 and beyond (and capital gains taxes have already increased in the UK), the feared increase in the taxation of carried interest did not come to pass. While taxes can be a factor when deciding to sell, historically they have not proven to be the sole motive to a transaction. Thus, barring any extreme tax changes, we do not see this as a great accelerator of activity.

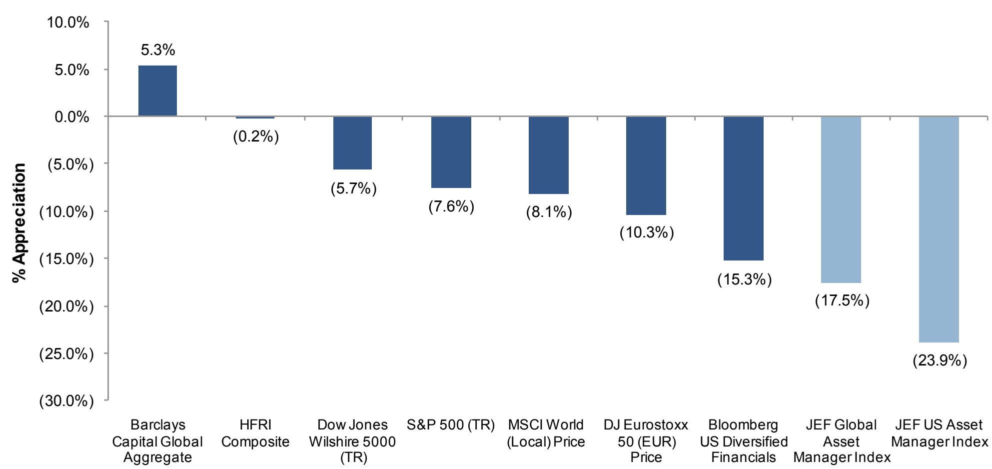
Introduction: Mind the Gap

2010 began on strong footing, and despite glimpses of volatility in the global markets in the first months of the year, the springtime market rally was living up to investors' hopes. However, the subsequent descent of financial indices in May reminded investors that the global economic recovery is not yet assured, and fears resurfaced for a possible double-dip recession.

Investors were rightly focused on political and financial headlines during 1H10. US healthcare reform, debates about the Volcker rule and other financial system reforms, and Goldman Sachs's $550 million fine had put the issues relating to fiscal health and the health of the financial industry square in the center of the US public's radar screen throughout 2010. Europe's attention was similarly riveted by Greece's enormous deficit and near default as ratings agencies downgraded the country's credit risk to junk status, the uncertainties surrounding the UK's new coalition government, and the continued fiscal deterioration of other European countries including Hungary, Ireland and Spain. High spirits ushered in at the beginning of year by the Winter Olympics fell as the volcanic ash cloud descended over Europe and the Deepwater Horizon oil leak polluted American beaches.

Following a strong run from February through April, financial services indices declined across the board. Global and US asset manager indices were the worst performers, declining by double-digit percentages since year-end 2009, showing the high beta of asset management stocks to the broader equity markets. The Bloomberg US Diversified Financials Index, after clocking in the best performance in 2009, became the next worst performer in 2010, with a 15.3% loss versus its December-end level. Broad market indices suffered declines but reported losses largely in the single digits, a fraction of the losses reported by asset management stocks.

EXHIBIT 1: Performance of Major Capital Markets Benchmarks and Financial Sector Indices, 1H10



	Barclays Capital Global Aggregate	HFRI Composite	Dow Jones Wilshire 5000 (TR)	S&P 500 (TR)	MSCI World (Local) Price	DJ Eurostoxx 50 (EUR) Price	Bloomberg US Diversified Financials	JEF Global Asset Manager Index	JEF US Asset Manager Index
% Change Since YTD Low	N/A	N/A	21.7%	17.2%	14.5%	16.0%	17.3%	19.7%	9.4%
% of 52 Week High	N/A	N/A	24.7%	24.7%	25.6%	26.5%	77.9%	76.0%	71.9%

Source: Bloomberg, Capital IQ, Hedge Fund Research, Jefferies' Financial Institutions Group

The Jefferies Global Asset Management Index declined 17.5% during the first half of 2010, ten percentage points worse than the performance of the S&P 500 index.

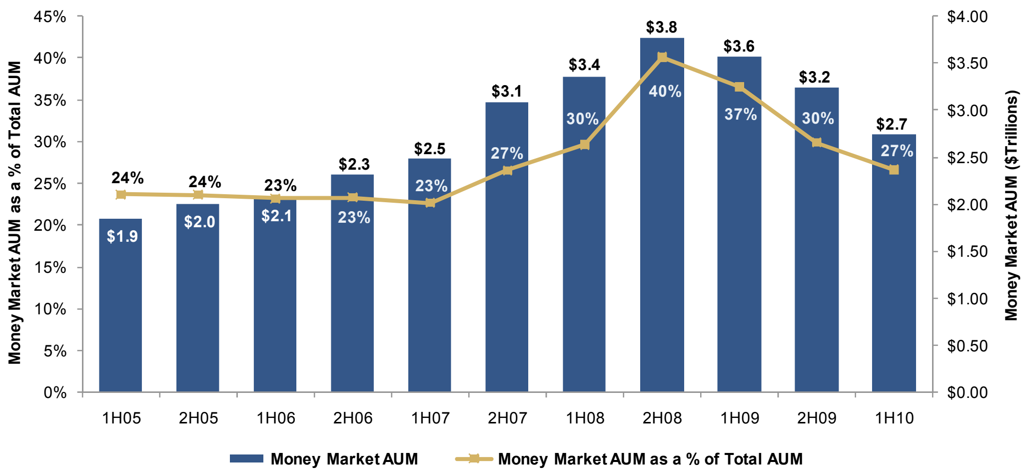
EXHIBIT 2: Stock Performance of the Largest Quoted Fund Managers Worldwide, 1H10

Company	Country	Market Cap US$(MM)[1]	1H10 % price change (native currency)	% Change Since 52-Week Low	12/31/2009 Stock Price as % of 52-Week High
GLG Partners, Inc.	US	$1,100	36%	75%	95%
Value Partners Group Ltd.	Hong Kong	998	22%	62%	74%
Partners Group Holding	Switzerland	2,995	(0%)	37%	84%
Henderson Group plc	UK	1,518	(1%)	40%	78%
DundeeWealth Inc.	Canada	1,902	(2%)	78%	86%
Aberdeen Asset Management plc	UK	2,135	(4%)	16%	83%
BlueBay Asset Management	UK	858	(5%)	53%	73%
Legg Mason, Inc.	US	4,584	(7%)	27%	80%
S&P 500 Index			**(8%)**	**17%**	**85%**
AllianceBernstein Holding L.P.	US	2,642	(8%)	45%	74%
Och-Ziff Capital Management Group LLC	US	1,042	(8%)	67%	68%
Schroders plc.	UK	4,837	(9%)	59%	84%
Cohen & Steers, Inc.	US	883	(9%)	59%	71%
Eaton Vance Corp.	US	3,273	(9%)	20%	77%
Affiliated Managers Group, Inc.	US	2,760	(10%)	17%	69%
Ashmore Group plc	UK	2,437	(11%)	33%	78%
IGM Financial Inc.	Canada	9,155	(12%)	1%	81%
Platinum Asset Management Ltd.	Australia	2,223	(16%)	24%	74%
AGF Management Ltd.	Canada	1,205	(16%)	23%	74%
T. Rowe Price Group, Inc.	US	11,522	(17%)	21%	75%
JEF Global Asset Management Index[2]			**(18%)**	**20%**	**76%**
Franklin Resources, Inc.	US	19,594	(18%)	32%	71%
CI Financial Corp.	Canada	4,850	(19%)	0%	79%
Calamos Asset Management, Inc.	US	185	(19%)	7%	61%
Pzena Investment Management	US	60	(22%)	20%	68%
GAMCO Investors, Inc.	US	1,019	(23%)	6%	70%
Perpetual Limited	Australia	1,039	(24%)	12%	68%
Federated Investors, Inc.	US	2,138	(25%)	0%	73%
Azimut Holding Spa	Italy	1,117	(26%)	20%	70%
The Blackstone Group L.P.	US	3,320	(27%)	12%	56%
Man Group plc	UK	5,636	(28%)	12%	60%
Invesco Ltd.	US	7,343	(28%)	9%	70%
Waddell & Reed Financial, Inc.	US	1,891	(28%)	0%	56%
F&C Asset Management plc	UK	395	(31%)	5%	61%
Janus Capital Group, Inc.	US	1,631	(34%)	0%	55%
Fortress Investment Group LLC	US	456	(36%)	10%	48%
BlackRock, Inc.	US	27,368	(38%)	0%	59%
Artio Global Investors Inc.	US	993	(38%)	0%	56%
Gartmore Investment Management Ltd.	UK	503	(49%)	13%	48%

Note: Jupiter included in index figures but excluded from table given recent IPO.
[1] US dollar denominated market capitalization calculated using share prices and exchange rates as of 6/30/10.
[2] Represents US dollar denominated market capitalization-weighted average.
Source: Company filings, Capital IQ, Jefferies' Financial Institutions Group

While the equities of asset managers took a tumble in 1H10, these declines came on the back of a vibrant recovery in the industry in 2009. More importantly, significant investor dollars remain on the sidelines in money market and other fixed income investments. According to Strategic Insight, $2.7 trillion was held in money market funds as of June 30. While this is off its high water mark of $3.8 trillion, it still represents a significant potential source of growth for the asset management industry when investors reallocate to equity funds. While fixed income allocations will undoubtedly remain a staple of investor portfolios going forward, a meaningful return by investors to equities has not yet materialized. As global markets continue to stabilize and the economic recovery becomes more tangible, investors will gradually increase allocations to equities and other riskier asset classes ultimately resulting in top and bottom line growth across the asset management industry.

EXHIBIT 3: Historical US Mutual Fund AUM

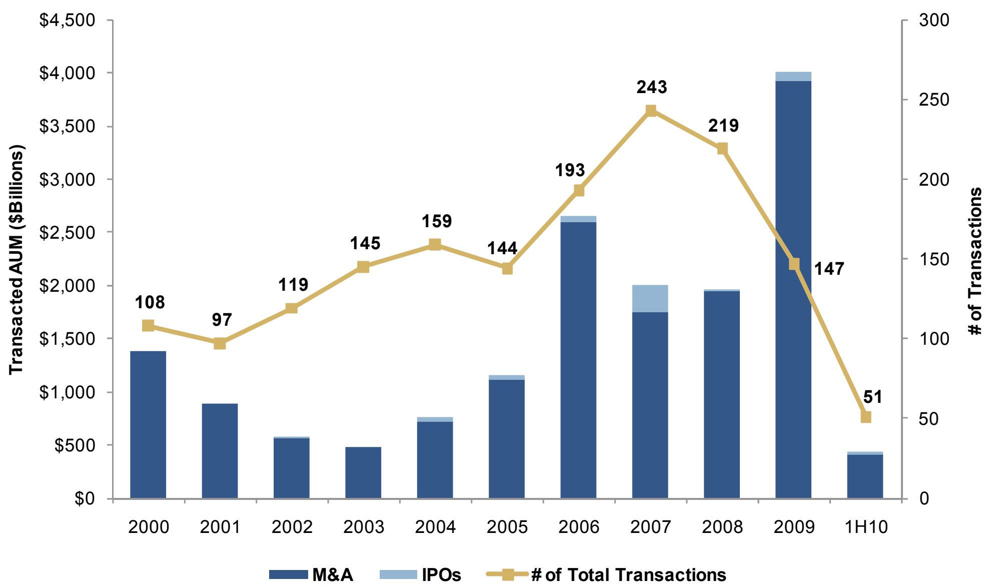


Source: Strategic Insight

Overview: Transaction Activity Picks Up the Pace

After the dramatic increase in mega-deals in 2009 – with record AUM transacted despite a decline in the total number of transactions – the first six months of 2010 have seen more muted M&A activity in the asset management sector. At $437 billion, total AUM transacted was in line with 2001, when just under $900 billion of AUM was transacted over a twelve-month period, and far below the $2 billion-plus levels experienced in 2006-2009. Also by deal count, with 51 transactions, 2010 has thus far resembled more the early 2000s, than the late 2000s when nearly 190 transactions where announced on average each year.

