Viability Study:

Exchange Traded Structured Products.
Exchange Traded Strategies.

Winter 2013

TABLE OF CONTENTS

SECTION 1:

INTRODUCTION & METHODOLOGY

OVERVIEW

- Investigation conducted exclusively for ETS and Wealth Management.
- Methodology, data collection and analysis by Penton Research, the research arm of Penton Media, parent company of Wealth Management.
- Data collected January 10, 2013, through February 18, 2013.
- Methodology conforms to accepted marketing research methods, practices and procedures.

OBJECTIVES

- Investigate the familiarity with and use of Exchange Traded Products and Structured Products.
- Determine the interest level of a new product that offers qualities found in both ETFs and Structured Products.
- Compare two positioning strategies for the new product and determine which is most effective to engage advisor interest.
- Obtain key demographics of advisors.

METHODOLOGY

- On January 10, 2013, Penton Research emailed invitations to participate in an online survey to members of the Wealth Management database.
- By February 18, 2013, Penton Research received 449 completed surveys. Of those, 371 met pre-determined qualifications. The data presented in the report is based on qualified respondents who answered each question.

RESPONSE MOTIVATION

- To encourage prompt response and increase the response rate overall, the following marketing research techniques were used:
  - A drawing was held for three $100 American Express gift cards.
  - A live link was included in the e-mail invitation to route respondents directly to the online survey.
  - Reminder emails were sent to non-respondents on January 16 and February 14, 2013.

SECTION 2:

KEY FINDINGS

- A variety of firm types are represented in the sample, including wirehouse/national firms (35%), independent broker/dealers (25%), and RIAs (22%).
- Respondents have been with their current firm an average 10.0 years. Respondents who had been with their firm less than one year were not qualified to answer the survey.
- Respondents have an average $212.9 million in investable assets. Only respondents with $50 million or more in investable assets ($75 million among wirehouse advisors) qualified to answer the survey.
- The largest portion of income is from fees (51%), followed by commissions (38%). Income structure varies by channel, as those from RIA firms have a higher average percentage of income from fees (68%), while those from regional and independent firms have a higher percentage of income from commissions (52% and 48%, respectively).
- Respondents are likely to be at least somewhat familiar with Structured Products. In fact, 44% are extremely or very familiar.
- The majority of respondents indicate their firm provides access to Structured Products. Wirehouses are most likely to provide access at 94%, while only 43% of RIAs provide access to Structured Products.
- Structured Products are not widely used among advisors. The majority of advisors who currently have access to Structured Products only offer to some clients, or when the clients specifically request them. Those who currently do not have access would offer only to some clients or upon clients' request if the product were made available.
- On average, 10% of clients have purchased a Structured Product in the last 24 months. Advisors indicate that an average 6% of total assets under management are in the form of Structured Products.
- Advisors are most likely to point to the complex nature of Structured Products as a deterrent to offering them to clients. A lack of client interest, lack of trust/transparency and illiquidity are also cited as reasons for not offering the product. Thirty percent of advisors prefer to focus on actively managed solutions.
- Improvements to the platform for Structured Products would lead to increased sales. In particular, improved liquidity, increase transparency, lower fees and lower risks would result in an increase in sales.
- Respondents are likely to be very or extremely familiar with ETFs. In fact, a majority of respondents from wirehouses (55%) and RIAs (65%) are extremely familiar with ETFs.

SECTION 2:

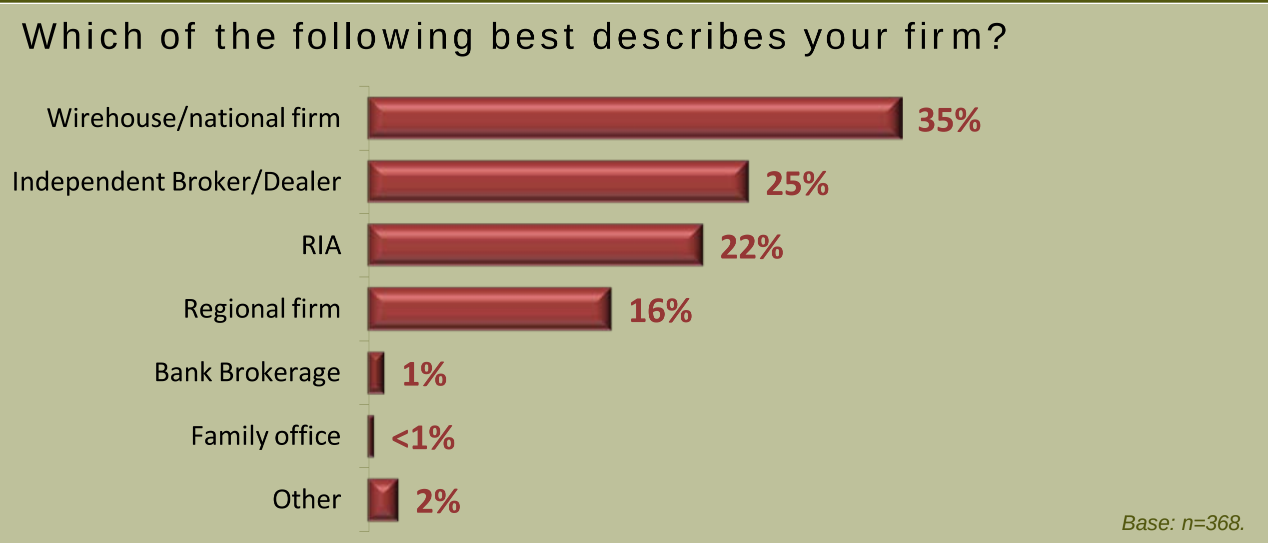
KEY FINDINGS

- ETF compensation is primarily fee-based, particularly among wirehouse, independent and RIA respondents. Nearly half of regional advisors are compensated for ETFs through a commission structure, however, this group has a higher level of commission in general (52%, compared to 38% for the entire audience).
- ETF usage is more prevalent than the use of Structured Products. An average 27% of clients have purchased an ETF in the past 24 months. Overall, an average 16% of AUM is held in the form of an ETF. RIA respondents have the highest use of ETFs, with an average 40% of clients purchasing an ETF in the past year. Nearly one-fourth of assets under management are in the form of an ETF for this group.
- Respondents have similar interest in learning about the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Respondents from independent firms are most likely to be interested in learning more about the product positioned as an ETSP, while RIA respondents are most interested in the ETS positioning.
- Respondents have similar interest in selling the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Independent advisors are most likely interested in selling the new product.
- The liquidity and easy access to sophisticated products are the most compelling aspects of the new product. As the “Exchange Traded Strategy” description specifically mentions maturity timeframes, the “liquidity” aspect is not as compelling. Increased liquidity and transparency are most likely to result in increase sales of Structured Products.
- Respondents are likely to be interested in selling the “Exchange Traded Structured Product” relative to Structured Products currently available. The interest in “Exchange Traded Strategies” is not as strong relative to currently offered ETFs, likely a result of the popularity and use of ETFs.
- Respondent interest is more likely to be piqued when the compensation for the ETSP product is aligned with that to ETFs than the ETS product. However, the interest in the ETS offering was higher initially than that for the ETSP offering.
- For both the ETSP positioning and the ETS positioning, interest is higher if the issuer is a major existing ETF issuer
- Across all channels, respondents are more likely to be interested in a new product issued by a major existing firm. Wirehouse respondents are most likely willing to sell an Exchange Traded Structure Product offered by a new company founded by industry professionals.
- The majority of respondents believe their firm would be at least somewhat interested in distributing the new product based on both positioning descriptions. In fact, the positioning used does not significantly change the expected firm interest.

