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DEAR FRIENDS, COLLEAGUES AND SHAREHOLDERS:

While 2016 was a generally difficult operating environment for financial services organizations broadly as active managers experienced a more difficult year for redemptions, capital raising was down across the board and equity commissions remained under pressure, we successfully advanced each of our businesses at Cowen.[1] Despite the fact that our financial results reflected broader industry challenges as well as a difficult year for investment income, 2016 was also a constructive year in which we made important strides towards positioning the organization for greater resilience in the years ahead. Specifically, we utilized the industry downturn to expand our platform in key areas as talented individuals, teams and businesses became available. The investment management business continued to attract interest in its differentiated alpha generating capabilities, the investment banking and brokerage businesses both gained market share in their respective markets, and we reached a broader audience with our new credit research and macro commentary products. Earlier this year, we announced two significant corporate transactions: (i) the proposed acquisition of Convergex, a leading agency-focused global brokerage and trading related services provider, and (ii) a strategic partnership with CEFC China, a highly-respected global organization with a broad portfolio of successful businesses in energy and finance. Both of these are discussed later in this letter.

The changing landscape highlights how a nimble firm like Cowen can make a difference by investing in its platform intelligently. During 2016 we invested approximately $24 million to attract and retain high quality investment professionals, underscoring our effort to invest in our core competencies. In addition to the May acquisition of the credit products, credit trading, special situations and emerging market businesses from CRT, we welcomed the policy team from the Washington Research Group in August. The addition of these groups added meaningfully to our content differentiation and their impact has enabled us to continue taking market share. In the fall, we also welcomed the merchant and investment banking teams from Morgan Joseph TriArtisan, which provided increased scale in investment banking and introduced a seasoned fundless private equity sponsor capability which we plan to scale in the coming years.

We are positioning Cowen to take advantage of the fact that the global capital markets are embroiled in a titanic battle between the value of active management and the allure of passive management. Our new Outperform™ brand crystalizes our mission at Cowen: we are intensely focused on clients who seek to outperform the markets, their peers and passive alternatives.

Since the financial crisis, the growth in passively managed funds has been meteoric, with many pundits predicting the inevitable demise of active management. We could not disagree more. In fact, assets under management in active funds have grown 54% since 2007.[2] Active management is not going away - it is just going to be different. The primary market participants in both the equity and credit markets are undergoing significant change. And where there is change, there is opportunity.

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[1] Paul Vigna, "Year in Review: IPOs Struggled Again in 2016," *The Wall Street Journal*, December 29, 2016, https://blogs.wsj.com/moneybeat/2016/12/29/year-in-review-ipos-struggled-again-in-2016/
[2] Paul Smith, "A New Perspective on the Active Passive Investing Debate," *Institutional Investor*, July 12, 2016, http://www.institutionalinvestor.com/blogarticle/3569487/blog/a-new-perspective-on-the-activepassive-investing-debate.html#.WPj1AWnyv0M

What is causing this change? In our opinion, it is simply that investors in actively managed funds are increasingly choosing not to overpay for beta-oriented return fee structures. If managers do not perform well, they are more likely to be replaced by passive product. If managers perform in line with market averages, they are also more likely to be replaced by passive product. To be sure, fees paid to long only and hedge fund firms are compressing just as the pressure on active managers to outperform their benchmarks has increased. In other words, the performance bar for us and for our clients has been significantly raised.

At Cowen, our belief is that only strong active managers will survive and prosper. In order to do so, they and their investors are increasingly reliant on the high quality products and services that we provide:

- Our Premium Quality, Collaborative and Insightful Equity, Credit and Policy Research continues to win critical acclaim from our clients

- Our Cutting Edge, Non-Conflicted, Independent Execution and Trading Services, which will be further enhanced by our pending acquisition of Convergex, provide clients with much needed liquidity as well as market structure insights

- Our Corporate Finance Advisory and Capital Raising capabilities enable our corporate clients to outperform their peer groups by engaging Cowen's corporate network as well as gaining valuable access to growth capital

- Our Differentiated Investment Strategies offered by our alternative investment platform continue to garner meaningful allocations from important investors who are willing to pay for high quality outperformance and risk-adjusted returns

Our corporate strategy should be judged not only by our market position but by how well we are accomplishing our lofty goals in each of these disciplines.

INVESTMENT MANAGEMENT BUSINESS

The broader alternative investment space continued to mature with the pace of AUM growth slowing to a 5.9% CAGR between 2014 through 2016 compared to an 8.1% CAGR between 2008 and 2014. Industry data indicates that there were $106 billion in outflows in 2016.[3] In addition, several major hedge funds closed in the year.