EXHIBIT 4: Historical Transaction Activity Involving Asset Management Targets



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

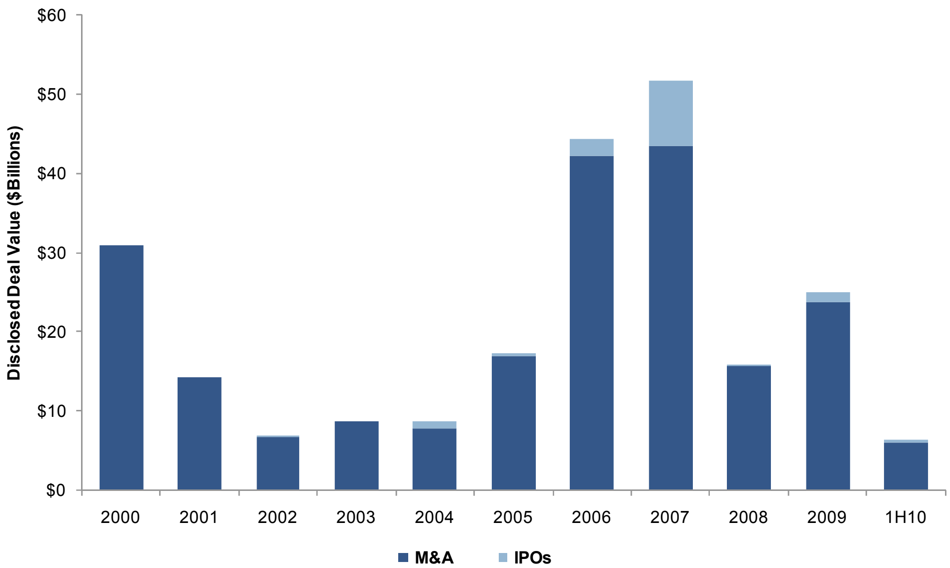
By comparison, worldwide M&A across all industry sectors increased by 4% in the first half of 2010 relative to the first half of 2009, and in terms of deal value, by 9%. This increase was led by deals involving targets located in emerging market countries, which experienced a robust 84% increase in transacted deal value in the first half of 2010, relative to the same period in 2009. M&A activity involving targets located in the US and Asia Pacific (ex. Japan) increased 2% and 7%, respectively, in terms of reported deal values. By contrast, Europe experienced an 8% decline in total M&A deal values.

Financial services suffered a pronounced decline in M&A activity, following a rash of dealmaking in 2009 when banks, broker-dealers, and insurance companies were arm-twisted by governments, regulators, or their own boards to sell off assets and protect their balance sheets. In 1H10, as the dust settled after a deal-heavy 2009, announced financial services transaction values fell 22% to $160 billion, or 15% of worldwide M&A volume, according to Thomson Reuters. Altogether 2,413 M&A deals were announced in the financial services sector, a 5% decline over 2009 (on an annualized basis).

The trend in global M&A in financial services was reflected in the decline in activity in the asset management industry, where deals worth a paltry total of $6 billion were reported during the first six months of 2010. This trend was in turn underscored by the lack of large, headline-grabbing deals, of the kind we saw in 2009, when acquisitions of nine targets with over $100 billion in AUM were announced, including BlackRock's purchase of BGI, and CAAM's acquisition of SGAM. By contrast, the top deal by AUM in the first six months of

2010 was the sale of KBL European Private Bankers, with $58 billion of AUM, the only deal this year with over $50 billion in transacted AUM.

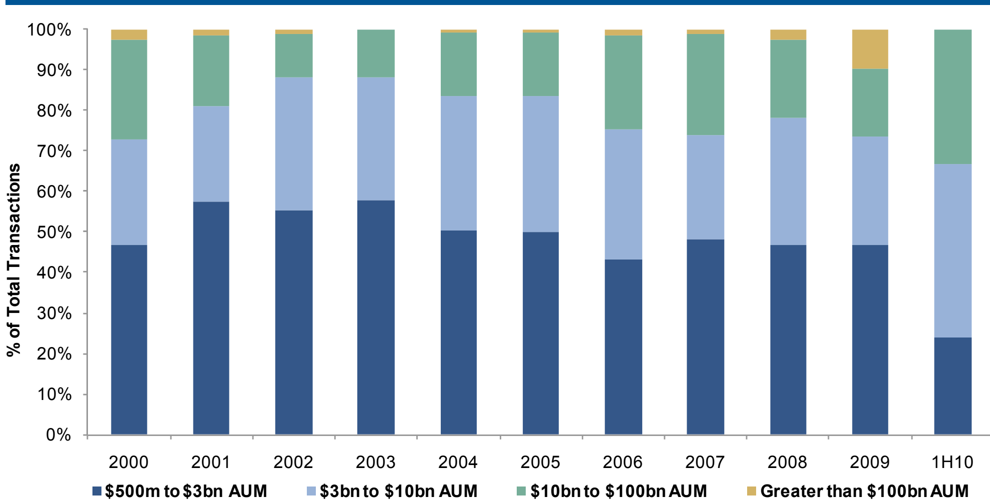
EXHIBIT 5: Disclosed Deal Values in Asset Management Deals Worldwide



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

The lack of mega-deals in our sector in 2010 of course meant that the average deal size (in AUM terms) fell dramatically – from $27 billion in 2009 to $9 billion in 1H10. Despite the year-on-year decline, this average is in fact in line with the 2007-2008 averages. Interestingly, the *median* deal size more than doubled, from under $2 billion in AUM over the 2007-2009 period to $4 billion in 1H10. Just as very few large deals were announced in 2010, so there were very few small deals, ultimately driving up the median. Transactions involving targets with between $500 million and $3 billion in AUM suffered a 55% drop in activity (on an annualized basis). Those between $3 billion and $10 billion saw a 44% rise in activity and those between $10 billion and $100 billion, a 75% increase.

EXHIBIT 6: Segmentation of Transactions by AUM Transacted (for Targets over $3 billion in AUM)



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

The distribution of deal sizes by AUM contradicts the long-term "barbell" trend in asset management, where deals have tended to be either large, consolidating transactions, or small product add-ons. The characteristics of deals done in 1H10 – including the diversity of targets, the domestic focus of the acquisitions, and the increasing proportion of money managers in the buyer universe – highlighted a new theme in deal-making. Rather than never-ending 'bolt-ons' or single 'big-bang' transactions, asset managers are looking for thought-out strategic transactions that move the needle but don't overwhelm them – deals that constitute an important strategic step for the business without being transformational for the industry. With that in mind, companies have tended to focus on transactions that can bring tangible near-term synergies, especially in their home markets. F&C Asset Management's transaction with Thames River Capital, **Hermes Fund Managers'** PEFoF JV with **Gartmore Group**, and Fortress Investment Group's transaction with Logan Circle Partners are amongst examples of such deals. Also Man Group's acquisition of GLG Partners fits into this category, due to the strong, complementary fit between the two companies and the lack of significant integration hurdles.

EXHIBIT 7: Largest Asset Management Deals by Transacted AUM, 1H10

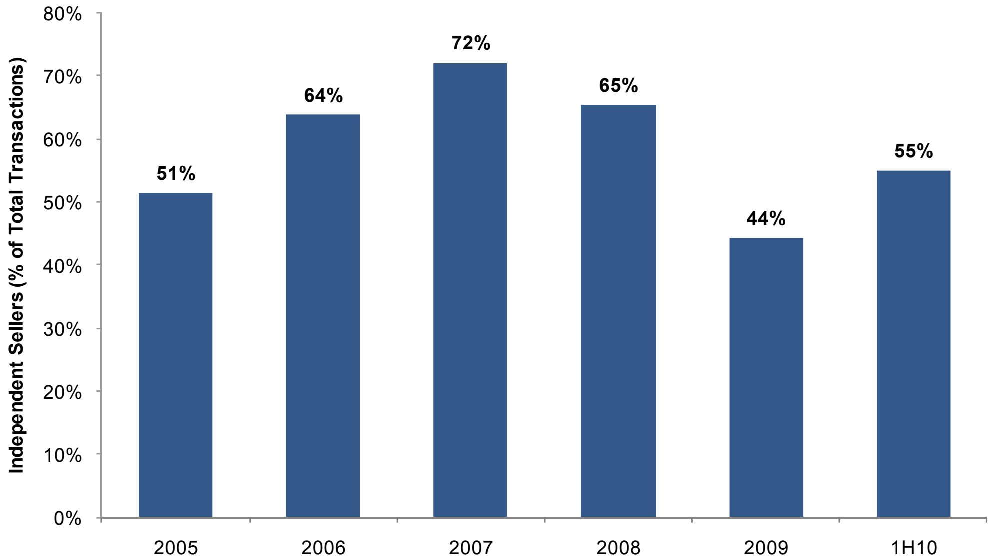
Date	Target	Ctry	Type	Acquirer	Ctry	AUM ($MM)	% Acquired
May-10	KBL European Private Bankers	SWI	PvtCl	Hinduja Group	India	$ 58,250	100%
Feb-10	INTECH (Enhanced Investment Technologies)	US	Inst	Janus Capital Group Inc.	US	48,000	3%
Jun-10	Jupiter Fund Management plc	UK	Div	IPO	UK	31,306	34%
May-10	GLG Partners, Inc.	US	Alt	Man Group plc	UK	23,667	100%
Feb-10	Security Benefit Corporation	US	Div	Guggenheim Partners, LLC	US	22,000	100%

Data converted to US currency at time of announcement. Announced transactions only.
Source: Jefferies' Financial Institutions Group

Many buyers are again comfortable deploying capital on M&A but seek out deals that carry both low execution risk and significant synergy potential. As a result, substantial domestic acquisitions are on the rise again, focusing on targets that offer complementary products and distribution channels. In addition to this type of deal, M&A activity in 1H10 was rounded out by continued divestitures by diversified financial companies of past acquisitions, such as **BNP Paribas'** sale of **Artemis Investment Management**.

Independent sellers have begun to slowly return to the market in 1H10. Those that have transacted have generally avoided broad auction processes. Instead, they have opted for narrower processes, which allow for deeper 'get-to-know-you' sessions with a select group of buyers, and for ascertaining the cultural and strategic fit before discussing deal terms. Independents are looking for partners who can help drive new retail sales or open doors to new institutional relationships, and who will structure transactions which provide selling shareholders participation in future upside.

EXHIBIT 8: Transaction Activity Involving Independent Sellers



Source: Jefferies' Financial Institutions Group

In the first six months of 2010, independents represented 55% of all transactions, a measured increase over 2009 in percentage terms, though the actual number of deals still remains quite meager at 28, a 24% decrease from 1H09. As strong markets in 2009 and early 2010 rebuilt corporate earnings and lured some independents back to the M&A market, uncertainty regarding earnings growth and the speed and shape of the current economic recovery have slowed their full-fledged return. In addition, many potential sellers are reluctant to commit to a sell-side process, wary of a possible downturn in earnings during a transaction process that could scupper several months of expensive deal effort.

