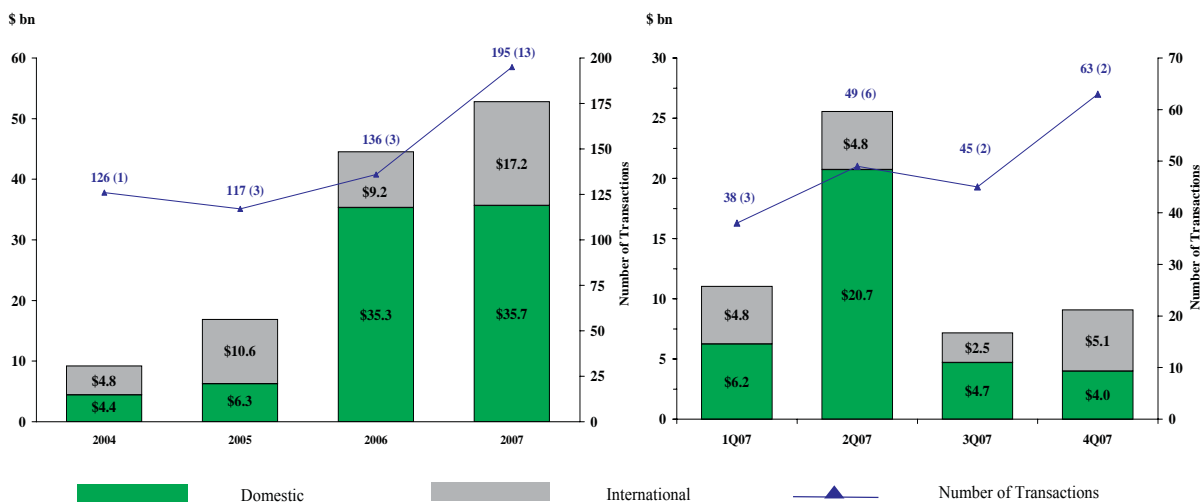


THE CAMBRIDGE COMMENTARY

*A Review of Developments in the Investment
Management Industry during 2007*

For those in the real estate and credit markets, 2007 was the year that the music stopped but, perhaps surprisingly, the investment management industry as a whole kept dancing. Once again, investment management transactions reached new highs, both in terms of volume, \$52.8 billion, up 19% over 2006, and in terms of number of transactions, 195, up 43%. This record was achieved despite a roller-coaster ride during the year in which the volume of announced transactions spiked at over \$25 billion in the second quarter, before falling to \$7-9 billion in the third and fourth quarters. In one remarkable two week period in June, six transactions of over \$1 billion were announced, more mega-transactions than in any prior year except for 2000.

Transactions in the Investment Management Industry



() Denotes number of transactions exceeding \$1 billion in value

One of the biggest differences from previous years was the extraordinary amount of money raised through IPOs and associated sales of minority stakes by large private equity and hedge fund groups, accounting for 37% of the total volume of 2007 transactions. This sudden opening of the IPO window for alternative managers, beginning with the hugely oversubscribed Fortress Investment Group offering in February, followed by Blackstone in the middle of the year and Och-Ziff in the fall, has markedly changed the make-up of Cambridge’s US Investment Management Index, previously made up of traditional managers only. We analyze this major new component of industry activity in more detail in the next section of the report.

Private equity managers were not just sellers in 2007, they were also big buyers, acquiring investment managers valued at almost \$9 billion or 17% of the year’s activity by volume, far more than prior years. The majority of this can be accounted for by the remarkable \$6.3 billion buyout of Nuveen Investments by Madison Dearborn in a transaction that we describe in some detail because of the unusual level (for this industry) of leverage employed.

Cambridge International Partners is an investment banking firm that specializes in advising investment management companies and financial institutions on mergers, acquisitions, joint ventures, and other business alliances worldwide.

Interestingly, despite the surge in second quarter volume, the number of transactions per quarter was not affected, repeating a pattern seen in the 2001-2 market downturn in which the average size rather than the number of transactions was most impacted by the level of confidence in financial markets. Even with credit more scarce, appetite among financial institutions for smaller and mid-sized asset manager acquisitions remains strong. In particular, the number of transactions involving alternative managers and private wealth managers has been steadily increasing, two trends that we discuss more fully later and which we do not see being impacted by the credit squeeze.

As in 2005 and 2006, there were some notable divestitures during the year, such as Marsh & McLennan's sale of Putnam Investments, and several examples of unbundling prior strategic acquisitions, such as Commerzbank's sale of Jupiter Asset Management and Bank of America's sale of Marsico Capital Management. By contrast, many of the other themes from recent years, while still present, were much less pronounced. Cross-border deals were few and far between – if we exclude sovereign wealth fund (SWF) purchases. US mutual fund consolidation continued, but the number and size of such transactions was down from 2006. Strategic acquirer interest in traditional product-specific institutional firms also continued but resulted in only a few transactions. Two of these involved quantitative equity managers – perhaps not surprising considering the huge success of these strategies in the last few years (although this success came to an abrupt end for some in August's market turmoil).

Alternative Managers Cash In – Record Year for IPOs

This past year was remarkable in witnessing the first IPOs of US private equity and hedge fund groups, following a spate of similar activity in Europe in 2006. In fact, IPOs of alternative managers and related SWF sales represented four of the ten largest deals of the year.

IPO activity was at a record level in 2007, with fifteen issues in the US and abroad totalling \$12.5 billion of transaction volume (nearly one quarter of all deal volume). When related sales of minority interests to sovereign wealth funds are taken into account, the transaction volume jumps to \$19.3 billion, or three-eighths of the year's total. We include in these numbers the reverse merger of GLG Partners and two firms that commenced trading on Goldman Sach's private GS TRuE market. This abnormal level of IPO activity was mostly attributable to alternative managers, since eleven of the fifteen IPOs involved hedge fund or private equity firms. When the private equity players are selling, it is a healthy indication of a market top!

As owners of large private equity and hedge fund businesses sought to liquefy their ownership interests, several preferred the IPO route to a strategic sale, although there were also plenty of the latter type of transactions. Putting a premium on their continued independence, these firms chose to subject themselves to the scrutiny of analysts and outside investors – not always a pleasant exposure in times of volatile markets – in preference to full or partial ownership by a large financial institution. The fact that so many prominent firms decided to go to market was a function of the public's willingness to afford them the premium multiples generally associated with successful traditional managers.



