
Dreams and Night Sweats: The Shape and Future of Money Management

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Grail Partners LLC

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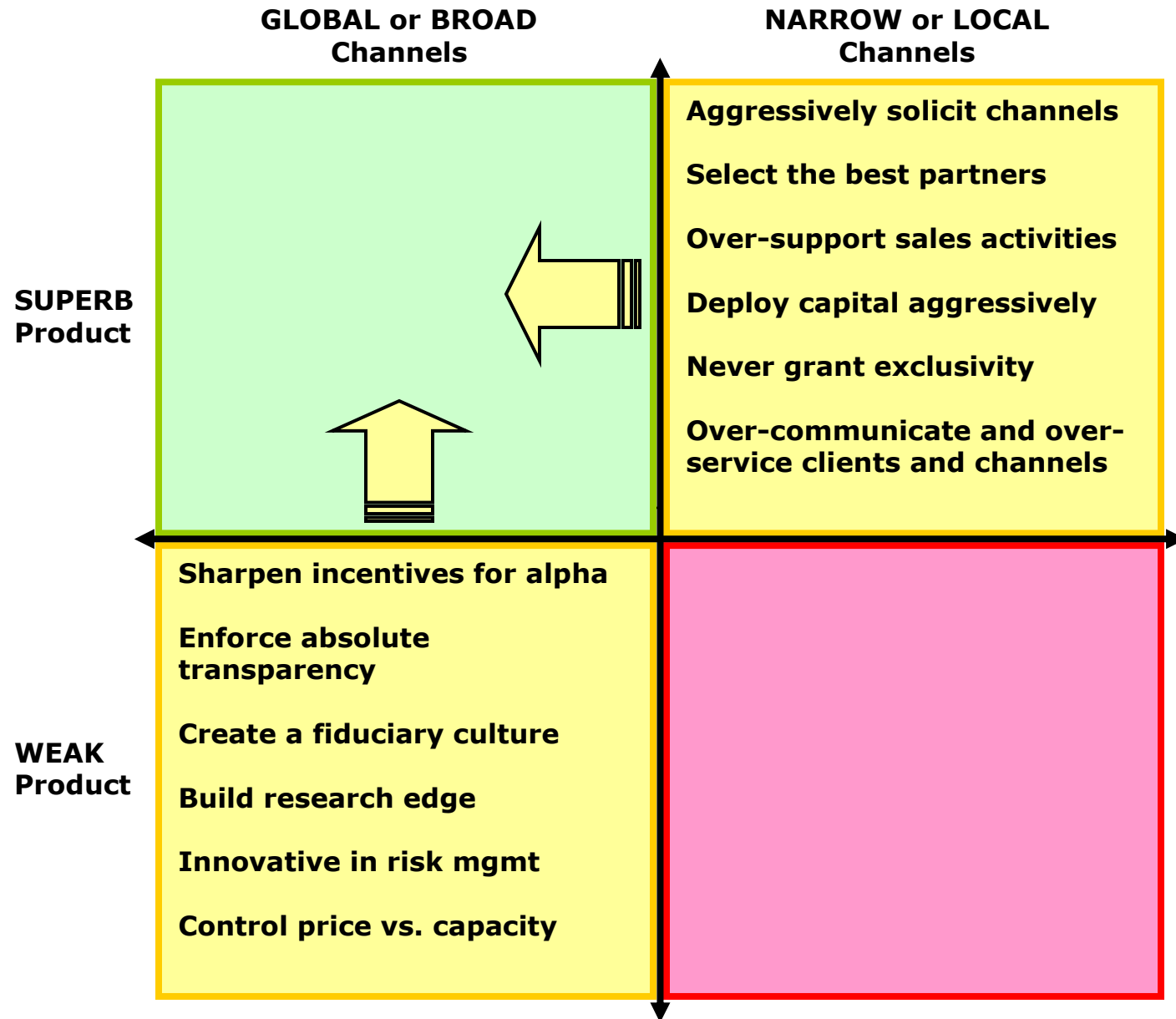
Catalysts: Current Inflection Points in Asset Management

The Big Picture

	Catalysts	Consequences
US Retail	<ul style="list-style-type: none"> ▪ Scale challenges ▪ Conglomerate illogic ▪ Transparent Performance ▪ ETFs and Quant Lifestyle ▪ New Paradigm Distribution 	<ul style="list-style-type: none"> ▪ Divestiture ▪ Fund Adoptions / Mergers ▪ Open Architecture ▪ CONSOLIDATION
Institutional	<ul style="list-style-type: none"> ▪ Failure of Style Allocation ▪ Death of DB, Triumph of DC ▪ Segregated Alpha / Beta ▪ The "New" Quants 	<ul style="list-style-type: none"> ▪ Resurgence of the Global Banks ▪ Brokers go for Distribution ▪ Alternative Crossover ▪ MONGRELIZATION
Alternative	<ul style="list-style-type: none"> ▪ Ownership is optics: Capacity is Key ▪ Ageing PE Founders ▪ RE Continues to Evolve 	<ul style="list-style-type: none"> ▪ Resurgence of Global Banks ▪ Brokers Chose Distribution ▪ MATURATION
Market Factors	<ul style="list-style-type: none"> ▪ PE Firms are Awash in Cash ▪ Public Markets are Eager ▪ Globalization a Failed Model 	<ul style="list-style-type: none"> ▪ MBO / LBO / New Financing ▪ IPO / Reverse Mergers ▪ PROLIFERATION

An Owner's First Challenge is Strategy

The Big Picture



Lessons From the Past

(\$ in millions)

The Big Picture

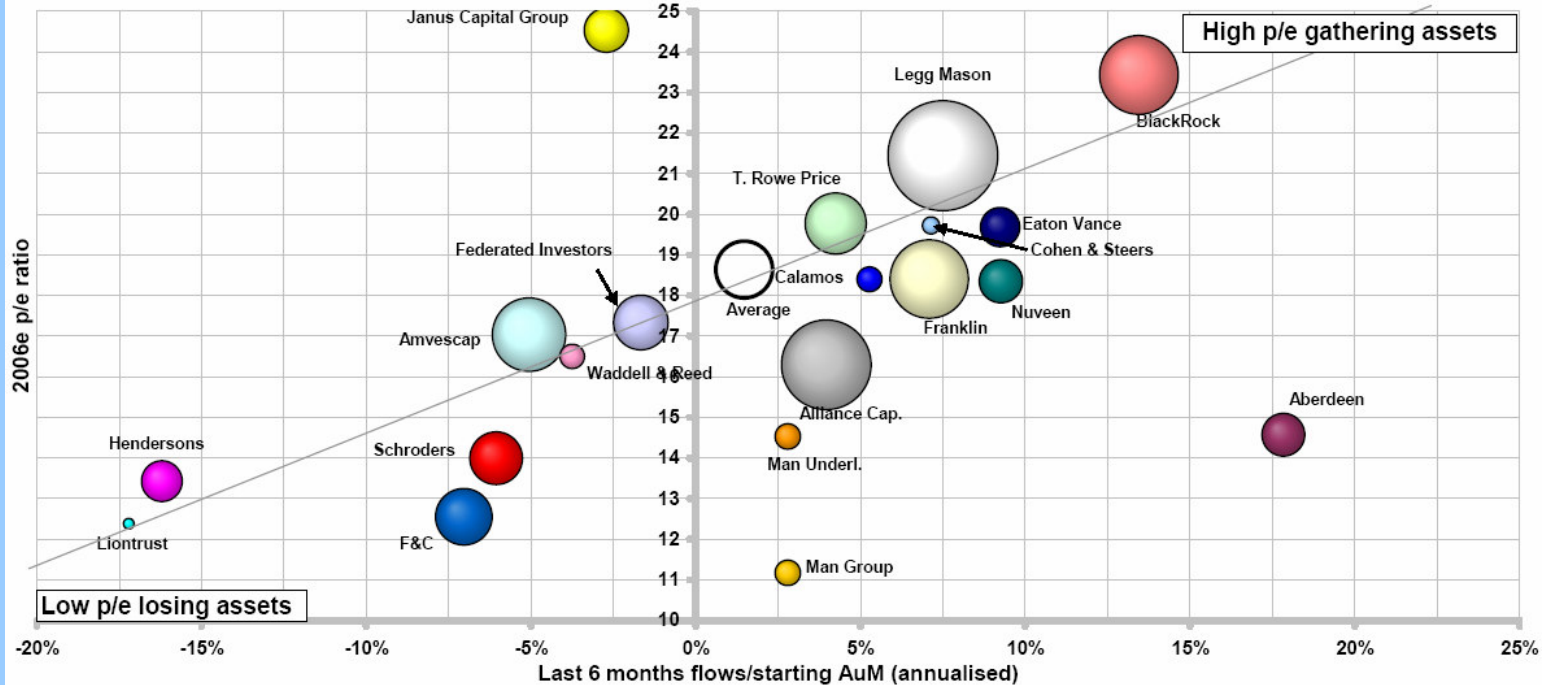
Rank	<u>Firm Name</u>	<u>2005</u>
1	Barclays Global Investors	\$1,513,000
2	State Street Global Advisors	1,441,000
3	Fidelity Investments	1,207,000
9	Capital Group	1,142,000
4	BlackRock Inc.	991,000
5	Vanguard Group, Inc.	951,000
6	Legg Mason Inc.	850,800
7	JPMorgan Asset Management	847,000
8	Mellon Financial Corporations	781,000
10	AXA Group	690,000

Rank	<u>Firm Name</u>	<u>1995</u>
1	Fidelity Investments	\$426,742
2	Prudential	271,500
3	Mellon Financial Corporations	251,713
9	State Street Global Advisors	231,722
4	JPMorgan Asset Management	227,416
5	Capital Research	216,909
6	Equitable Cos	205,000
7	Bankers Trust	202,168
8	Metropolitan Life	171,594
10	Travelers	166,346

Perform, Gather, Grow: Simple...?

The Big Picture

- Performance drives flows and flows drive valuation

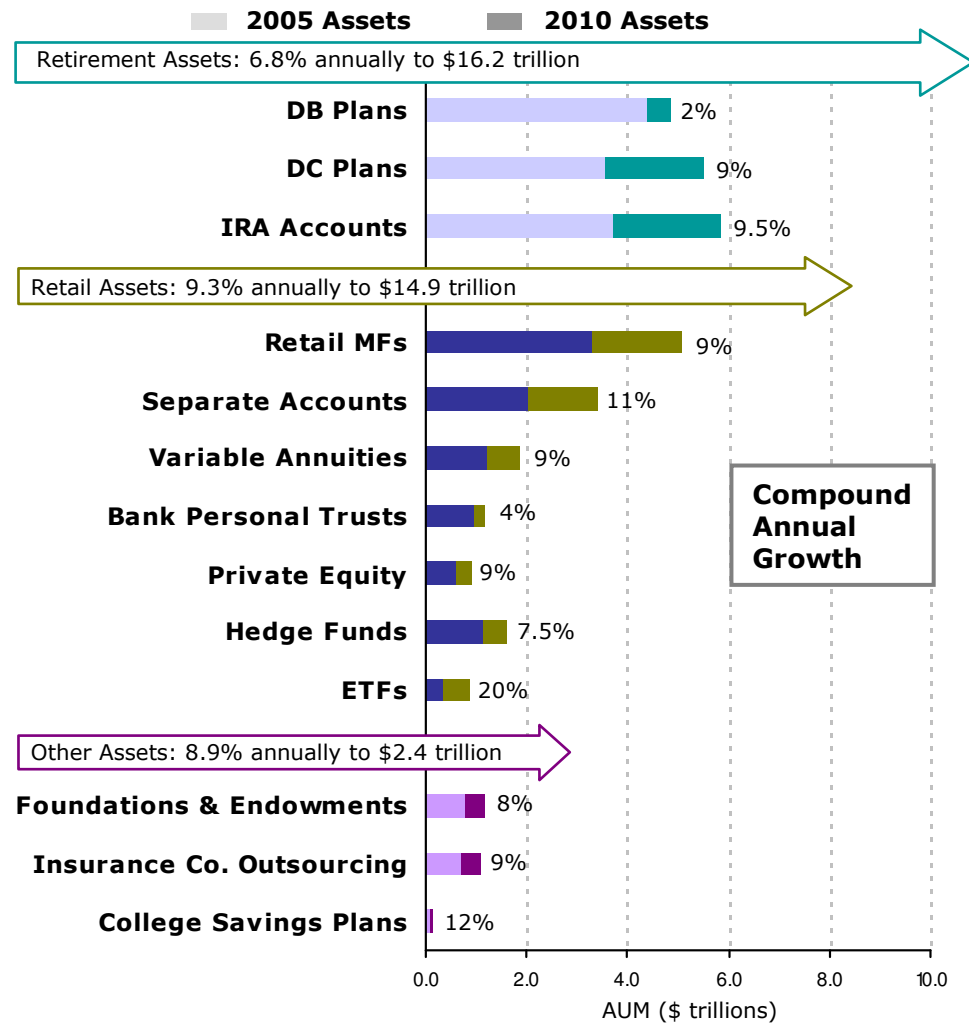


5 Year Outlook: Continued Fragmentation; Opportunities Everywhere

Product Perspectives

- Open architecture expands shelf space and product offerings
- The rollover boom
- Retirement income focus
- Separate accounts to mainstream
- Explosion in alternatives
- New advisory models
- Global opportunities emerge

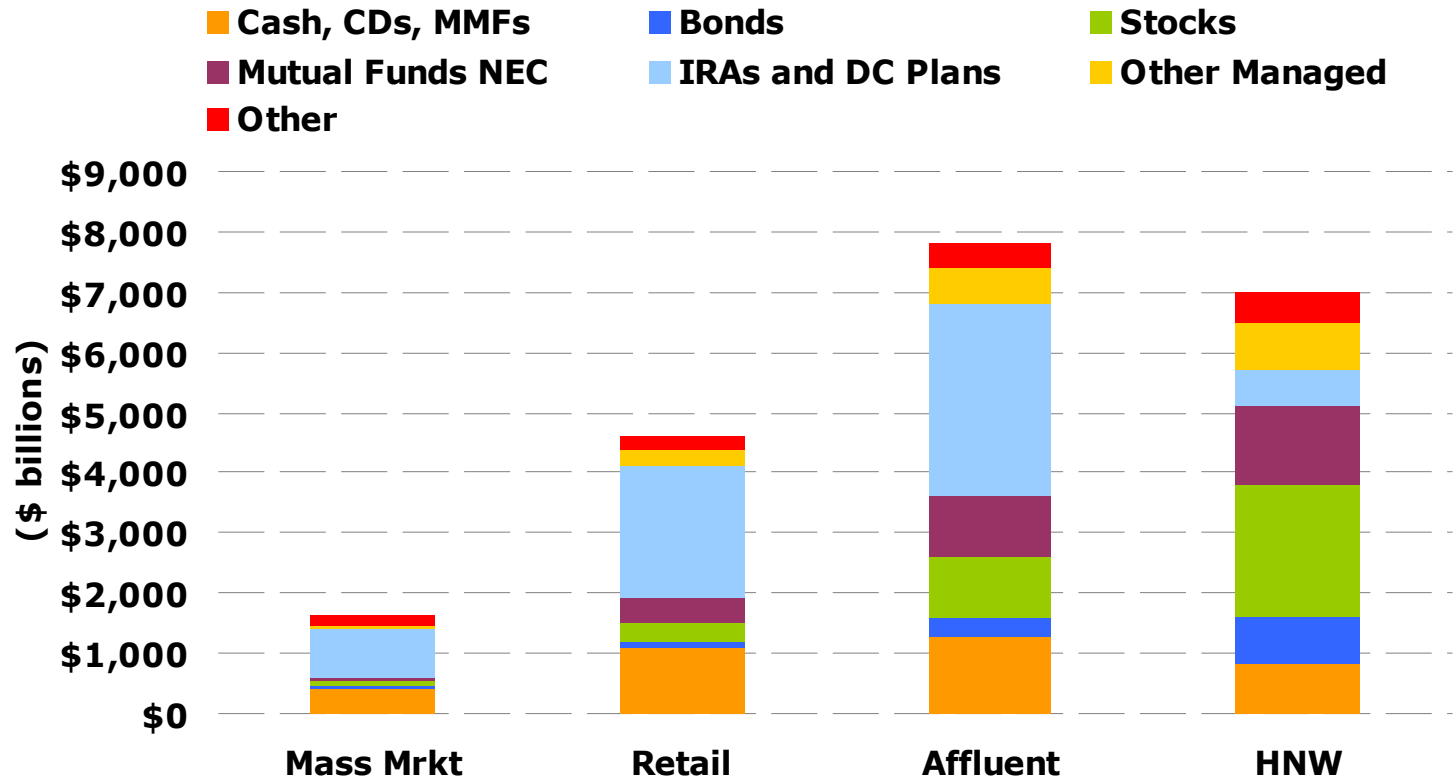
Projected Industry Growth



Source: Empirical Research, Federal Reserve Board, US Department of Labor, Employee Benefits Institute, Cerulli Associates, Investment Company Institute, NAVA, VARDS, FIDC, Venture Economics, Hedge Fund Research, TASS Research, NUCUBO, The Foundation Center, Holmes Research, College Savings Plan Network, Insurance Asset Manager Survey, Corporate Reports, Grail Partners Estimates

