CAMBRIDGE INTERNATIONAL PARTNERS INC.

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Dear Friends:

In a period marked by the divestiture of large investment management businesses by major financial institutions seeking to replenish their capital, we were encouraged to see, towards the end of 2009, healthy signs of quality independent managers beginning to transact again with strategic acquirors – a phenomenon that had been largely absent for most of the year.

In the past month, two first-class institutional boutiques announced transactions. In the first, Advisory Research, a $5.5 billion manager in Chicago, agreed its sale to Piper Jaffray for $225 million in a transaction that increases the contribution from investment management at Piper Jaffray to about 25% of total earnings. In the second transaction, Aviva Investors, the investment management arm of the UK's largest insurer, agreed to acquire River Road Asset Management, a $3.6 billion manager based in Louisville. In the process, Aviva secures a US equity capability to complement its existing fixed income strengths and accelerates its drive into the US institutional market, while River Road obtains access to a global distribution network. (Cambridge International Partners advised Aviva on this transaction.)

Advisory Research and River Road Asset Management are both successful value equity managers that had outperformed most of their peers during the market crash and were, therefore, in a reasonable position to transact. The message that we draw from this recent activity is that the market has made a sufficient recovery to encourage independent managers to transact again – a view further supported by the December sale of Thornhill Investment Management, a UK private client manager, to Cazenove Capital Management.

Despite this glimmer of a return to normalcy at year-end, the predominant theme of 2009 transactional activity was the divestiture of asset management businesses by financial service companies anxious to restore capital ratios damaged by the unexpected severity of the downturn. With their core banking, insurance and brokerage businesses sinking under the weight of capital write-offs, investment management was sacrificed in the name of business focus and capital raising – and fund management was again recognized to be a cyclical business. The divestiture theme accounted for nine of the year's top fourteen transactions, including sales by Barclays Bank, Societe Generale, Morgan Stanley, ING, Bank of America, Citigroup, AIG and Lincoln Financial (see table on page 2).

Gathering fewer headlines, divestiture activity and business rationalizations were also prevalent in the middle-market segment of the industry, as might be expected at this stage of the market cycle. Cambridge participated in this activity by advising Fortis Investments on the sale back to management of two of its US affiliates: Veredus Asset Management, a small cap growth manager in Louisville, and Cadogan Management, a New York City-based fund-of-hedge funds.

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Largest Investment Management Transactions in 2009

(All amounts in US$) Target	AUM ($MM)	% Acq'd	Purchaser	Transaction Value ($MM)	Strategic Rationale
Barclays Global Investors	1,434,000	100%	BlackRock	13,500	BlackRock snatches BGI from a deal with private equity group CVC Capital to become truly global with $2.8 trillion of assets under management, almost twice the size of the next largest manager. Meanwhile, Barclays expects to record an $10bn gain to boost its capital ratios in addition to getting 19.9% ownership in BlackRock
Societe Generale Asset Management	231,000	100%	Credit Agricole	2,310	SG gives up on trying to make Asset Management profitable, contributing it to Credit Agricole Asset Management in exchange for a 30% stake. As a result, CAAM becomes the fourth largest manager in Europe with $800bn under management. The transaction leaves TCW orphaned with an IPO expected when conditions improve
Sal. Oppenheim jr. & Cie.	200,600	100%	Deutsche Bank	1,930	Deutsche achieves market leadership in wealth management in Germany by acquiring this respected old-line private banking group that became vulnerable as a result of making some poor investments during the financial crisis. Deutsche plans to sell Sal Oppenheim's loss-making investment banking business
KKR Private Equity Investors	54,800	100%	KKR & Co.	1,920	With its long-held ambition for an IPO frustrated by the credit crisis, KKR achieves a back-door listing by acquiring the net assets of its Euronext Amsterdam listed investment fund leaving the principals with 70% and the public 30%. The listing is expected to be transferred to NYSE in due course
Morgan Stanley Retail Funds/Van Kampen Investments	118,700	100%	Invesco	1,500	Morgan Stanley follows in the footsteps of Citi and Merrill in disposing of its retail funds, getting $500m cash and a 9.4% equity stake in Invesco in exchange. Invesco will consolidate the business into its platform with estimated annual savings of $70m and significant strengthening of distribution in wirehouse, IBD and variable annuity channels
ING Asian Private Banking	15,800	100%	Oversea-Chinese Banking Corporation	1,460	In a transaction that contrasts the strength of Asia's banks with those in the West, struggling ING sells its successful Asian private banking business to Singapore-based OCBC
Columbia Management Group	165,000	100%	Ameriprise Financial	1,000	Having inherited Merrill's valuable stake in BlackRock, Bank of America becomes a distressed seller of Columbia Management. The all-cash transaction enables Ameriprise to almost double its assets under management at a low multiple of seven times run-rate EBITDA
Nikko Asset Management	101,800	100%	Sumitomo Trust & Banking Co.	930	Citigroup sells its Japanese fund management business, the third largest investment trust specialist in Japan, to Sumitomo Trust, continuing its retreat from that market. Citi had sold its securities broker, Nikko Cordial, earlier in the year to Sumitomo Mitsui Financial Group
Artio Global Investors	55,300	41%	Initial Public Offering	650	The successful international equity subsidiary of Julius Baer makes the most of the newly re-opened IPO window to raise $650m in September. Most of the proceeds were used to buy down Baer's ownership by more than half
Psagot Investment House	31,900	76%	Apax Partners	625	Four years on from buying Israel's largest asset management business, York Capital Management's sale to Apax Partners gives it a very profitable exit
Gartmore Group	35,000	53%	Initial Public Offering	550	Highly leveraged as a result of the refinancing of Hellman & Friedman's investment in the 2006 management buyout from Nationwide, Gartmore manages to raise £340m to pay down debt despite a disappointing reception on the London Stock Exchange
ING Bank (Switzerland)	15,000	100%	Julius Baer Group	520	Julius Baer uses the proceeds of its Artio listing to consolidate its position as third largest wealth manager in Switzerland while ING continues to pare down its balance sheet
AIG Investments	88,700	100%	Pacific Century Group	500	Richard Li's Hong Kong-based investment group, Pacific Century, buys AIG's fund management business which has been rebranded PineBridge Investments
Delaware Management Holdings	126,700	100%	Macquarie Group	430	Lincoln Financial raises capital through an all-cash divestiture to focus on its principal insurance and retirement businesses while acquisitive Macquarie nearly doubles its global asset management business with a significant US footprint