In contrast to the industry trend, our investment management platform had a productive year. We recruited new partners to the platform, launched new strategies and continued to attract blue chip investors across investment products. We raised approximately $600 million for emerging strategies such as event, equity long/short, global macro and distressed credit. We ended the year with $10.5 billion in assets under management (AUM), which included a $2.5 billion reduction in assets associated with the sale

[3] Barclays Hedge as of December 31, 3016.

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of our interest in the alternative solutions business. Excluding the sale, the investment management business grew AUM by $774 million over the prior year. We successfully launched a consumer long-short strategy in May 2016. During the year, we announced a partnership with our newest affiliate, a woman-owned long/short equity strategy, which launched in October. We also launched our first UCIT (an investment fund regulated by the EU) for the merger arbitrage strategy which opened new avenues of asset growth and greatly expanded our geographic footprint.

INVESTMENT BANKING BUSINESS (COWEN AND COMPANY)

The fact that our primary markets at Cowen and Company have not been growing meaningfully over the past few years is exactly why we are investing in areas where we can expand market share, create scale and eliminate costs. Acquisitions like the ones we made in 2015 (prime services) and 2016 (credit research and trading) along with a pending acquisition in 2017 (global equity trading) are recent examples. Weaker, smaller competitors, who offer clients little value or differentiation, continue to lose share in many of the businesses where we excel, and our market share gains are evident of our position.

While we performed well in the areas in which we compete, we were not immune to the broader market slowdown for financings. Fees from our equity and debt capital markets business declined 46% from the record level achieved in the prior year. Our advisory business experienced solid growth, especially in areas such as technology which performed quite well. The addition of several bankers with M&A experience during the year created significant momentum with the team entering 2017 with our strongest M&A backlog in recent memory.

In 2016, we broadened our research coverage to include credit and cross capital and macro commentaries. At year-end, we had 745 stocks under coverage and 150 names covered in credit. The Washington Research Group, who joined in August, is well regarded by buy side portfolio managers and added macro commentary to our already vaunted fundamental research. In our brokerage business, core equities revenue - which includes cash equities, electronic trading, special situations, options and convertible trading - increased 7% in 2016. Our new credit business, which was on our platform for nearly eight months in 2016, generated 19% of its revenue from Cowen's distribution network. Cross selling opportunities are increasingly commonplace.

LOOKING FORWARD

We believe that well-capitalized financial services companies not only have staying power in challenging markets, but are poised to take advantage of dislocation as it is occurring. In the current regulatory environment, critical mass matters more than ever. As such, in April of this year we announced our plan to acquire Convergex. Convergex has a diverse service offering in equity sales and electronic trading, commission management, prime services and global clearing. The combination of Convergex's best-in-class global execution capabilities with Cowen's high quality research sales platform, will create a leading independent, non-conflicted trading platform and positions Cowen as a key equity market liquidity provider for clients.

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We also recently announced a strategic partnership with CEFC China. Our agreement to sell 19.9% of our common equity to CEFC China is an example of a unique business development opportunity that will advance Cowen's goal to broaden our capabilities to serve clients through our areas of expertise: investment banking, equities, research and investment management. Our companies have complementary functional expertise, industry focus, geographic coverage and business networks. This strategic partnership will provide capital to scale businesses that are more capital intensive like securities lending and leveraged finance, and will provide for long-term growth initiatives such as further developing Cowen's advisory practice related to outbound investments (capital raising and M&A advice) and asset management distribution in China.

With $1 billion in total capital,[4] we have the flexibility to optimize capital deployment that will fuel shareholder value in the years ahead. We will continue to look for ways to optimize our balance sheet by taking into account the capital needs of our businesses and the desire of shareholders to have capital returned to them.

If 2016 was about hiring the best talent, driving our core businesses, and creating platform synergies through accretive acquisitions, then 2017 is about nurturing these investments and directing our energy toward those areas where we believe we can have the greatest impact. That is what we intend to do.

Finally, in the coming weeks and months we will be moving the organization to a single identity under the banner "Cowen" which will better maximize the resources across the entire platform.

I would like to express my deepest gratitude to my colleagues at Cowen. Their unwavering commitment to our organization gives me great confidence about what we can achieve together.

To our clients, shareholders, bondholders and others: Thank you for your ongoing support.

Sincerely,

PETER A. COHEN
Chairman and Chief Executive Officer

[4] Prior to the CEFC investment