Financial Assets by Affluence and Asset Type - \$21T total 2004

Product Perspectives

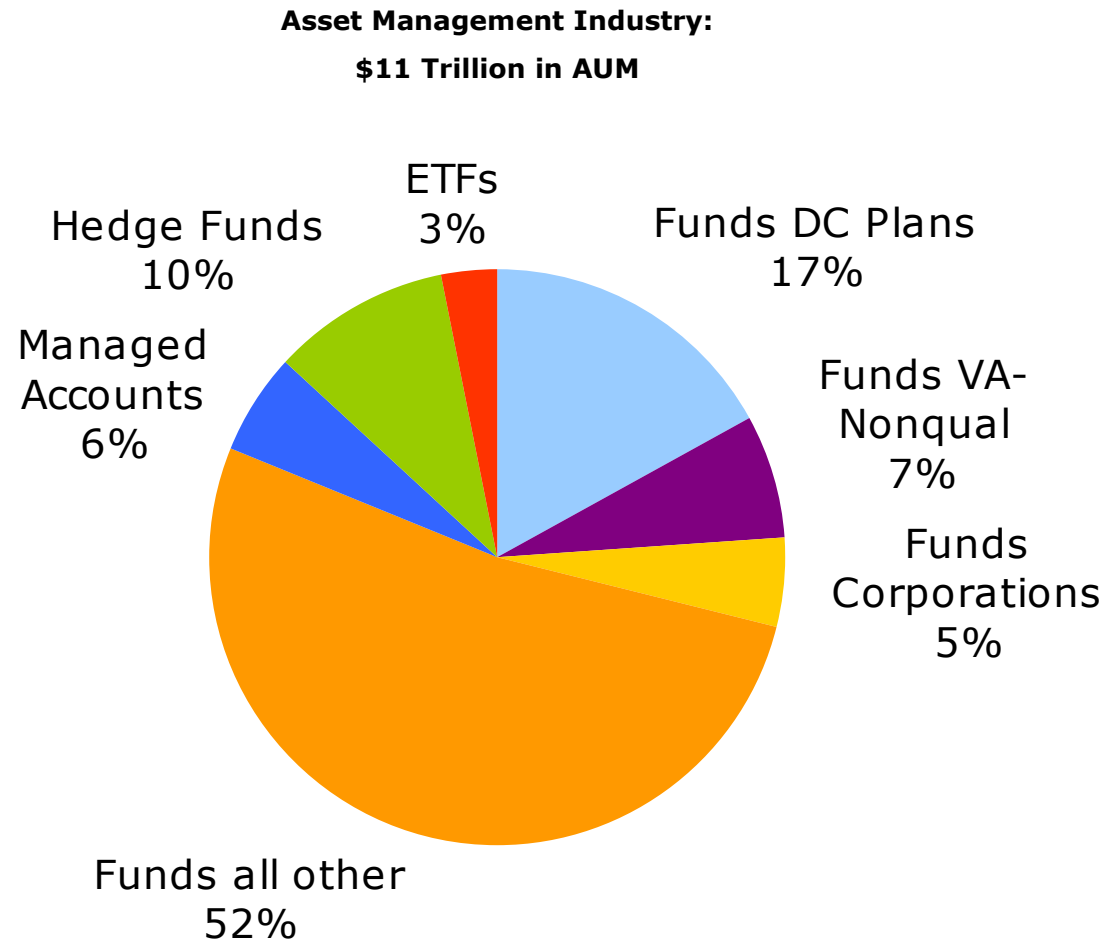


Source: ICI, FRB, Census Bureau, ICI, SIA. Includes long and short term mutual funds and VAs; excludes assets in bank trusts, inst MMFs and other institutional assets. Thomas H Mack & Co., Bobroff Consulting, Grail Partners

Product Mix Today

Product Perspectives

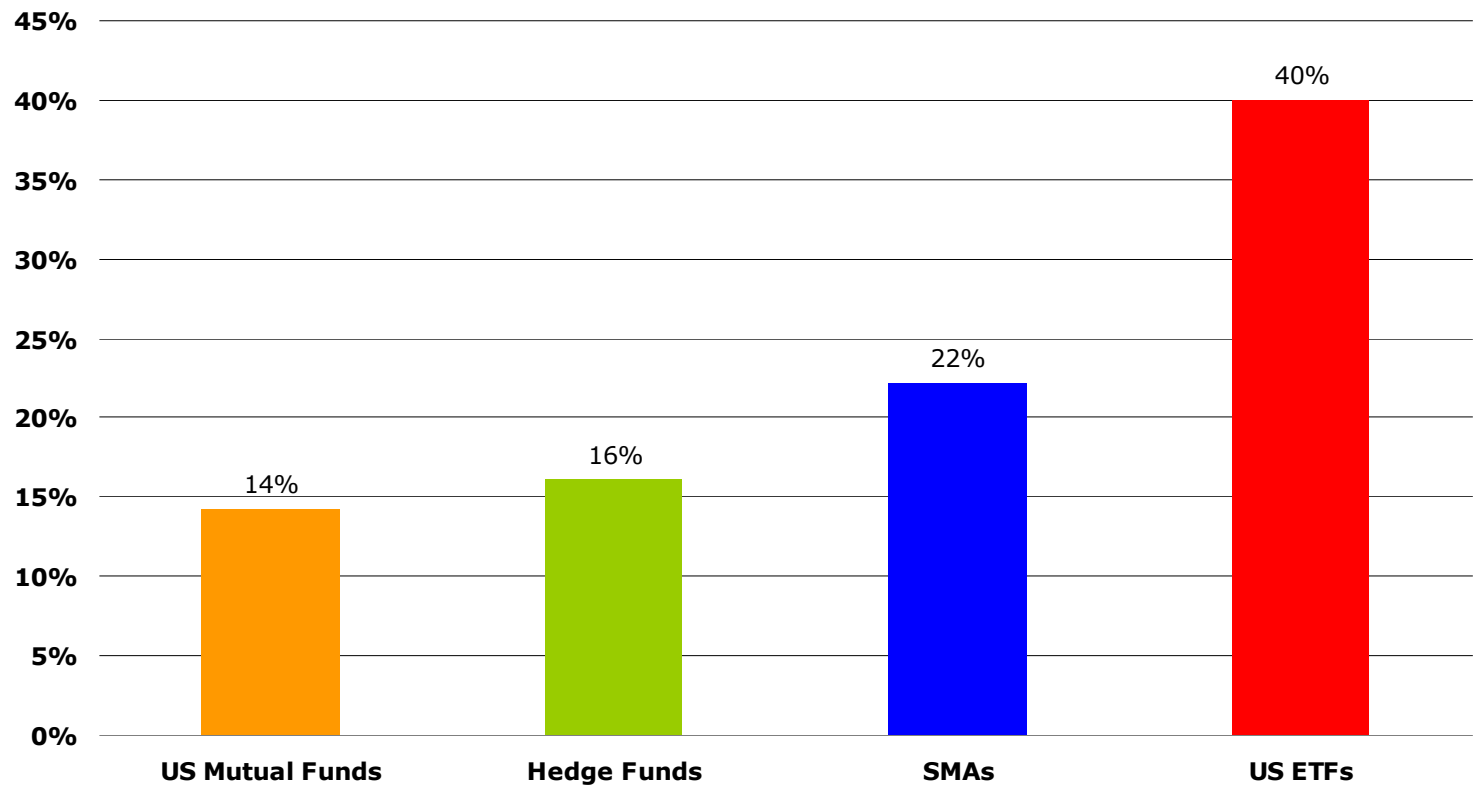
- Mutual Funds remain the dominant product solution



3-Yr CAGRS by AM Sector

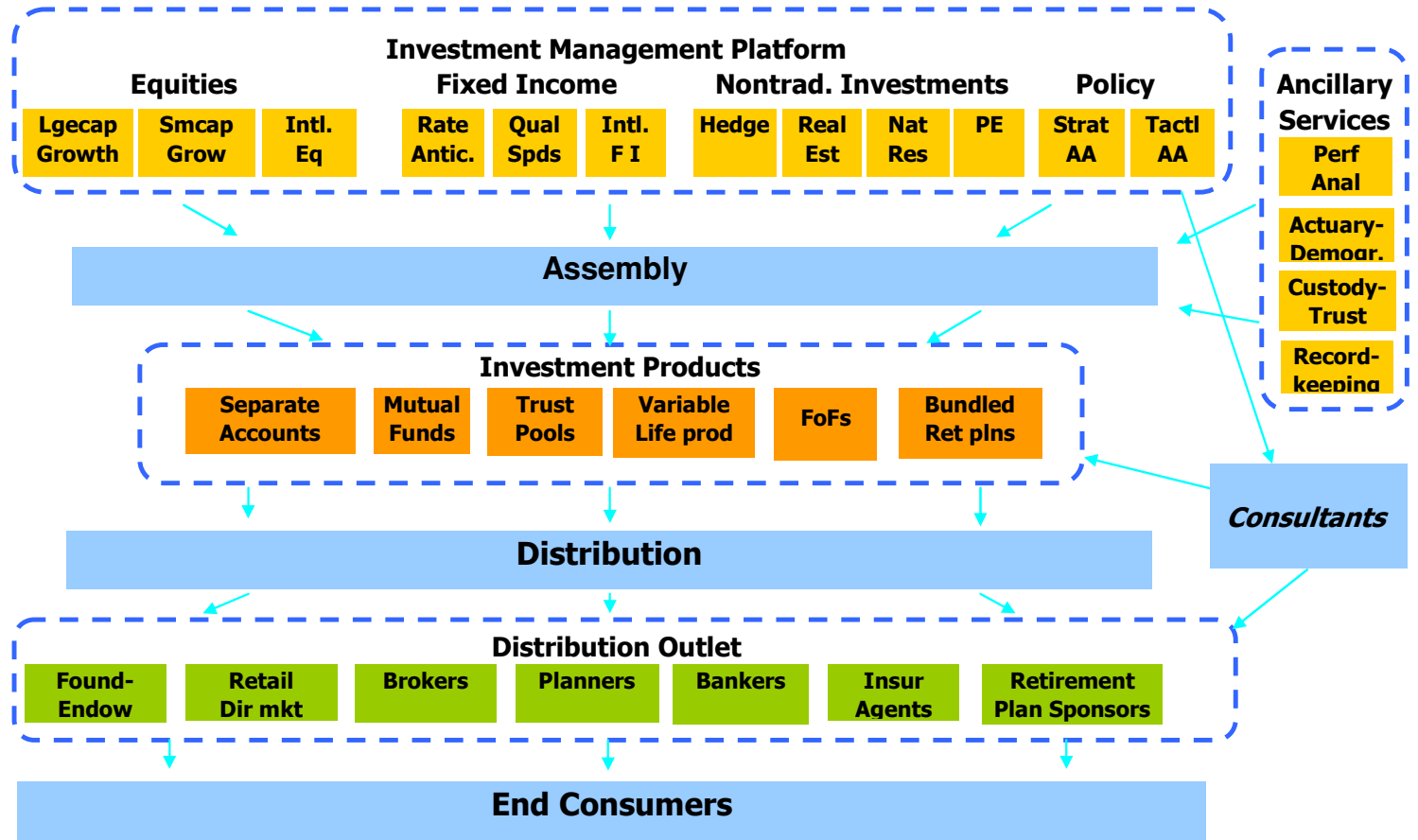
- Hedge Funds, SMAs, and ETF growth outpace traditional mutual funds