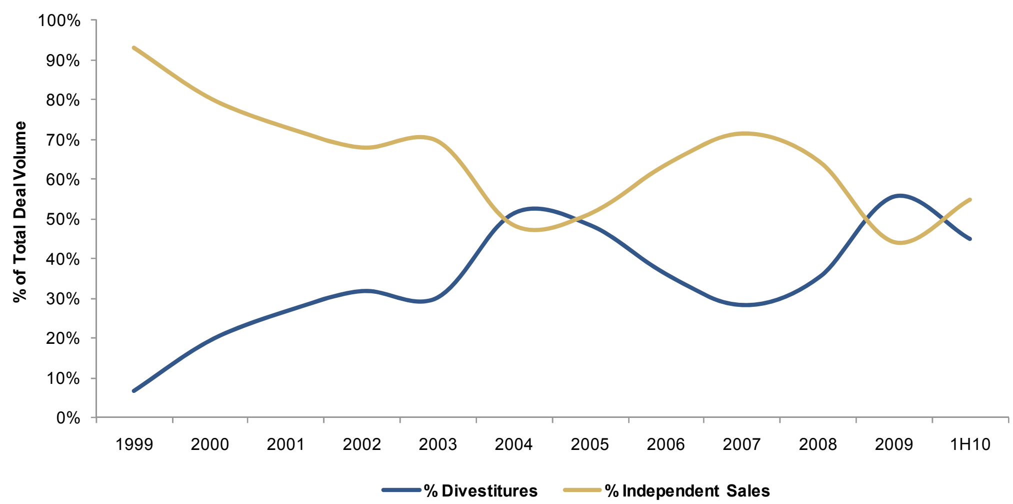
Looking forward to the second half of 2010 and 2011, we expect buyers to continue calling on potential sellers, particularly independents, and such independents to be increasingly willing to engage in serious transaction discussions. Earnings should improve, leading to improved valuations and greater readiness by sellers to accept offers, but uncertainty will linger, driving the need for highly structured transactions.

Sellers: Keeping Their Options Open

Divestitures have remained relatively high in proportion to total M&A activity in the sector, despite the increase in the proportion of independent sales in relation to 2009. Given the fact that, overall, the rate of M&A activity has significantly declined, this change in proportions cannot yet be deemed a sign of a sure trend in M&A activity amongst independent asset managers.

In the first half of 2010, divestitures represented 45% of all announced asset management transactions. Sales of stand-alone asset management businesses, therefore, re-emerged above the 50% mark of all transactions in the sector, after dipping below it in 2009. However, they remain far below the 64%-72% share they accounted for in 2006-2008.

EXHIBIT 9: Percentage of Divestitures and Independent Sales



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

While the low absolute numbers of independent sales are explained by multiple factors – including growing but not fully recovered profit margins, valuations that put more weight on business risk than on growth opportunities, and disagreements amongst owners as to the right time to sell – the resistance to getting deals done may be overcome in the near future. Buyers are willing to consider transaction structures which will share the benefit of future growth with the sellers. For investment management boutiques, such value uplift is often more assured with a corporate partner, which is able to support a boutique's growth with access to its sales network and institutional relationships.

Amongst the top 10 transactions by AUM announced in the first half of 2010, five related to independent asset management businesses. While equal in number to the largest divestitures, these top five independent deals accounted for a smaller portion of the AUM and of the deal value transacted than the top five divestitures (at 37% and 46% respectively). Each transaction was also unique in buyer type, rationale and deal structure, so that it is difficult to identify a uniform set of factors driving such independent sales in 2010.

The group of the top five independent targets transacted was highly diverse in terms of the targets' domicile, corporate structure, and market positioning. Two were public – GLG Partners' sale to Man Group, and **Rensburg Sheppards'** sale to **Investec**, and three private – **Nordea Invest Fund Management's** sale to **Nordea Bank**, **HighTower Advisors'** sale to **Asset Management Finance**, and **Security Benefit's** sale to **Guggenheim Partners** – the last of which was a mutual, which demutualized and dissolved upon the transaction. Rather than uncovering a clear underlying trend amongst independents, the diversity of this target group points to the fact that a correctly structured deal, with the right buyer, may appeal to a broad variety of targets, in any segment of the asset management market.

- GLG Partners' transaction with Man Group was hailed as an ideal marriage of product and distribution. In addition to the strong premium, GLG Partners benefited by getting access to Man Group's extensive distribution resources, improving the immediate growth prospects for its investment teams.
- By contrast, Rensburg Sheppards' sale to Investec, who had owned 47% of Rensburg Sheppards prior to acquiring the remaining 53%, was not driven by hopes of synergies. The shareholders' decision was driven almost entirely by the healthy premium received over their trading price, and the company's likely preference for operating as a subsidiary within a larger parent without being subject to the expense, pressures, and vagaries of a maintaining its own public listing.
- Nordea Invest Fund Management's sale to Nordea Bank was effectively a vertical integration. The target was owned by the members of the fund, while the acquirer was the portfolio adviser and principal distributor of the target. The transaction represents a logical (perhaps unavoidable, in the long term) conclusion for the business, whose brand name itself highlighted the link to the buyer. Under the new ownership, Nordea Invest Fund Management will be able to benefit from cost synergies, as the new parent will provide all the back office and compliance functions at a marginally incremental cost.
- HighTower Advisors' majority sale to Asset Management Finance was driven by the desire to obtain new financing for the business. The transaction raised $100 million of new equity for HighTower Advisors, which, as an open-source platform for RIAs, has significantly higher capital expenditures than traditional, institutional asset managers.
- US-based Security Benefit had struggled for two years prior to the February announcement of its $400 million sale to Guggenheim Partners, including a rating downgrade by AM Best and Fitch. Financial strength considerations therefore drove the transaction from Security Benefit's perspective, as well as the ability to horizontally integrate Rydex with Guggenheim's Claymore, improving the business's market positioning in the high-growth ETF segment.

A retrospective of the reasons driving these top independent sales shows that they included distribution access, premium pricing, cost synergies, access to capital for future growth and consolidation.

By contrast, amongst divestitures in the roster of the top 10 deals by AUM, the parent company's corporate troubles were often the leading factor in the deal. Banks continued their garage sales, as KBC Groep NV and Royal Bank of Scotland both sold prestigious managers of private client assets. KBC Groep NV's sale of KBL European Private Bankers and Royal Bank of Scotland's sale of RBS Asset Management were outcomes of processes begun due to regulatory and government pressure on taxpayer-owned corporations. In the US, although not under the same type of pressure, **SunTrust Banks** publicly announced it was negotiating to sell its asset management business, **RidgeWorth Capital Management**, to LSE-listed **Henderson Group**. Albeit these discussions were subsequently reported to have discontinued, SunTrust Banks did announce in July the sale of the money market fund arm of its asset management division to **Federated Investors**.

BNP Paribas sold Artemis Investment Management – the London- and Edinburgh-based manager of institutional and mutual funds, and a strong retail brand in the UK market. The management-driven sale to Affiliated Managers Group was a quest for a safe new home, after the roller coaster of being owned by **ABN-AMRO** and **Fortis**. It is also a case in point that while principals may want to fully capitalize their equity, future generations of management will seek to obtain equity in the business they manage. Therefore, buyers who are willing to leave equity in the hands of management, and/ or offer an equity recycling mechanism, are best-positioned both as acquirers and as long-term owners of boutique asset management businesses.

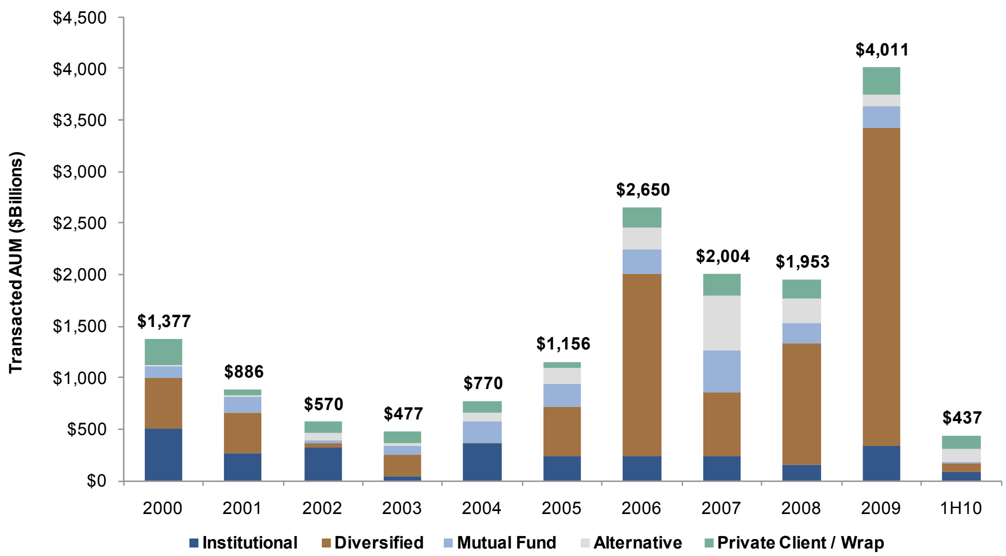
Looking more broadly at companies selling asset management subsidiaries, in line with expectations, banks', insurers' and brokers' share of the total rose, while the share of money managers divesting affiliates or subsidiaries fell. Only four money managers sold businesses in the first half of 2010. In the one deal of note, Gartmore Group contributed a 50% stake in its PEFoF business to Hermes Fund Managers, and in exchange, received 50% of the combined PEFoF joint venture. The nature of the transaction, where Gartmore Group received a non-controlling stake in a much larger entity in return for the business contributed, belies the idea of the divestiture, and underscores the rarity of money managers' truly divesting operations in the current market.

Generally, divestitures were dominated by European and American banks. In addition to some of the largest divestitures by European banks described above, KBC Groep NV sold its Ireland-based asset management business to **RHJ International**; BNP Paribas sold another legacy-Fortis property – a 49.9% stake in an Indian JV, to JV partner **Sundaram Finance.** Citigroup sold its hedge fund and FoHF business to SkyBridge Capital and in July 2010 divested its PE business to StepStone Group and Lexington Partners.

Sales by sponsors declined except in the UK, where Thames River Capital, majority owned by **Pacific Investments**, announced its sale to F&C Asset Management, and subsequently Jupiter Fund Management, partially owned by **TA Associates**, listed on the London Stock Exchange. In the first case, the business had grown to a diversified at-scale asset management business since Pacific Investments' early stage investment. Consequently, Pacific Investments was able to divest its controlling stake at a substantial capital gain, freeing the business to seek a tie-up with a strategic rather than a financial partner. In the case of Jupiter Fund Management, TA Associates' decision to support the IPO represented the growing confidence in the public markets. TA Associates received cash for preferred shares and monetized a large portion of its debt investment, but retained an equity stake in the listed company and thus participation in future capital appreciation.

When analyzing the universe of targets in a different framework – by type of business sold rather than by the ownership of the target – the decline in activity was the most pronounced amongst mutual fund businesses, with only four such businesses transacting, versus 30 in 2009 and 2008. The number of M&A transactions in retail asset management represents a decline of over 70% (on an annualized basis), versus a broad decline in the number of money manager transactions by 31%. By AUM, mutual fund transactions declined by 82% (also annualized) versus 2009. The steep decline by AUM transacted is due to the absence of any big ticket deals, versus two deals in excess of $50 billion in AUM announced in 2009 (Morgan Stanley's sale to Invesco in the US, and CI Financial's sale to Scotiabank in Canada). Thus far, the largest mutual fund transaction in 2010 was Nordea Invest Fund Management's sale to Nordea Bank, representing only $19 billion of AUM transacted.

EXHIBIT 10: Transacted AUM by Target Type



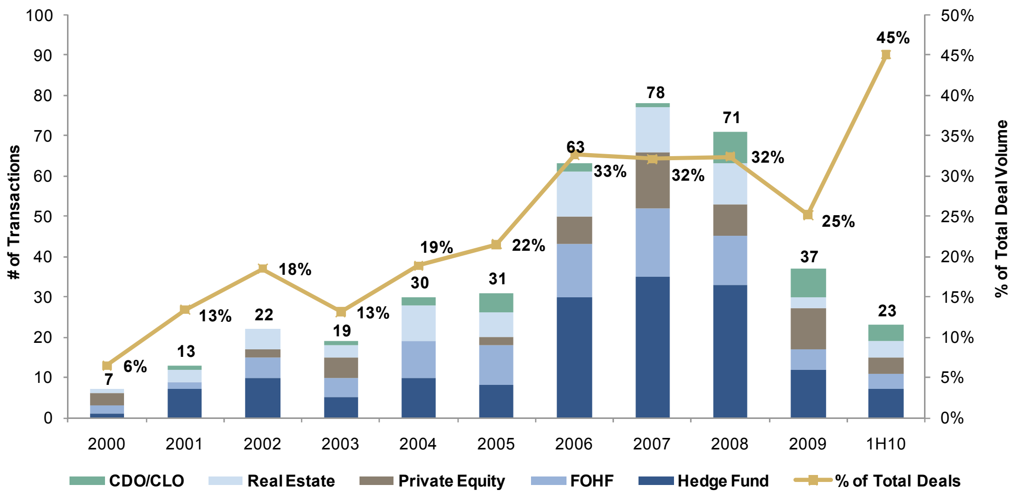
Source: Jefferies' Financial Institutions Group

The lull in transaction activity in the broad industry, and especially in the retail segment, stands in contrast to a rise in M&A activity in the alternative segment, which had an increase in M&A activity both by number of deals and by AUM transacted. Twenty three such targets changed hands in the first six months of 2010, as compared to 37 alternative investment management transactions in the whole of 2009 – an increase of 24% on an annualized basis. By AUM, the increase was even starker, at more than two-fold. In the first six months of 2010, AUM transacted in alternative deals amounted to $118 billion, versus $115 billion in alternative AUM transacted in the full year 2009. Two large alternative transactions were announced in 2010 – GLG Partners' sale to Man Group and Pantheon Ventures' to Affiliated Managers Group (with $24 billion and $22 billion in AUM, respectively) – while only one sale of a company with over $20 billion in AUM occurred in 2009 (JP Morgan's purchase of the remaining stake in Highbridge it did not already own, with $21 billion in AUM).