SECTION 3:
SURVEY RESPONSES

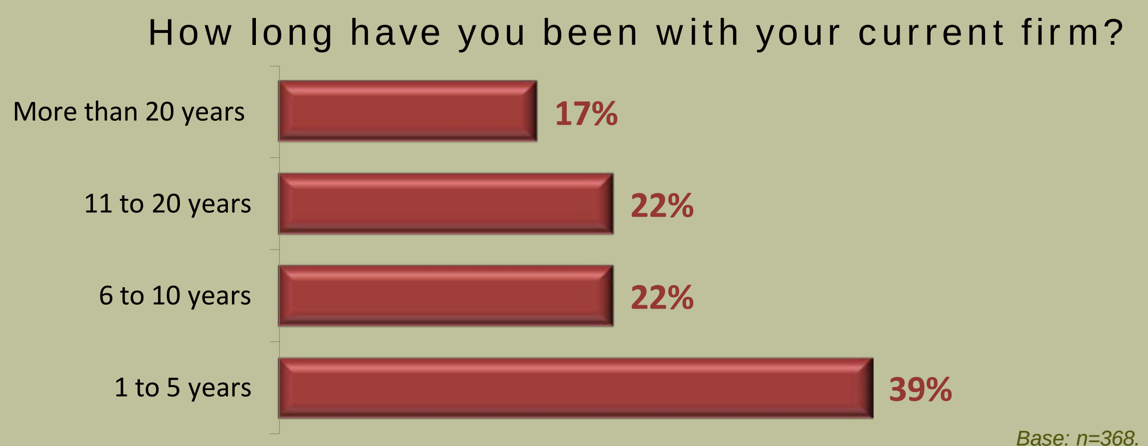
3.1 Channel

A variety of firm types are represented in the sample, including wirehouse/national firms (35%), independent broker/dealers (25%), and RIAs (22%).



3.2 Time with current firm

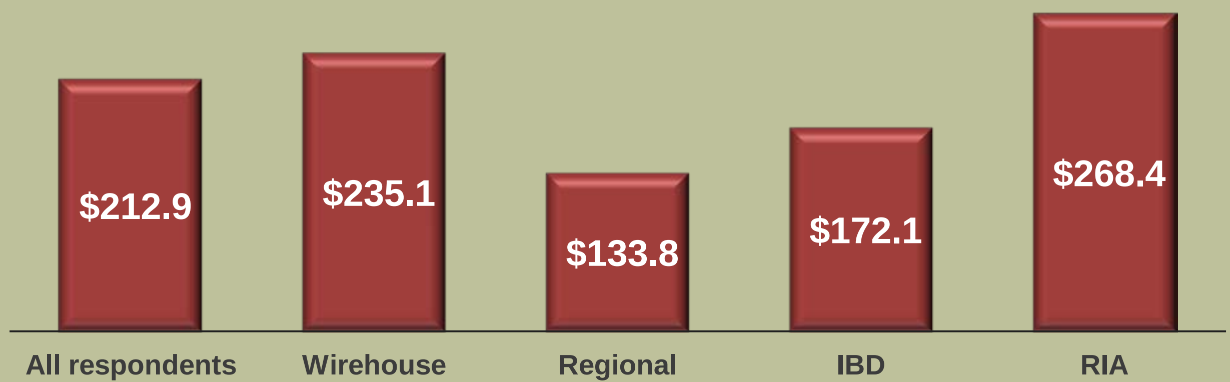
Respondents have been with their current firm an average 10.0 years. Respondents who had been with their firm less than one year were not qualified to answer the survey.



3.3 AUM and income sources

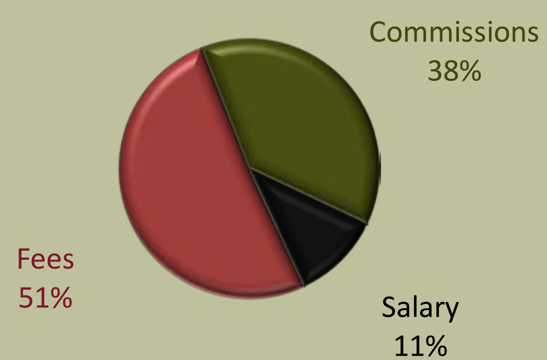
Respondents have an average $212.9 million in investable assets. Only respondents with $50 million or more in investable assets ($75 million among wirehouse advisors) qualified to answer the survey. The largest portion of income is from fees (51%), followed by commissions (38%). Income structure varies by channel, as those from RIA firms have a higher average percentage of income from fees (68%), while those from regional and independent firms have a higher percentage of income from commissions (52% and 48%, respectively).

How much in investable assets does your team manage (or you alone if you are a solo practitioner)?
(Average AUM for each channel is presented below)



Base: n=368.

Approximately what percentage of your income comes from each of the following sources?

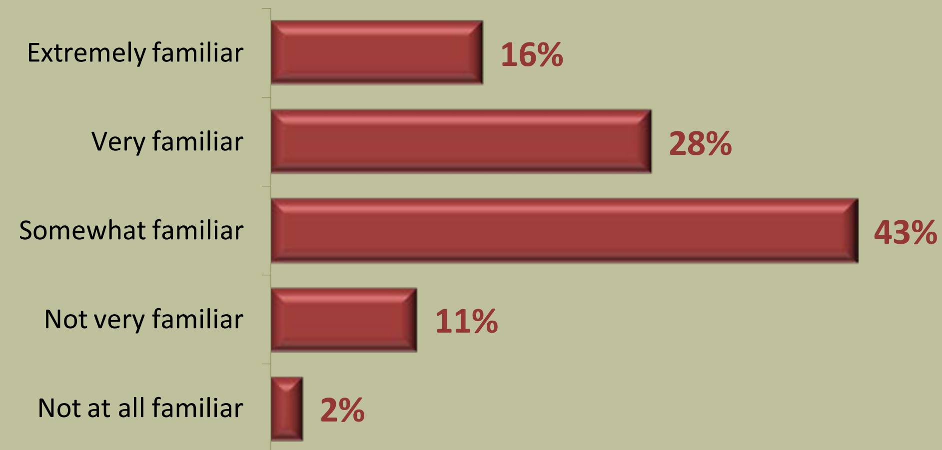


Base: n=365.

3.4 Familiarity with Structured Products

Respondents are likely to be at least somewhat familiar with Structured Products. In fact, 44% are extremely or very familiar.

How familiar are you with Structured Products?

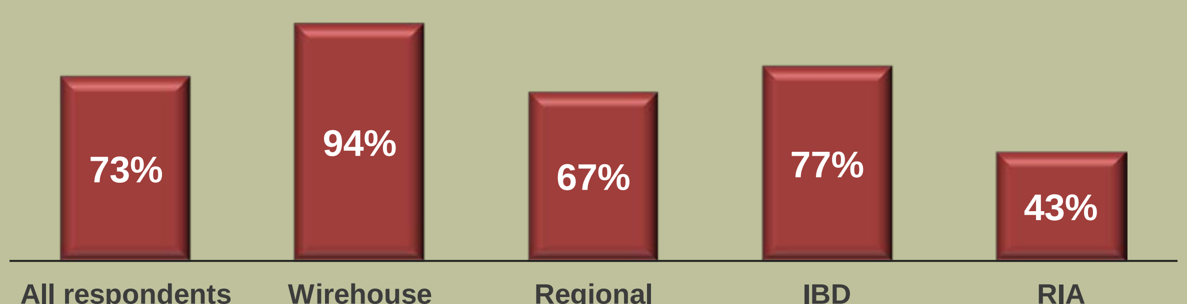


Base: n=371.

3.5 Structured Products offering

The majority of respondents indicate their firm provides access to Structured Products. Wirehouses are most likely to provide access at 94%, while only 43% of RIAs provide access to Structured Products.