Historical Three-Year CAGRs



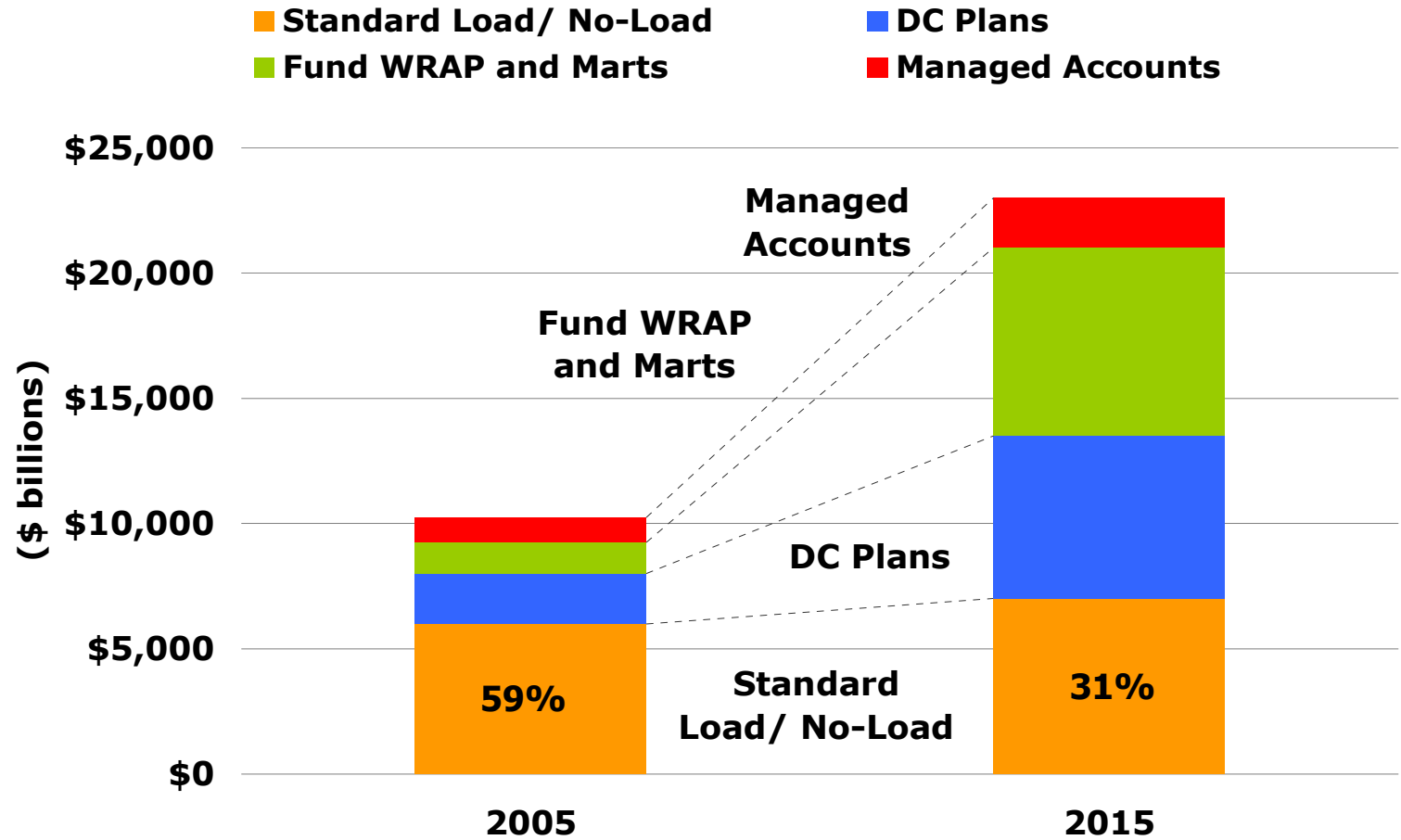
All Roads Lead Through Platforms

- Structure of the investment management business



Source: Grail Partners LLC

Major Packaged Investment Product Segments

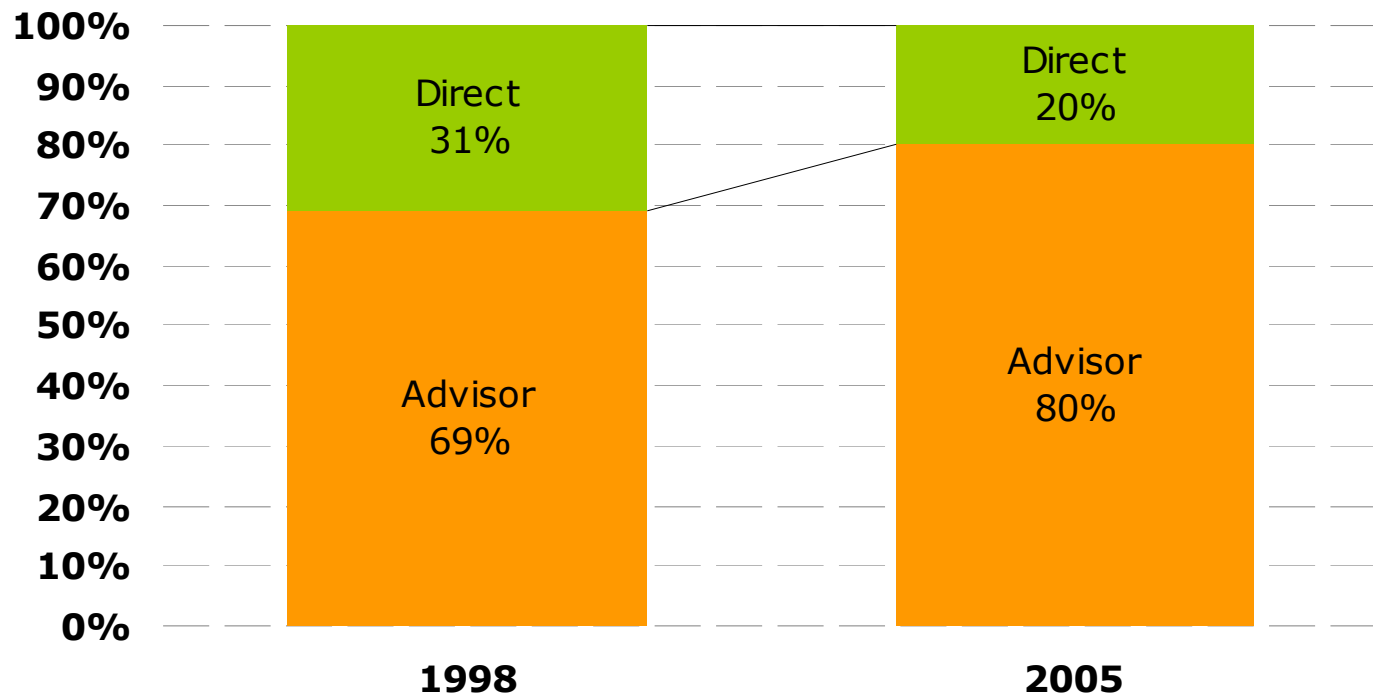


Source: ICI, FRB, Census Bureau, ICI, SIA. Includes long and short term mutual funds and VAs; excludes assets in bank trusts, inst MMFs and other institutional assets. Thomas H Mack & Co., Bobroff Consulting, Grail Partners

Advice-Based Distribution Is the Retail Way

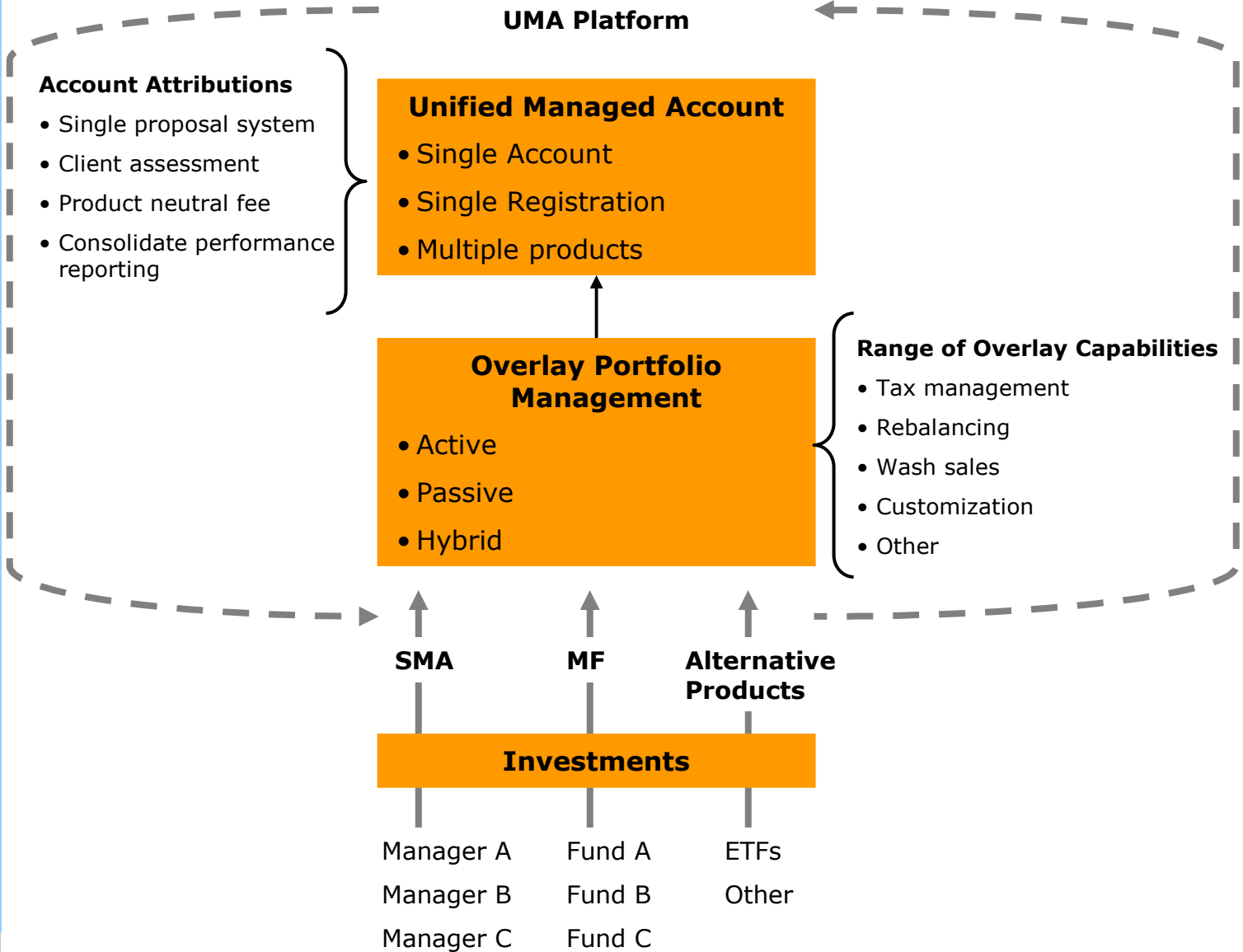
- Advisors gaining share of investable assets as direct sold continues to decline

