

January, 2009

Dear Friends:

Given that most of you are undoubtedly anxious to forget 2008, we at Cambridge International Partners decided that an abbreviated letter reviewing the year's transactional developments would be more appropriate in the current environment than our usual publication, *The Cambridge Commentary*.

It is not easy to look back on 2008 with fondness, and relief does not appear to be lurking just around the corner. Against the background of a massive reduction of industry revenues, some developments, such as those affecting the banking industry and hedge funds still ring loudly into 2009 and their long-term impact remains to be evaluated. With those obvious points made, we do see grounds for looking on 2009 as a year, not of inaction, but of re-evaluation, restructuring and of re-positioning for an environment in which investors slowly return from their "safe-havens" and focus on meeting their long-term investing needs.

We lay no claim to an immediate end to further market surprises – if 2008 has taught us anything, it is that the "fat tail" has bitten, and little remains outside the realm of possibility. Nor are we able to predict in which investment sectors the process of realignment and recovery will happen most rapidly, or in what sequence this will unfold. At the time of writing, the healing process has begun in some of the short-term credit markets (e.g. LIBOR deposits and US commercial paper) and, more recently, in the investment grade bond market.

However, we are confident that the winners in an eventual upturn will be organizations who, rather than sitting on the sidelines in 2009, take the initiative to position themselves for the new reality in a number of dimensions, addressing key issues such as:

- Relative investment performance
- Bringing fixed costs in line with a lower revenue environment
- Maintaining an infrastructure able to take advantage of growth when it occurs
- Aligning financial interests between key talent and owners.

Divestures, mergers and consolidations will be important components of this repositioning.

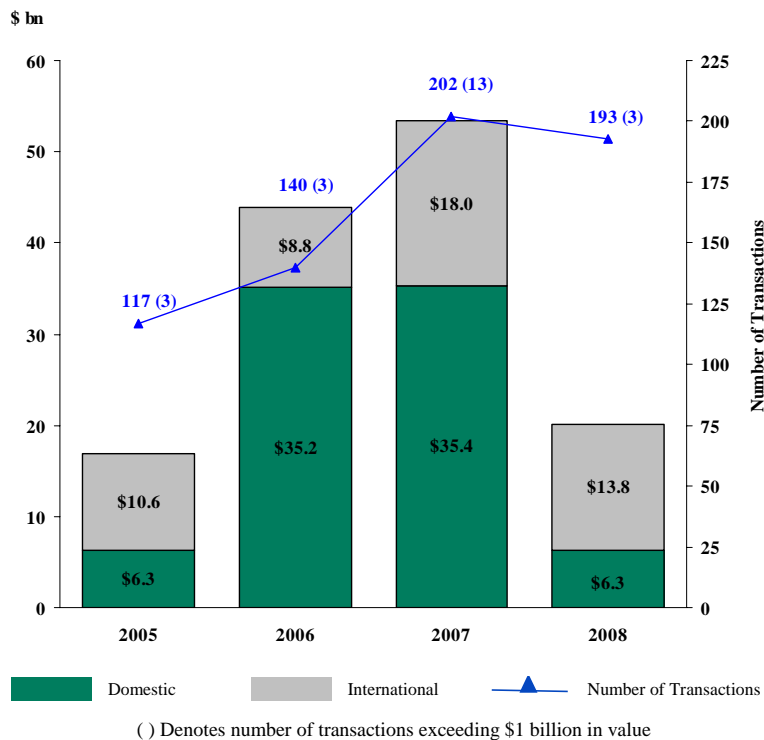
Supporting this view, Cambridge is, for example: (a) seeing well-capitalized groups taking action to review consolidation opportunities, as well as selective acquisitions in investment sectors in which they are not well-represented; (b) helping some independents take a hard look at whether "toughing out" 2009 will leave them financially exhausted

and whether a merger, or a sale, makes more strategic sense; and (c) advising first-generation owners of firms on establishing equity transfer plans to ensure that, in these uncertain times, the next generation of talent is tied into, and focused on, the future success of the enterprise.