The increase in M&A activity in 2010 over 2009 in the alternative segment still hasn't outweighed the significant decline in such activity in comparison to the preceding years. In the years 2006-2008, on average, 71 alternative investment management transactions took place annually, with over $300 billion in average AUM transacted. Thus the annualized M&A activity in first six months of 2010 is at 65% and 73% of those three-year averages, respectively.

Another interesting aspect of sales involving alternative asset managers is the increase in the number of divestitures as opposed to independent sales of such asset managers. In 2008, 73% of transactions involving alternative asset managers were sales by independent businesses. In 2009, this proportion declined to 51%. In the first half of 2010, it declined further to 47%. This trend is a sign of the maturity of the alternative asset management sector, since such transactions no longer involve primarily the sales of stakes in start-ups; rather they are more likely to involve at-scale businesses either organically developed by larger financial companies or those that were previously already acquired and are being resold.

EXHIBIT 11: Historical Transaction Activity Involving Alternative Asset Management Firms



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

Amongst the various alternative investment management businesses that changed hands, hedge fund transactions were the most numerous, accounting for seven of the 23 deals, and the remaining 16 deals were evenly divided among fund of hedge fund, real estate, private equity, and CDO/ CLO transactions.

For CDO/ CLO transactions, the level of activity in 2010 has been on par with 2008 – the strongest M&A year for this segment of the industry, when eight transactions were announced during the calendar period. The only part of the alternative investment management sector that suffered a decline in activity was private equity. While for this segment 2010 represents an equal level of M&A activity in comparison to 2009, it is significantly below 2009 (10 deals) and 2007 (14 deals). Measured by AUM, however, all segments of the alternative investment management sector have had a strong M&A period, with the activity increasing between 23% at the low end of the range (private equity) to eight-fold at the high end (real estate) on an annualized basis, in comparison to 2009, and doubling for the overall alternative investment management segment.

Second to the alternatives segment, the M&A activity in the private client segment has also had a respectable six-month run – with the number of transactions declining by 13% on an annualized basis but the AUM transacted (annualized) increasing by 2% versus 2009. Ten transactions were announced in this space with $132 billion of AUM, versus 23 such transactions with $258 billion of AUM in 2009. This was rather expected, given the dislocation caused in the segment by uneven investment performance results, fraud scandals, and corporate restructurings. High-net-worth clients have fled their service providers in search of better advice, safe products and businesses with strong compliance track records. With the resulting dislocation, interest in deals has increased, with many already announced in the first half of the year, and buyers continuing to look for more team lift-outs and acquisitions.

Key transactions in the private client investment management sector were the sale of KBL European Private Bankers, RBS Asset Management, Rensburg Sheppards, and HighTower Advisors, as well as the investment by Asset Management Finance in UK wealth manager **Towry Law**. The sale of KBL European Private Bankers is in fact the 6th largest sale of a private client business over the last 10 years, by AUM, symbolizing the strong level of current activity and interest in the wealth management sector.

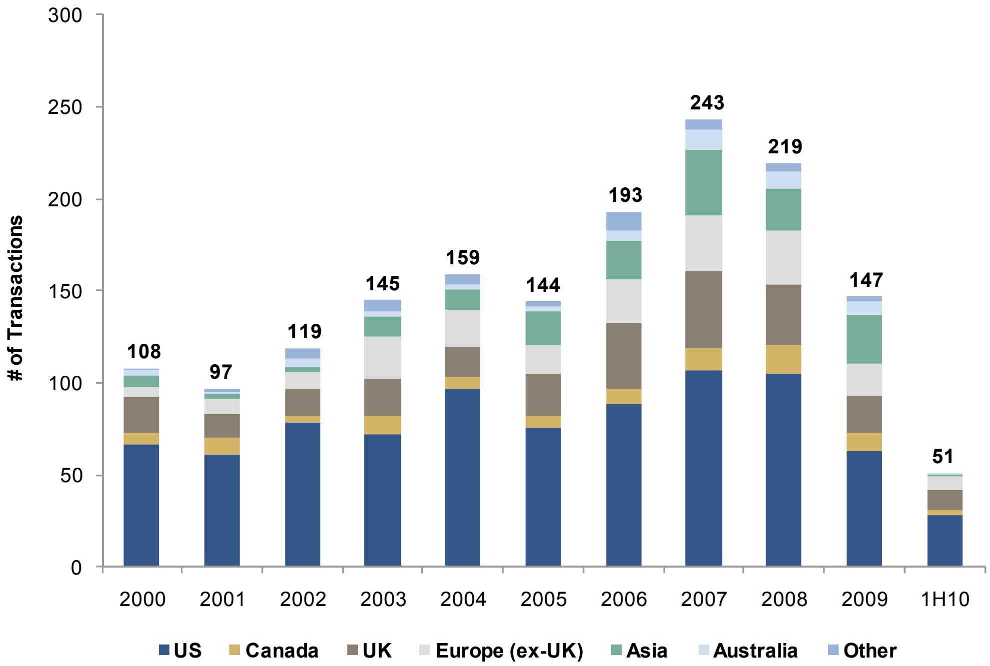
Amongst institutional and diversified asset managers, a segment of the market where M&A activity declined substantially, headline transactions included Thames River Capital's acquisition by F&C Asset Management, Logan Circle Partners' sale by Guggenheim Partners to Fortress Investment Group, and Security Benefit's sale to Guggenheim Partners. Both the sale of Thames River Capital and Logan Circle Partners were sales by financial investors looking for liquidity to strategic partners.

Thames River Capital fulfills F&C Asset Management's need for a broad range of specialist products and new distribution channels to combine with F&C's more traditional investment strategies and complementary sales network. Logan Circle Partners, which had bought itself out of Delaware Investments two years earlier with the help of Guggenheim Partners, had seen its AUM stagnate. Under Fortress Investment Group's ownership, the business may be more optimistic about near-term cross-sales to its new partner's client base. The Logan Circle Partners transaction can also serve as a key step in marrying alternative and traditional product sets and capabilities.

In another sale of a diversified asset management business – Security Benefit's sale to Guggenheim Partners – the driving factor for the sale process was Security Benefit's recent downgrades by ratings agencies and lack of AUM growth. However, for the buyer, the most interesting aspect of the business was Security Benefit's ownership of ETF and index mutual fund manager Rydex, which had sold to Security Benefit in 2007 in a transaction valued at $752 million. The deal with Guggenheim Partners emphasizes the continued attractiveness of the ETF sector, a high-growth area which has garnered asset flows in both up and down cycles. In 2009, Guggenheim Partners had purchased another ETF provider, Claymore, so this year's transaction represents its second ETF acquisition over the course of only seven months, allowing it to become the 7th largest ETF provider in the US.

Reviewing the activity by the location of the businesses that were sold, the concentration of activity in the US and Europe unexpectedly increased. While the bulk of activity naturally takes place in those two regions, the fact that the proportion of sales outside them declined below long-term ratios was a surprise, given the increasing importance of Asian and other emerging markets in the global economy, financial services included.

EXHIBIT 12: Historical Target Breakdown by Region



Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

At 4% of transactions and 1% of AUM transacted, deals outside North America and Europe are far below their proportion over the last five years, when between 16% and 24% of transactions and between 6% and 10% of AUM transacted related to those "emerging" regions.

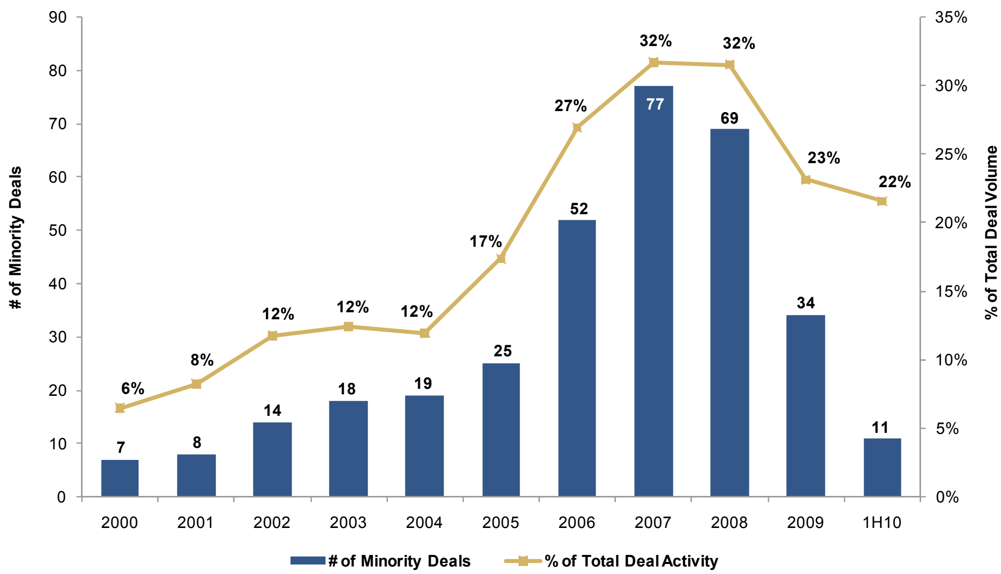
In fact, there were only two deals involving non-European or American businesses – **Deutsche Bank's** purchase of a 49% stake in **Craigs Investment Partners**, a wealth management business in New Zealand, and Sundaram Finance's purchase of the BNP Paribas' 49.9% stake in their Indian JV (which had originally been set up with Fortis).

The other interesting fact in analyzing the domicile of asset management M&A targets is that since 2004 the proportion of US targets by AUM was the lowest, and by number of transactions, the highest. Therefore, the average AUM of US targets in the first half of 2010, at under $8 billion, has been low in the context of the last five years. By contrast, in Europe, both the number of transactions and the AUM transacted, as a percentage of global activity, increased. This was driven to a large part by the UK, where deals involving RBS Asset Management, Rensburg Sheppards, Artemis Investment Management, and the flotation of Jupiter Fund Management, drove up the average AUM of asset management transactions.

While there were significant differences with 2009 by target domicile, the proportion of minority deals, as opposed to control sales, was largely in line with 2009, at 22% vs. 23% in 2009. Naturally, given the depressed M&A activity, the absolute numbers declined – at only 11 such deals in the first six months of 2010 versus 34 such deals in calendar 2009. The statistics are also much lower in comparison to 2006-2008 but stronger than in the first half of the 2000s.

Despite being relatively few, the minority deals done in 2010 span a variety of targets and no one type of transaction dominates this set of transactions. They include alternative, institutional, mutual fund, and private client businesses; independent sales, divestitures; and were done in Europe, the US, Asia and New Zealand. They are driven by the desire of hedge fund managers to partially monetize the wealth locked up in their business (**Shumway Capital Partners'** and **Level Global Investors'** deals with **GS Petershill**), institutional boutiques seeking a new strategic partner while retaining control (**RWC Partners'** deal with **Schroders**, Atalanta Sosnoff's sale to Evercore Partners), sales of minority stakes to controlling shareholders (**INTECH's** deal with **Janus Capital Group** or **Cordea Savills'** with **Savills**), as well as other considerations. Similar to the broad variety of factors driving sales by independent companies, there are no dominant themes in the universe of minority transactions in 2010, but instead such sales are supported by a whole array of financial and strategic considerations.