The new crop of publicly traded asset managers experienced trading conditions similar to the financial sector as a whole in the “Jekyll and Hyde” year of 2007 – where a benign first half was followed by an extremely volatile second half in which financial stocks cratered and liquidity concerns in the financial sector became rampant in the United States and Europe. In the world of IPOs, the year started in high style with the extraordinarily successful flotation of \$30 billion manager Fortress Investment Group, in February. As the first major US hedge fund and private equity group to go public, Fortress attracted enormous interest from institutions and individual investors seeking to participate in the world of “2 + 20” management and performance fees. Fortress’ shares, priced at \$18.50, were nearly 30 times oversubscribed. The excitement of the issue caused the stock to rocket to \$35.00 at the opening – close to a “double” – before retreating to \$31.00 by the close of trading. Fortress, which had raised nearly \$900 million in a sale of a 15% stake to Nomura only a month earlier, raised a further \$635 million in the IPO, giving the public an 8.6% stake. Floated at a valuation of nearly 25% of assets under management and at 16.4 times trailing (2006) EBITA, the valuation soared to over 40% of AUM and 27.5 times trailing EBITA by the close. We may never witness anything like this again in our lifetime! Unfortunately, the party did not last and Fortress’ stock closed the year at \$15.58, well below the IPO price (see chart on page 4).

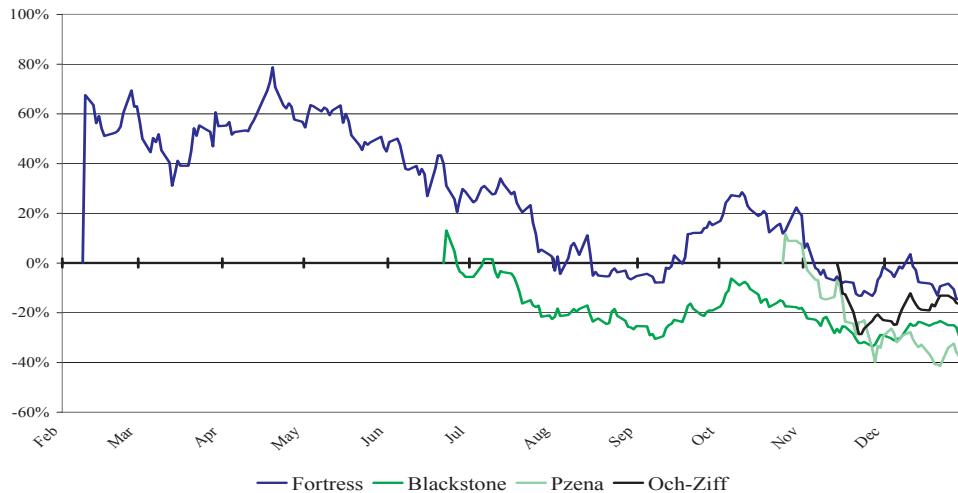
Fortress derives approximately two-thirds of its revenues from incentive fees and investment gains. Its IPO demonstrated, rather emphatically, that the market is prepared to value – for a highly successful and fast growing firm such as Fortress – relatively volatile performance fees and investment gains at a blended EBITA multiple comparable to those of traditional asset managers. This convergence of multiples was previously evidenced by the alternative manager flotations in Europe in 2006 and by the subsequent Blackstone IPO. Whether this is reflective of the overly roseate expectations of a bull market or is a more permanent valuation phenomenon, the future will determine. In reality, we believe that the market offset the volatility of performance fees with higher than normal growth expectations for these alternative managers.

A similar bull-market reception greeted Platinum’s IPO in Australia in May, with Kerr Nielsen’s highly successful firm’s stock price roaring to a premium of 76% on the first day of trading. However, by the time of Blackstone’s IPO in June, political storm clouds were already gathering in the United States in the form of threatened tax changes. In the face of Senate Finance Committee proposals to tax private equity and hedge funds as corporations – implying a 20% tax hike – and to tax carried interest as income rather than capital gains, Blackstone Group launched the largest US IPO in five years, raising \$4.1 billion for a 12.3% public stake. While the issuance price of \$31 per share was lower than the price mooted before the threatened tax changes, it still valued Blackstone’s \$88 billion of AUM at \$33.6 billion, or nearly 40% of AUM. The IPO also gave Steve Schwarzman and Pete Peterson a combined payout of \$2.4 billion and valued their remaining stakes at \$9.2 billion. Strong asset growth and successful investment performance were key elements of Blackstone’s offering, with AUM increasing six-fold since 2001 and investors in Blackstone’s private equity funds enjoying returns in excess of 22% p.a. over the past 20 years.

Blackstone’s IPO is particularly noteworthy because it was the first of the big name private equity firms to go public. Given what occurred in the second half of the year, it came to market just in time, valued at approximately 18 times forward after-tax earnings. Other big names

which considered floating, such as KKR and The Carlyle Group failed to make it to market before downdrafts in the third and fourth quarters slaughtered the multiples of private equity firms due to shrinking credit availability to complete new acquisitions (see chart below).

Stock Price Movements Relative to IPO Price



The other key IPOs or quasi-IPOs of the year employed a number of interesting structures...

- GLG Partners, one of Europe’s largest independent hedge fund businesses with 40 different funds and \$21 billion under management, obtained a NYSE listing through the backdoor route of a reverse merger with Freedom Acquisition Holdings, a special purpose acquisition company (“SPAC”). GLG, which had grown assets by 36% p.a. since 2001 became the first “pure play” hedge fund business to trade on the NYSE. Its partners received \$1 billion in cash and a 72% shareholding in the surviving company. Even though GLG obtains twice as much income from performance fees as from management fees, its \$3.4 billion merger valuation still represented 11.4 times EBITA. Lehman Brothers, an early backer and subsequent suitor of GLG, recognized a gain of close to \$500 million on its investment.
- The IPO in October of Pzena Investment Management, a classic value manager with \$30 billion under management, was a less happy affair. Pzena, which had grown at a spectacular clip of 66% p.a. for nearly five years, netted about \$100 million from the sale of a 9.5% shareholding, all of which went to three non-employee shareholders. For this, and future liquidity, Pzena subjected itself to the glare of the public markets at a most unfortunate time for value managers. Its flagship sub-advised John Hancock Classic Value Fund product was down 14.2% for the year and its stock ended 37% below the IPO price.
- Two alternatives managers, Oaktree Capital Management and Apollo Management, chose to broaden the institutional market and establish a trading range for their stock while avoiding the glare of the public markets by joining Goldman Sach’s new GS TRuE private trading system. Oaktree Capital Management, a hugely successful distressed debt and high-yield specialist with \$42 billion of AUM, was the pioneer client, raising \$880 million for a 15% stake in May. Apollo followed in August, in a less favorable market, and accepted a

“discount” multiple of 10 times forward earnings. In tandem with its \$828 million IPO, Apollo sold just under 10% of the firm to the Abu Dhabi Investment Authority for \$600 million, and a similar stake to CalPERS.

