



Asset Management Industry: Mergers and Acquisition Trends

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Agenda

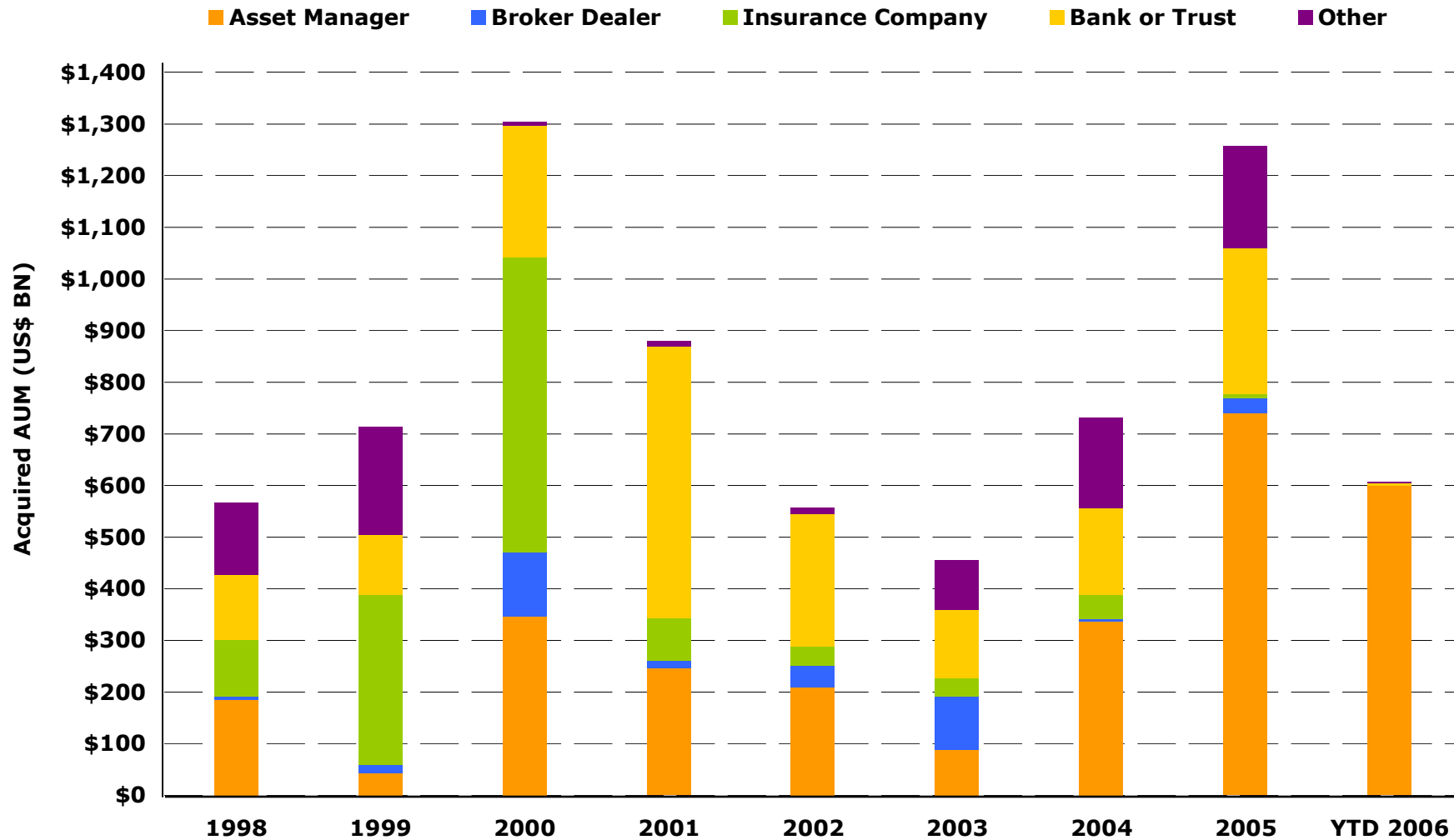
Last Decade

New Pressures

Current Trends

Two Peaks: 2000 and 2005

Aggregate Assets Under Management Acquired by Buyer Type



Source: Grail Partners LLC and public sources as of 2/24/06..