EXHIBIT 13: Historical Minority Transaction Activity

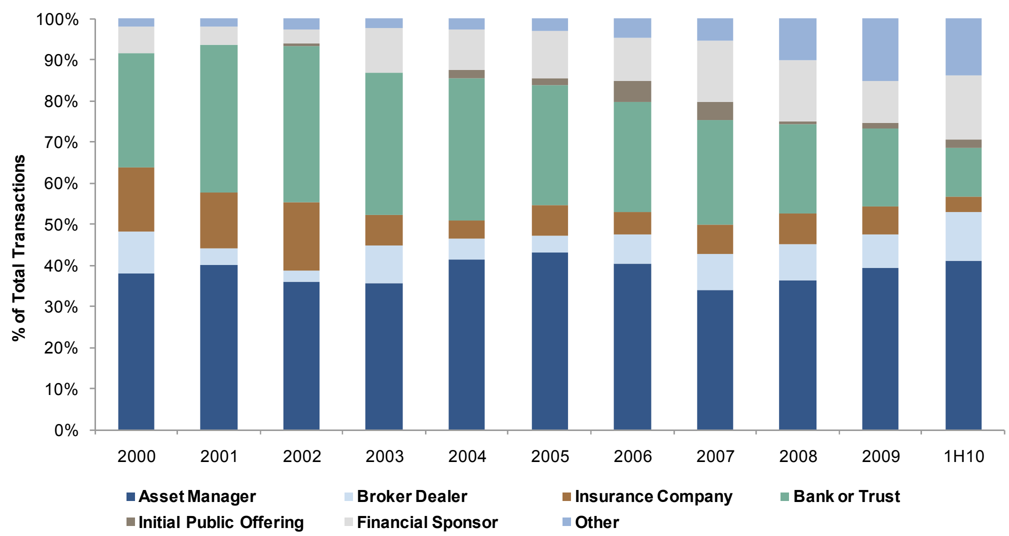


Source: Jefferies' Financial Institutions Group

Buyers: On the Lookout

Amongst buyers, the trend continued away from banks, brokers, and insurers and towards pure-play asset managers and private equity firms. Acquisitions by money managers increased to 41% of all announced transactions as compared to 34%-39% over the last three years. The share of acquisitions by financial sponsors rose to 16%. Importantly, many new companies entered the buyer universe, and quite aggressively, too. In the current environment where capital is scarce and costly, asset managers have continued to prevail as the buyer of choice, versus in bull markets when larger financial institutions' lower cost of capital and size gave them relative pricing advantage.

EXHIBIT 14: Segmentation of Transactions by Buyer Type



Source: Jefferies' Financial Institutions Group

Reviewing deals done by money managers, key transactions were completed by several 'serial' buyers, including Affiliated Managers Group, Man Group, and **Aberdeen Asset Management**. Other high-profile transactions were announced by F&C Asset Management and Fortress Investment Group, signaling a new corporate confidence and growth focus amongst companies previously content with organic growth.

- Affiliated Managers Group's acquisitions of Artemis Investment Management and Pantheon Ventures are key milestones in Affiliated Managers Group's drive to diversify internationally and into new asset classes. Both targets are amongst leaders in their segments – UK retail and private equity funds of funds – which will further strengthen Affiliated Managers Group's reputation as a home for leading boutiques of all stripes.

- The deal with GLG Partners has strong strategic logic for Man Group and strong pricing to reflect it. Having accumulated a large cash balance on its balance sheet, and having a product-hungry sales force following a period of mixed investment performance results at AHL, Man Group had both the means and the need to acquire a strong suite of products and broad investment expertise, which GLG Partners offered in spades.

- Just as Man Group bought product, so Aberdeen Asset Management sought to add a new distribution leg to its business with the £85 million acquisition of RBS Asset Management, with over £13 billion in AUM. In addition to gaining access to RBS's Wealth Management division (including Coutts) via a long-term distribution agreement, Aberdeen also acquired manager-of-manager capabilities for long-only and alternative products. This is Aberdeen Asset Management's 17th acquisition since 2001 and it is expected to be its last significant acquisition for a while, as Aberdeen Asset Management focuses on digesting the businesses recently purchased as well as on strengthening its balance sheet.

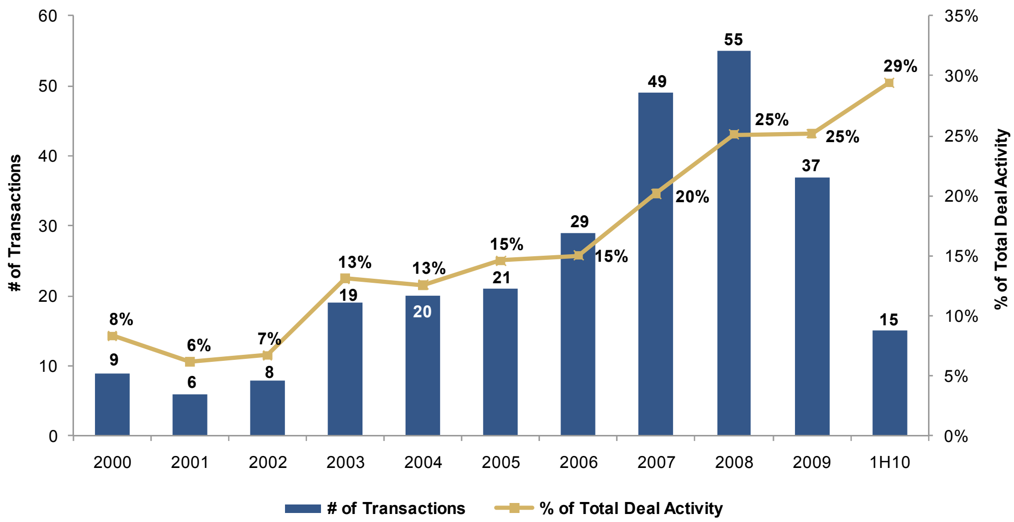
- Among the top 10 transactions, Schroders' acquisition of a minority stake in RWC Partners in June was notable, since Schroders had rarely made acquisitions in the past, despite being considered a good choice for asset managers seeking a new 'home'. Given Schroders' strong brand name, stable ownership, and solid performance during the crisis, it is often featured on lists of preferred buyers in sale processes. The investment in RWC Partners, if successful, may further open up the company to similar deals in the future, where the target is allowed to retain a majority stake in their business and maintain operating autonomy.

Among the 10 largest transactions of the first half of 2010, money managers represented one half of the acquirers. The other buyers in that group included both familiar faces, such as Asset Management Finance, as well as certain newcomers, such as Hinduja Group and Evercore Partners.

Asset Management Finance started 2010 strongly with two deals in January: Towry Law in the UK and HighTower Advisors in the US. Overall, the business has made 18 investments since founding, including two outside the US (in addition to Towry Law, it had made an investment in Australian investment manager MIR in 2009).

But despite the continued interest of financial sponsors such as Asset Management Finance, 2010 still hasn't seen any headline-grabbing transactions led by PE firms – of the sort similar to Aquiline's acquisition of Conning in 2009 or Lighthouse's acquisition of American Beacon in 2008. Those two transactions had, respectively $100 billion and $68 billion in AUM. By contrast, HighTower Advisors, the largest acquisition by a sponsor this year in terms of AUM, with $15 billion of client assets, is only a fraction of the size of the largest acquisitions by PE firms in the preceding years.

EXHIBIT 15: Financial Sponsor and Other Acquisition Activity



Note: "Other" includes MBOs with no listed sponsor, sovereign wealth funds, individuals and other buyers.
Source: Jefferies' Financial Institutions Group

In fact, some household PE names have been more active on the divestiture front, such as in Jupiter Fund Management's flotation by TA Associates (TA Associates redeemed preference shares but did not sell ordinary shares) or Gartmore Group's flotation at the end of 2009 by Hellman & Friedman. Other than Asset Management Finance, from amongst PE firms known to be committed to this sector only GS Petershill has announced transactions in the asset management space this year. GS Petershill acquired stakes in two US hedge fund managers – Level Global Investors with $4 billion in AUM, in April, and Shumway Capital Partners with $8 billion in AUM, in January. These deals bring to seven the total number of deals done by GS Petershill. Like Affiliated Managers Group and Asset Management Finance, GS Petershill has sought to balance its exposure on both sides of the Atlantic, having now made four investments in the US and three in the UK.

Other than money managers and financial sponsors, the buyer universe has been emptying of previously aggressive buyers, as broker-dealers, banks, and insurers have continued to focus on core operations, and many have chosen to divest asset management subsidiaries. Still, there have been exceptions, as those with the sufficient financial strength to buy asset managers continue to look for transactions to grow and diversify their asset management businesses.

Evercore Partners is one such exception, and a rare example of a broker-dealer diversifying into asset management. In March, Evercore Partners purchased a 49% stake in independent, New York-based, institutional equity shop Atalanta Sosnoff. For a buyer like Evercore Partners, who had previously made two acquisitions in asset management, but only of small boutiques (under $1 billion in AUM), this represents a long-term strategic decision rather than an immediate revenue or expense synergy opportunity. Driven by the company's desire to diversify away from more volatile banking revenues, and in the context of CEO Ralph Schlosstein's deep experience in and knowledge of the asset management sector, Evercore Partners' decision is a milestone towards building a business less dependent on banking activity.

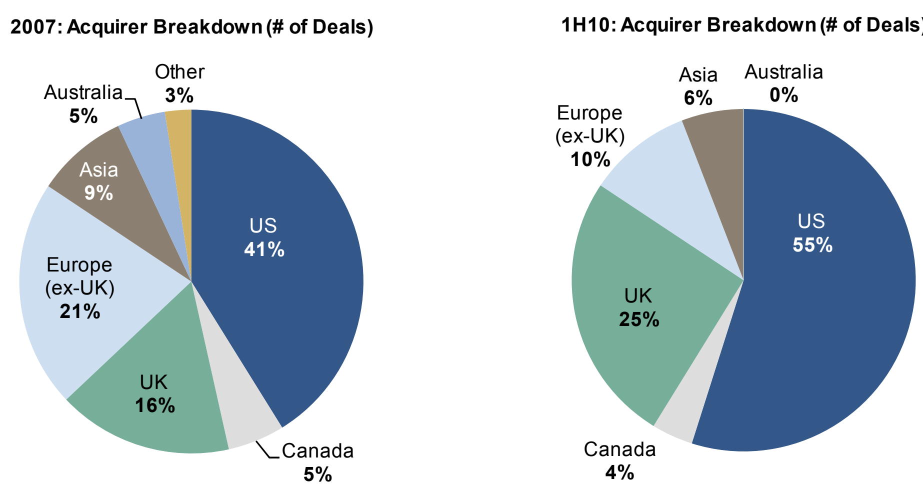
Another broker-dealer bucking the general trend, India's Religare Enterprises acquired PEFoF manager **Northgate Capital** in February, and publicly emphasized its objective to become a global force in asset management through more acquisitions. It had earlier closed a nearly

$400 million (Rs 1,800 crore) rights issue, which together with Religare Enterprises' prior cash reserves removed any capital constraints from its strategy. The company aims to acquire specialist asset management businesses across asset classes. All in, it announced plans to invest $1 billion in growing its global asset management footprint.

Religare Enterprises' compatriot, Indian diversified investment firm Hinduja Group, was the surprise winner of the year's biggest deal by AUM – the auction of KBL European Private Bankers. The deal was partly financial and partly strategic for Hinduja Group, since the company expects potential synergies from offering KBL European Private Bankers' services in its core markets of Asia and the Middle East. Interestingly, for a different buyer, acquiring KBL European Private Bankers would have been a decision driven by the desire for access to new distribution channels, specifically to European high-net-worth investors. But for Hinduja Group, it was primarily a product 'play,' giving Hinduja Group access to KBL European Private Bankers' expertise in providing investment solutions, and selling that expertise in new markets.