Does your current firm provide access to Structured Products (either issued in-house or issued by a 3rd party) you can offer your clients? **(Percent indicating "yes" are presented for each channel.)**

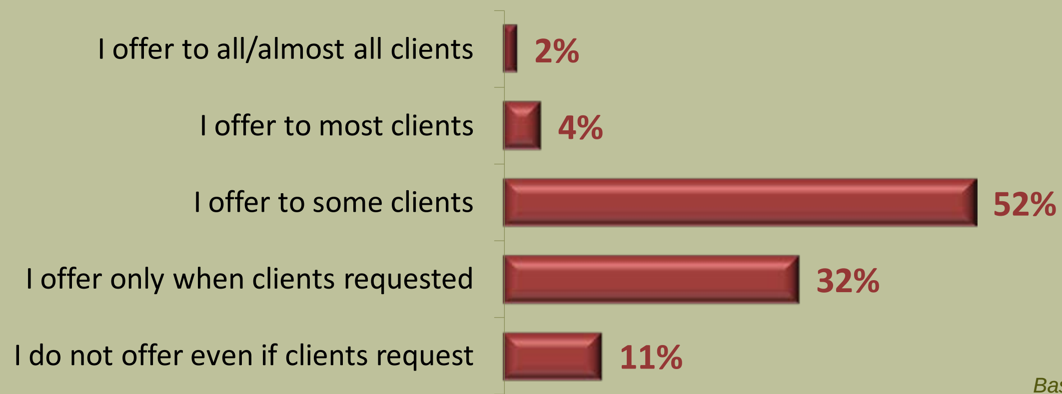


Base: n=371.

3.6 Use of Structured Products

Structured Products are not widely used among advisors. The majority of advisors who currently have access to Structured Products only offer to some clients, or when the clients specifically request them. Those who currently do not have access would offer only to some clients or upon clients' request if the product were made available.

Which of the following best describes your approach to offering Structured Products to your clients?



Base: n=270.

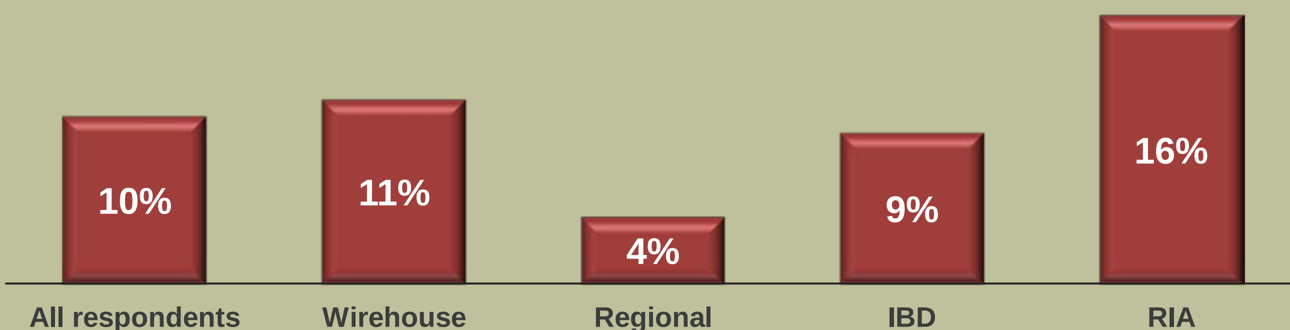
If your firm were to provide access to Structured Products, which of the following would best describes your approach to offering them to your clients?

Base: n=99

3.7 Use of Structured Products (…continued)

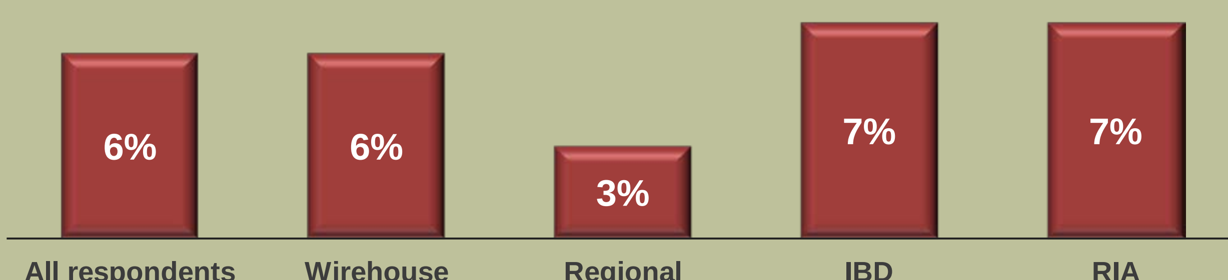
On average, 10% of clients have purchased a Structured Product in the last 24 months. Advisors indicate that an average 6% of total assets under management are in the form of Structured Products.

Approximately what percentage of your client base has purchased a Structured Product through you in the last 24 months?
(Average for each channel is presented below)



Base: n=239.

Approximately what percentage of your total assets under management is held in the form of Structured Products?
(Average for each channel is presented below)



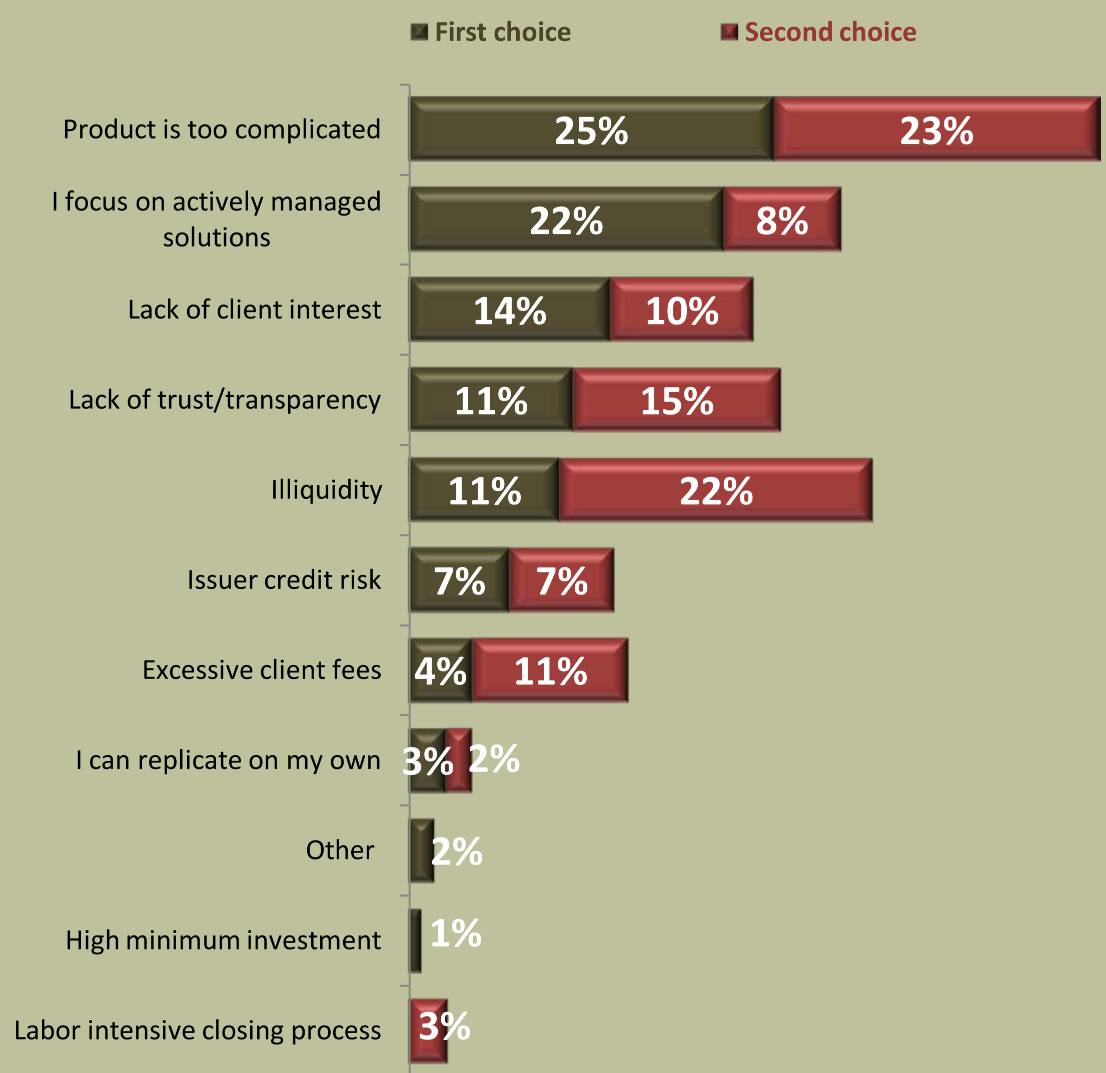
Base: n=238.