**US Mutual Fund Assets Under Management - Direct
Purchased vs. Advisor-Sold %**



UMA Platform Schematic

Distribution Dynamics

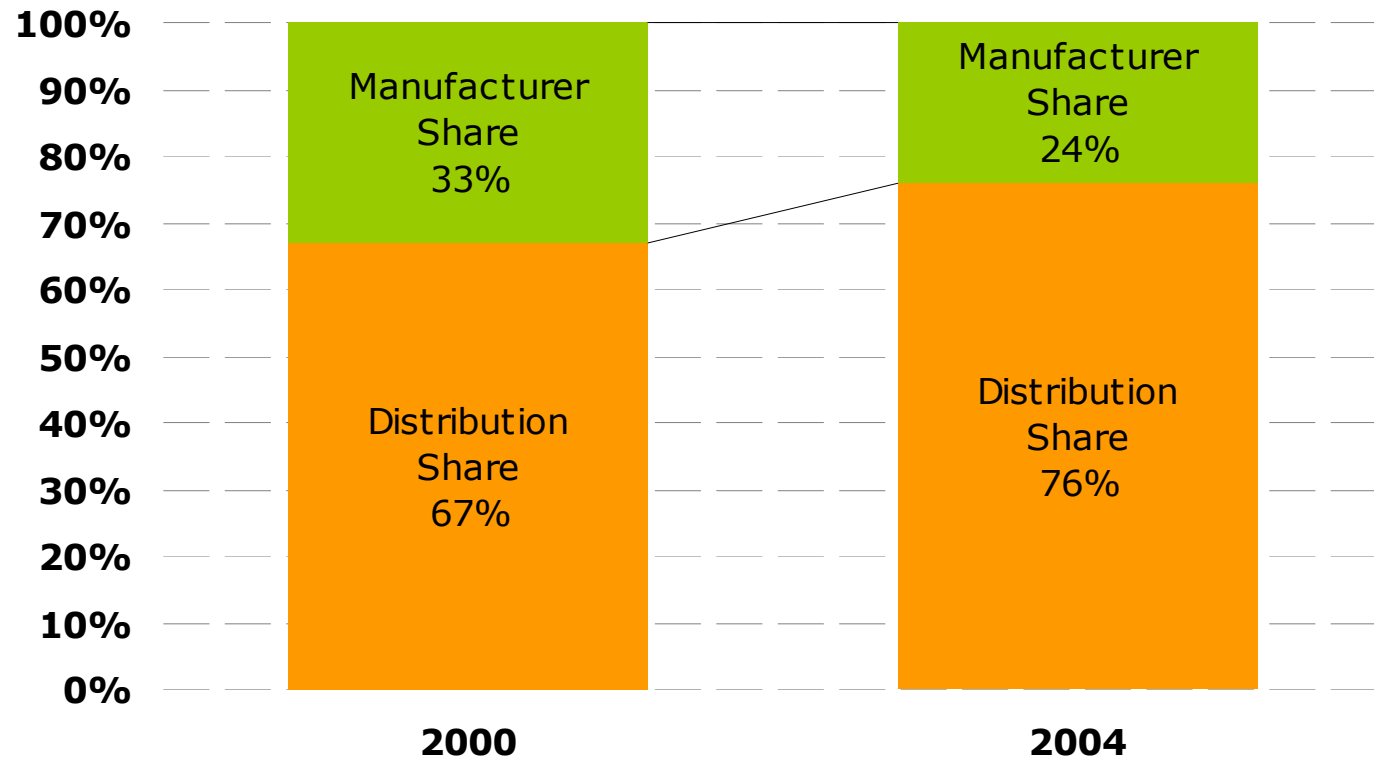


Distribution Dynamics

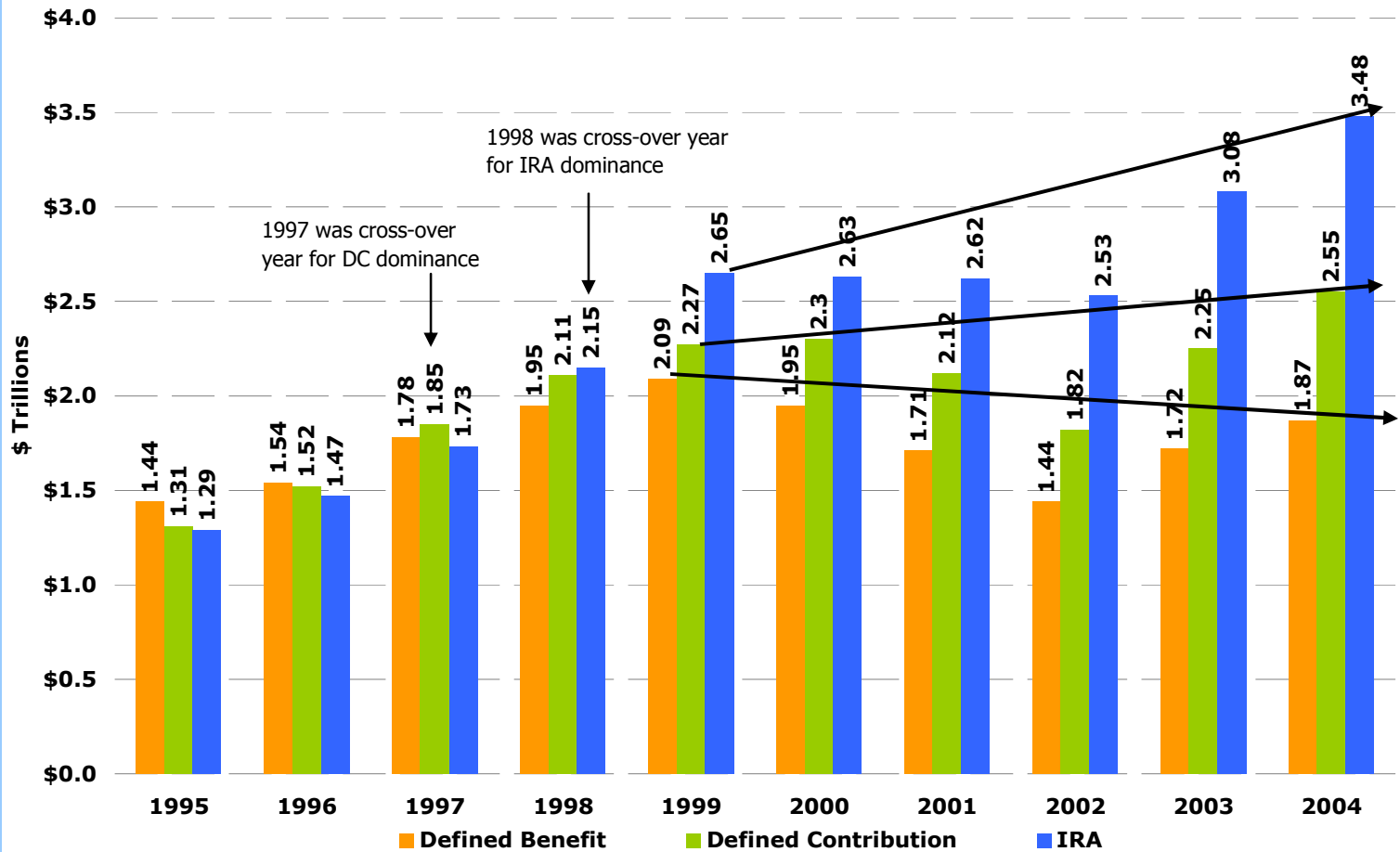
Platform Growth = Pricing Power

- Distributors capturing increasing share of fees away from manufacturers

Managed Accounts



U.S. Retirement Plan Assets, 1995-2004



Investor Lifecycle Affects Financial Product Needs

Retirement Realities

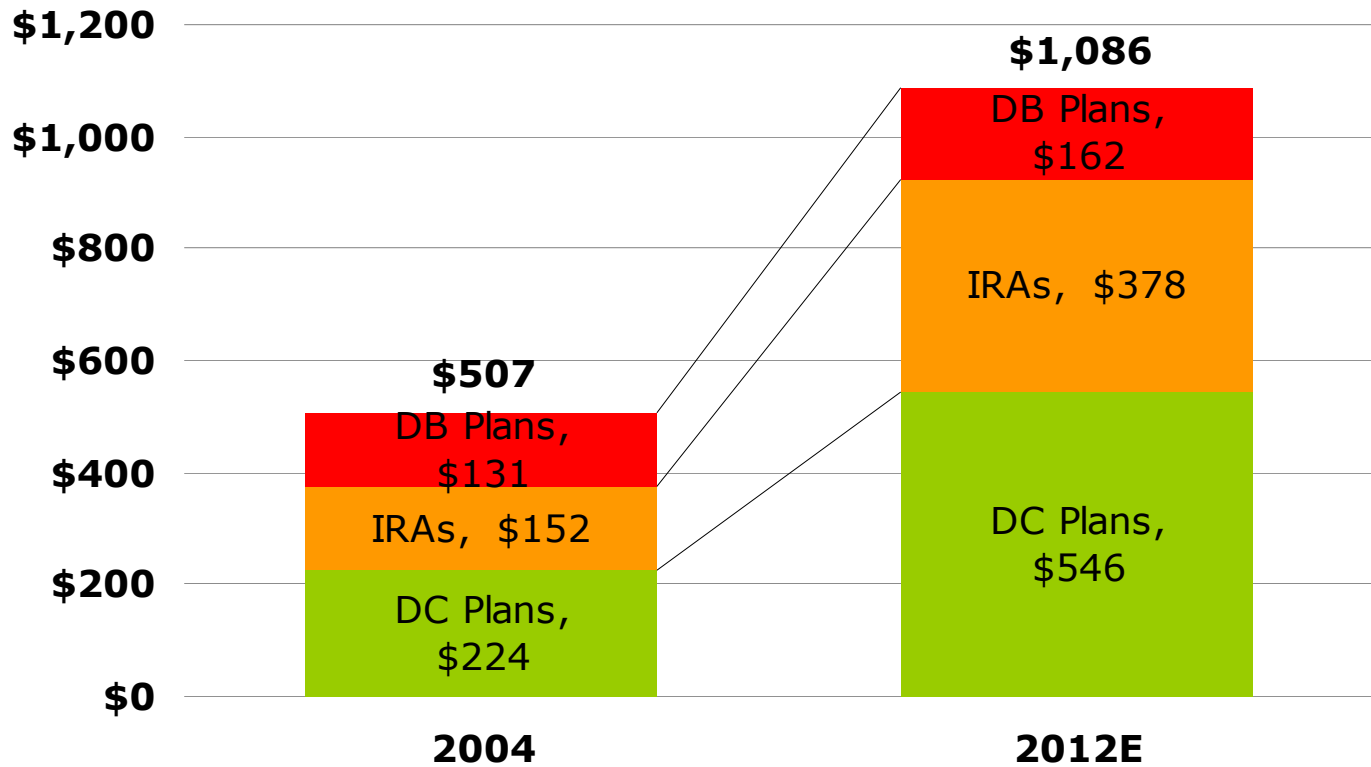
	Accumulation	Preservation	Retirement Income	Wealth Transfer
Description	<ul style="list-style-type: none"> Working age up to mid 50s 	<ul style="list-style-type: none"> Mid 50s until retirement 	<ul style="list-style-type: none"> Retirement years 	<ul style="list-style-type: none"> Generational/spousal transfer
Goals	<ul style="list-style-type: none"> Focus almost solely on managing/growing assets Modular or needs-based planning (education planning, home purchases, etc) 	<ul style="list-style-type: none"> Gains need to be preserved Concentrated stock positions need to be hedged Asset protection is primary concern 	<ul style="list-style-type: none"> Draw-down of accumulated assets to generate income Preparation for final years and wealth transfer 	<ul style="list-style-type: none"> Drawing on health care provisions Giftting, bequeathing remaining wealth
Products & Vehicles Used	<ul style="list-style-type: none"> Funds, separate accounts, ETFs, etc IRA, 401(k), 529 	<ul style="list-style-type: none"> Fixed income instruments Non-correlated structured products, hedge FOFs 	<ul style="list-style-type: none"> Annuities (fixed, immediate, variable) Fixed income Insurance, LTC Charitable remainder trusts 	<ul style="list-style-type: none"> Long-term care Insurance products for tax-advantaged wealth transfer

Source: Grail Partners LLC

Pay-As-You-Go: Gone...

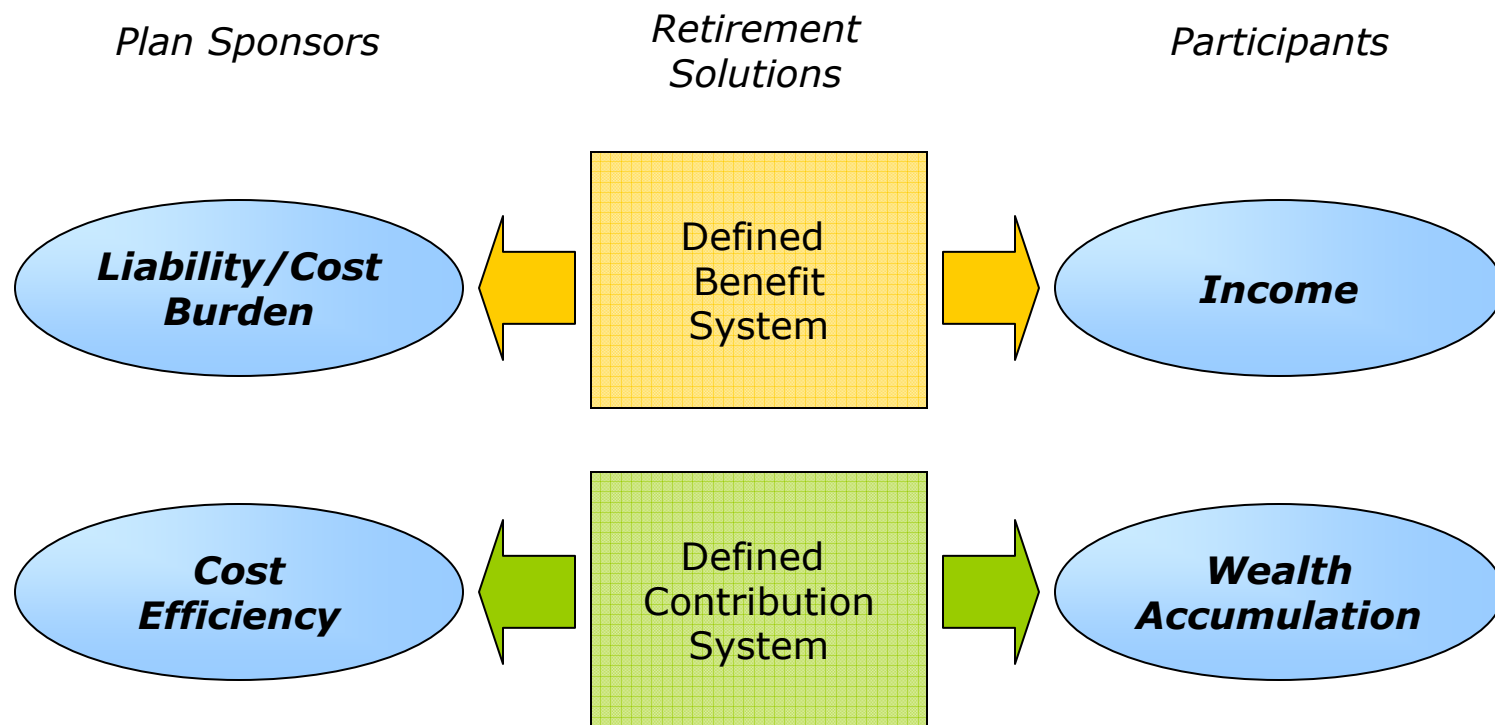
- Increase in retirees will spur a large "money in motion" event

Retirement Asset Annual Distributions (\$ billions)



The Pieces of the Puzzle

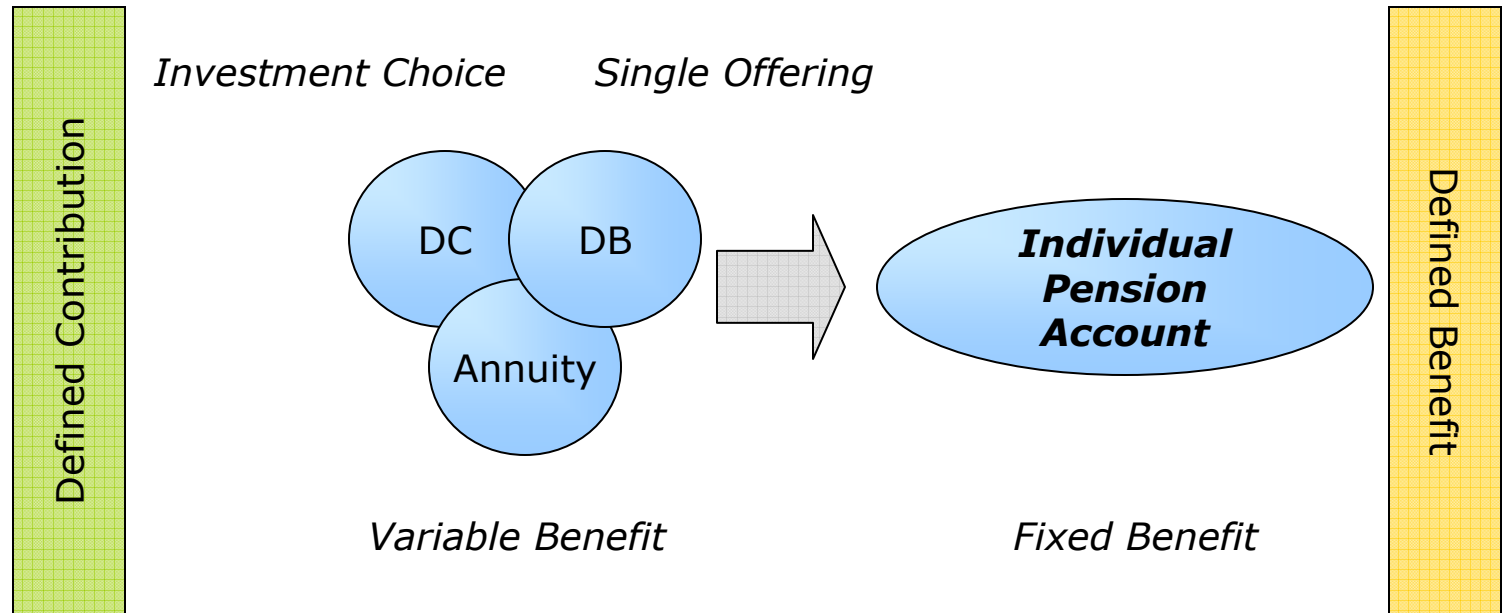
**Retirement
Realities**



Manufacturing Retirement Solutions

Retirement Realities

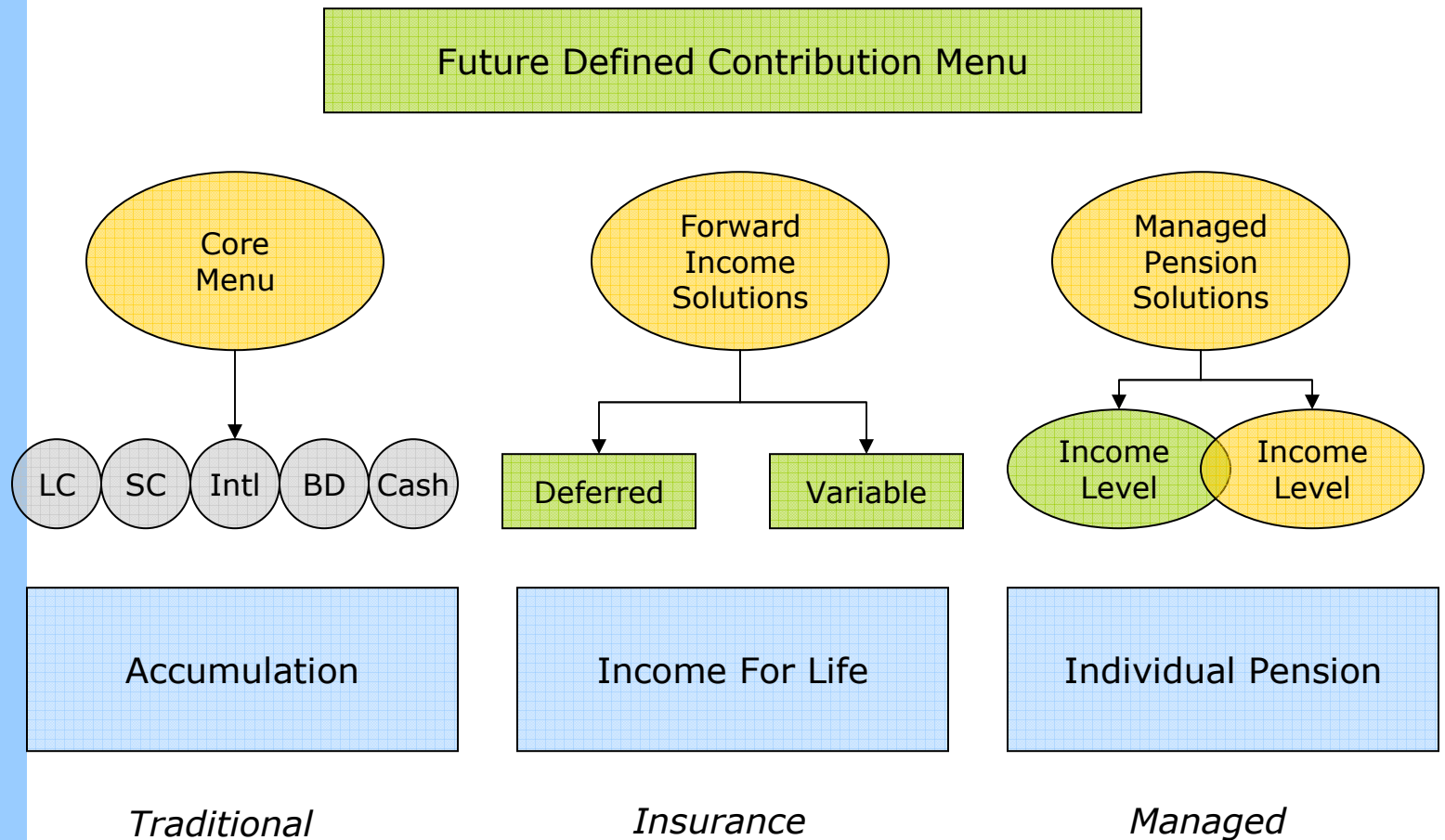
- Existing parts are being used to create new guaranteed income (e.g. Personal Pensions) investment solutions within the defined contribution system and we expect this trend to continue



What Does The Future Hold for DC?