Prices Down in a Year of Forced Sales

Not surprisingly, with strategic sellers outnumbering buyers and private equity focused on deleveraging existing investments at the expense of making new ones, there was a decline in average multiples paid which, when combined with the lower revenues and profits of investment managers in 2009, resulted in significantly lower prices. Underneath the averages, however, there was a bifurcation of pricing, with distressed sales occurring at multiples significantly lower than seen historically while strategic transactions continued to occur at multiples closer to historical norms. With competition stimulated by the success of BGI's ETF business, BlackRock was forced to pay at the top end of the range for Barclays Global Investors, which transacted at an EBITA multiple close to 12x, although this was still considerably lower than the multiple that might have been anticipated two years earlier. By contrast, Bank of America, at the time a distressed seller, was able to attract only limited interest in the sale of Columbia Management, which Ameriprise Financial acquired at a modest 7x EBITA multiple.

BlackRock's Remarkable Rise to the Top

Accounting for $13.5 billion, or 38% of the year's total transaction volume of $35.2 billion, BlackRock's purchase of BGI was the largest transaction in the industry since Bank of New York acquired Mellon Financial in 2006. While iShares, with its 50% share of the fast-growing US ETF market, was the jewel in BGI's crown, it is BGI's scale and global reach that is most transformative to BlackRock, catapulting the combined firm to $2.7 trillion in assets under management, twice the size of any other manager. BlackRock is a remarkable growth story – combining equal measures of focused organic growth by highly incented investment professionals, shrewd and well executed strategic acquisitions to extend product capability, and distribution partnerships to leverage its reach.

Could Larry Fink and his seven colleagues have possibly imagined when they left First Boston in 1988 to start a fixed income boutique in conjunction with Blackstone that, within a couple of decades, they would reach the pinnacle of the global asset management industry? What have been the keys to this extraordinary success? Certainly, BlackRock's culture has been a critical component: top quality professionals and an "ownership" philosophy; teams not stars; a focus on risk management; a unified operating platform; and integration by function, not by product.

However, it has been a series of adroit strategic transactions that have catapulted the firm to dominance. In 1995, with just $25 billion of bonds under management, BlackRock sold to PNC Bank and assumed responsibility for all PNC's product manufacture. By the time of its IPO in 1999 (selling 14% to the market leaving management with 16% and PNC 70%), assets were up to $142 billion, although still heavily concentrated in fixed income and liquidity products. The acquisition and successful integration of State Street Research & Management in 2004 helped address this product imbalance but it was the purchase of Merrill Lynch Investment Managers in 2006 that was truly transformative, both in terms of products and through the addition of Merrill Lynch distribution. Finally, with the BGI acquisition, BlackRock can offer a full arsenal of products to manage the comprehensive investment needs of institutional clients around the world and a global retail platform that includes an industry-leading share of the rapidly expanding ETF market.