WealthManagement.com
The digital resource of REP. and TRUSTS & ESTATES

3.8 Structured Products challenges

Advisors are most likely to point to the complex nature of Structured Products as a deterrent to offering them to clients. A lack of client interest, lack of trust/transparency and illiquidity are also cited as reasons for not offering the product. Thirty percent of advisors prefer to focus on actively managed solutions.

What are the most important reasons you do not proactively offer Structured Products to your clients?

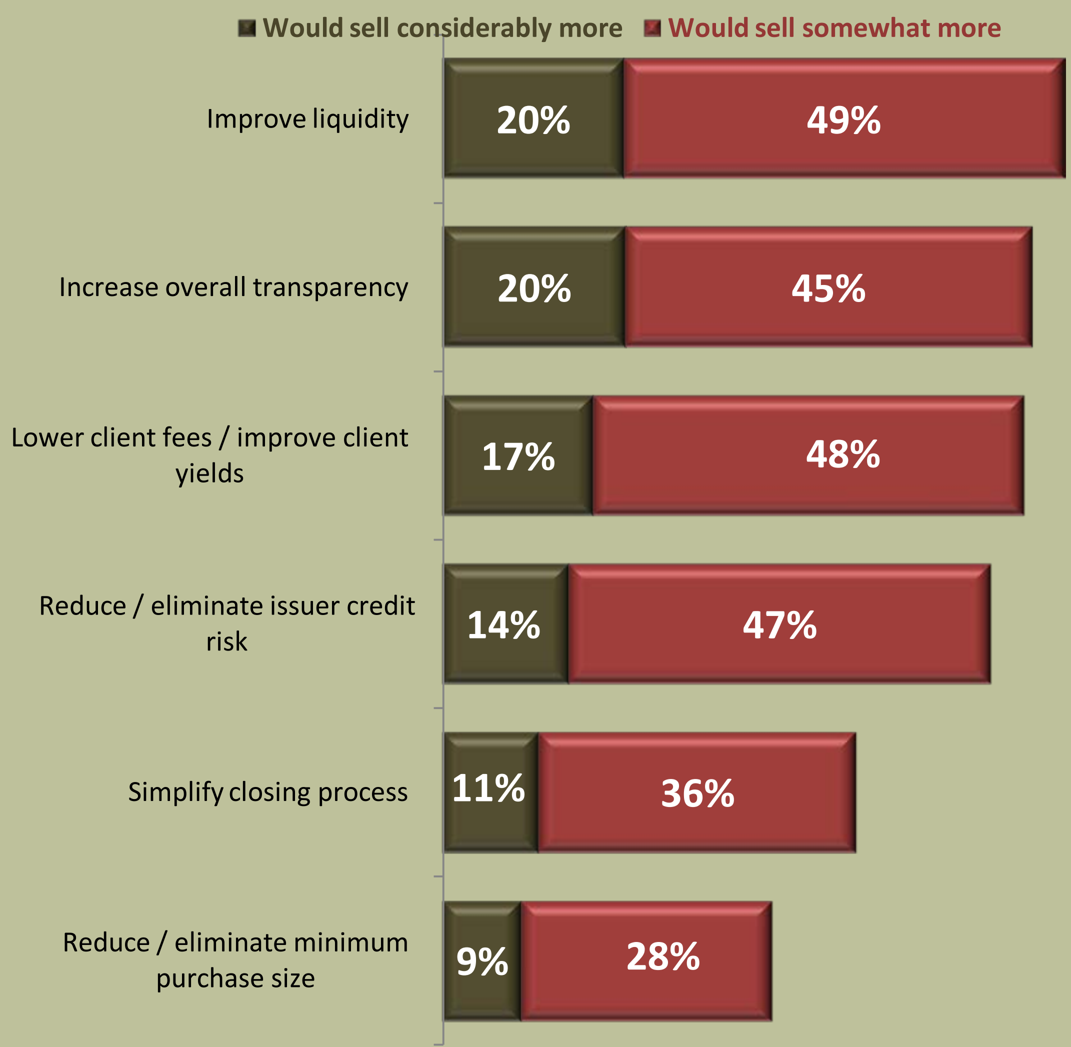


Base: n=114.

3.9 Desired improvements to Structured Products

Improvements to the platform for Structured Products would lead to increased sales. In particular, improved liquidity, increase transparency, lower fees and lower risks would result in an increase in sales.

How much more Structured Product would you sell if the following changes were made to the Structured Products platform at your firm?

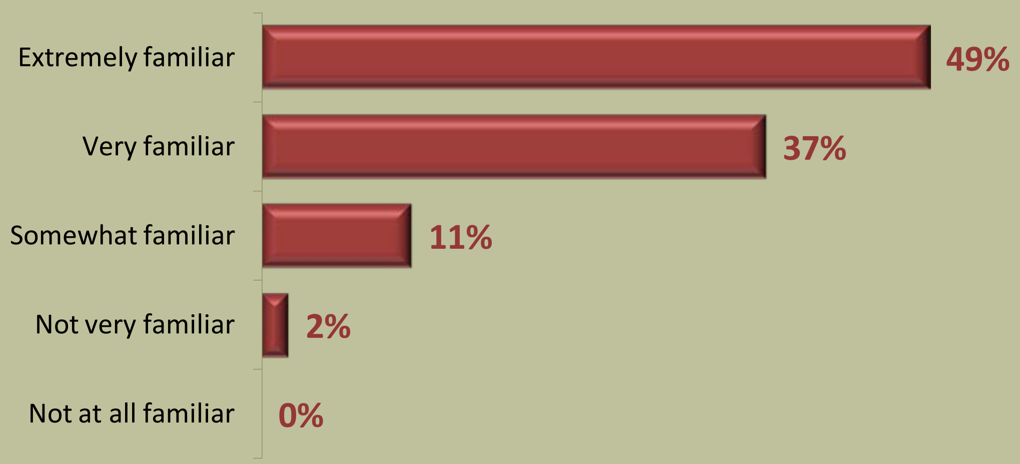


Base: n varies by row, from 260 to 263.

3.10 Familiarity with ETFs

Respondents are likely to be very or extremely familiar with ETFs. In fact, a majority of respondents from wirehouses (55%) and RIAs (65%) are extremely familiar with ETFs.

How familiar are you with Exchange Traded Funds ("ETFs")?