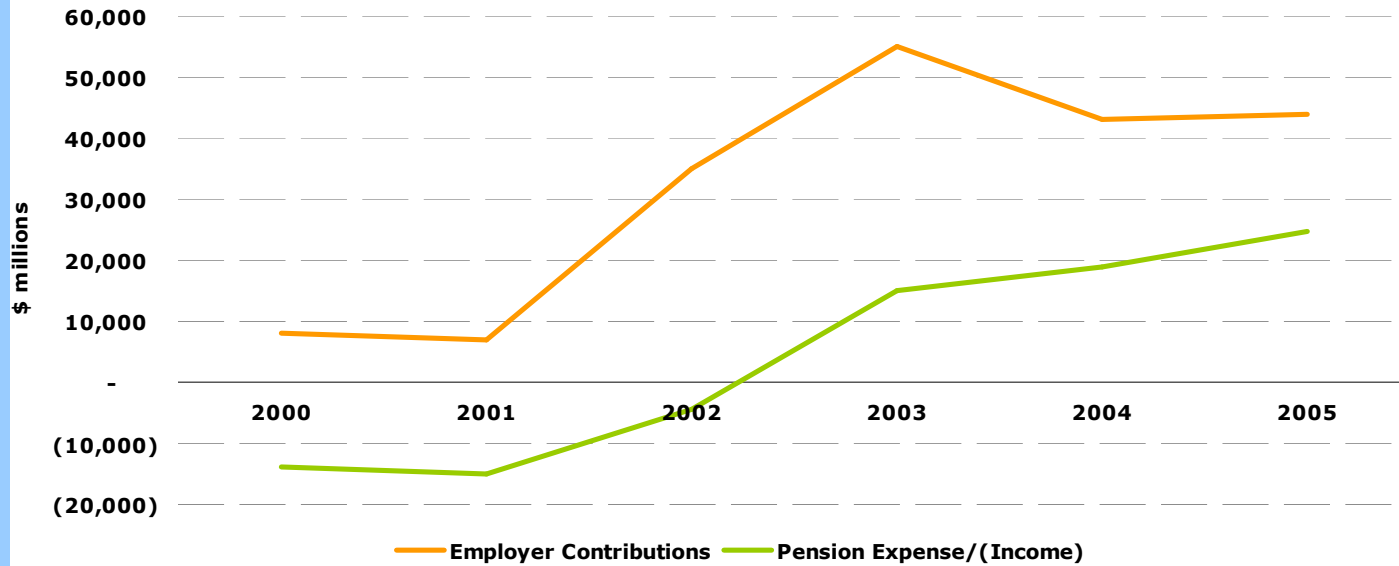
Retirement Realities

- Potential new plan designs:

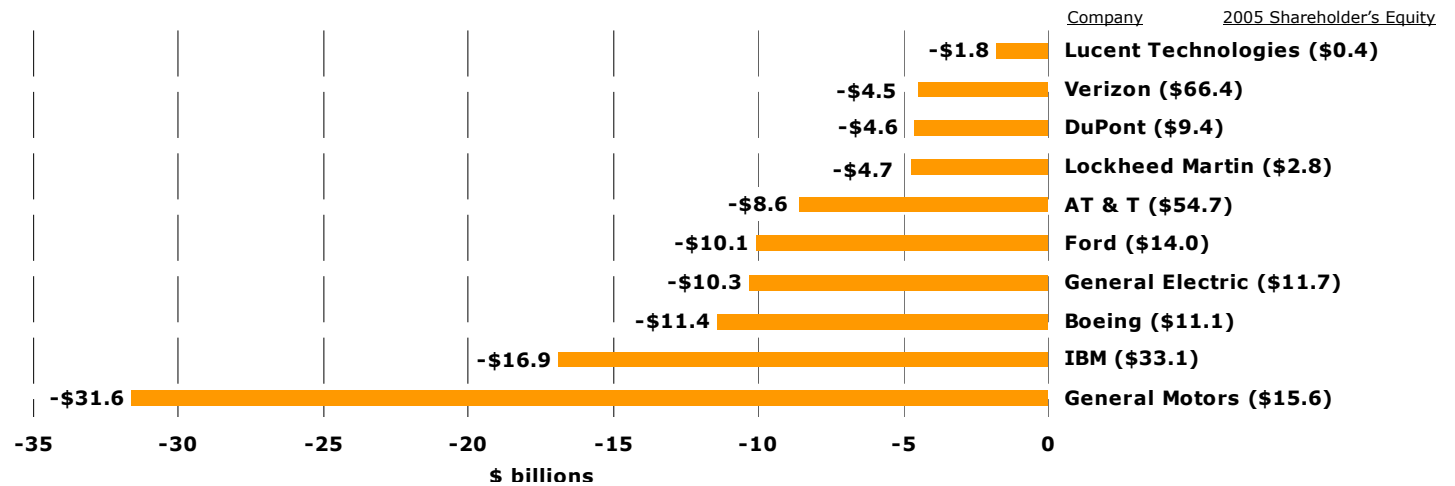


Dire Straits

Pension Expense/(Income) and Contributions



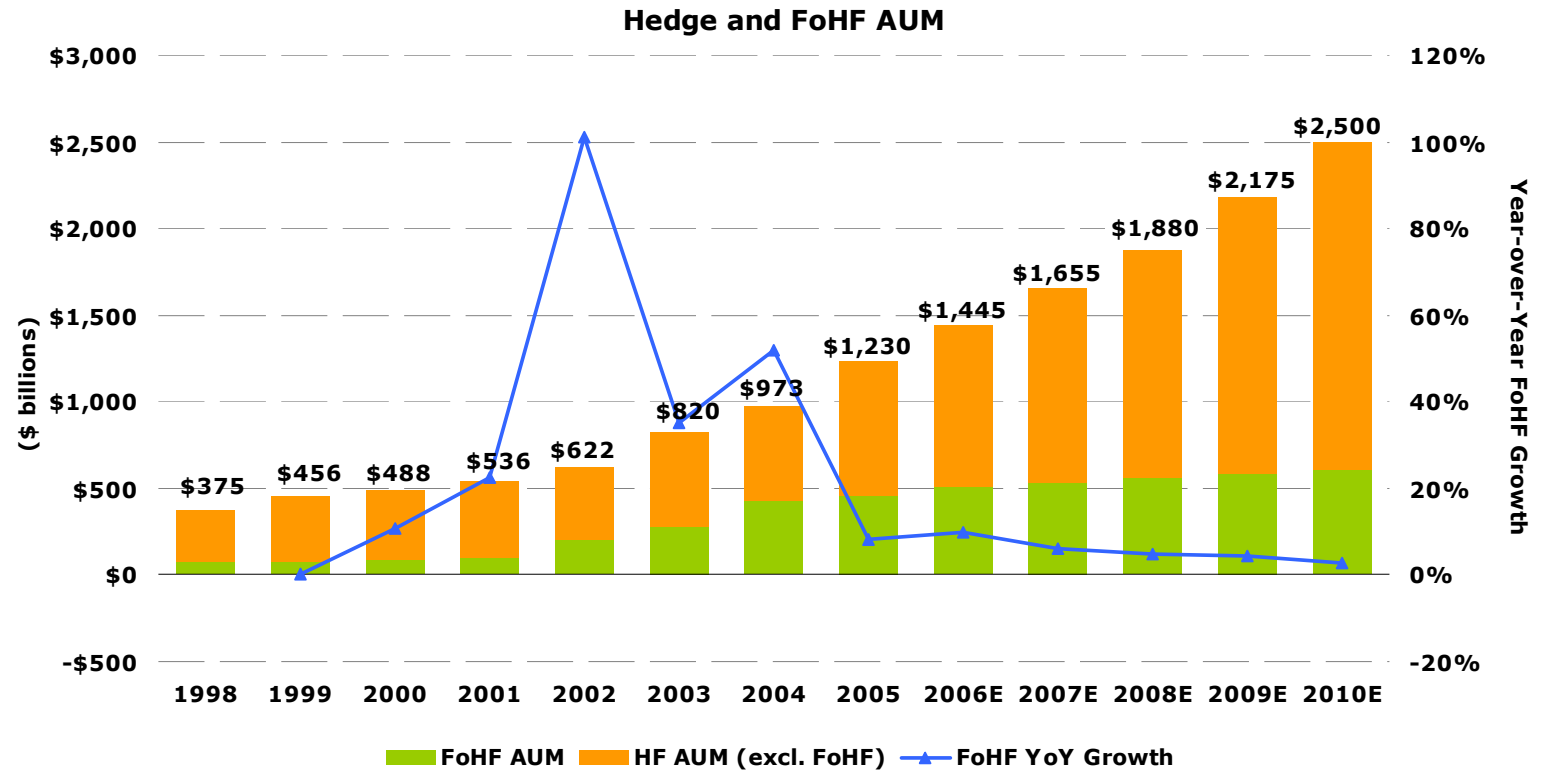
Estimated Decrease in Balance Sheet due to Accounting Changes (before taxes)



Though Hedge Growth Continues, FoHF Growth May Moderate

Hedge Funds

- Total HF industry assets have grown at a CAGR of nearly 20% since 1998
- FoHF AUM year-over-year growth has dropped dramatically, and is expected to continue to decline

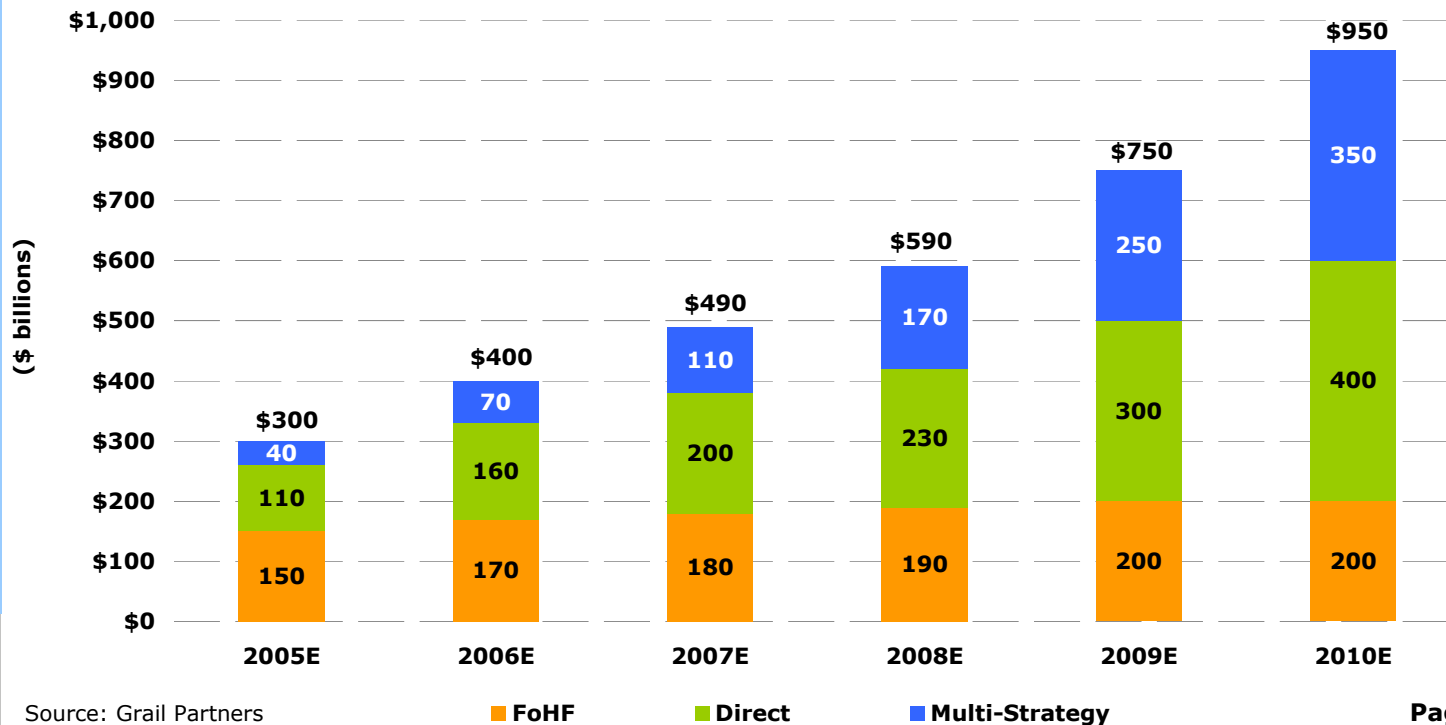


...as Institutional Hedge Allocations Go Direct and Multi-Strat

Hedge Funds

- Also, we expect the most sophisticated investors will go direct and to multi-strat
 - One layer of fees; no sign of abating
 - Direct access, but still limited transparency
 - Convergence of quantitative long only capabilities and hedge
 - FoHFs will intermediate investments in esoteric or niche hedge funds