Independent Asset Managers Gain Share

BlackRock's story is just one example of the long-term gain in market share by independent asset managers at the expense of bank and insurance-owned managers. Examples in 2009 include INVESCO's purchase of Morgan Stanley's retail operations, and Ameriprise Financial's acquisition of Columbia Management, both cases where the acquirors were looking for consolidation and share growth at modest prices. By contrast, Franklin Resources, after taking a look at the AIG Investments acquisition in a joint venture with Crestview Partners, remained on the sidelines despite side-stepping the write-offs suffered by others and the strength of its balance sheet.

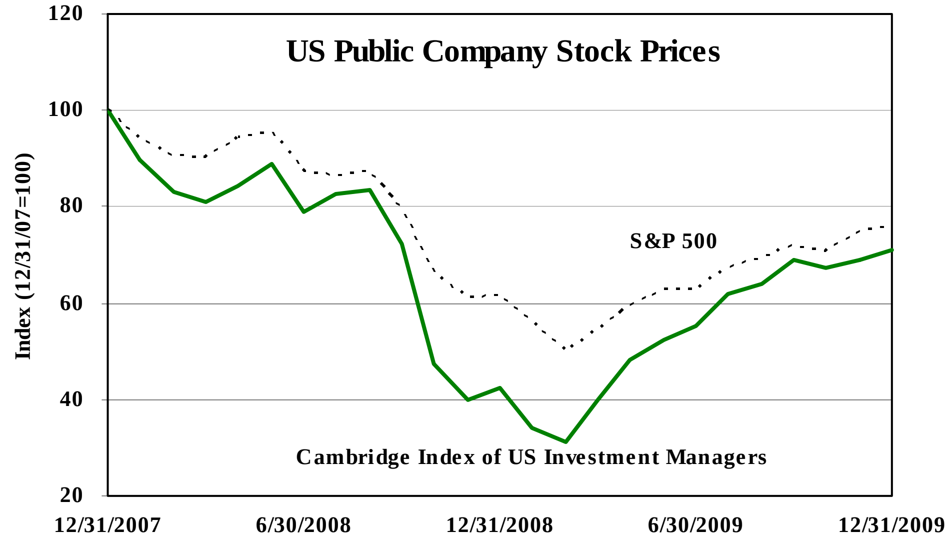
Reflecting a complementary theme, Morgan Stanley's divestiture and Lincoln Financial's sale of Delaware Investments mark the exit of these institutions from retail investment management, following in the path of Citigroup, Merrill Lynch and Nationwide which had sold their retail businesses earlier in the decade. While undoubtedly accelerated by capital shortages among financial institutions, the continued trend towards open architecture by banks, insurance companies and securities brokers remains an important underlying cause of this shift in market share, as distributors increasingly seek to decouple themselves from product manufacture by selling their proprietary investment product businesses. With little likelihood of this reversing in the next few years, the outlook for the independent managers looks secure.

IPO Window Re-opens

After being silent for over a year, asset management firms returned to the public markets at the end of 2009, as two firms went public through IPOs. While historically asset management firms have sporadically accessed the public markets for capital, the last significant wave began in 2006. Globally, seven traditional and alternative asset management firms went public in 2006, followed by 15 more firms in 2007. However, access to capital through public markets halted as the markets began to contract at the end of 2007 and, in 2008, only one firm, Canada-based Sprott Asset Management, completed an IPO, although a second, Virtus Investment Partners, went public through a spin-off from The Phoenix Companies.

Given the extreme volatility in the markets from the end of 2008 through the first half of 2009, depressed assets under management, and uncertainty regarding incentive fees and profitability for alternative managers, the IPO markets remained inaccessible. However, as 2009 progressed and markets improved, the second half of the year witnessed the IPOs of New York-based Artio Global Investors (formerly Julius Baer Americas) and London-based Gartmore Group. KKR also obtained a back-door listing in mid-2009 through the acquisition of its Amsterdam listed affiliate, KKR Private Equity Investors.

These IPOs occurred as prices of publicly-traded traditional US asset management firms jumped a remarkable 127% in the last ten months of the year, returning industry multiples to their historical norms of 13-15 times EBITA (see chart on page 5).