- Och-Ziff Capital Management, another leading US hedge fund business with \$30 billion under management, decided to forge ahead with its IPO in the testing November market. Having originally filed in July, it sold a 9.3% stake at an undemanding 13 times expected after-tax earnings, valuing the firm at \$12 billion, about 30% lower than earlier expectations. To compensate for the shortfall, it simultaneously sold another 9.9% of the firm to Dubai International Capital for close to \$1.2 billion. The stock closed its first day’s trading at a 5% discount and remained under water for the rest of the year.

Sovereign Wealth Funds Invest in Top-Brand Financials

Reminiscent of the early 1990s when major Japanese groups invested part of Japan’s export surpluses in trophy properties like The Rockefeller Center and Pebble Beach, sovereign wealth funds were very active again in 2007, recycling surplus dollars into household names such as Citigroup, UBS, Merrill Lynch and Morgan Stanley, as well as top-name private equity and hedge fund businesses. This time, it is the oil-rich countries of the Middle East and leading exporting countries in Asia that are flush with funds.

The largest of these transactions was the \$3 billion investment in Blackstone by China’s newly formed China Investment Corporation, launched with a hoard of \$200 billion to invest. China acquired a 9.4% non-voting stake and the relationship is expected to facilitate Blackstone’s deals in mainland China. In addition to the previously mentioned Apollo and Och-Ziff transactions with Abu Dhabi and Dubai, \$76 billion Carlyle Group pushed ahead with a \$1.4 billion sale of a 7.5% stake to another Abu Dhabi sovereign fund while waiting for a more hospitable IPO market in which to float.

The common characteristics of all these deals were minority stakes (under 10%) in large, top-brand alternative managers, priced at IPO valuations less an underwriting percentage. It is a healthy recycling trend of potentially substantial proportion – the IMF estimates that sovereign funds currently manage \$3 trillion, a figure that could quadruple by 2012. Let us hope that these initial experiences do not disappoint.

Rise and Fall of Private Equity Buyers

With the exception of purchases by TA Associates and Hellman & Friedman, which have backed some notable investment management buyouts over the years, the high multiples and absence of hard asset collateral have historically priced investment manager purchases beyond the reach of private equity. However, in the first half of 2007, easy credit conditions combined with a surfeit of private equity funds seeking investment opportunities changed this dramatically, with private equity sponsoring \$9 billion of purchases during the year.

In a transaction that must surely mark the peak of private equity interest in the industry, at least for this cycle, Madison Dearborn announced the buyout in June of Nuveen Investments.

The price of \$65 per share, a 20% premium over market, represented 16.3 times first quarter EBITA annualized. While being a fair multiple, within 10% of other recent platform acquisitions, such as Bank of America's purchase of US Trust or Blackrock's purchase of Merrill Lynch Investment Managers, it is an unusually high multiple for a private equity-backed buyout. With Madison Dearborn and its five equity partners putting up \$2.7 billion, the anticipated debt at closing of \$3.7 billion was a remarkable 9.4 times EBITA. The senior debt alone represented nearly eight times EBITA, twice the maximum banks have historically been prepared to lend to this industry. Nevertheless, the deal closed without incident in mid-November, testament to the strong and stable cash flow Nuveen has historically thrown off, although the fact that three of the four lenders also invested in the equity alongside Madison Dearborn no doubt helped the cause.

TA Associates, known for successful investments in Affiliated Managers Group, AIM (now part of INVESCO) and Thompson Advisory Group (now part of PIMCO) in the 1990's, cemented its position as the leading private equity investor in the industry, making three investments in 2007. In the UK, TA backed management's buy-back of £19 billion AUM fund group, Jupiter Asset Management, for £740 million from Commerzbank, winning management's support by agreeing to take a minority position in contrast to other private equity bidders. TA's other two industry investments were in the US, taking minority stakes in Arnhold and S. Bleichroeder Advisers, a \$45 billion AUM manager best known for its First Eagle family of mutual funds, and in K2 Advisors, a \$5 billion AUM fund of hedge funds.

Hellman & Friedman has likewise had a successful track record of investing in the industry, including such notable names as Brinson Partners, Mondrian Investment Partners and, last year, Gartmore. In October, Hellman & Friedman acquired from Value Asset Management (VAM) a minority stake in Grosvenor Capital Management, a Chicago-based hedge fund-of-funds with \$24 billion under management. This marks the sale of VAM's last investment and the final liquidation of a private equity-backed holding company that made four acquisitions in the industry between 1997 and 1999.

While TA and Hellman & Friedman have demonstrated a commitment to the industry over the course of more than two decades, which is unlikely to be reversed by the current credit tightening, this will not be true for many of the other private equity groups who expressed enthusiasm for the industry earlier in the year. Consequently, we are expecting private equity transactions to decline as their pricing falls once again below that of strategic buyers. However, we do not expect private equity buyers to desert the industry entirely as they provide needed liquidity to firms determined to retain their independence, especially those not able or willing to tap the public markets.

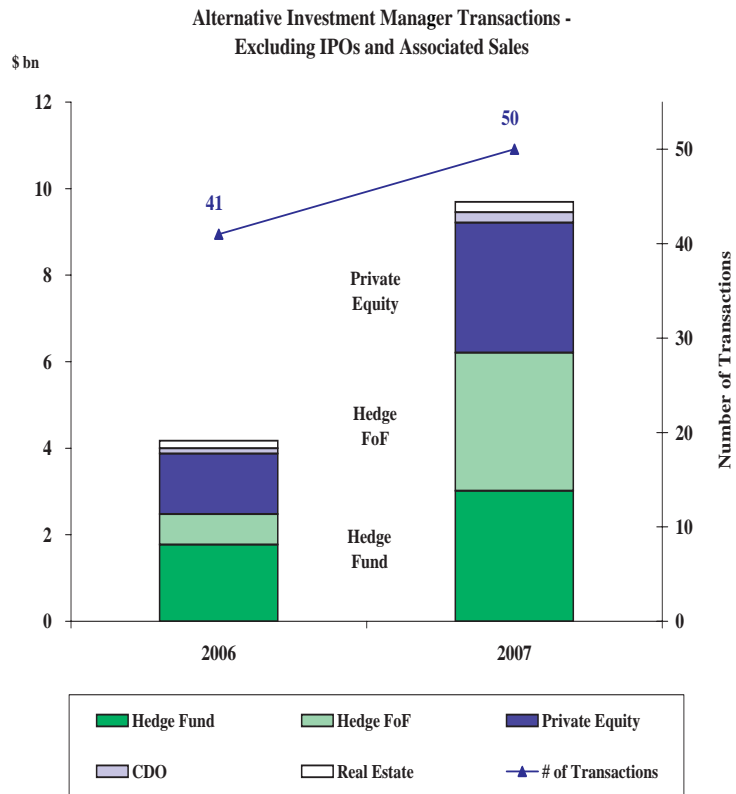
Institutional Demand for Alternatives Driving Acquisitions

Even excluding the IPO activity and associated sales discussed earlier in this report, the number and particularly the volume of transactions involving alternative investment managers increased substantially over 2006. Increasing pension fund allocations to hedge funds and hedge fund-of-funds (HFoF) continue unabated, resulting in a flood of new money for the industry to manage.