The presence of new buyers from outside the US amongst the winners of some of 2010's biggest deals may misleadingly suggest a growing share of acquisitions by non-US acquirers. In fact, while several new buyers were indeed non-US entities, overall, the percentage of US buyers increased. This is largely correlated with the other changes in the buyer universe. The US has more pure-play asset managers (often with a global reach, capable of integrating and managing businesses across geographies) and more private equity firms comfortable with paying goodwill value for asset management businesses than other parts of the world, and such pure-play asset managers' and private equity firms' share of transactions has risen in recent years. As a result, 55% of buyers in 2010 were US-based, as compared to 47% in 2009, 45% in 2008, and 41% in 2007.

EXHIBIT 16: Geographical Breakdown of Transactions by Acquirer Domicile, 2007 and 1H10

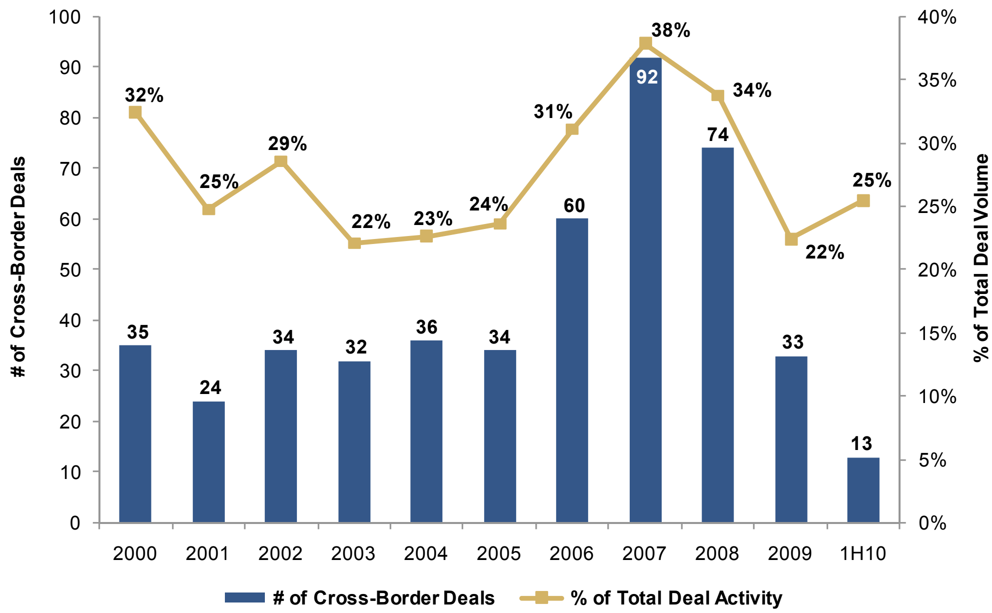


Source: Jefferies' Financial Institutions Group

As to whether this trend will continue depends on the speed of the evolution of the financial sector in non-US markets, and the emergence of more pure-play money managers with sufficient scale and financial heft to become corporate homes for smaller investment boutiques. The UK has numerous asset management businesses of scale that are publicly listed, but in Europe such businesses are relatively few and far between. For historical reasons, the market environment in Europe and Asia is dominated by financial conglomerates, and such institutions have become more capital-constrained and less acquisitive in the aftermath of the recent financial crisis.

Similarly, while we may have expected the number of cross-border deals to increase, given the presence of new well-capitalized Asian buyers among the top 10 deals, the proportion of such deals remained relatively stable. At 25% of the total, it is only slightly higher than last year's 22%, and in line with the early 2000s. It is far below the 31%-38% range reported for the 2006-2008 period. Buyers and sellers have been first and foremost occupied in retaining clients and strengthening their positions at home, and with long-haul expansion far less so.

EXHIBIT 17: Historical Cross-Border Transaction Activity



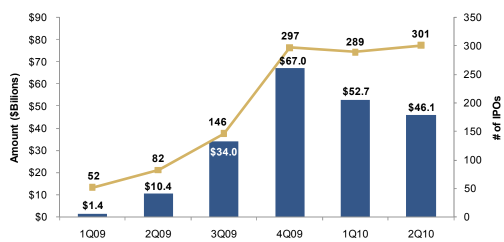
Note: Includes minority transactions, recapitalizations and IPOs.
Source: Jefferies' Financial Institutions Group

IPOs: Open for Business

Despite the global market volatility sparked by the European sovereign debt crisis, the resurgence of the global IPO market, which started in the second half of 2009, has continued through the first half of 2010. In fact, global IPO activity during the first half of 2010 was at the highest level of half-year activity since 2007 both in number of deals and capital raised. In line with the global markets, US IPO activity continued its resurgence as well. In the first half of 2010, the US had a total of 66 IPOs with proceeds of nearly $11 billion, dwarfing the same period in 2009, which only saw 14 deals raise less than $3 billion. The outlook for IPOs remains strong as filings have also accelerated. In the US, there were 74 new IPO filings in the second quarter of 2010 alone, the highest quarterly total since the third quarter of 2007. As of June 30, 2010, the total US IPO backlog consists of 105 offerings seeking to raise as much as $27 billion.

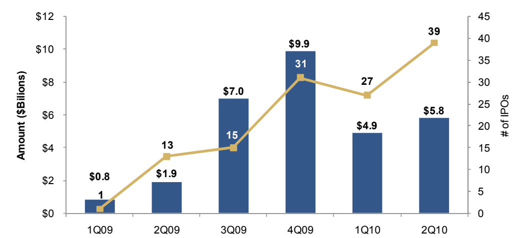
EXHIBIT 18: Positive Momentum in Equity Capital Markets

Global IPO Activity (Last 18 Months)



Source: Dealogic

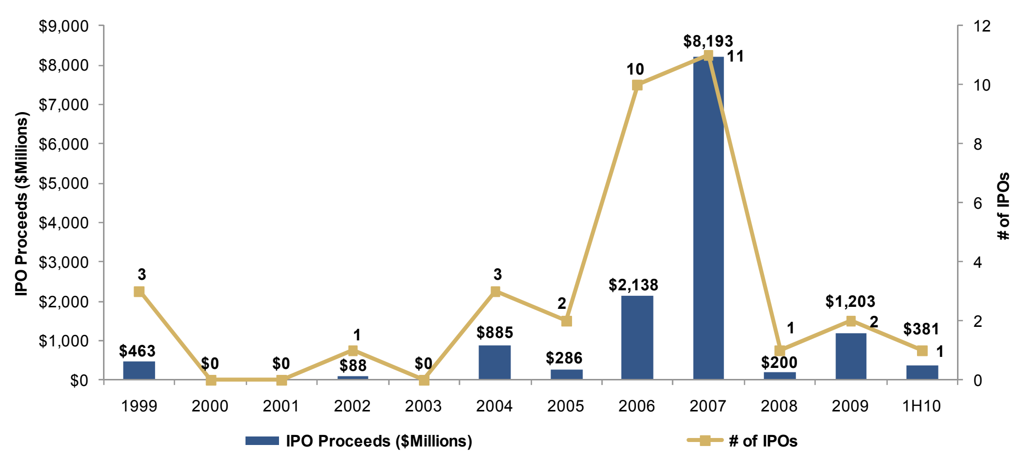
US IPO Activity(Last 18 Months)



Source: Dealogic

Having an industry beta of 1.5 times that of the S&P 500, asset managers seeking a public offering remained on the sidelines during the first half of 2010. Year to date, there has only been one asset management IPO - Jupiter Fund Management which braved the volatile markets with its initial public offering in the UK in the second quarter of 2010.

EXHIBIT 19: Global Asset Management IPO Activity

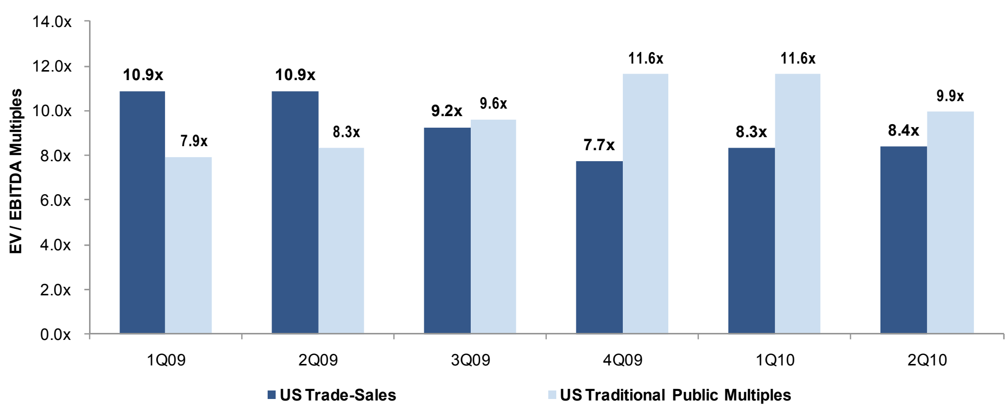


Source: Jefferies' Financial Institutions Group

UK-based Jupiter Fund Management, with over £20 billion of AUM across UK, European and emerging markets equities, and other specialist strategies, listed in June, placing 34% (37% after full exercise of the overallotment option) of its shares to the public. Jupiter Fund Management's offering was priced at 165 pence per share - at the lower end of its expected pricing range of 150 – 210 pence per share - which implied a valuation of £755 million. This valuation was only slightly above the £740 million its managers and private equity partner TA Associates paid in 2007 to buy Jupiter from former owner Commerzbank AG. The uses of the offering's proceeds were to pay down debt and to partially monetize senior managers. TA Associates did not sell any of its shares in the offering and, post-share dilution, retained a 22% ownership stake in Jupiter. Jupiter Fund Management's offering came at a time when many other companies across the world canceled IPO plans or slashed offer prices because of troubled markets. Italian bank **Intesa Sanpaolo S.p.A.** postponed an IPO of its asset management business **Banca Fideuram S.p.A.**, which had originally filed for an offering in February 2010. Citing "unfavorable" market conditions, the bank did not say when a revised IPO would take place, if at all.

While asset managers veered from testing the public market waters in the first half of 2010, the opportunity for asset managers to enter the public markets in the future remains strong. First, despite the recent market turbulence, public market pricing in the sector continues to be more favorable than private transaction multiples; while the pricing gap has closed a bit, asset managers are still more likely to command higher valuations in the public arena at today's multiples. Secondly, the universe of potential buyers able to absorb larger transactions has contracted. Finally, given the continued desire by principals to retain operating control of their firms, monetizing value via public markets offers an attractive option. The confluence of these factors leads us to expect more public offering activity involving asset managers both in the US and globally over the next 18 months.

EXHIBIT 20: 1H10 Trailing Multiples: Publics vs. Trade Sales



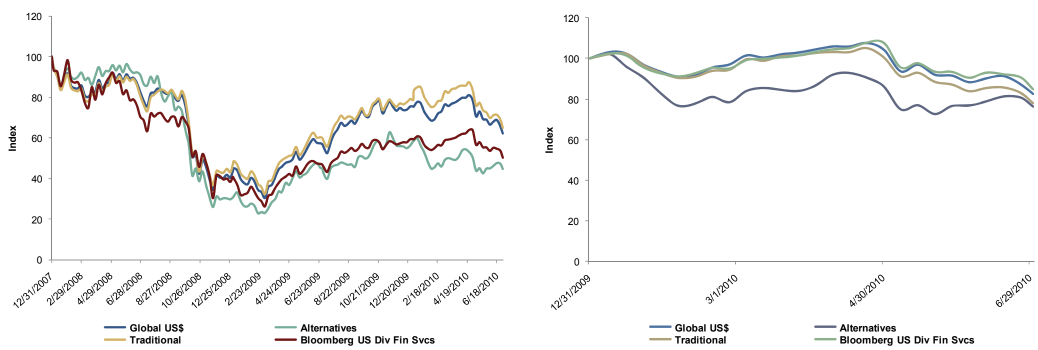
Note: US trade-sale multiples shown are rolling 12-month median multiples, and public multiples shown are the average of the quarter-end median multiples over the preceding 12-month period; firms that comprise the US Traditional Public Multiples data set include AMG, AB, ART, BLK, CLMS, CNS, DHIL, EV, FII, BEN, GBL, IVZ, JNS, LM, PZN, TROW, WDR, and WHG.
US trade-sales include transactions involving US traditional asset manager targets.