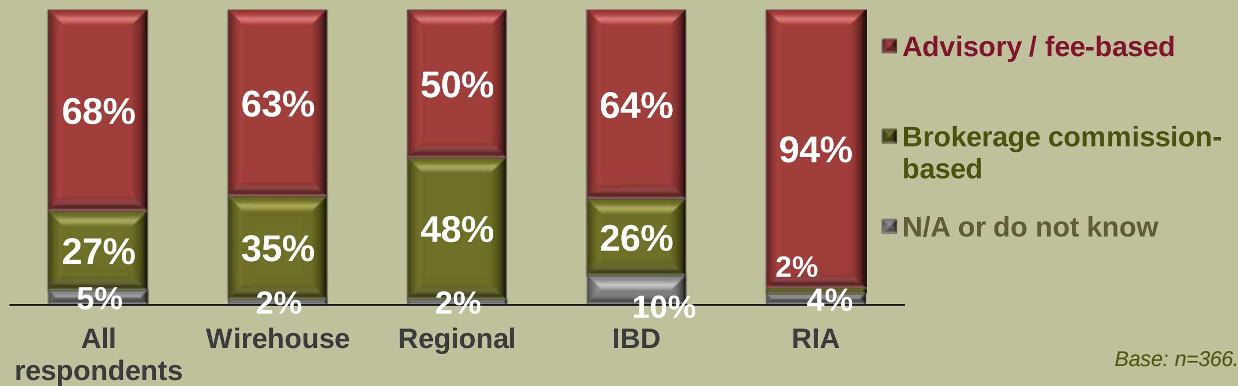


Base: n=368.

3.11 ETF compensation

ETF compensation is primarily fee-based, particularly among wirehouse, independent and RIA respondents. Nearly half of regional advisors are compensated for ETFs through a commission structure, however, this group has a higher level of commission in general (52%, compared to 38% for the entire audience).

How are you typically compensated for your sales of ETFs?

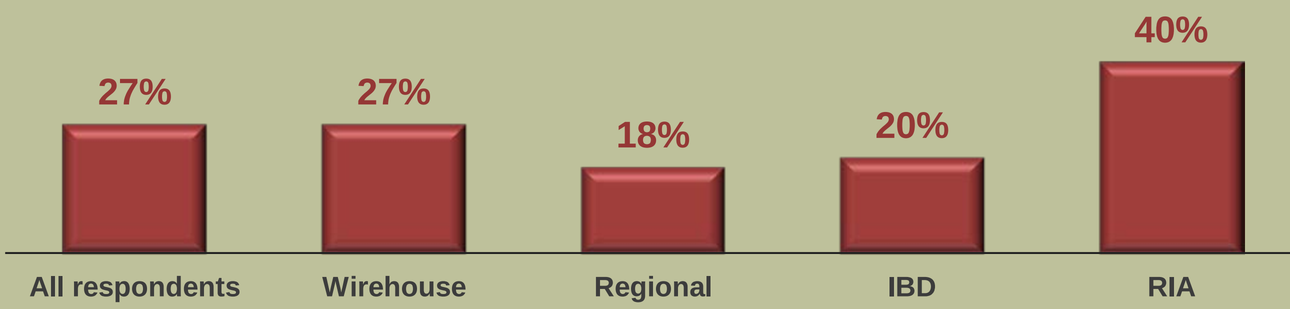


Base: n=366.

3.12 Use of ETFs

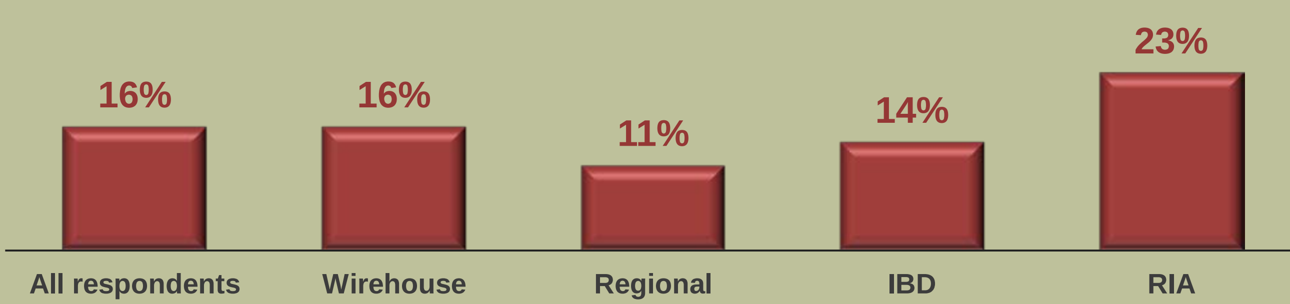
ETF usage is more prevalent than the use of Structured Products. An average 27% of clients have purchased an ETF in the past 24 months. Overall, an average 16% of AUM is held in the form of an ETF. RIA respondents have the highest use of ETFs, with an average 40% of clients purchasing an ETF in the past year. Nearly one-fourth of assets under management are in the form of an ETF for this group.

Approximately what percentage of your client base has purchased an ETF through you in the last 24 months?
(Average for each channel is presented below)



Base: n=367.

Approximately what percentage of your total assets under management is held in the form of an ETF?
(Average for each channel is presented below)

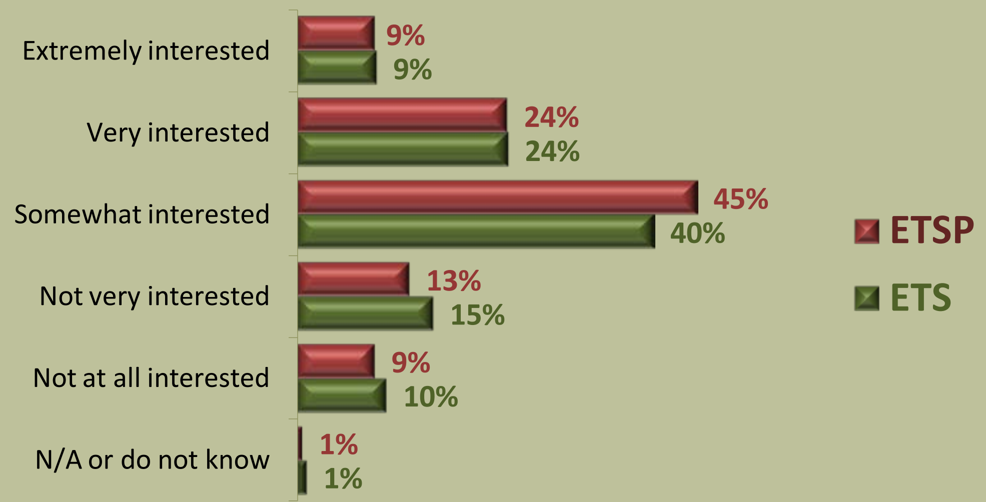


Base: n=365.

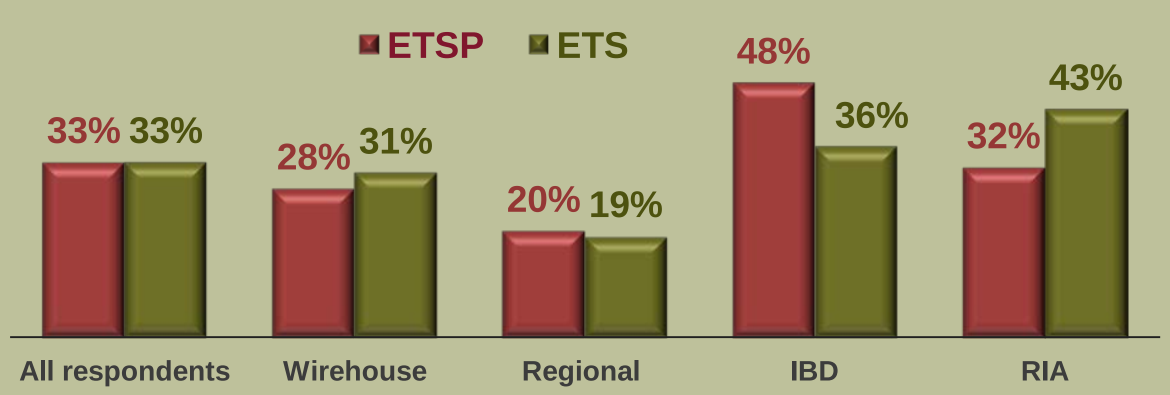
3.13 Interest in learning more about proposed product

Respondents have similar interest in learning about the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Respondents from independent firms are most likely to be interested in learning more about the product positioned as an ETSP, while RIA respondents are most interested in the ETS positioning.