However, it is the largest and best known managers that are benefiting the most while lesser known firms are struggling to get traction. The hundred largest hedge fund managers are now reported to control 70% of all hedge fund assets.

In a trend commented on last year, HFoF transactions were mostly 100% acquisitions as buying institutions sought to integrate the target firm into their existing distribution platforms whereas direct hedge fund transactions mostly took the form of minority purchases. Blackrock’s acquisition of Quellos Group falls firmly in the first category, although with a maximum earnout of \$970 million that exceeds the downpayment of \$750 million, Quellos management remains highly incented to grow the business. Those who have been predicting the imminent disintermediation of HFoF must find the size of Blackrock’s bet against them unsettling. (Cambridge was never in that camp – see our 2004 Commentary). Other 100% HFoF acquisitions in the US included Swiss private bank, EFG Group, purchasing PRS Group with \$2.5 billion under management and HFA Holding of Australia purchasing Lighthouse Partners with \$8 billion under management. Similarly, in Europe, SEB purchased Key Asset Management with \$3 billion under management.



Investment banks continue to build their stable of hedge fund affiliates, generally favoring minority purchases. This was exemplified by Lehman Brothers 20% purchase of D.E. Shaw, one of the world’s largest alternative managers with \$29 billion under management, and of Spinnaker Capital, as well as Morgan Stanley buying a small ownership position in Traxis Partners.

Wealth Management Activity Continues to Rise

The wealth management industry shows no sign of net consolidation despite 52 transactions, a new high, of which over two-thirds were in the US. The number of SEC-registered RIAs has risen to nearly 10,500, up 38% in five years, and their annual AUM growth of 12% has exceeded that of brokers. Undoubtedly, a contributing factor to this higher growth is the “ownership culture” of an independent RIA, which raises the issue of whether this independence can survive the retirement of the founders.

One solution to the challenge of ownership transition is sale to one of several holding companies that have emerged in the industry, modeling on the success of Affiliated Managers Group in acquiring institutional managers and National Financial Partners in buying IFAs. The most active of these during the year was Focus Financial Partners which acquired eight firms, bringing its total in just two years to 14, with \$25 billion under management. WealthTrust also made two purchases during the year, Fairport Asset Management and Axiom Asset Management, bringing its total to 11 with \$8.6 billion under management. However, by far the largest such transaction was the purchase of Lydian Wealth Management by Convergent Capital, a holding company that was itself purchased by City National Bank in 2003. Apart from Lydian's \$7.3 billion size, this transaction was different in two other respects: it enabled management to buy into the ownership (whereas previously the parent, Lydian Bank & Trust Company, had owned 100%) and secondly, it was a divestment by a private bank of its wealth management business. Natural synergies between lending to local entrepreneurs and higher growth wealth management, combined with the maturity of their core banking services, have generally made community and private banks avid buyers of wealth management businesses, but in this case the national focus of Lydian Wealth Management limited its ability to benefit from a parent bank focused exclusively on the Florida market.

Two other methods of financing ownership transition were demonstrated during the year. RegentAtlantic, Evensky & Katz and Brightworth entered into transactions with Fiduciary Network, a subsidiary of Emigrant Savings Bank, that has an innovative approach to recycling equity to the next generation using convertible loans. The other "mezzanine" lender to the industry is Asset Management Finance which completed its first wealth management investment, and its eighth in total, with Gresham Partners.

Without these holding companies and mezzanine lenders, independent RIAs faced few alternatives as founders approached retirement other than to sell to the banks. One possibility frequently considered but rarely executed is a merger of equals between independent RIAs that dilutes any one founder's ownership to a manageable size that can be bought out over time. Such was the rationale for the merger between Kochis Fitz and Quintile Wealth Management. Unusually, leadership of the combined firm was not a stumbling block – Tim Kochis will be CEO for 24 months, followed by Rob Francais of Quintile. Other unusual aspects of the combination are that one firm provides wealth advisory services to \$5 million to \$25 million clients in San Francisco and the other family office services to \$25 million plus clients in Los Angeles. The resulting combination will be the largest independent in California, and a formidable competitor to the banks and brokerages that have historically served this market.

One-half of US wealth management transactions involved the sale of financial planning-oriented managers that predominantly use third party product, whether mutual funds, ETFs or managed accounts. This is testament to the rapid growth experienced by this segment of the market in the last five years, as clients search for a multi-asset class portfolio solution after being burnt by undiversified growth stock portfolios in the 2001/2 downturn. Stock-pickers are responding by adding ETFs to their equity portfolios to get exposure to non-core asset classes, especially complementary styles and international, resulting in a new breed of "mixed architecture" investment managers that still attempt to add alpha for their hnw clients but within a multi-asset global balanced portfolio. Banks are embracing this model, partly because offering a style-



specific domestic product has become increasingly unmarketable, but also because it reduces vulnerability to in-house performance problems. Acquisition examples include Pacific Capital's purchase of R. E. Wacker in San Luis Obispo following the success of its acquisition of Morton in 2006, Sterling Bank's acquisition of retirement plan specialist, MBM Advisors, in Houston and Canandaigua National Bank's purchase of Genesee Valley Trust in Upstate New York.

Canada – Going on the Prowl With a Strong Currency?

As global asset management m&a activity set all-time records, the number of transactions in Canada was at its lowest in over a decade. Aside from Power Corp's acquisition of Putnam, technically a January 2007 deal but already widely anticipated in late 2006, and the unresolved courting of Dundee Wealth Management, our 2007 tally amounted to just three transactions:

- One all-domestic transaction: CI's purchase of Rockwater in February of 2007, which further diversified CI's distribution and added some assets.
- One foreign acquisition of a Canadian target: SocGen's purchase of \$650 million private client manager, Canadian Wealth Management, which complemented its previous acquisition of a stake in Calgary's First Energy Capital Corp.
- One acquisition by a Canadian group of a foreign target: BMO's purchase of \$3 billion London-based EAFE manager Pyrford International, driven by the elimination of foreign investment restrictions on Canada's tax-exempt investors and a desire at BMO to remain competitive in the battle for those investment allocations.

Even Canada's IPO market maintained radio silence in 2007. Though limited in scope, there was an outward-looking subtext to the m&a activity of Canada's financial institutions, as evidenced by the Putnam deal, TD's acquisition of Commerce Bank, Sun Life's acquisition of Genworth's US small-case retirement services business (and other acquisitions in Asia) and BMO's acquisition of Pyrford. However, due to their generally conservative nature, and relatively limited opportunities to capitalize on cross-border business synergies, transformational cross-border acquisitions by Canada's financial groups have been infrequent.