Global Transaction Volumes Declined Dramatically from a Record 2007

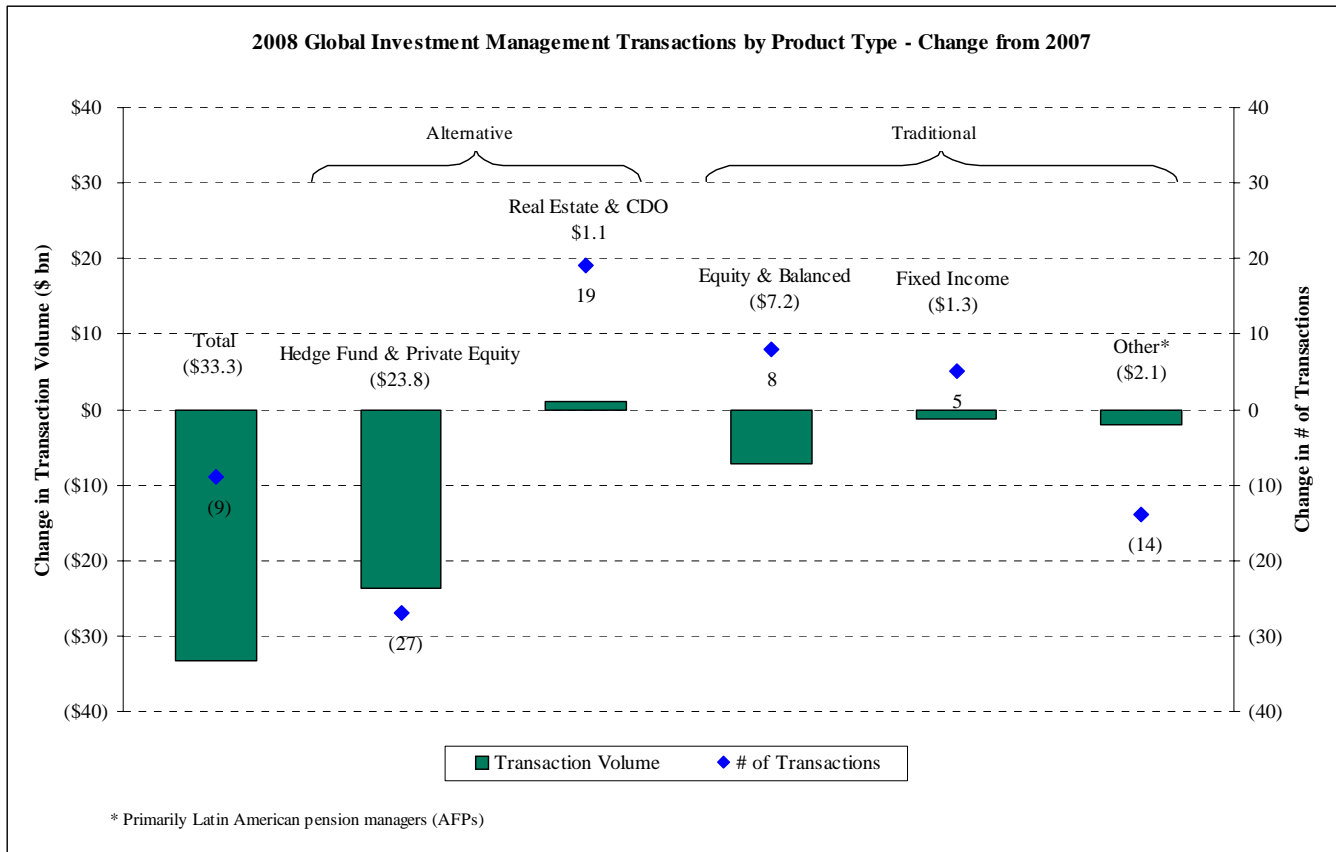
While the number of investment management transactions in 2008 was not far off 2007’s pace, the total value of transactions fell dramatically from \$53 billion to \$20 billion. The relative paucity of “megadeals” accounted for \$28 billion of this drop. While in 2007 there were thirteen deals above \$1 billion in capital value, there were only three such deals in 2008.