What is your overall interest in learning more about Exchange Traded Structured Products/Exchange Traded Strategies?



Percent indicating "extremely" or "very" interested presented by channel.

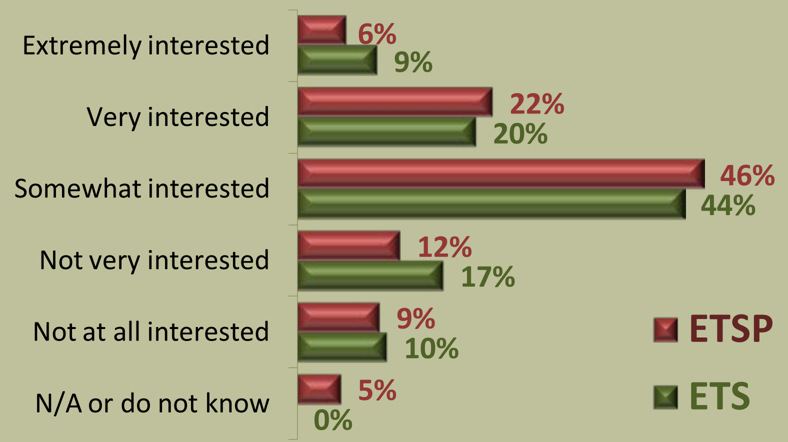


Base for both charts: n=181 (ETSP) and 188 (ETS).

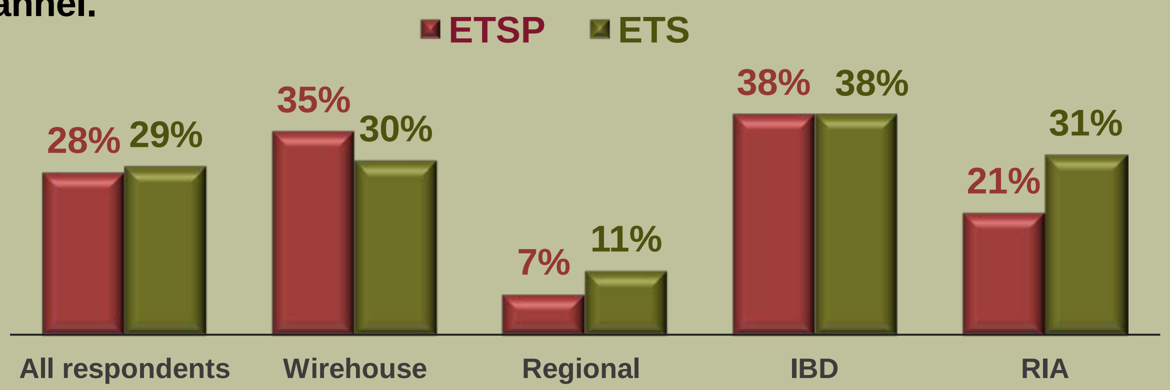
3.14 Interest in selling proposed product

Respondents have similar interest in selling the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Independent advisors are most likely interested in selling the new product.

From the limited information presented to you, what is your overall interest in selling Exchange Traded Structured Products/Exchange Traded Strategies?



Percent indicating "extremely" or "very" interested presented by channel.

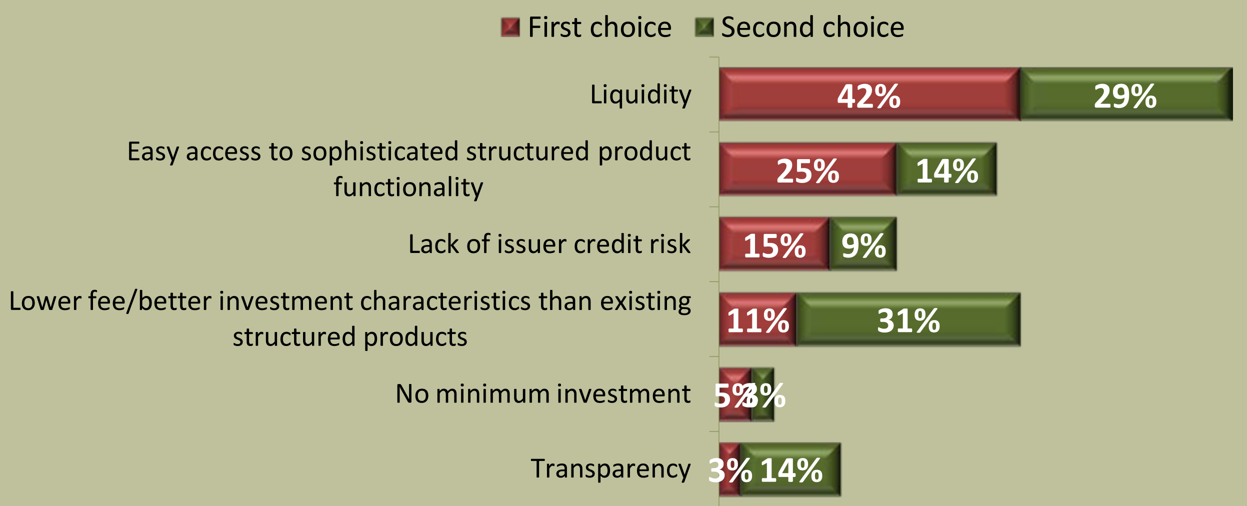


Base for both charts: n=180 (ETSP) and 187 (ETS).

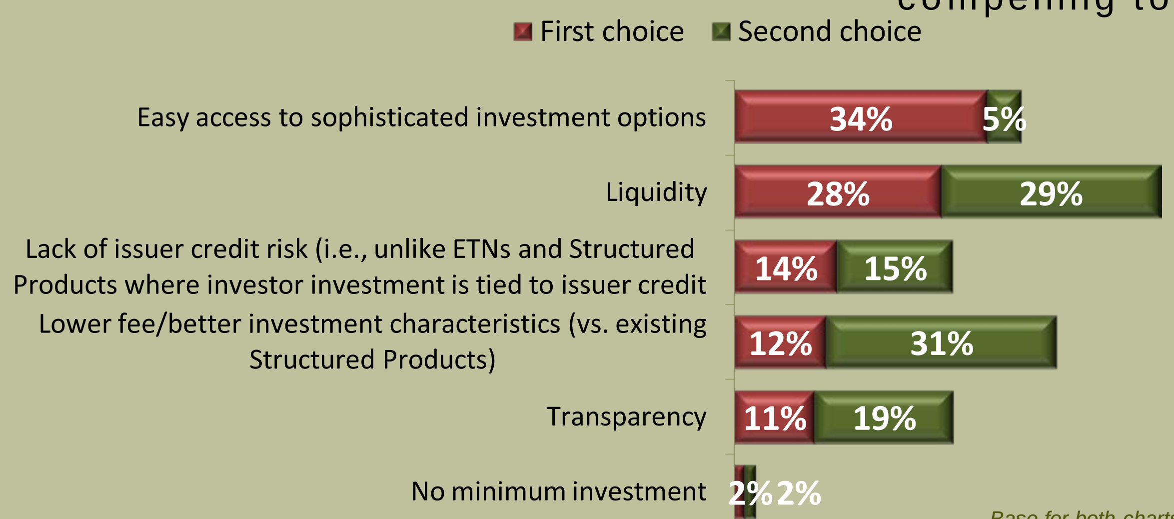
3.15 Most compelling aspects of new product

The liquidity and easy access to sophisticated products are the most compelling aspects of the new product. As the "Exchange Traded Strategy" description specifically mentions maturity timeframes, the "liquidity" aspect is not as compelling. As mentioned on slide 12, increased liquidity and transparency are most likely to result in increase sales of Structured Products.