The Canadian press has enjoyed speculating that a strong Canadian dollar would change all that and fuel some large acquisitions in the US. We think not. While now appearing "cheaper" in Canadian dollar terms, the real costs of acquisitions must still be measured in terms of the multiples paid for earnings. The latter have not abated, and we do not believe that a strong currency will suddenly create an appetite, previously lacking, to pay the high multiples and absorb the goodwill and intangibles necessary to acquire large, high-quality, asset management franchises. If the betting is on an appreciating US\$, there are currency markets in which to make those trades without incurring the transaction costs and execution risks associated with an acquisition.

In seeking incremental growth opportunities, and to mount stronger defenses against the growing incursion of foreign asset managers into the Canadian marketplace, we believe it will be more likely, and strategically more productive, for the Canadians to target growing smaller and mid-

sized specialist firms with attractive international (including US) investment products that would value access to Canadian distribution as well as continued operating independence.

Public Markets Go Alternative

With the addition of Blackstone and Fortress earlier in the year and Och-Ziff late in the year, the index of US publicly-traded investment managers now has a 25% weighting in alternatives by market capitalization. Undoubtedly, this has increased the volatility of an index that already had a high beta. This was seen in the US – and even more so in the UK where Man Group accounts for 45% of the sector's market capitalization – as the indices bottomed in August, recovered substantially in September and October, and then fell off a cliff in November's bloodbath for financials.

In terms of individual stocks, BlackRock was an outstanding performer, as it continued to receive accolades for the success of its merger with Merrill Lynch Investment Managers. Legg Mason, by contrast, was one of the year's worst performers as it struggled with integration of the Citigroup Asset Management acquisition at a time of poor fund investment performance and succession problems. In the UK, Man Group buoyed the overall market for the first half of the year but then lost most of its gains in the November drop-off. This was better than most, however, as three-quarters of the UK publicly-traded investment managers ended the year down, with New Star the worst (excluding the collapse of hedge fund manager, Absolute Capital Management) – down over 50%.

M&A Boom in a Tough Year for Brokerage Firms

Brokerage firms experienced significant turmoil in 2007. Affected by difficult credit market conditions, overall m&a activity experienced a sharp drop during the second half of 2007, and was down 46% in the US and 27% globally from 2006. As the year progressed, private equity firms were hard-pressed to debt finance multi-billion dollar transactions. One Wall Street firm after another announced their biggest losses in years, which contributed to the rolling of heads in multiple executive suites including the CEOs of Citigroup, UBS and Merrill Lynch. Yet despite the continued negative media coverage and an S&P Investment Banking and Brokerage Index down 19% for the year, the deals kept flowing during a boom year for broker-dealer m&a.

Several of the themes observed by Cambridge in 2006 continued into 2007. One of these was the interest of larger investment banks in the enhancement of their institutional capabilities through the acquisition of best-in-class boutiques. Bear Stearns acquired a leading placement fund agent, Crane Capital, following in the footsteps of Jefferies' acquisition of Helix Associates in 2005. Iceland's Landsbanki strengthened its European platform, built around two firms acquired in 2005, Kepler Equities and Teather & Greenwood, through the 2007 acquisition of a second UK firm, Bridgewell Securities, deepening the organization's competence in the small- and mid-cap UK market. Finally, Jefferies continued its string of boutique acquisitions with the £40 million acquisition of LongAcre Partners, a European media-focused practice.



More so than in prior years, many of these institutional brokerage transactions were cross-border in nature, as organizations sought to globalize. Several reflected foreign entities seeking to enhance their US capabilities. Collins Stewart continued on the acquisition trail with the \$44 million purchase of growth investment bank C.E. Unterberg Towbin. A second transatlantic deal involving the sale of a US growth-focused investment bank to a UK firm was the \$62 million sale of ThinkEquity Partners to Panmure Gordon. Activity was also brisk in Canada. Two deals involved natural resources specialists, the acquisition of Westwind Partners by Thomas Weisel Partners, and of Orion Financial by Australian investment bank Macquarie. In Asia and Australia, acquisitions by Lehman in India (Institutional Equity Group of Brics Securities) and Australia (Grange Securities), and Piper Jaffray in Hong Kong (Goldbond), exemplified continued interest of overseas acquirers in these important markets.

In 2006, Cambridge observed continued consolidation of private client brokerage firms. This activity reached yet another level in 2007. The most important retail transaction of the year was Wachovia's \$6.8 billion cash and stock acquisition of A.G. Edwards. Wachovia offered a 16% premium to snag the largest independent in the US in a transaction creating the second-largest private client firm with \$1.1 trillion in client assets and 15,000 financial advisors. With A.G. Edwards "spoken for," even more attention will now be showered on the two remaining large independents, Raymond James and Edward Jones. Two other major transactions completed during the first quarter were the sale of Ryan Beck to Stifel in a deal valued at up to \$124 million, and the sale by Pacific Life Insurance of three independent broker-dealers to Linsco/Private Ledger. Finally, RBC Dain Rauscher enhanced its retail fixed income position in the New Jersey, Pennsylvania and Florida markets through the acquisition of successful independent J.B. Hanauer.

Conclusion

As we finish up this commentary in the first few days of 2008, it is still unclear whether the sharp contraction in credit in the prior six months will merely cause the US economy to slow or whether it will precipitate an outright recession. Assuming the former outcome, we believe the number of transactions in 2008 will hold up well, continuing to be buoyed by increasing institutional ownership of alternative managers and the large numbers of independent wealth management firms selling as their founders approach retirement. Indeed, we are seeing a temporary surge in interest by independent firms wanting to transact in 2008, safely ahead of any possible increase in personal capital gains tax rates by a new administration.

On the other side of the coin, however, we are expecting the average size of transaction to continue to decline. Large transactions will be far fewer in the forthcoming year as private equity buyers have become severely restricted by credit tightening and the appetite of large financial institutions has been dulled by the need to repair capital ratios depleted by credit-related write-offs. Despite the expected IPOs of other major hedge fund and private equity managers such as Carlyle and KKR, we may also see the closing of the IPO window during the year as earlier investors become frustrated by the volatility of their returns, particularly on the downside!