Global Investment Management M&A Volume



Behind those figures, lessened activity in the hedge fund and private equity sectors saw the value of such deals drop by \$24 billion in 2008 compared with 2007. IPOs such as those of Fortress, Blackstone, and Och Ziff, along with sovereign fund investments in Blackstone, Och Ziff and Carlyle Group, as well as deals like Blackrock’s acquisition of Quellos were all absent in 2008. Also absent were private equity sponsored mega-transactions (such as Madison Dearborn’s 2007 acquisition of Nuveen, and TA’s partnership with management to acquire Jupiter Asset Management), as financing for such highly leveraged transactions dried up.

The following chart also highlights that a significant number of transactions in 2008 reflected consolidation in the CDO and Real Estate management sectors, often in deals involving revenue sharing arrangements or retained equity, but little cash.



While transaction values fell in almost all asset classes and client segments, transactional activity in the private wealth management sector, where most transactions involve modest amounts of capital, was virtually unchanged from 2007's strong showing – whether measured in dollars or number of deals. Nearly half of the US wealth management transactions involved managers offering a partly or wholly open architecture investment platform, a percentage that has been increasing sharply over the last few years. Mercer Advisors, a wealth advisor to dental practitioners acquired by private equity group, Lovell Minnick Partners, in the largest US wealth management transaction in 2008, is a good example of this breed of manager. Focusing on financial planning, asset allocation and manager selection as well as consulting services to its clients' dental practices, Mercer commands client loyalty by providing a cradle-to-grave service tailored specifically to its clients' needs rather than promising difficult-to-achieve alpha on client portfolios.

As the following table demonstrates, the 2008 drop-off in transactions occurred primarily in the United States following extraordinarily high activity levels in 2006 and 2007, which had been supported by easy credit and buoyant IPO markets.

Transaction by Geography	2006	2007	2008
Number of Transactions¹			
Domestic	70	101	85
International	70	101	108
Total	<u>140</u>	<u>202</u>	<u>193</u>
Transaction Volume (\$bn)			
Domestic	35.2	35.4	6.3
International	8.8	18.0	13.8
Total	<u>44.0</u>	<u>53.4</u>	<u>20.1</u>

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

Many of 2008's largest transactions echoed the year's market disruptions and resulted from parents in distress or major restructurings. By contrast, in the case of Canada, banks with only modestly impaired capital positions were able to take advantage of rare market opportunities. Here are some of the highlights of the year's largest deals:

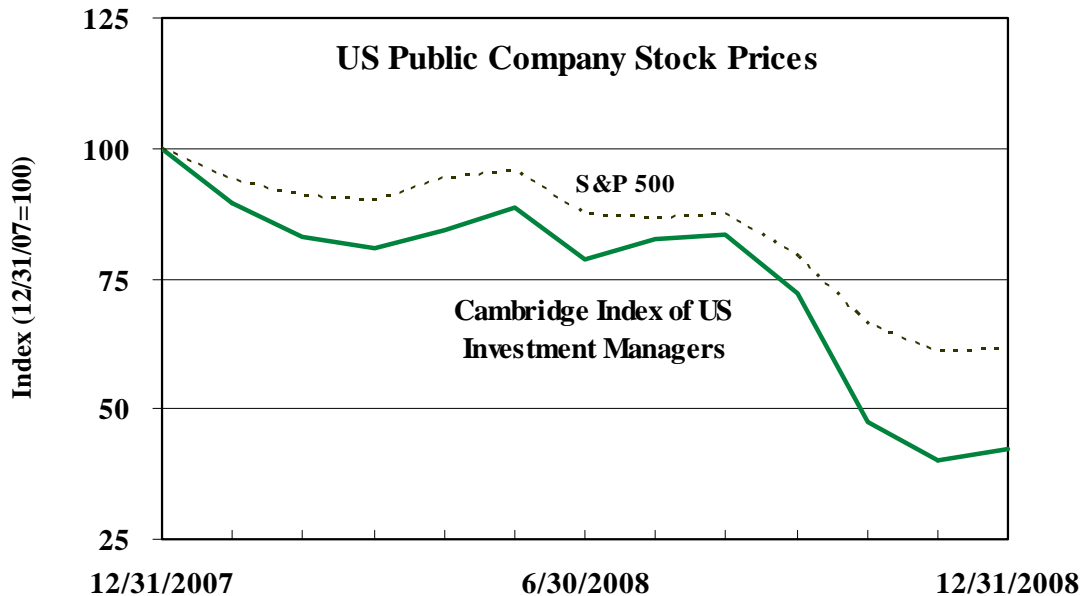
- The world's two largest transactions took place in Canada – a first. Canada's banks escaped 2008's turmoil relatively unscathed compared with their cousins to the south who were notably absent from the roster of 2008's leading deals
- Allianz acquired Cominvest as part of a deal to offload Dresdner Bank to Commerzbank
- Neuberger became available as a direct result of the Lehman bankruptcy and bids from the private equity sector were ultimately bested by Neuberger's management, in a cashless deal that allowed the Lehman estate to retain future upside rather than sell out under duress at a valuation low-point. We can expect an IPO or another transaction here within two years
- While the Artemis story is likely not over, Fortis was forced to acquire management's one-third stake as a result of its takeover of ABN AMRO, following an unsuccessful attempt to sell the whole business in a deteriorating market
- Credit Suisse threw in the towel on CSAM and, in a classic consolidation transaction aimed at gaining scale, sold the business to Aberdeen Asset Management, while retaining a 25% stake in the combined company. Through this deal structure, Aberdeen was astute enough not to encumber itself with further debt.

Largest Investment Management Transactions in 2008					
<i>(All amounts in US\$)</i>	AUM	%		Transaction	
Target	(\$MM)	Acq'd	Purchaser	Value (\$MM)	Strategic Rationale
CI Financial	85,000	38%	Scotiabank	2,125	While preserving its productive distribution relationship with CI, Sun Life reallocates capital by disposing of its CI stake to Scotia which has long sought a stronger position in the mutual fund industry.
Phillips, Hager & North	68,000	100%	Royal Bank of Canada	1,340	Royal Bank acquires this hitherto staunchly independent manager, strengthening its premier position in Canada's mutual fund industry, while re-entering the institutional market it had exited in 2001.
Cominvest	83,600	100%	Allianz	1,025	As part of a deal to offload its Dresdner banking business to Commerzbank, Allianz acquires Commerzbank's asset manager, Cominvest, becoming the largest manager in Germany in the process.
Neuberger Berman	160,000	51%	Management	815	Management buyout of 51%, involving no cash, provides Lehman upside potential in its future disposal while management gains majority control and autonomy without the need for a financial partner.
GSO Capital Partners	10,000	100%	The Blackstone Group	775	Blackstone pays up early in the year to become one of the largest credit-oriented alternative investment managers in time to take advantage of the dislocation in the credit markets.
Monte Paschi Asset Management	34,000	100%	Clessidra	585	In second order fallout from the ABN AMRO transaction, Monte Paschi raises capital for its purchase of Banca Anton Veneta from Santander by selling its asset management business to a new joint venture with private equity manager Clessidra.
Constantia Bank (Real Estate IM Division)	31,000	100%	Immofinanz	575	Acquired at a modest valuation that ignores future performance fees, Austria's Immofinanz broadens its real estate offerings with a range of Constantia businesses including investment management, brokerage and property development operations.
Artemis Asset Management	24,000	33%	Fortis Bank	575	Despite earlier efforts by Artemis to find a new parent, Fortis, in its takeover of ABN AMRO, has been forced to acquire management's 33% stake due to Artemis' change of control provision with ABN AMRO.
J.W. Seligman	18,000	100%	Ameriprise	440	Ameriprise acquires a well regarded growth equity manager known for its technology expertise and a strong brand adding scale to its mutual fund and institutional businesses.
American Beacon Advisors	62,000	90%	Lighthouse Holdings	410	Texas Pacific Group and Pharos Capital team up to acquire this mutual fund and institutional asset management subsidiary of AMR, freeing up much needed capital for AMR's core airline business.
Credit Suisse Global Investors	71,000	100%	Aberdeen Asset Management	360	Pressure on the industry to consolidate is exemplified by this transaction in which Credit Suisse swaps its non-Swiss asset management business for a 25% stake in UK listed Aberdeen Asset Management.