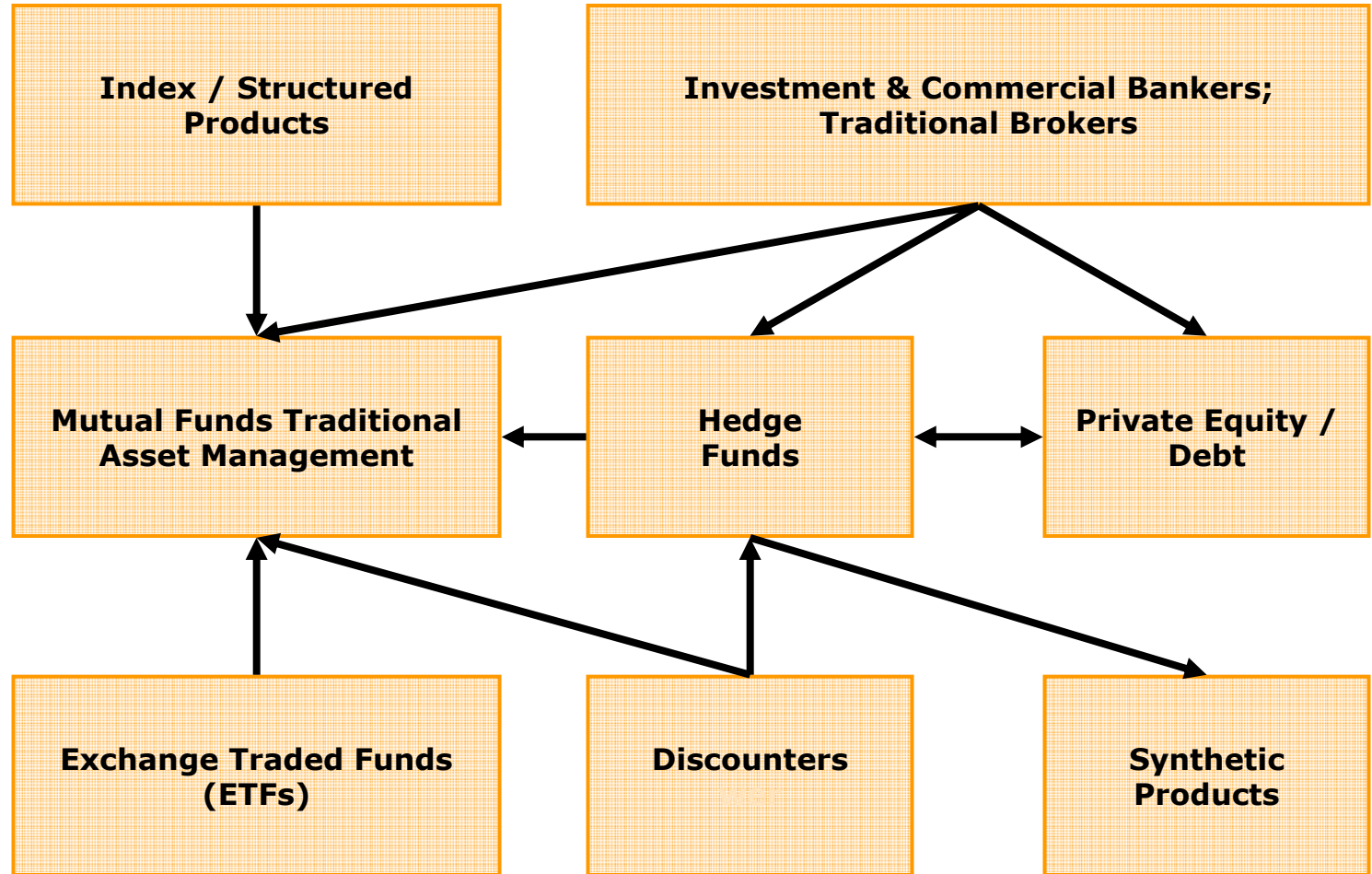
Pension Allocations to Hedge



Source: Grail Partners

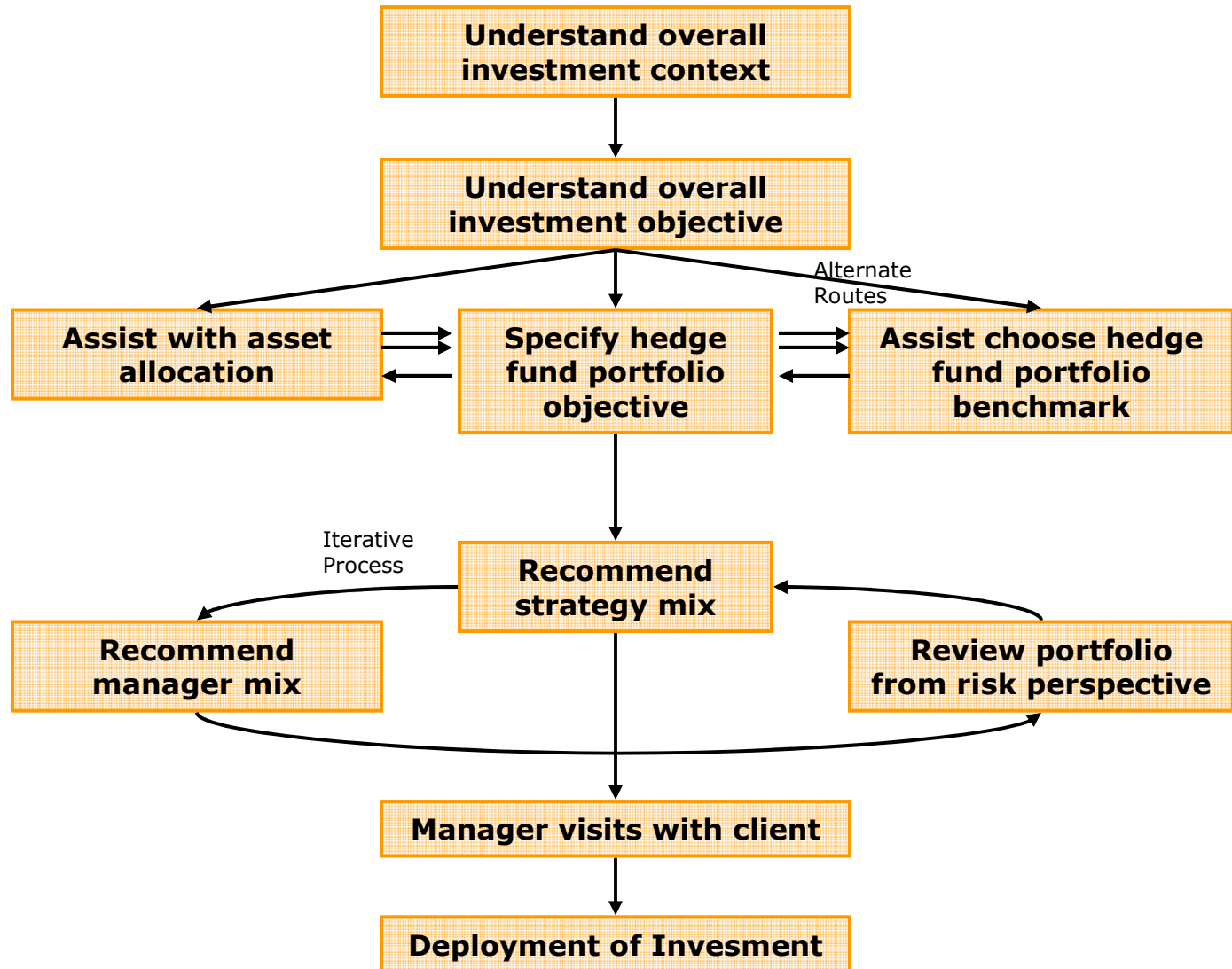
Convergence

Hedge Funds



Working Out How Best to Integrate Hedge Funds

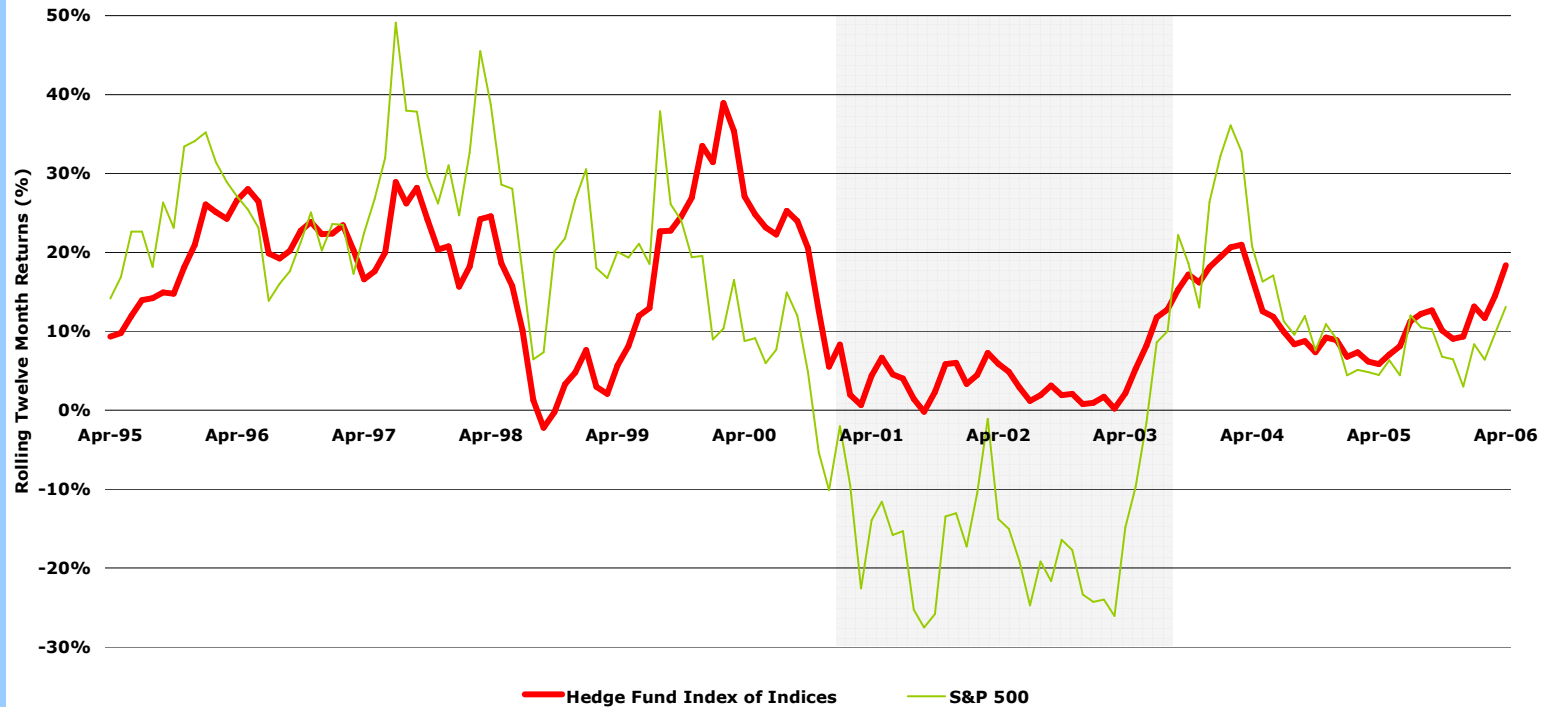
Hedge Funds



Hedge Fund Performance Estimates

Hedge Funds

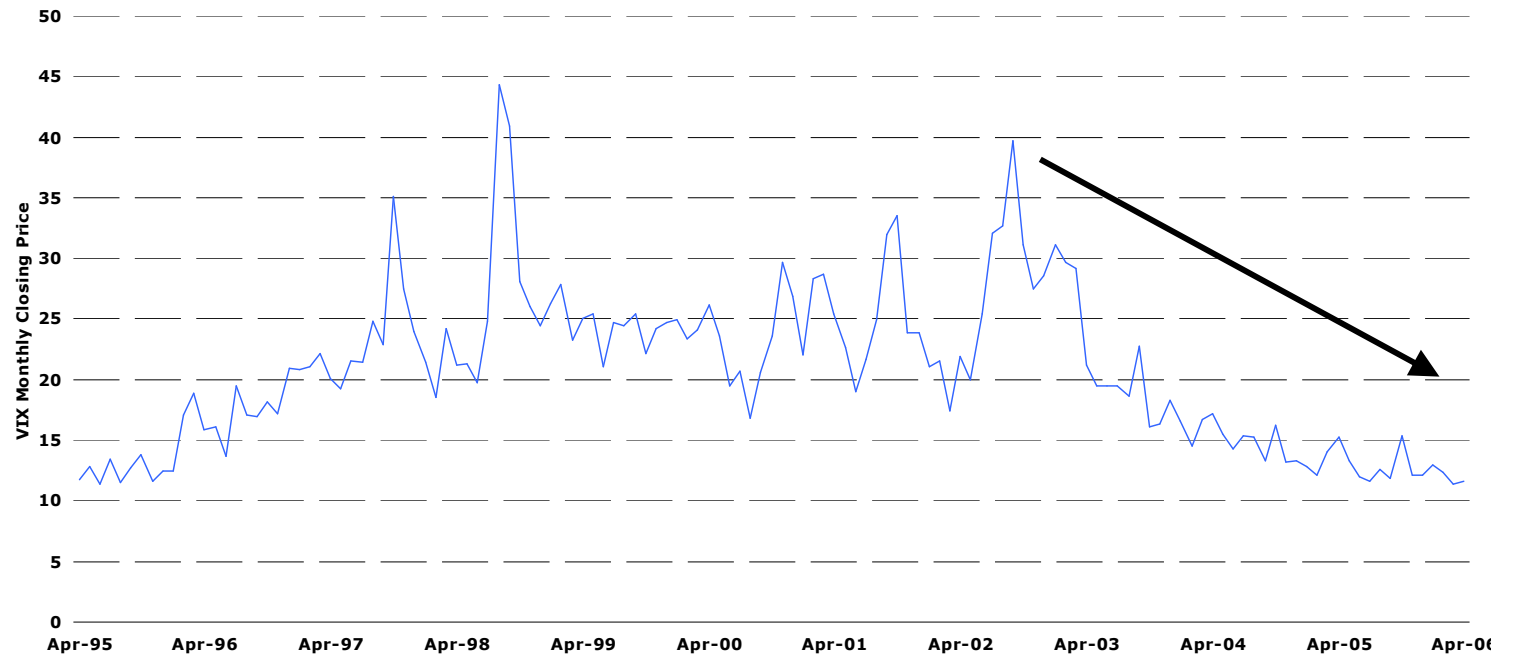
- During the bear market, Hedge Funds were able to preserve capital
- In recent years, Hedge Fund returns have had difficulty outperforming the S&P 500



Volatility

Hedge Funds

- The environment is becoming increasingly difficult, with lower volatility and increasing competition
 - Is alpha being arbitrated away?



Hedge Funds

Select Hedge Transactions

- Strategic considerations often thwarted by pricing challenges: pricing disconnects often reflective of broader issues

	Date	Target	Acquirer	Acquired AUM (\$mm)	Type
YTD 2006	1/06	International Asset Management	ABN AMRO Holding NV	\$2,600	FoHF
	2/06	NewFinance Capital LLP	Schroders	2,500	FoHF
	3/06	Liberty Ermitage Jersey Limited	MBO	2,409	FoHF
	4/06	PMA Capital Management	SPARX	2,100	FoHF
	2/06	Capital Management Advisors	EFG International	1,606	FoHF
	4/06	HFA Holdings	IPO	1,582	FoHF
	3/06	Absolute Capital Management	IPO	1,085	HF
	1/06	Austin Capital Management	Victory Capital Management	900	FoHF
	4/06	Fortune Group	Close Brothers	800	FoHF

	Date	Target	Acquirer	Acquired AUM (\$mm)	Type
Since YE 2002	9/05	Global Asset Management	Julius Baer	\$53,672	FoHF
	6/05	Permal Group SCA (80%)	Legg Mason	20,000	FoHF
	11/04	AQR Capital Management (20%)	Affiliated Managers Group, Inc.	12,231	HF
	6/04	Deerfield & Company LLC (64%)	Triarc Companies, Inc.	8,041	HF
	5/04	Numeric Investors L.P. (48%)	TA Associates	7,500	HF
	9/04	Highbridge Capital Management	J.P. Morgan & Co.	7,300	HF
	8/05	Coast Asset Management (33%)	Summit Partners	5,500	FoHF
	6/04	Evaluation Associates Capital Markets	Mellon Financial Corporation	4,548	FoHF
	11/04	Fauchier Partners	BNP Paribas Asset Management	3,500	FoHF
	12/05	Guggenheim Alternative Asset Management (71.5%)	Bank of Ireland	3,200	FoHF

Money Management M&A: Recent Past, Present, Future

M&A and Pricing Trends

Recent Past – Why the M&A Lull?	Present and Near Future – Why the M&A Boom?
<ul style="list-style-type: none">▪ Too much regulatory risk – in retail▪ Too much market share rotation – in institutional▪ Too much novelty in alternatives▪ Too much boardroom transition at buyers▪ Too much bipolar disease at sellers▪ UNCERTAINTY and CERTAINTY are both enemies of M&A	<ul style="list-style-type: none">▪ Many retail conglomerates need to be undone▪ Institutional needs to be in the right capital structure in a period of significant change and challenge▪ Alternatives are a huge opportunity for banks and other buyers▪ New people in the boardroom of buyers▪ Sellers have choices and incentives to act▪ Capital is plentiful and business margins are good, but the real challenges are real so risks can be shifted