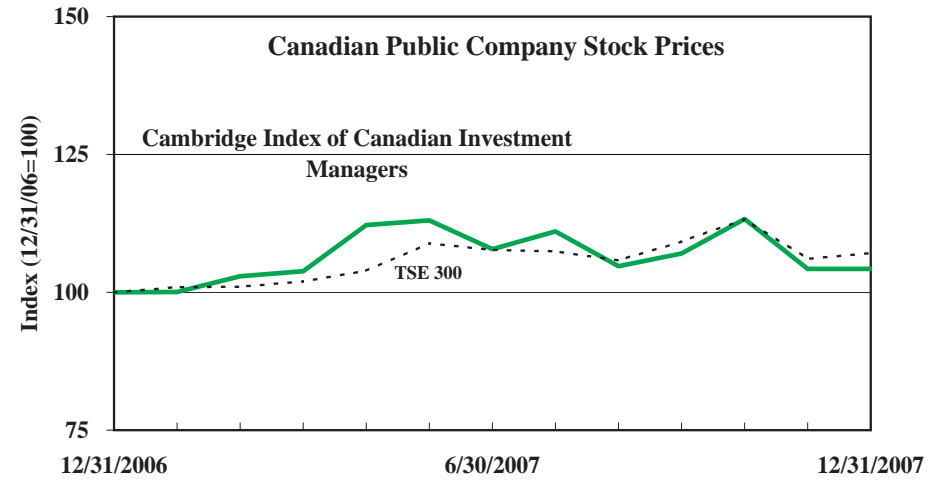
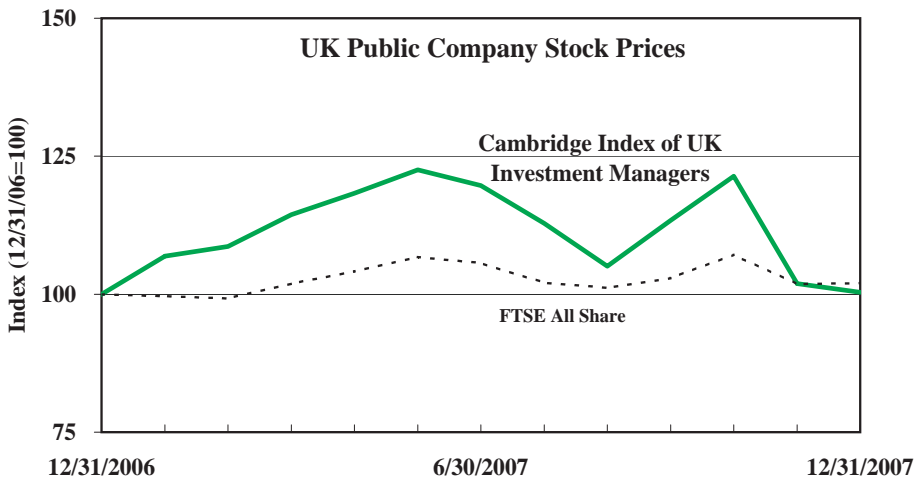
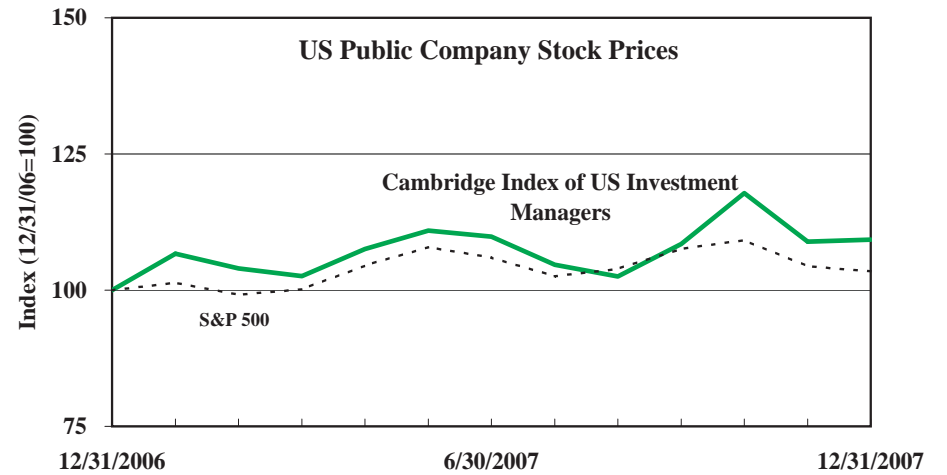
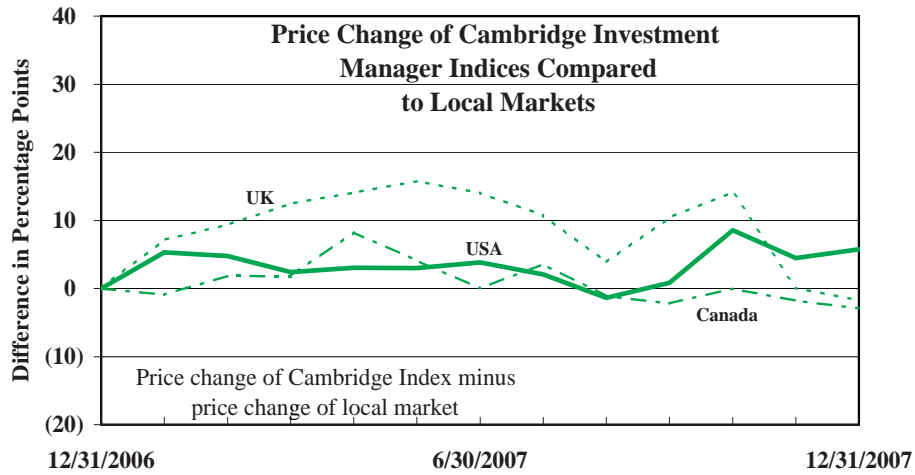
We conclude by wishing all our readers a happy and rewarding 2008.

THE CAMBRIDGE COMMENTARY

Largest Investment Management Transactions in 2007					
(All amounts in US\$)	AUM	%	Purchaser	Transaction	Strategic Rationale
Target	(\$MM)	Acq'd		Value (\$MM)	
Blackstone Group	88,000	12.2%	Public (IPO)	4,100	In the largest US IPO in five years, this leading private equity/alternatives manager achieves a \$33.6 billion valuation, equivalent to nearly 40% of AUM and 18 times expected earnings. Potentially the sign of a "market top" when the private equity is selling?
		9.4%	Central Huijin Investment	3,000	
Nuveen Investments	166,000	100%	Madison Dearborn	6,300	Announced just before the credit crunch, Madison Dearborn takes Nuveen private in the largest private equity investment ever in the industry, paying 16.3x EBITA of which 9.3x was borrowed.
Putnam Investments	192,000	100%	Power Financial	3,900	Power Financial, the dominant mutual fund group in Canada, enters the US fund market through the acquisition of Putnam, a once-premier name tarnished by market-timing scandals and poor performance.
GLG Partners	21,000	100%	Freedom Acquisition	3,400	One of Europe's largest hedge fund managers becomes the first pure play hedge fund business to list on the NYSE, through a reverse merger with a SPAC.
Marsico Capital Management	94,000	100%	Thomas Marsico	2,700	Tom Marsico puts up \$150 million to buy back this mutual fund company that he had previously sold to Bank of America for \$1.1 billion.
Och-Ziff Capital Management	30,000	9.3%	Public (IPO)	1,150	Floating in the challenging November market, this highly successful hedge fund manager settles for a more modest multiple of 13 times expected earnings.
		9.9%	Dubai International Capital	1,230	
Jupiter Asset Management	37,000	100%	TA Associates and Management	1,440	Commerzbank eventually finds a home for its UK fund management business in this TA-backed management buyout, completed just before the credit crunch.
Quellos Group	20,000	100%	Blackrock	1,420	Blackrock makes a major bet that institutional demand for fund-of-hedge-fund products will continue to grow. Includes a significant earnout worth up to \$970m in addition to \$750m paid at closing.
Carlyle Group	76,000	7.5%	Mubadala Development (Abu Dhabi)	1,350	Eyeing a potential IPO down the road, Carlyle sells a minority stake to the Abu Dhabi government and establishes a proforma \$20 billion valuation.
Banco Santander Latin American Pensions	30,000	100%	ING	1,300	ING becomes the second largest pension fund administrator in Latin America while Santander raises cash for its participation in the ABN Amro purchase.