Power of Asia and Australasia

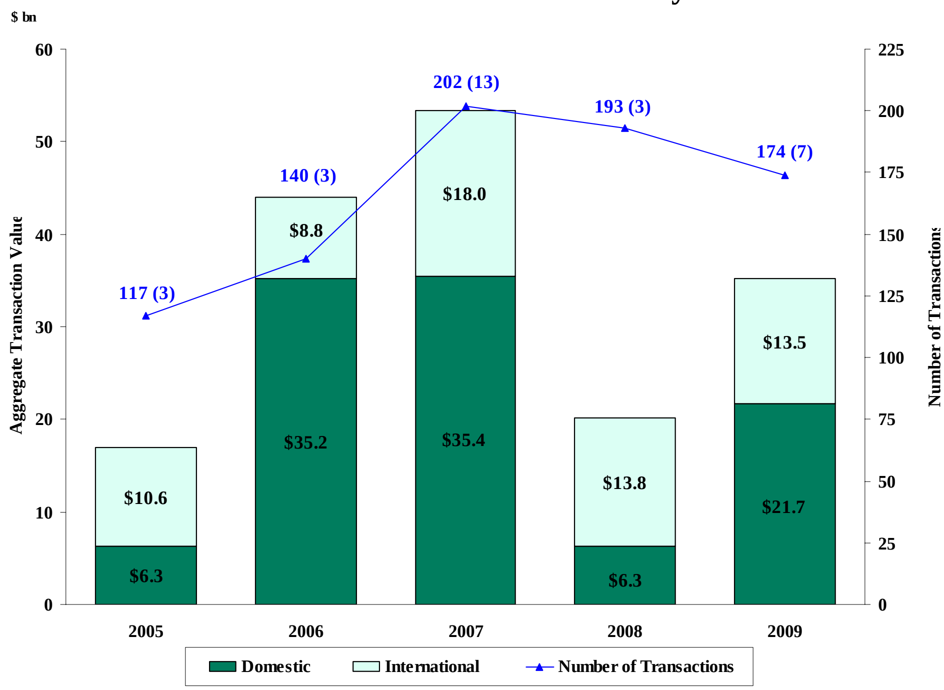
As headlines in early 2009 forewarned the end of capitalism as we know it, it was easy to overlook that large parts of the global economy were relatively unaffected, including Asia, Australasia and Canada. Unsurprisingly, therefore, a disproportionate number of buyers came from these regions, although we have yet to see the Canadians flex their muscle. Among the list of top fourteen transactions on page 2, four had Asian buyers, with OCBC and Sumitomo Trust picking up successful local subsidiaries of Citi and ING, respectively, while Pacific Century and Macquarie purchased US businesses from their distressed US parents.

Sovereign Wealth Funds, which had taken significant minority stakes in household names such as Citigroup, UBS, Merrill Lynch and Morgan Stanley in 2007 were, however, notably absent this year, scared off by the disastrous subsequent performance of these earlier investments. Asset management investments by China's SWF in Blackstone and by Middle-Eastern SWFs in Apollo, Och-Ziff and Carlyle in late 2007 were hardly more successful, running up huge paper losses in 2008 that had only been partially recovered by the end of 2009.

M&A Recovery Forecast for 2010

Although the aggregate value of 2009 transactions was greater than 2008's, helped by the $13.5 billion BGI transaction, it was an unusual year from an M&A perspective, marked by forced sales and cautious buyers, and it was only in the last quarter of the year that the tone of the market started to firm. Cross-border strategic transactions were few and far between, the notable exceptions being the Macquarie and Aviva deals. Even private equity firms, once vocal about their interest in the industry, were reluctant to open their purse strings and only two sizable investments were made: Pacific Century Group's purchase of AIG Investments and Aquiline Capital Partners' purchase of insurance asset manager, Conning & Company, although CVC came close with its bid for iShares which was ultimately trumped by BlackRock.

Domestic and International M&A Activity 2005-2009



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

Unsurprisingly, few independent managers were willing to entertain a sale during the year, put off by the paucity of buyers and low prices. This was seen in all segments of the market but particularly in wealth management where Cambridge only advised on one announced transaction during the year. However, the re-opening of credit markets, stronger than anticipated economic growth and the unwinding of Government support contributed to a greater sense of optimism by year end that was consistent with that seen in other industries where M&A activity is already on the rise again. Strategic buyers are starting to regain confidence and independents, who have held themselves off the market, are beginning to test the waters again. Owners are not getting any younger and the desire to monetize equity by founders approaching retirement is a natural driver of independent sales, together with the frequent need to access broader distribution channels. Given the long lead time between initiating and closing a transaction, this more encouraging environment may take six to nine months to evidence itself, but the M&A prospects for 2010 and beyond are at last looking better than they have for some time.

We hope that your business is also seeing the effects of these improved market conditions and that 2010 will be a year of further recovery and growth.

Sincerely,

Paul F.H. Holt　　Douglas P. Klassen　　John H. Temple　　David W. Abbott