Source: Jefferies' Financial Institutions Group

Pricing: Gravitational Pull

Following on the strong momentum which marked the latter half of 2009, global equity markets began 2010 on strong footing, as investors looked for continuing signs of economic recovery. However, optimism turned to caution and ultimately concern as the weight of the sovereign debt crisis and a return to recession took hold. After surging over 70% in 2009, stock prices of global publicly traded asset managers dropped 18% during the first six months of 2010, well in excess of the broader market indices, as the S&P 500 and the MSCI each dropped by 8%. Global investors, who had returned to the asset management sector on the back of rising equity markets in 2009 and improving fundamentals, grew cautious during 2010 as the possibility of a double-dip recession would equate to significant downward pressure on asset management stocks globally.

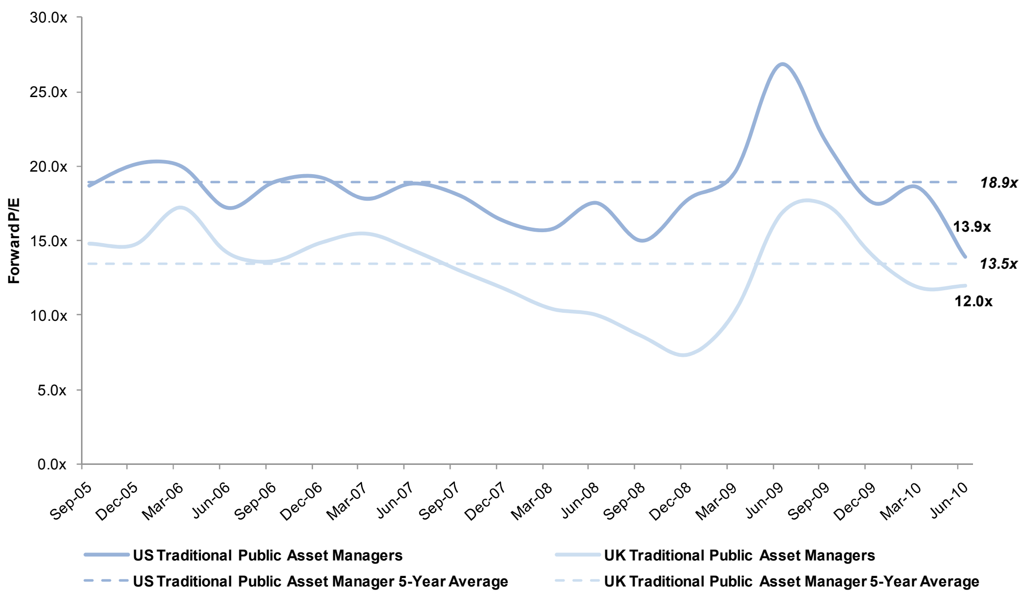
EXHIBIT 21: Jefferies' Financial Institutions Group Global Asset Management Index Performance



Note: 100 = year-end 2007. Index is weighted by market capitalization.
Source: Bloomberg, Jefferies' Financial Institutions Group

Forward earnings multiples for asset managers, which spiked in mid-2009 well above their 5-year average on the expectation of a market rally, reversed course during the first six months of 2010. Multiples for both US and UK traditional managers transcended well below long-term average levels, as investors scaled back in response to uncertainty regarding near-term growth prospects for the asset management industry in the face of unsure markets. Publicly traded US traditional asset managers traded at 13.9x 2010 forward earnings at June 30, significantly below the 5-year average of 18.9x. Publicly traded UK traditional managers mirrored their US counterparts and traded at 12.0x 2010 forward earnings at June 30, 11% below their 5-year average of 13.5x.

EXHIBIT 22: 2010 Forward Price to Earnings Ratios for US and UK Traditional Managers



Source: Bloomberg, Capital IQ, Jefferies' Financial Institutions Group

Publicly traded asset managers across the globe faced compression in their earnings multiple over the first six months of 2010. This was driven by several factors including downward pressures on their stock prices and an upward normalization of forward earnings estimates, as analysts' forecasts became less conservative. US traditional asset managers traded at 13.9x 1-year forward earnings at June 30, representing a 20% decline from the year-end 2009 one-year forward earnings multiple of 17.5x. UK traditional managers experienced a lesser decline of 10% to 12.0x at June 30 from 13.4x at year-end 2009. Earnings multiple compression was slightly greater for the US alternative asset managers, with the added volatility to earnings resulting from carry and performance fees, which traded at 11.7x 2010 earnings at year-end 2009 but declined by 23% to 9.0x at June 30. UK alternative managers showed an improvement of 2%.

EXHIBIT 23: Median Trading Multiples of Quoted Fund Managers

Median Trading Multiples of Quoted Fund Managers, Year End 2009 Versus 1H10

	2010 Forward P/E		2011 Forward P/E	EV / LTM EBITDA	
	YE 2009	1H10	1H10	YE 2009	1H10
US Traditional Public Asset Managers	17.5x	13.9x	12.3x	11.1x	8.3x
US Alternative Public Asset Managers	11.7x	9.0x	7.1x	15.9x	6.9x
UK Traditional Public Asset Managers	13.4x	12.0x	10.4x	15.2x	9.7x
UK Alternative Public Asset Managers	13.0x	13.2x	9.4x	10.2x	10.9x

Notes: Multiples and Enterprise Values are based on 12/31/09 and 6/30/10 share prices.
Run-Rate multiples reflect most recent quarter EBITDA annualized. EBITDA multiples for Alternative Asset Managers derived using "Economic Net Income", where applicable.

Source: Company filings, Bloomberg, Jefferies' Financial Institutions Group

Acquisition multiples in the asset management sector showed a slight uptick in 1H10, after significant declines throughout 2008 and 2009, reflecting the early stages of a slight shift in overall transaction activity away from divestitures to more strategic transactions. Divestitures, with pricing generally based on anticipated consolidation savings, carry lower initial deal multiples, whereas strategically additive transactions will attract higher multiples, with pricing based on expected revenue synergies. Despite the slight increase in acquisition pricing in 1H10, the median multiple of 9.1x run-rate EBITDA is still well below the median multiples of prior periods marked by healthy markets and strong acquisition pricing, most recently experienced in 2007.

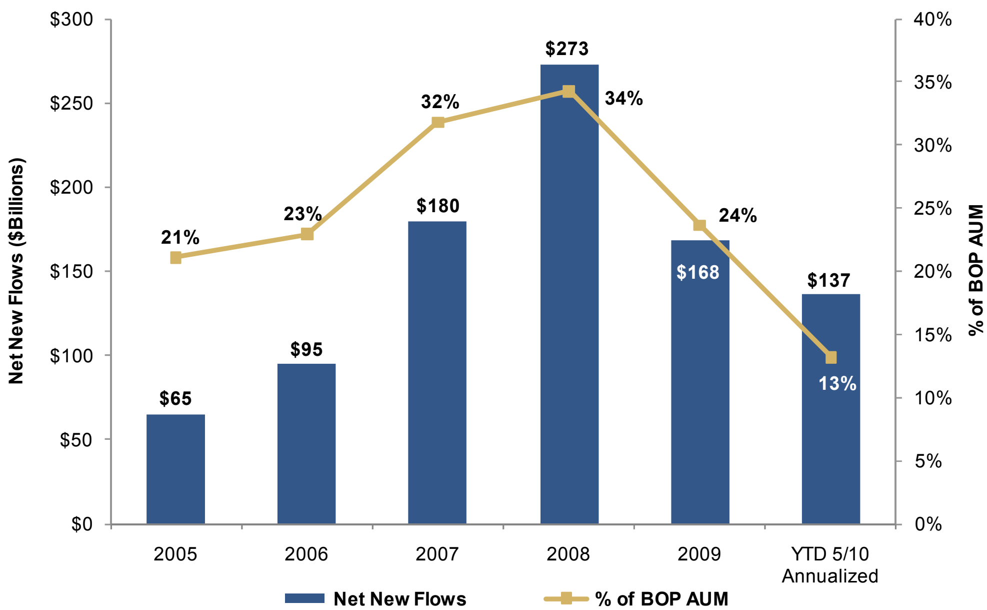
EXHIBIT 24: Run-Rate EBITDA Multiples of Global Asset Management Trade Sales

Note: Multiples reflect four-quarter rolling medians and include all global trade sales for both traditional and alternative managers.
Source: Jefferies' Financial Institutions Group

Exchange-Traded Funds: All Weather Vehicles

Exchange-traded funds continue to be a rapidly growing sector within asset management, as the financial crisis had not slowed demand for this product. Given market volatility and FX movements (the Euro lost 25% of its value in the first six months of 2010 against the dollar), global ETF AUM stagnated ($1,036 billion at the end of 2009 vs. $1,026 billion at mid-year), the sector continues to attract significant net new flows. In the first five months of 2010, ETFs exhibited $57 billion of net flows globally, of which the US accounted for 46%, Europe 23%, international offshore centers including Dublin and Luxembourg 18% and Asia for the remainder. With strong net new flows, ETFs have continued to gain market share over traditional mutual funds, given their low costs, clarity of investment strategy, and ease of trading.

EXHIBIT 25: Historical Net New Flows into ETFs



Note: Includes ETFs of all legal structures (i.e., Grantor Trusts, open-end, Partnerships, UITs) and ETNs.
Source: Strategic Insight, Jefferies' Financial Institutions Group

The competitive landscape in this sector has been dominated by six players with a combined market share of over 80%: BlackRock (iShares), State Street, Vanguard, Société Générale (Lyxor), Deutsche Bank (db x-trackers) and Invesco (PowerShares). There are only a few sizeable independents such as ProFunds, Van Eck and ETF Securities. Asset managers that have attempted to enter ETFs have found it difficult to differentiate new product offerings and develop liquidity. The first-mover advantage remains difficult to overcome but this has not deterred others from trying to launch new products as the ETF pie continued to expand. Greater consumer awareness of the need to diversify away from domestic equities, in conjunction with improved distribution, are two of the factors driving investor demand. Institutional demand for ETFs has also been growing as active managers increasingly utilize ETFs in order to meet asset allocation targets. Between 2007 and 2008 the global number of institutions investing in ETFs grew by 12% from just over 2,600 to in excess of 2,900. We expect the institutional segment of the ETF sector to grow as the benefits of asset allocation remain compelling and customer usage increases.

Jefferies

EXHIBIT 26: Largest ETF Providers by AUM, 1H10

Rank	Company Name	AUM ($B)	# ETFs and ETPs
1	iShares	$ 480.0	446
2	State Street Global Advisors	166.9	111
3	Vanguard	103.4	47
4	Lyxor Asset Management	42.6	139
5	Deutsche Bank / db x-trackers	46.9	207
6	PowerShares	33.4	136
7	ProShares	25.3	111
8	ETF Securities	20.1	213
9	Van Eck Associates	14.6	25
10	Nomura Asset Management	13.4	33
11	Credit Suisse Asset Managers	10.9	44
12	Zurich Cantonal Bank	8.9	7
13	Bank of New York Mellon	8.7	1
14	Claymore Securities	6.6	70
15	Barclays (iPath)	6.6	42

Note: Includes ETP providers.
Source: BlackRock, Bloomberg, Jefferies' Financial Institutions Group

Despite the continued popularity of ETFs amongst both retail and institutional consumers, M&A activity in the first six months of 2010 was nonetheless sparse with just one announced transaction – Guggenheim Partners' acquisition of Security Benefit. This is in stark contrast to 2009 which saw the acquisitions of BGI, EasyETF, Claymore, Hahn Investment Stewards and Innealta Portfolio Advisers. The low count is not a sign of the lack of interest; rather it's a sign of the scarcity of independent ETF players and their unwillingness to sell. Neither are any of the corporate-owned ETF franchises rumored to be for sale, although it is feasible that some bank-owned groups may be spun off, if their parent companies run into balance-sheet difficulties. Indeed, transaction pricing in the segment has been strong, and both private equity and industry buyers have been eagerly pursuing the remaining independent ETF players. However, hopes for continued high business growth and the possibility of stronger pricing in a future public market listing have turned such independents into unwilling brides.