Acquisitions of Investment Managers Worldwide ¹											
	2005	2006	2007		2005	2006	2007		2005	2006	2007
Number of Transactions				Domestic Transactions -- Buyer				Foreign Transactions -- Buyer			
Domestic	55	68	100	Bank	16	19	20	Bank	23	18	28
International	62	68	95	Insurance Company	7	8	5	Insurance Company	12	4	11
Total	117	136	195	Securities Firm	8	8	11	Securities Firm	2	5	9
				Independent Manager	15	15	28	Independent Manager	13	25	27
Transaction Volume (\$bn)				Financial Buyer	2	13	20	Financial Buyer	10	6	4
Domestic	6.3	35.3	35.7	Management Buyout	7	5	9	Management Buyout	1	3	7
International	10.6	9.2	17.2	Public Offering & Other	0	0	7	Public Offering & Other	1	7	9
Total	16.9	44.5	52.8	Total	55	68	100	Total	62	68	95

¹ Excluding transactions involving small managers (with assets under \$200 million).



Publicly Traded US Investment Management Company Valuations

Valuation Date: December 31, 2007

Millions of Dollars (except share data and ratios)

Company	Assets Managed	LTM Revenues	LTM EBITA	LTM Net Income	Share Price	YTD Price Change	Market Cap	Enterprise Value	Enterprise Value as a Multiple of:				P/E
									Assets	LTM Revenues	LTM EBITA	LQA EBITA	
Affiliated Managers Group	276,820	1,315.7	302.5	170.1	117.46	11.7%	5,255.5	5,610.0	2.0%	4.3	18.5	17.5	30.9
INVESCO (ADRs)	507,200	2,768.8	1,048.2	656.9	31.38	27.3%	12,881.5	13,368.6	2.6%	4.8	12.8	12.2	19.6
BlackRock	1,299,556	4,419.0	1,418.9	842.3	216.80	42.7%	28,751.1	30,147.1	2.3%	6.8	21.2	17.2	34.1
Blackstone	98,201	3,721.5	2,188.2	2,975.7	22.13	n.a.	24,812.6	24,470.9	24.9%	6.6	11.2	20.4	8.3
Boston Private	37,186	373.3	113.4	50.9	27.08	-4.0%	1,140.9	1,140.9	3.1%	3.1	10.1	8.9	22.4
Calamos Asset Management	46,746	470.6	202.7	120.5	29.78	11.0%	2,886.4	3,054.2	6.5%	6.5	15.1	15.4	24.0
Cohen & Steers	34,723	273.1	111.5	73.4	29.97	-25.4%	1,235.4	1,071.4	3.1%	3.9	9.6	9.8	16.8
Eaton Vance	161,671	1,084.1	380.0	142.8	45.41	37.6%	5,824.3	6,031.5	3.7%	5.6	15.9	13.7	40.8
Federated Investors	276,177	1,086.6	376.5	218.0	41.16	21.8%	4,256.1	4,334.7	1.6%	4.0	11.5	10.6	19.5
Fortress Investment Group	39,868	1,019.8	143.1	78.9	15.58	n.a.	6,711.8	7,121.4	17.9%	7.0	49.8	n.m.	n.m.
Franklin Resources	645,889	6,205.8	2,098.6	1,784.3	114.43	3.9%	28,387.8	26,254.0	4.1%	4.2	12.5	12.1	15.9
GAMCO Investors	31,635	285.9	92.8	80.1	69.20	79.9%	2,012.1	1,636.8	5.2%	5.7	17.6	17.6	25.1
Janus Capital Group	208,000	1,116.8	315.5	134.3	32.85	52.2%	5,687.5	6,286.4	3.0%	5.6	19.9	16.4	42.3
Legg Mason	1,011,600	4,653.1	1,186.2	715.6	73.15	-23.0%	10,587.9	10,760.7	1.1%	2.3	9.1	9.2	14.8
Pzena Investment Management	28,900	141.1	113.8	105.1	11.40	n.a.	730.0	790.0	2.7%	5.6	6.9	6.9	6.9
T. Rowe Price	396,800	2,119.6	948.7	628.9	60.88	39.1%	16,927.5	15,606.9	3.9%	7.4	16.5	14.8	26.9
W.P. Stewart & Co.	5,000	106.1	20.7	1.2	5.11	-67.7%	236.3	238.4	4.8%	2.2	11.5	n.m.	n.m.
Waddell & Reed Financial	59,382	787.1	186.3	120.4	36.09	31.9%	3,076.5	3,232.0	5.4%	4.1	17.4	16.5	25.6
Westwood Holdings	7,692	31.4	9.2	6.0	37.60	63.3%	269.8	255.1	3.3%	8.1	27.6	24.2	45.2
Master Limited Partnership													
AllianceBernstein	812,768	4,539.2	1,481.8	1,317.7	75.25	-6.4%	6,640.8	6,740.4	2.5%	4.5	13.7	12.9	15.9
Weighted Average									6.9%	5.5	16.4	15.0	22.3
Median									3.2%	5.2	14.4	14.3	23.2

Notes: LTM is last twelve months. LQA is last quarter annualized. Enterprise value equals market capitalization plus debt less cash and investments in excess of three months' operating expenses. EBITA is earnings before interest, income taxes, amortization of intangibles and exceptional items. Market capitalization and P/E multiples are based on diluted shares outstanding as of the most recent reporting period, adjusted for stock splits, and stock prices as of the valuation date. For Boston Private, BlackRock, Legg Mason, and Mellon Financial, enterprise value equals market capitalization and EBITA includes net interest income. EBITA for AMG and Fortress is after minority interest. Pzena EBITA and net income are third quarter annualized, not LTM. Market capitalization and multiples for AllianceBernstein are provided for its public MLP, which owns 33.2% of the underlying operating partnership. Assets, revenues, EBITA and net income for AllianceBernstein are provided for its underlying operating partnership.