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Domestic Acquisitions

- US fund sponsors acquired by US fund sponsors
 - Fill out product line
 - Expand into high net worth
 - Aggregation of asset managers
- US fund sponsors acquired by banks, brokers and insurers
 - Expand proprietary funds to sell to existing customers
 - Add stable income stream to offset sales cycles
 - Obtain higher growth rates than in mature industries

Cross-Border Acquisitions

- US fund sponsor acquiring foreign asset manager
 - Large US broker-dealers fulfilling global ambitions
 - US bank or insurer buys manager of international assets
 - Fund sponsor gains manager of international assets
- Foreign financial institution acquiring US fund sponsor
 - Acquisitions by European insurers
 - Acquisitions by European banks
 - No Asian acquirers

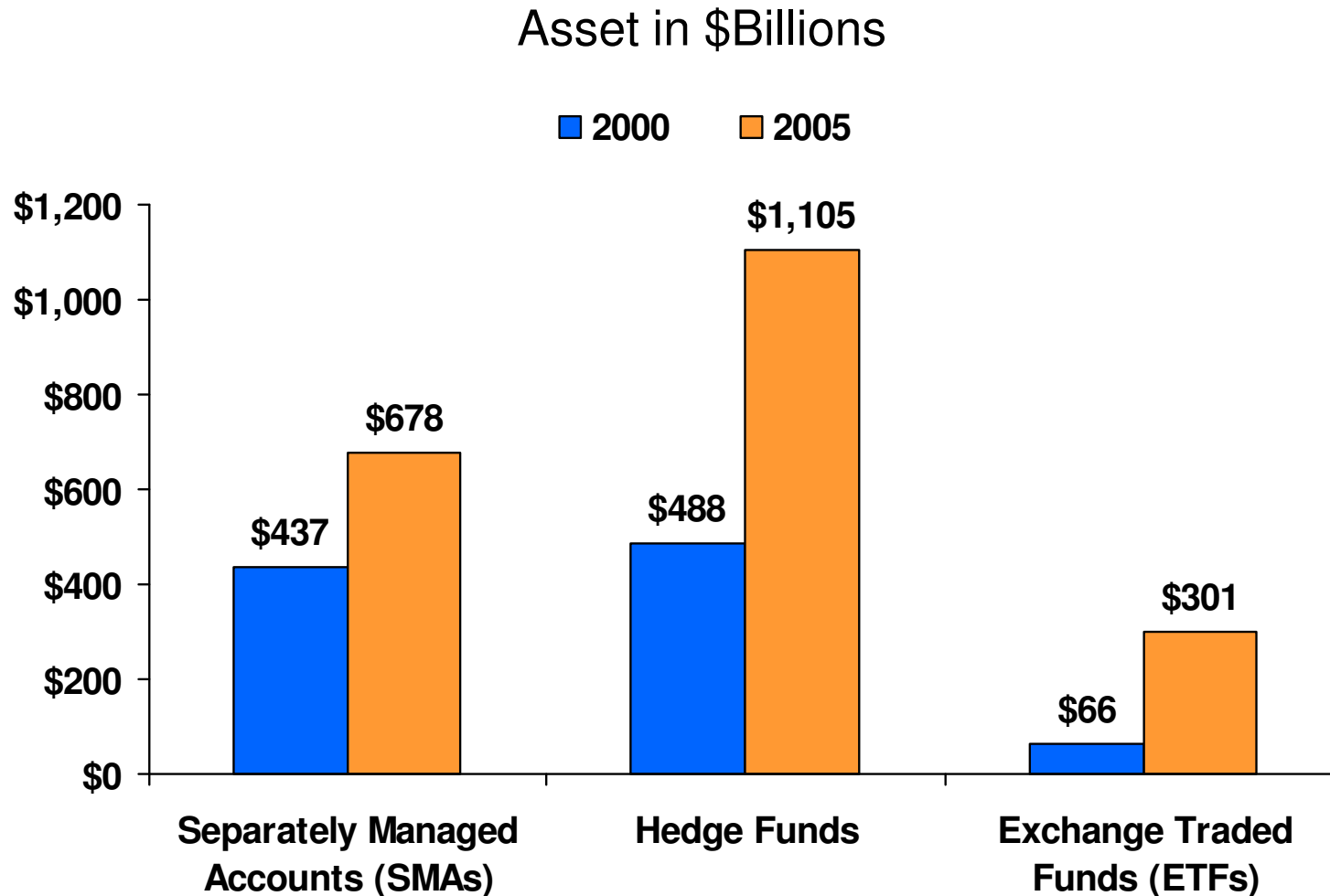
Open Architecture

- Retail
 - High net worth customers want best performance regardless of manager affiliation
 - Want customized investment “solutions” – platform business
 - Prepared to utilize different firms for banking, insurance and mutual funds
- Retirement Plans
 - Plan sponsors want operational platform run by one firm
 - But plan sponsors want “best in class” funds for each subcategory of assets
 - Competition for rollover assets among many open platforms

Regulatory Reforms from SEC

- No special compensation to sell proprietary funds
- No brokerage commissions to reward fund sales
- More disclosures on
 - Firm revenue sharing
 - Broker compensation (POS)
- Pressures on Management Fees
 - Higher compliance costs
 - Reductions
 - New York Attorney General Settlement
 - Index Funds: Price War

Growth of Alternative Products



Source: FRC. SMA source ,MMI as of 12/31/05; Hedge Funds source, Hedge Fund Research as of 12/31/05;. ETFs source, FRC IMPACT as of 12/31/05.