What about Exchange Traded Structured Products seems most compelling to you?



What about Exchange Traded Strategies seems most compelling to you?

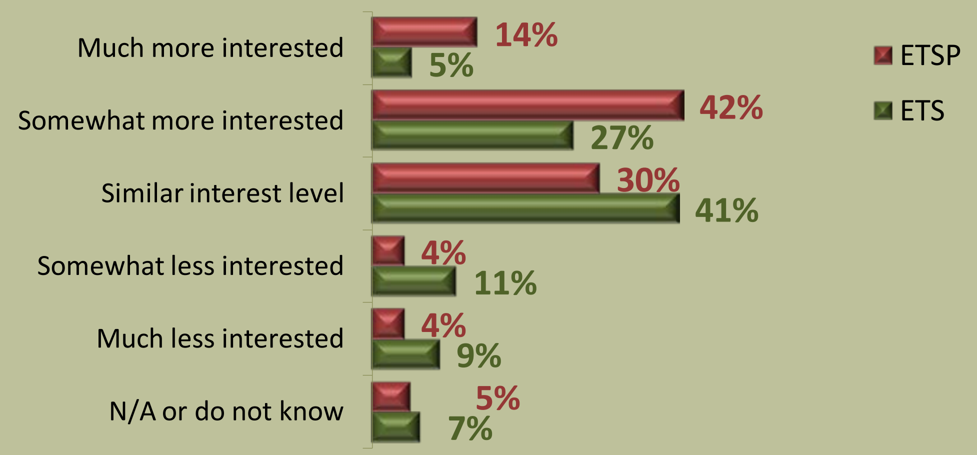


Base for both charts: n=65.

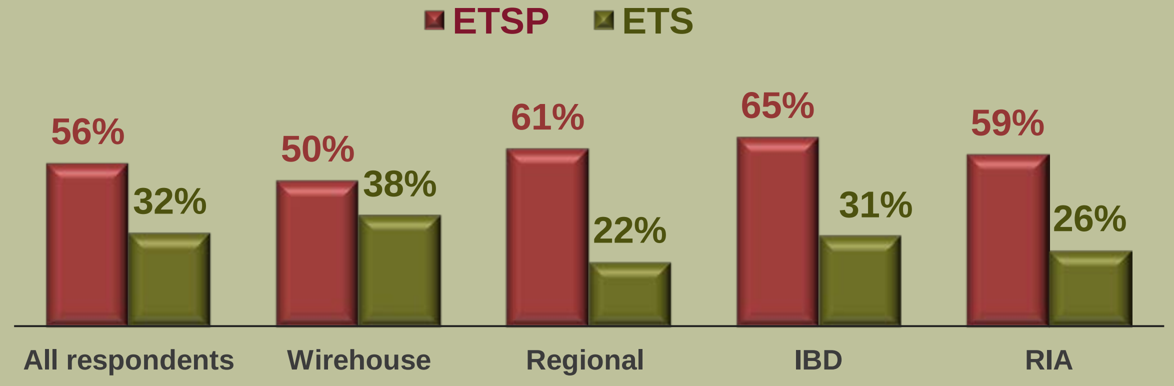
3.16 Relative interest in new product

Respondents are likely to be interested in selling the “Exchange Traded Structured Product” relative to Structured Products currently available. The interest in “Exchange Traded Strategies” is not as strong relative to currently offered ETFs, likely a result of the popularity and use of ETFs.

From the limited information presented to you, what is your overall interest in selling Exchange Traded Structured Products/Exchange Traded Strategies relative to the current Structured Products/ETFs available to you today?



Percent indicating “much” or “somewhat” more interested presented by channel.

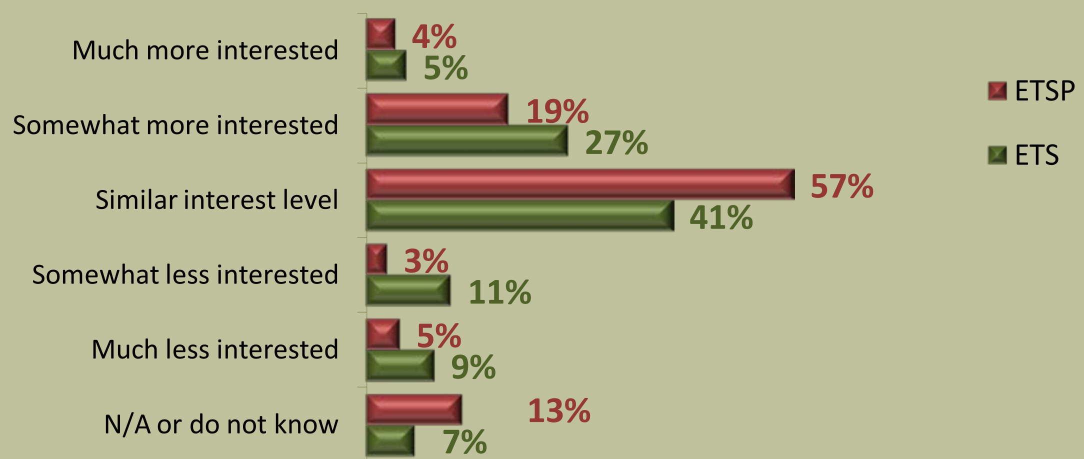


Base for both charts: n=135 (ETSP) and 186 (ETS).

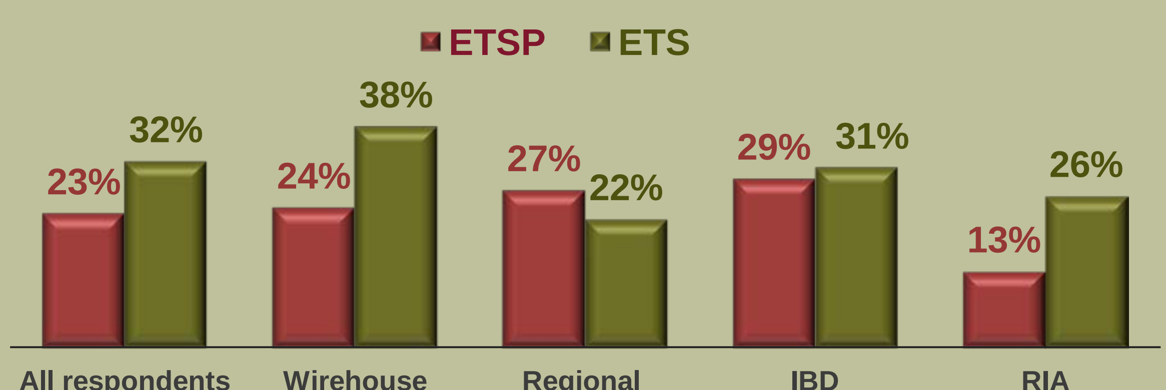
3.17 Change in product offering interest as a result of compensation strategy

Respondent interest is more likely to be piqued when the compensation for the ETSP product is aligned with that to ETFs than the ETS product. However, the interest in the ETS offering was higher initially than that for the ETSP offering.