EXHIBIT 27: ETF-Related Deals with AUM in Excess of $1 Billion by Transacted AUM

Date	Target	Ctry	Acquirer	Ctry	AUM ($MM)	% Acquired
Jun-09	Barclays Global Investors (iShares-portion)	US	BlackRock Inc.	US	$ 296,800	100%
Feb-10	Security Benefit Corporation	US	Guggenheim Partners, LLC	US	22,000	100%
Nov-06	Indexchange Investment AG	GY	Barclays plc	UK	19,340	100%
Jun-07	Rydex Advisors	US	Security Benefit Corp.	US	15,000	100%
Jul-09	Claymore Securities, Inc.	US	Guggenheim Partners LLC	US	12,900	100%
Jun-08	Gold Bullion Securities Ltd.	UK	ETF Securities Ltd.	Jersey	3,600	Undisclosed
Jan-06	PowerShares Capital Management	US	Amvescap plc (nka Invesco, Ltd.)	UK	3,500	100%
May-09	EasyETF	FR	BNP Paribas	FR	1,800	50%

Note: Transacted AUM in Barclays Global Investors (iShares) / BlackRock consists of ETF AUM transacted. All other transactions reflect total AUM.

Data converted to US currency at time of announcement. Announced transactions only.

Source: Jefferies' Financial Institutions Group

Conclusion

The lower level of transaction activity involving asset managers for first six months of 2010 denotes a cadence point within the transition of M&A in the industry that has been underway since the onset of the financial crisis. As we've noted in our prior papers, the Great Recession changed the transaction landscape for asset managers – via an altered buyer universe, a prolonged hesitation among independents to transact, and downward pressure on valuations. As the industry adapts to post-recession life, however, the transaction environment, and thus deal activity, will seek a 'new normal' in the coming months. Signs of this new norm are already apparent, and we expect the following trends to play out during the next 12 months:

- Deal activity will recover from the current lull and overall volumes will increase, as strategically driven transactions replace and exceed the hole in deal activity left by the winding down of divestiture activity. While we expect to see on-going divestiture activity, as large financial institutions continue to re-assess strategic direction and focus on core businesses, divestitures will represent an increasingly smaller portion of deal activity.

- Independently owned asset managers will gradually return to the transaction landscape, primarily driven by three factors. First, as sellers are shifting their focus from business preservation brought on by the financial crisis to executing their strategic plans, they will seek partners to help grow their businesses and expand their platforms. Secondly, with nearly three years having passed since the onset of the financial crisis, there is a growing back-log of aging owners needing to address retirement and estate planning, one of the most common drivers of sales activity. Thirdly, as strategically driven transactions come to the forefront, buyers will be more willing to pay strategic premiums, albeit below pre-crisis levels, which will ultimately lure sellers to the negotiating table.

- Investors will continue to increase their allocations to global/international portfolios and traditional fixed income, thus making targets with those capabilities the most highly desired among buyers looking to fill out their product suites. As the emerging market economies continue to post growth rates well in advance of the developed nations, managers specializing in emerging markets investment strategies, particularly those with local presence in their investment markets, will garner particularly strong interest among buyers. On the contrary, those asset managers primarily focused in traditional developed markets equity strategies will need to differentiate themselves or partner up to fight for relevance in an ever-globalizing investor marketplace.

- Asian and the emerging market buyers will join US-and UK-based pure-play asset managers as the predominant buyers of asset management businesses. As economic growth in their home markets have strengthened their resolve and filled their war chests, buyers from Asia and the emerging markets will look to the developed markets for best practices, seek to expand both their product lines beyond their local product expertise and distribution presence beyond their home market. Financial sponsors, which have largely been sellers of their asset management portfolio companies in the past 12 months, will resume on the acquisition trail in earnest given their large stores of uninvested capital and a more-friendly debt financing market.

- As a result of a looming economic recovery and hopeful return to less volatile equity markets, at-scale asset managers will look to the public markets as a means to secure liquidity while maintaining control of their businesses. IPO activity in the coming months, assuming cooperative global equity markets, will exceed historical levels, as more firms look to the public markets in the face of a narrowed universe of asset management buyers. As shown by recent IPOs, however, investors will require valuations grounded in reasonable growth prospects of high quality firms.

Appendix

EXHIBIT 28: Largest Asset Management Deals by Transacted AUM, 1H10

Date	Target	Ctry	Type	Acquirer	Ctry	AUM ($MM)	% Acquired
May-10	KBL European Private Bankers	SWI	PvtCl	Hinduja Group	India	$58,250	100%
Feb-10	INTECH (Enhanced Investment Technologies)	US	Inst	Janus Capital Group Inc.	US	48,000	3%
Jun-10	Jupiter Fund Management plc	UK	Div	IPO	UK	31,306	34%
May-10	GLG Partners, Inc.	US	Alt	Man Group plc	UK	23,667	100%
Feb-10	Security Benefit Corporation	US	Div	Guggenheim Partners, LLC	US	22,000	100%
Feb-10	Pantheon Ventures	US	Alt	Affiliated Managers Group, Inc.	US	22,000	85%
Jan-10	RBS Asset Management (Investment Strategies division)	UK	PvtCl	Aberdeen Asset Management plc	UK	21,591	100%
Mar-10	Nordea Invest Fund Management A/S	DK	MuFu	Nordea Bank AB	SWE	19,317	100%
Mar-10	Rensburg Sheppards plc	UK	PvtCl	Investec plc	UK	18,416	53%
Feb-10	Artemis Investment Management Limited	UK	Div	Affiliated Managers Group, Inc.	US	16,000	51%

Data converted to US currency at time of announcement. Announced transactions only.
Source: Jefferies' Financial Institutions Group

EXHIBIT 29: All-Time Largest Asset Management Deals by Transacted AUM

Date	Target	Ctry	Type	Acquirer	Ctry	AUM ($MM)	% Acquired
Jun-09	Barclays Global Investors	US	Div	BlackRock Inc.	US	$1,440,000	100%
Dec-06	Mellon Financial Corporation Inc.	US	Div	Bank of New York Company, Inc.	US	947,000	100%
Jan-09	Société Générale Asset Management	FR	Div	Crédit Agricole SA	FR	838,651	100%
Feb-06	Merrill Lynch Investment Managers	US	Div	BlackRock Inc.	US	544,000	100%
Jun-05	Citigroup Asset Management	US	Div	Legg Mason	US	437,000	100%
Sep-01	Zurich Scudder Investments	US	Div	Deutsche Bank AG	GY	278,000	100%
Nov-99	PIMCO Advisors L.P.	US	Inst	Allianz AG	GY	256,153	69%
Oct-08	Aberdeen Asset Management plc	UK	Div	Mitsubishi UFJ Financial Group Inc.	JN	226,300	10%
Jul-08	Russell Investments	US	Div	Nippon Life Insurance	JN	211,000	5%
Jun-00	United Asset Management (UAM)	US	Inst	Old Mutual plc	UK	203,150	100%

Note: The CAAM/SGAM transaction was a contribution deal where Crédit Agricole received 75% and Société Générale received 25% of the equity in the combined entity.
Data converted to US currency at time of announcement. Announced transactions only.
Source: Jefferies' Financial Institutions Group

EXHIBIT 30: Largest Asset Management Deals by Disclosed Deal Value, 1H10

Date	Target	Ctry	Type	Acquirer	Ctry	DDV ($MM)	% Acquired
May-10	KBL European Private Bankers	SWI	PvtCl	Hinduja Group	India	$ 1,673	100%
May-10	GLG Partners, Inc.	US	Alt	Man Group plc	UK	1,600	100%
Feb-10	Pantheon Ventures	US	Alt	Affiliated Managers Group, Inc.	US	775	85%
Feb-10	Security Benefit Corporation	US	Div	Guggenheim Partners, LLC	US	400	100%
Jun-10	Jupiter Fund Management plc	UK	Div	IPO	UK	381	34%
Mar-10	Rensburg Sheppards plc	UK	PvtCl	Investec plc	UK	332	53%
Feb-10	Artemis Investment Management Limited	UK	Div	Affiliated Managers Group, Inc.	US	183	51%
Jan-10	RBS Asset Management (Investment Strategies division)	UK	PvtCl	Aberdeen Asset Management plc	UK	135	100%
Jan-10	River Road Asset Management LLC	US	Inst	Aviva plc	UK	122	100%
Jan-10	HighTower Advisors LLC	US	PvtCl	Asset Management Finance	US	100	Majority

Data converted to US currency at time of announcement. Announced transactions only.
Source: Jefferies' Financial Institutions Group

EXHIBIT 31: All-Time Largest Asset Management Deals by Disclosed Deal Value

Date	Target	Ctry	Type	Acquirer	Ctry	DDV ($MM)	% Acquired
Dec-06	Mellon Financial Corporation Inc.	US	Div	Bank of New York Company, Inc.	US	$ 17,619	100%
Jun-09	**Barclays Global Investors**	**US**	**Div**	**BlackRock Inc.**	**US**	**13,502**	**100%**
Feb-06	Merrill Lynch Investment Managers	US	Div	BlackRock Inc.	US	9,602	100%
Jun-07	Nuveen Investments	US	Div	MBO (Madison Dearborn Partners, LLC)	US	5,750	100%
Sep-97	Mercury Asset Management	UK	Inst	Merrill Lynch & Co.	US	5,326	100%
Sep-05	Global Asset Management & 3 private banks	SWI	Alt	Julius Baer Holding AG	SWI	4,600	100%
Jun-07	Blackstone Group	US	Alt	IPO	US	4,130	12%
Apr-00	Flemings Asset Management (Robert Fleming Holdings-Asset MGT Division)	UK	Div	Chase Manhattan Corp	US	4,100	100%
Feb-07	Putnam Investments	US	MuFu	Power Financial Corporation	CN	3,900	100%
Jun-05	Citigroup Asset Management	US	Div	Legg Mason	US	3,700	100%

Data converted to US currency at time of announcement. Announced transactions only. Bold transactions indicate 2009 deals.
Source: Jefferies' Financial Institutions Group

Important Disclosures

This communication is being provided strictly for informational purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security referenced herein. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified, therefore, we do not guarantee its accuracy. Any opinion or estimates constitute our best judgment as of this date, and are subject to change without notice, and any views expressed herein may not be supported by independent analysis. Jefferies & Company, Inc. and Jefferies International Limited and their affiliates and their respective directors, officers and employees may buy or sell securities mentioned herein as agent or principal for their own account.

This report was created by members of the Jefferies Financial Institutions Group investment banking division of Jefferies & Company, Inc. ("Jefferies"), employing appropriate expertise, and in the belief that it is fair and not misleading. The report has not been reviewed by, or discussed with, any member of Jefferies' research department. This report is not intended to be, and in no way constitutes a "research report", as such term is defined in Rule 137 promulgated under the US Securities Act of 1933, as amended, nor should it be considered the same under the Conduct of Business Rules of the Financial Services Authority ("FSA"). Jefferies' investment banking department has done, and may continue to do business with, companies included in this report.

Additional information for UK and Canadian investors

This material is approved for distribution in the United Kingdom by Jefferies International Limited, which is authorized and regulated by the Financial Services Authority and is located at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0) 20 7029 8000; facsimile +44 (0) 20 7029 8010. While we believe this information and materials upon which this information was based are accurate, except for any obligations under the rules of the FSA, we do not guarantee its accuracy. This material is intended for use only by persons who have professional experience in matters relating to investments falling within Articles 19(5) and 49(2)(a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended), or by persons to whom it can be otherwise lawfully distributed. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario).

Jefferies & Company, Inc.

Jefferies.com

Investment Banking
Sales & Trading
Research
Asset Management

Jefferies