Money Management M&A Activity

M&A and Pricing Trends

20 Largest Transactions Since YE 2002

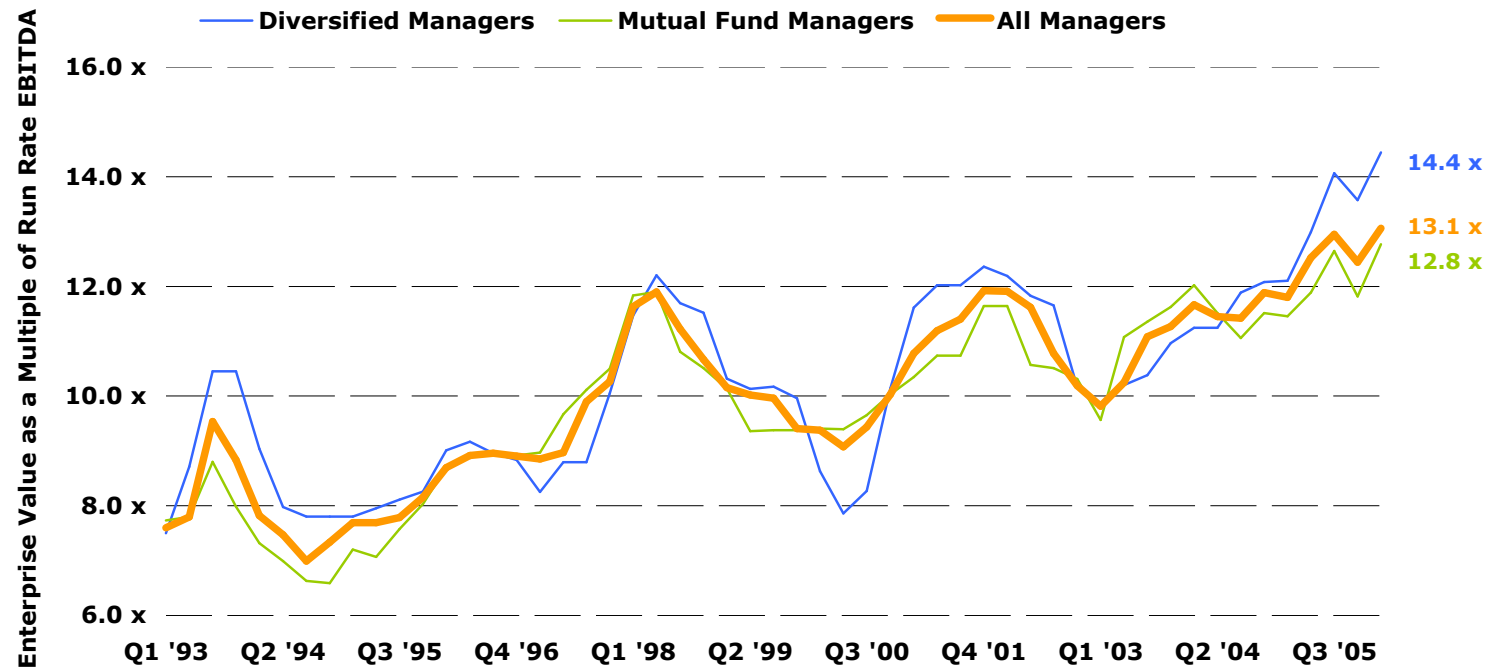
<u>Date</u>	<u>Target</u>	<u>Acquirer</u>	<u>Acquired AUM (\$mm)</u>	<u>Type</u>
2/06	Merrill Lynch Investment Managers	BlackRock Inc.	\$539,000	Div
6/05	Citigroup AM	Legg Mason	437,000	Div
5/05	Nextra Investment Management (65%)	Credit Agricole	126,126	MuFu
3/05	Nuveen Investments	Secondary IPO	118,505	MuFu
7/04	F&C Group	ISIS Asset Management plc	104,104	Inst
9/05	SBC Wealth Management & GAM	Julius Baer	96,772	PvtCl
7/05	Deutsche AM (London & Philly Ops)	Aberdeen Asset Management plc	81,270	Inst
6/03	Threadneedle Asset Management	American Express	74,844	Div
10/04	Nikko Asset Management (38%)	Warburg Pincus, the Government of Singapore Investment Corp. (GIC) and Nikko Principal Investments	65,000	Inst
7/03	Neuberger Berman Inc.	Lehman Brothers Holding Inc.	63,700	Div
4/06	Piper Jaffray Private Client Business	UBS AG	52,000	PvtCl
8/04	State Street Research	BlackRock Inc.	52,000	Inst
9/05	WestAM (less Brightwater) (50%)	Mellon Financial Corporation	48,516	Inst
7/04	Pareto Partners (70%)	Mellon Financial Corporation	38,000	Inst
11/04	Baring Asset Management	MassMutual Financial Group	34,840	Inst
5/04	Strong Financial Corp.	Wells Fargo & Co.	34,000	MuFu
10/04	Calamos Asset Management	IPO	32,300	MuFu
11/05	New Star Asset Management	IPO	26,900	MuFu
4/05	First Asset Management	Affiliated Managers Group, Inc.	23,800	Inst
4/05	Daehan Investment and Securities	Hana Bank	21,300	Inst

Source: SNL Financial, Company Reports, Grail Partners LLC

Public vs. Private EBITDA Multiples: A 12-year Perspective

- Since the beginning of 2003 publicly traded multiples have skyrocketed

Public Manager Going Concern Value to Run Rate EBITDA Multiples



Mutual Fund Managers: Calamos, Eaton Vance Corporation, Federated Investors, Inc., Franklin Resources, Inc., Gabelli Asset Management Inc., Hennessy Advisors, Janus Capital Group Inc., Nuveen Investments, Oppenheimer, Pilgrim America Capital Corp., Pioneer, T. Rowe Price Associates, Inc., US Global Investors, Waddell & Reed Financial, Inc.

Diversified Fund Managers: Affiliated Managers Group, Inc., Alliance Capital Management L.P., AMVESCAP PLC, BKF Capital Group, Inc., BlackRock, Inc., Cohen & Steers, Conning Corporation, Diamond Hill Investment Group, Legg Mason, Neuberger Berman, Nvest, Phoenix, PIMCO, Tremont, UAM, US Trust, W. P. Stewart, Westwood Holdings Group

Source: Grail Partners LLC and public sources.

Pure Play Premium? \$3 billion for Legg Mason

M&A and Pricing Trends

LM Daily Close



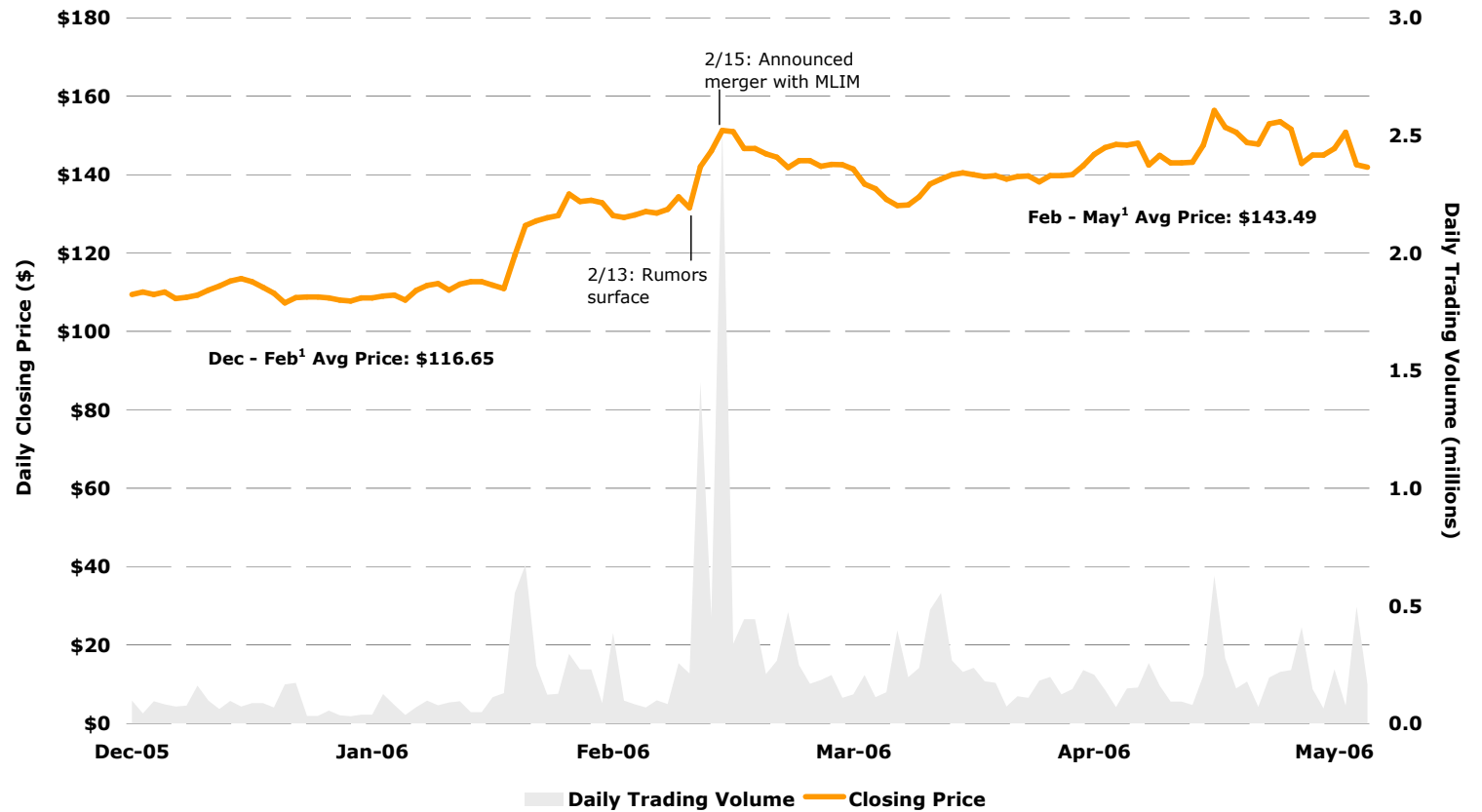
Source: Bloomberg, Grail Partners LLC

¹Jan. 1 through June 23, 2005; June 24 through Dec. 30, 2005; Jan. 1 through Mar. 31 2006.

Pure Play Premium?

M&A and Pricing Trends

BLK Daily Close



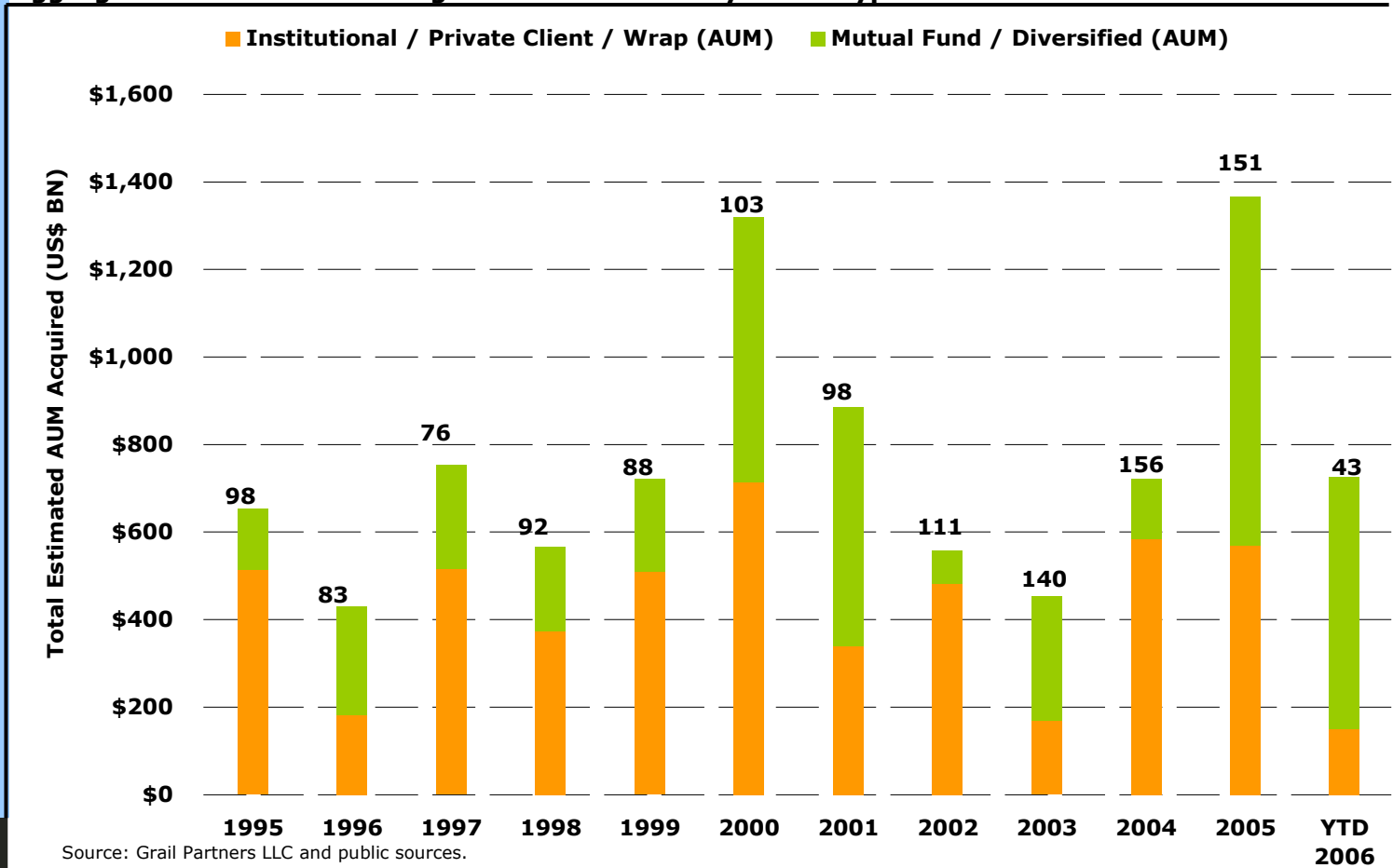
Source: Bloomberg, Grail Partners LLC

¹Dec. 1, 2005 through Feb. 10, 2006; Feb. 13 through May 8, 2006

AUM Transacted, by Type of Target

- In aggregate, mutual fund and diversified asset managers represent the majority of all deal activity, as measured by assets transacted.