Publicly Traded UK Investment Management Company Valuations

Valuation Date: December 31, 2007

Millions of Pounds (except share data and ratios)

Company	Assets Managed	LTM Revenues	LTM EBITA	LTM Net Income	Share Price	YTD Price Change	Market Cap	Enterprise Value	Enterprise Value as a Multiple of:				P/E
									Assets	LTM Revenues	LTM EBITA	LHA EBITA	
Aberdeen Asset Management	95,312	347.8	100.0	30.6	1.66	-12.8%	1,019.9	1,303.0	1.4%	3.7	13.0	12.2	33.3
Absolute Capital Management	1,555	64.9	35.3	34.8	0.32	-89.6%	22.2	20.0	1.3%	0.3	0.6	0.4	0.6
Ashmore Investment Management	15,772	159.8	121.7	91.5	2.69	4.0%	1,899.9	1,741.8	11.0%	10.9	14.3	13.3	20.8
BlueBay Asset Management	6,547	109.4	49.4	35.2	3.55	-9.4%	706.6	685.1	10.5%	6.3	13.9	17.2	20.1
Charlemagne Capital	2,546	41.9	19.7	17.4	0.74	-9.5%	213.8	212.8	8.4%	5.1	10.8	11.2	12.3
City of London Investment Management	1,918	18.3	7.1	4.9	3.50	61.3%	97.4	96.4	5.0%	5.3	13.6	11.8	20.0
F&C Asset Management	101,300	223.9	68.9	6.3	1.93	-8.8%	952.8	1,114.1	1.1%	5.0	16.2	17.0	n.m.
Henderson Group	61,600	312.4	109.5	115.2	1.26	-8.3%	914.7	1,088.3	1.8%	3.5	9.9	9.0	7.9
Liontrust Asset Management	5,457	30.8	11.2	8.3	3.35	-8.5%	104.5	99.6	1.8%	3.2	8.9	9.9	12.6
Man Group	33,539	997.5	702.7	615.2	5.69	8.8%	9,904.2	9,753.4	n.m.	9.8	13.9	12.7	16.1
New Star Asset Management	24,700	160.8	91.1	49.8	1.78	-58.2%	493.1	789.3	3.2%	4.9	8.7	8.2	9.9
Polar Capital	1,881	43.7	12.4	10.6	1.85	-12.5%	144.1	140.8	7.5%	3.2	11.3	19.0	13.5
RAB Capital	3,365	137.2	41.8	49.5	0.88	-16.4%	499.1	487.9	14.5%	3.6	11.7	17.0	10.1
Rathbone Brothers	13,300	143.6	48.3	34.9	10.50	-12.4%	453.2	453.2	3.4%	3.2	9.4	8.8	13.0
Record	26,749	65.2	38.3	27.4	1.59	n.a.	351.5	336.3	1.3%	5.2	8.8	6.4	12.8
Schroders	137,600	894.0	343.3	263.6	13.02	16.7%	3,774.1	3,774.1	2.7%	4.2	11.0	10.2	14.3
Weighted Average									4.6%	7.2	12.8	12.2	16.3
Median									3.2%	4.6	11.2	11.5	13.0

Notes: LTM is last twelve months. LHA is last half annualized. Enterprise value equals market capitalization plus debt less cash and investments in excess of six months' operating expenses. EBITA is earnings before interest, income taxes, exceptional items and amortization of goodwill. Revenues consist of gross profit on fund sales, management fees, commissions, interest and other income on trading activities, net of Value Added Tax. Market capitalization and P/E multiples are based on diluted shares outstanding as of the most recent reporting period, adjusted for stock splits, and stock prices as of the valuation date.

THE CAMBRIDGE COMMENTARY

Valuation Date: December 31, 2007

Millions of Canadian Dollars (except share data and ratios)

Company	Assets Managed	LTM Revenues	LTM EBITA	LTM Net Income	Share Price	YTD Price Change	Market Cap	Enterprise Value	Enterprise Value as a Multiple of:				Mult. EBITA Before DSC*	P/E
									Assets	LTM Revenues	LTM EBITA*	LQA EBITA*		
AGF Management	53,770	760.5	196.2	150.3	29.09	3.9%	2,638.4	2,662.6	5.0%	3.5	13.6	11.2	8.8	17.6
CI Financial	96,282	1,586.9	611.6	587.3	28.07	5.1%	8,083.7	8,840.8	9.2%	5.6	14.5	14.3	12.1	13.8
IGM Financial	124,228	2,852.1	1,334.0	844.4	50.03	1.9%	13,360.9	14,920.9	12.0%	5.2	11.2	11.0	6.6	15.8
Addenda Capital	28,600	37.3	26.2	17.4	22.50	-3.9%	272.8	271.2	0.9%	7.3	10.4	10.3		15.7
Gluskin Sheff Associates	5,446	187.4	125.6	78.3	26.60	69.4%	776.8	705.0	12.9%	3.8	5.6	14.1		9.9
Saxon Financial	13,001	54.6	26.1	17.2	22.12	2.9%	301.3	273.0	2.1%	5.0	10.5	9.8		17.5
Seamark Asset Management	4,210	14.3	4.7	3.6	5.01	-26.6%	59.3	49.2	1.2%	3.5	10.6	13.4		16.6
Sceptre Investment Counsel	9,108	33.9	10.6	6.1	10.35	1.0%	144.4	144.4	1.6%	4.3	13.7	10.4		23.7
Weighted Average									10.2%	5.1	12.3	12.2	8.7	15.2
Median									3.5%	4.6	10.9	10.7	8.8	16.2

Notes: LTM is last twelve months. LQA is last quarter annualized. Enterprise value equals market capitalization plus debt less cash and investments in excess of three months' operating expenses. EBITA is earnings before interest, income taxes, exceptional items and amortization of goodwill. Amortization of deferred sales commissions is treated as an operating expense. Market capitalization and P/E multiples are based on diluted shares outstanding as of the most recent reporting period, adjusted for stock splits, and stock prices as of the valuation date.

**Unadjusted EBITA multiples for Canadian firms that are predominantly engaged in the mutual fund business are not comparable to those of US or UK fund groups or to each other due to widely varying policies regarding amortization periods for deferred sales commissions (ranging from 3 to 7 years). An adjusted Multi-EBITA (Before DSC expenses) has been calculated for these firms by adding back amortization of deferred sales commissions. While allowing for greater comparability among Canadian fund groups, and being more consistent with the way that these groups are compared with each other by Canadian analysts, this adjusted EBITA ratio is not comparable to EBITA multiples in other markets.*

Performance fees for Gluskin Sheff & Associates shown on normalized basis.



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