Investors Ran But They Could Not Hide

Irrespective of asset class or investment style, almost nobody came out ahead in 2008. US equity managers' AUM and revenues were down close to 40%, almost irrespective of style or capitalization. International equity managers were down about 45% and emerging market managers 53%. Hedge fund AUM were down approximately 40%, about half from redemptions and half from performance. Base fee revenues for hedge fund managers have almost halved and performance fees have mostly vanished (only managed futures and short bias strategies were still up at year-end), and the large majority of hedge funds entered 2009 with significant high-water marks to overcome.

The Cambridge index of twenty two publicly-traded US investment managers was off 58% for the year, reflecting the even greater impact on profitability of the declines in their revenues and the “leveraged” play that investment managers have always represented relative to broad market equity indexes.



With only minor variations, the story was repeated in Canada and the UK, with the investment manager indexes dropping significantly and more markedly than the respective broad market equity indexes. In the UK, one large firm, New Star Asset Management, dropped off the UK chart almost entirely due to injudicious leverage.

Looking to the future, implications for investment manager m&a will vary by firm, depending in part on margins:

- High margin independent firms can ride out the downturn and will largely be reluctant to sell at the bottom of the market
- Low margin firms will come under severe pressure to cut costs or sell out in a consolidating merger
- Affiliates of embattled financial institutions – especially those considered sub-scale – will also be under pressure to find merger partners, either in an outright sale or with the parent retaining significant equity in a combined business.

Transactions are not easy to arrange in a declining market due to the challenges of buyers and sellers agreeing to an equitable clearing price. This was illustrated by the failure of two of the three largest announced transactions during 2008: Ping An’s \$3.4 billion agreement to purchase 50% of Fortis Investments and Bain Capital and Hellman & Friedman’s \$2.2 billion purchase of Neuberger Berman, neither of which was completed. In addition, several regional banks tried to sell investment management units during the year without success.

How the Hedge Fund Might Have Fallen

It was a crushing year for hedge fund and private equity managers as valuations and transactional activity plummeted in 2008. Stock prices for Blackstone, Fortress, GLG Partners and Och Ziff were on average down 82% and the \$24bn drop in hedge fund and private equity transactional activity accounts for two-thirds of the overall decline in industry transaction volume for the year.

- With most hedge funds having significant high-water marks to earn back, no performance fees (or associated bonuses) will be paid for the foreseeable future, except on limited amounts of new money flowing into the industry and on funds that produced positive performance in 2008. Performance fees being historically the principal source of hedge fund manager profitability, buyers are naturally reluctant to put much up front value on such an uncertain fee stream
- Hedge fund managers will have challenges maintaining their best professionals without the prospect of bonuses, and are likely to have to dip into diminished or past profits to retain key professionals and selectively attract new talent
- Private equity firms are in the interesting position of reporting negative revenues as write-downs of portfolio investments reverse previously accrued incentive fees. However, with long-term lock-ups, private equity managers are much better positioned to survive the market downturn than their hedge fund colleagues.

One long term effect of the carnage is that traditional investment managers are likely to be much more cautious about offering hedge funds alongside their long-only products in the future. AllianceBernstein's reputation has been particularly hurt by its ill-fated foray into hedge products, with its stock price down 72% for the year.

Where Are the Emperor's Clothes?

Adding to the industry's problems, the Madoff debacle has revealed that many hedge fund-of-funds were no more than hedge fund marketing organizations. While we do not think the industry as a whole is threatened, the market will become more discerning about the value added by fund-of-fund managers and the quality of their in-depth research. The era of non-transparency must surely, and finally, be over.