Aggregate Assets Under Management Transacted by Seller Type

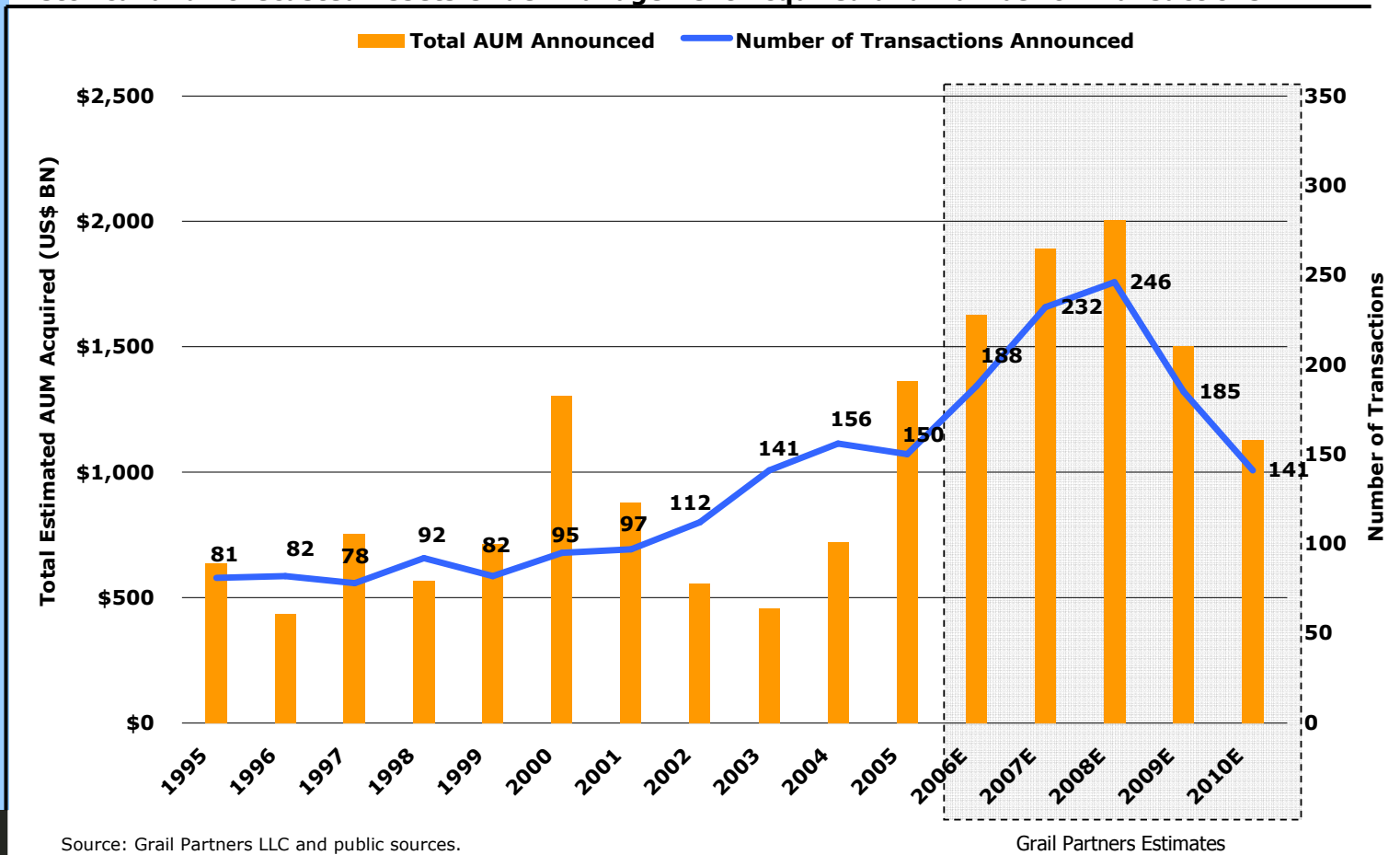


Source: Grail Partners LLC and public sources.

AUM Acquired and Number of Transactions

- Grail Partners estimates a flurry of asset management M&A activity in the coming years

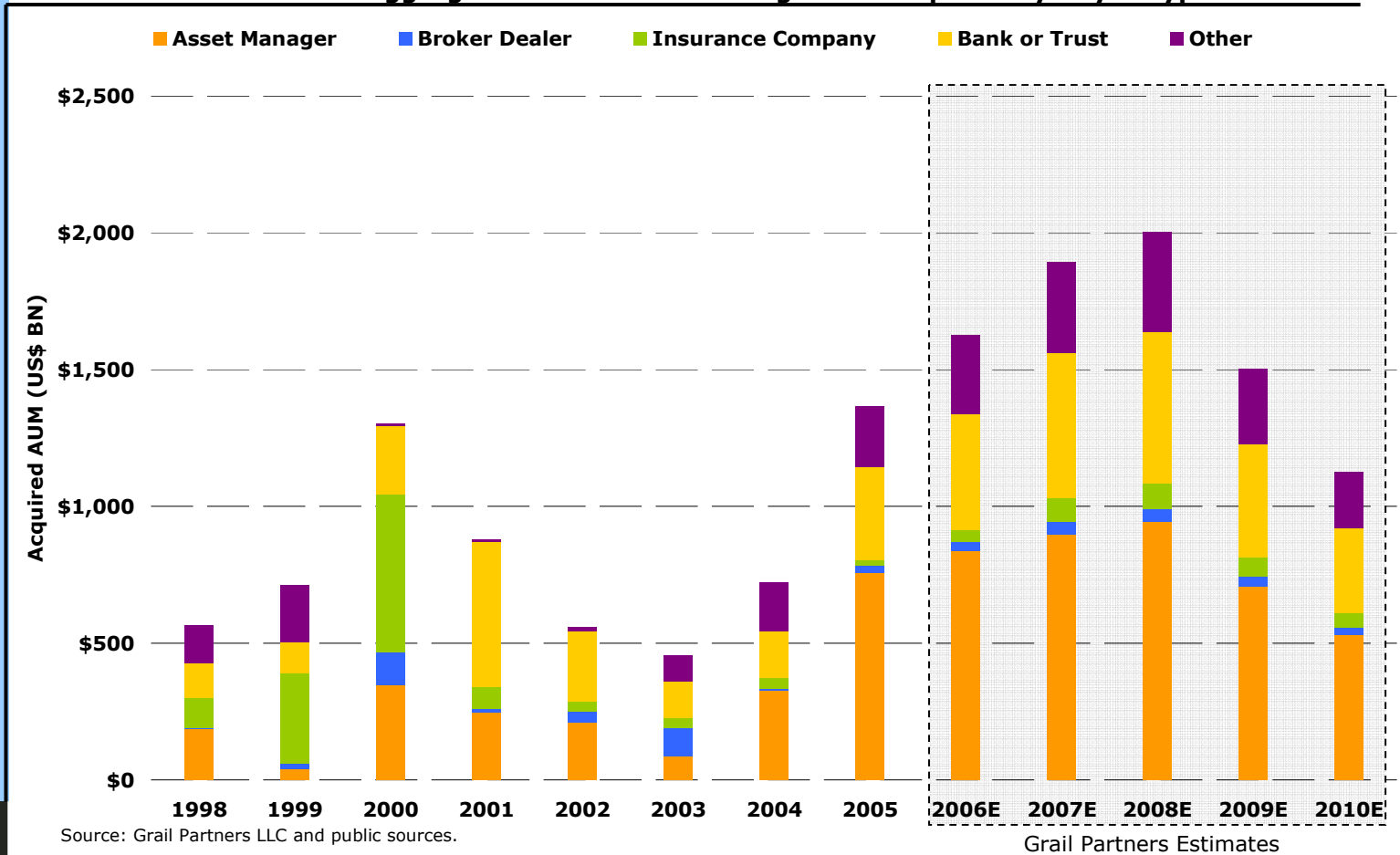
Historical and Forecasted Assets Under Management Acquired and Number of Transactions



AUM Acquired, by Type of Acquirer

- Pure play asset managers have accounted for almost all of the AUM transacted during 2005 and YTD 2006. This is the primary reason deal value is so low relative to AUM transacted.

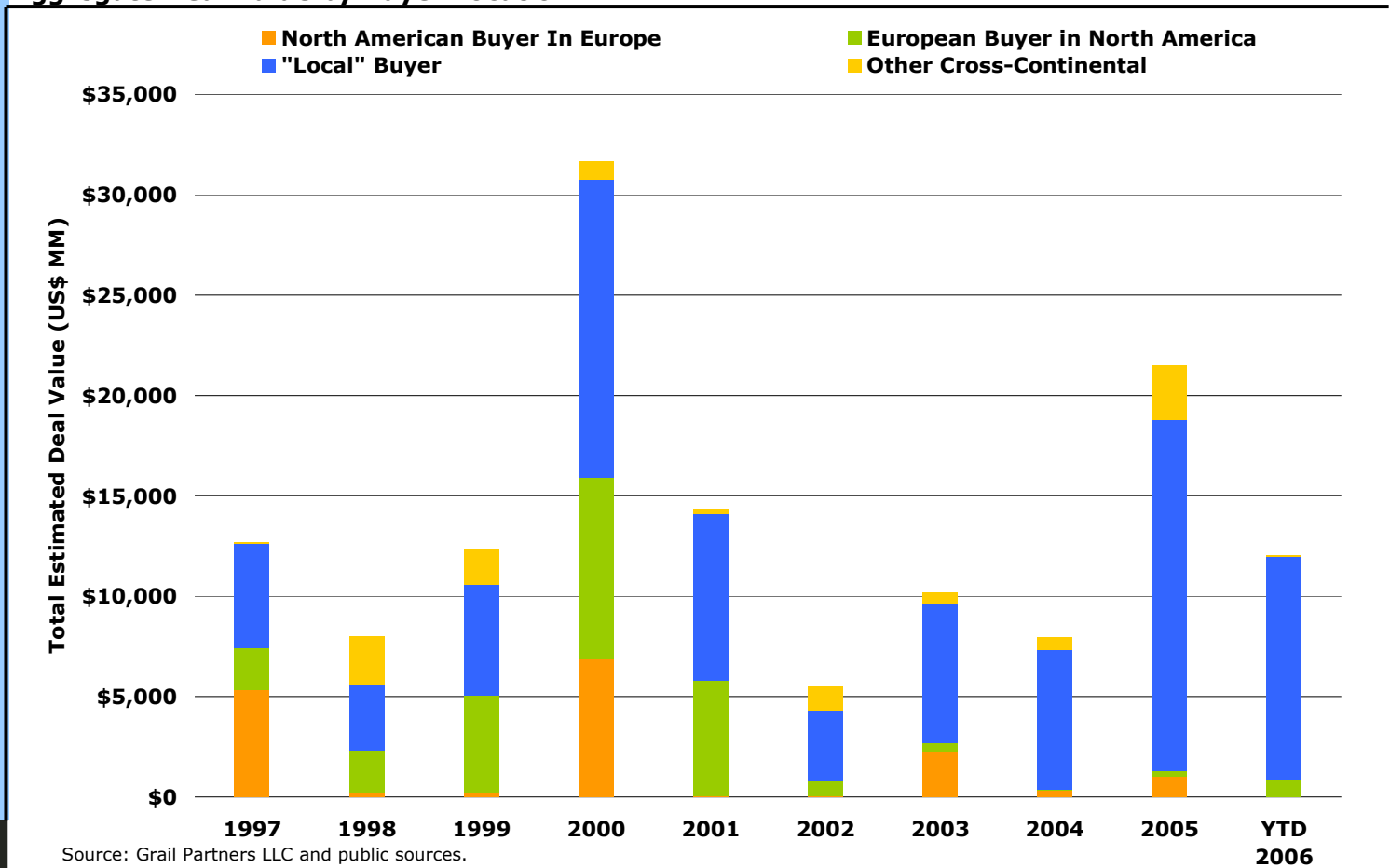
Historical and Forecasted Aggregate Assets Under Management Acquired by Buyer Type



Aggregate Deal Value: Transatlantic Transactions

- In-market transactions have dominated since 2002

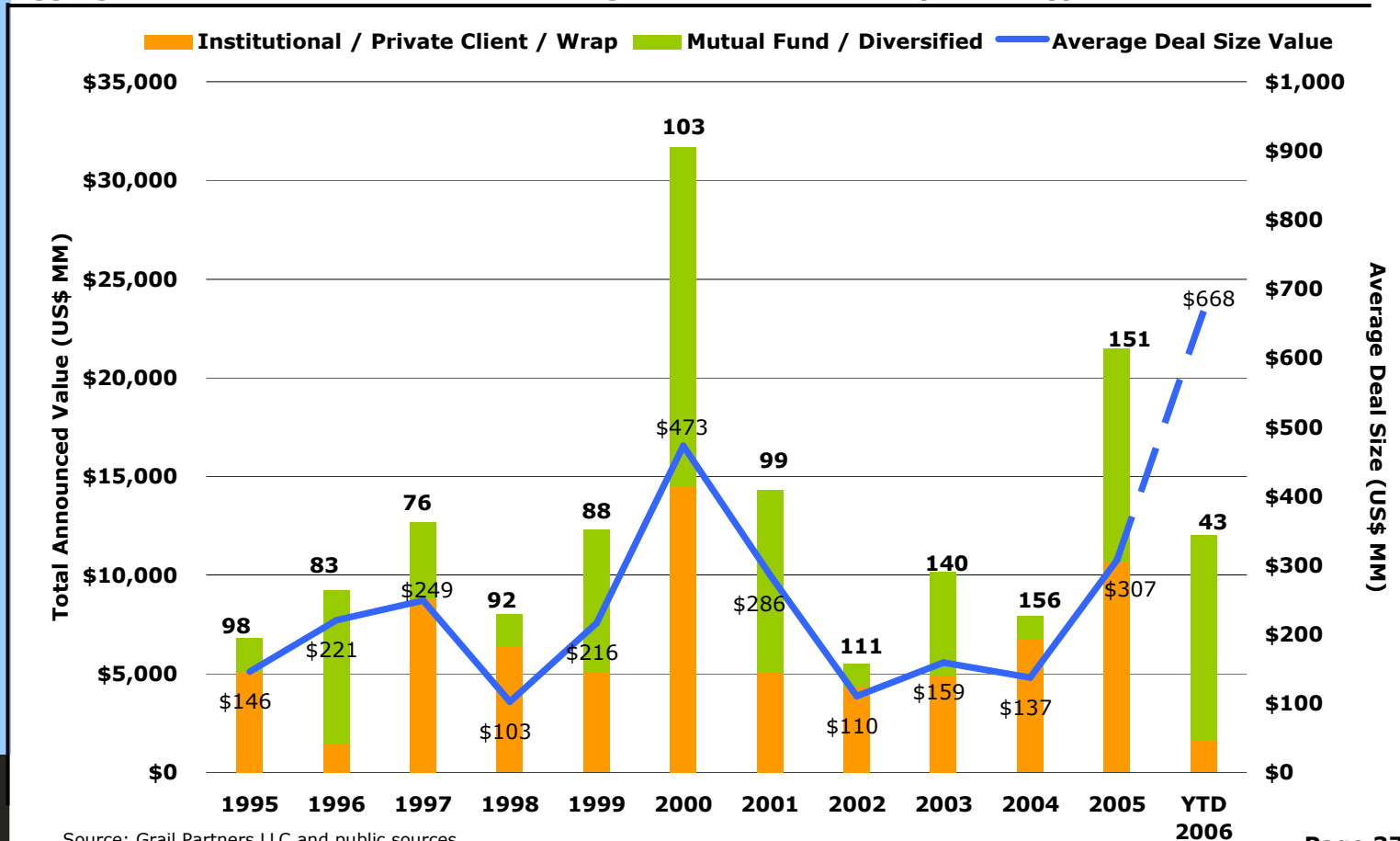
Aggregate Deal Value by Buyer Location



Aggregate Deal Value: US Transactions

- Average deal size has risen due to mega transactions— Legg/Citi, Julius Baer/SBC Wealth & GAM and BlackRock/MLIM.

Aggregate Deal Value of Global Asset Management Transactions by Seller Type



Source: Grail Partners LLC and public sources.