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Integrated Asset Managers/Distributors Particularly Challenged

Retail fund net flows of select large proprietary fund groups

<u>Complex Name</u>	<u>Assets Dec 05</u>	<u>Net Flows (\$Millions)</u>				
		<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Merrill Lynch Investment Management	61,644	-2,328	-2,270	-1,626	-2,409	-3,167
RiverSource Investments (American Express)	53,152	-9,818	-7,798	-3,939	-5,093	-1,542
Smith Barney Asset Management	52,086	-4,079	-1,586	928	1,875	4,024
Morgan Stanley Investment Advisors	32,244	-8,598	-8,144	-3,854	-5,828	-4,605

Source: FRC

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De-glomeration: Refocus on Core Competencies

Recent mega-deals viewed as mutually beneficial

<u>Target</u>	<u>Acquirer</u>	<u>Year</u>	<u>AUM (Millions)</u>	<u>Disclosed Deal Value</u>
Merrill Lynch Investment Management	BlackRock Financial	2006	\$544,000	\$9,500+
Citigroup Asset Management	Legg Mason	2005	\$437,000	\$3,700.0

Source: FRC

- BlackRock's agreement to acquire Merrill Lynch's investment arm (MLIM) in exchange for a 49.8% stake in the combined company
 - BlackRock: gains global footprint and privileged access to Merrill's retail distribution engine
 - Merrill Lynch: participation in BlackRock's institutional and fixed income success, potential for more success with third party retail distribution
- Legg Mason's agreement to swap its 1,400 brokers for CitiGroup's asset management arm
 - Legg Mason: becomes pure play asset manager, gains wider distribution, and more than doubles assets transforming into the fifth largest manager in world
 - CitiGroup's SmithBarney unit re-focuses on distribution, gains additional clients and reps and opportunity to sell Legg Mason's strong performing offerings, \$1.5 billion in Legg Mason stock

Separate Asset Management Brand

Integrated Asset Managers/Distributors Seek Third Party Distribution

- Morgan Stanley/Van Kampen
 - Acquired in 1996
 - -\$8,598 million in 2005 net flows for Morgan Stanley Funds versus +\$3,495 million for Van Kampen Funds
- Lehman Brothers/Neuberger Berman
 - Acquired Neuberger Berman in 2003
 - Selling as separate, established brand in wirehouses
- American Express
 - Spun out as from American Express as part of Ameriprise Financial
 - Rebrand investment manager as “RiverSource”
 - Maintain captive sales force of financial planners

Smaller Player Acquisitions

Divestiture of non-core asset management efforts

- Pioneer Investments acquisition of AmSouth's \$5.5 billion in mutual funds
- T. Rowe
 - TD Waterhouse's \$415 million in index funds
 - Caterpillar's \$2.9 billion in mutual funds
- American Century acquisition of Mason Street Funds \$1.7 billion in mutual funds

Fund Adoption Strategy

Selected mutual fund adoptions

<u>Acquired Fund</u>	<u>Rebranded Fund</u>	<u>Date Adoption Announced</u>	<u>AUM at time Adoption Announced (\$M)</u>	<u>AUM Dec-05 (\$M)</u>
GMO Global Balanced Allocation	Evergreen Asset Allocation	Sep-02	\$144	\$7,758
Pzena Focused Value	John Hancock Classic Value	Nov-02	\$20	\$4,796
Schroder International Smaller Companies	Vanguard International Explorer	Mar-02	\$26	\$2,282
U.S. Global Leaders Growth (Yaeger, Wood & Marshall)	John Hancock U.S. Global Leaders Growth	May-02	\$124	\$1,720
Thompson Plumb Balanced	Dreyfus Premier Balanced Opportunity	Oct-03	\$173	\$896
Davis Tax-Free High Income	Evergreen High Income Muni Bond	Dec-99	\$410	\$717
Turner Growth Equity	Vanguard Growth Equity	Mar-00	\$270	\$750
Cook & Bieler Mid Cap Value	Wells Fargo C&B Mid Cap Value	Mar-04	\$427	\$708

Source: FRC

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Conclusions

- Integration rationales for acquisitions in late 1990s have come under question
- Pressures toward open architecture leading to de-glomeration of large integrated brands
- Economies of scale leading to acquisitions and adoptions at smaller fund complexes