Rather than blindly accepting the almost indistinguishable marketing claims offered by fund-of-funds about their "rigorous" due diligence, the marketplace is bound to move to a "show me the money" attitude when it comes to proving the depth and quality of due diligence and ongoing monitoring performed by these groups. And it will not be enough to simply say: "We kept our clients out of Madoff." Investors will also take increasing comfort from size and deep-pocketed ownership, driving consolidation in this sector even faster than elsewhere in the industry.

Strategic interest in fund-of-funds remains healthy, with many large institutional groups not yet offering in-house capabilities. For this reason, in addition to the inevitable

consolidations we see occurring in the industry, this is one sector of the market where we expect some strategic acquisitions in 2009.

Cash Is King in M&A

In an environment of deleveraging, it is the well capitalized financial institutions that see 2009 as a favorable time to leap ahead of their less fortunate competitors by acquiring investment managers. Cambridge is witnessing this in a pick-up of interest in buy-side searches. The same theme is reflected in the two largest transactions of 2008, the previously discussed purchases of domestic investment managers by healthy Canadian banks.

On the other hand, inability to raise leverage has tempered private equity's success in making investment management acquisitions, particularly since the middle of 2008. Nevertheless, earlier in the year, Texas Pacific Group and Pharos Capital succeeded in acquiring AMR's American Beacon Advisors, representing the ninth largest transaction. Also, Lovell Minnick and TA Associates completed the purchase of Mercer Advisors and Keeley Asset Management, respectively, during the first half of the year.

In Closing . . .

Perhaps surprisingly given this backdrop, Cambridge had a successful year – our twentieth – completing seven transactions. A strong pipeline coming into 2008 certainly contributed to this, but we were also fortunate to close two significant transactions even after the Lehman bankruptcy caused the bottom to fall out of the m&a market in mid-September. We have little doubt that 2009 will be extremely challenging, especially for the first half of the year, but markets will improve with time. Consistent with our message to clients to use this interregnum as a time to prepare for the recovery, we are pleased to welcome David Abbott back to Cambridge as a partner and Managing Director.

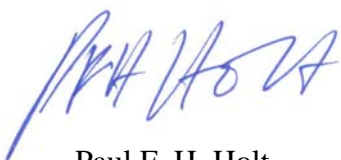
Our year concluded with the completion, late in December, of ***Winslow Capital Management's*** strategic affiliation with Nuveen Investments. Through its acquisition of Winslow, Nuveen has positioned itself as the key distribution partner of one of this country's best-performing large cap growth equity managers. The ability of the transaction to overcome the fourth quarter's market turbulence was a testament to the strength of the strategic and cultural fit of the two organizations.


In Canada, we are proud to have advised ***Sun Life Financial*** on the sale of its 37.6% interest in CI Financial to Scotiabank, in what turned out to be the year's largest investment management m&a transaction (measured by capital value). Sun Life was able to lock in value and gain the financial flexibility to pursue other growth opportunities, while at the same time preserving its important distribution relationship with CI Investments. The transaction enabled Scotiabank to take a significant step in broadening its footprint in Canada's mutual fund industry.

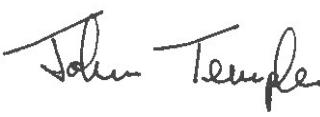
In the summer of 2008, we advised **Wentworth, Hauser and Violich** on its formation of a joint venture with Hirayama Investments, LLC, which will provide global and international equity sub-advisory services to WHV clients. Hirayama holds a first-percentile international equity performance record over both short and long term periods.


Earlier in 2008, we advised on a number of transactions involving private wealth managers – a segment of the market that continues to attract interest. **Lakepoint Investment Partners**, in Cleveland, was sold to Northern Trust, **Sanders Morris Harris Group** acquired a stake in Leonetti & Associates in Chicago, and in May, **Stratton Management**, a prominent value manager outside of Philadelphia, closed its sale to Susquehanna Bancshares. A month earlier, **Mercer Advisors**, the premier investment and business advisor to this country’s dental practitioners, was sold to Lovell, Minnick Partners.

Our best wishes to you all for 2009!


Paul F. H. Holt


Douglas P. Klassen


John H. Temple


David W. Abbott