If your compensation for distributing Exchange Traded Structured Products/Exchange Traded Strategies was similar to your current ETF compensation, how would that affect your overall interest in selling?



Percent indicating "much" or "somewhat" more interested presented by channel.

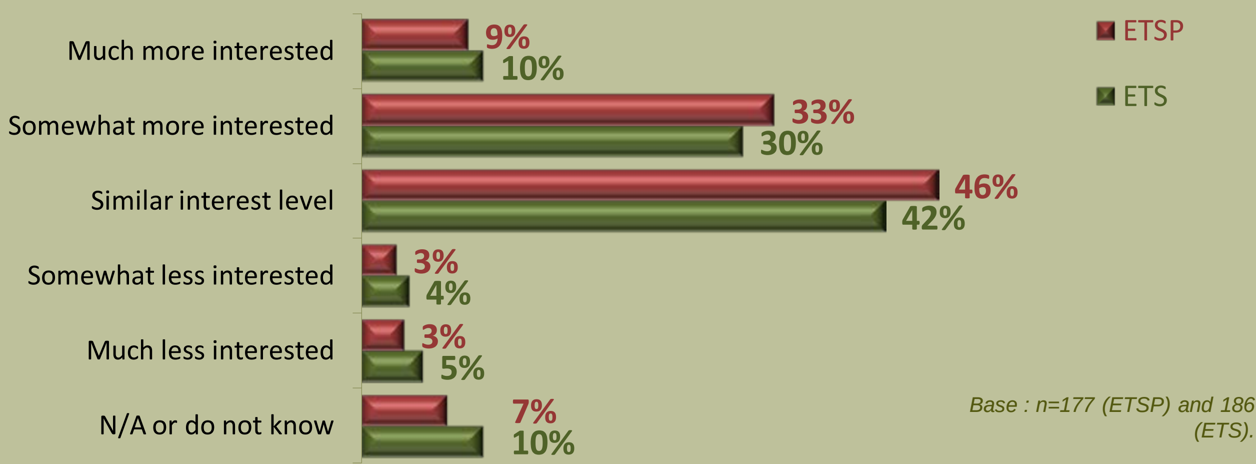


Base for both charts: n=179 (ETSP) and 188 (ETS).

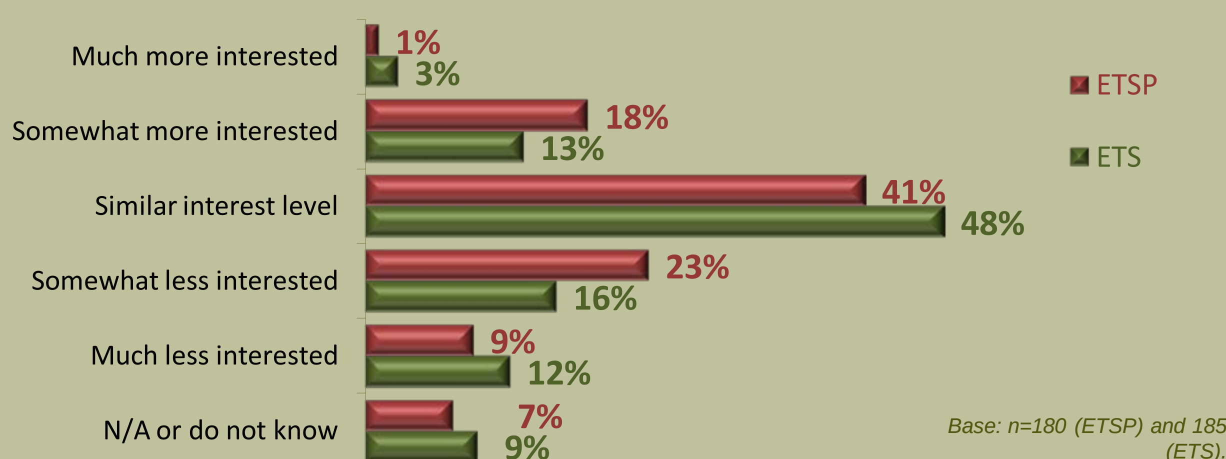
3.18 Importance of issuer

For both the ETSP positioning and the ETS positioning, interest is higher if the issuer is a major existing ETF issuer

If the issuer for Exchange Traded Structured Products is a major existing Exchange Traded Fund issuer, how would that affect your overall interest in selling?



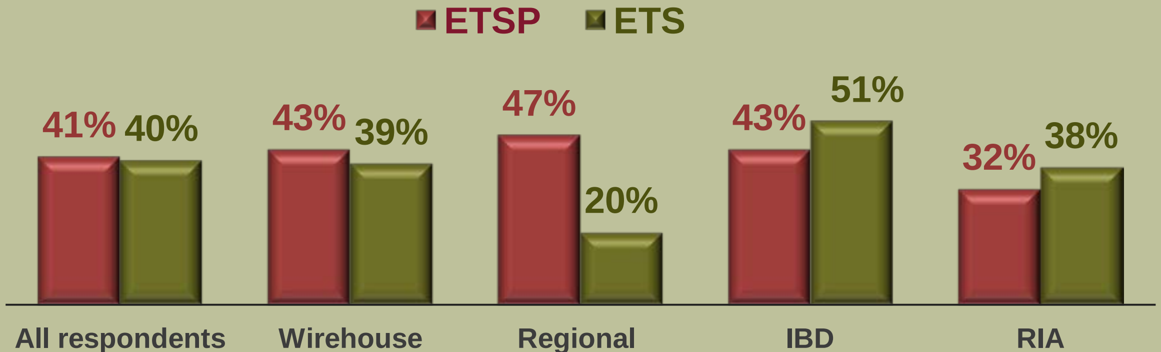
If the issuer for Exchange Traded Strategies is a new company founded by industry professionals, how would that affect your overall interest in selling?



3.19 Importance of issuer by channel

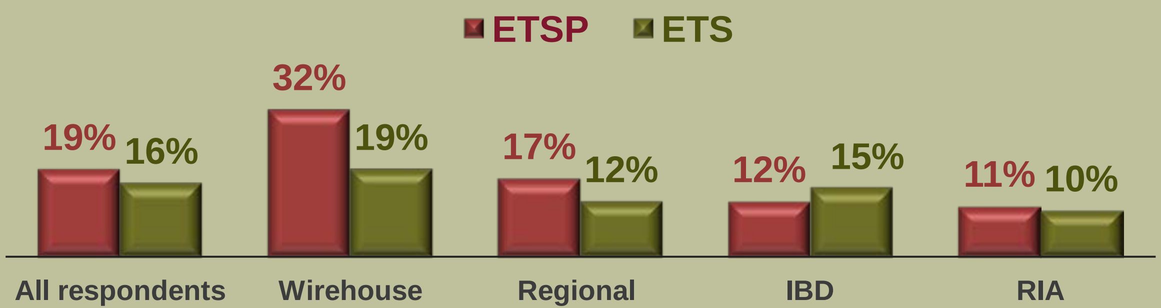
Across all channels, respondents are more likely to be interested in a new product issued by a major existing firm. Wirehouse respondents are most likely willing to sell an Exchange Traded Structure Product offered by a new company founded by industry professionals.

If the issuer for Exchange Traded Structured Products/ Exchange Traded Strategies is a major existing Exchange Traded Fund issuer, how would that affect your overall interest in selling? **Percent indicating "much" or "somewhat" more interested presented by channel.**



Base : n=177 (ETSP) and 186 (ETS).

If the issuer for Exchange Traded Structured Products/ Exchange Traded Strategies is a <u>new company</u> founded by industry professionals, how would that affect your overall interest in selling? **Percent indicating "much" or "somewhat" more interested presented by channel.**

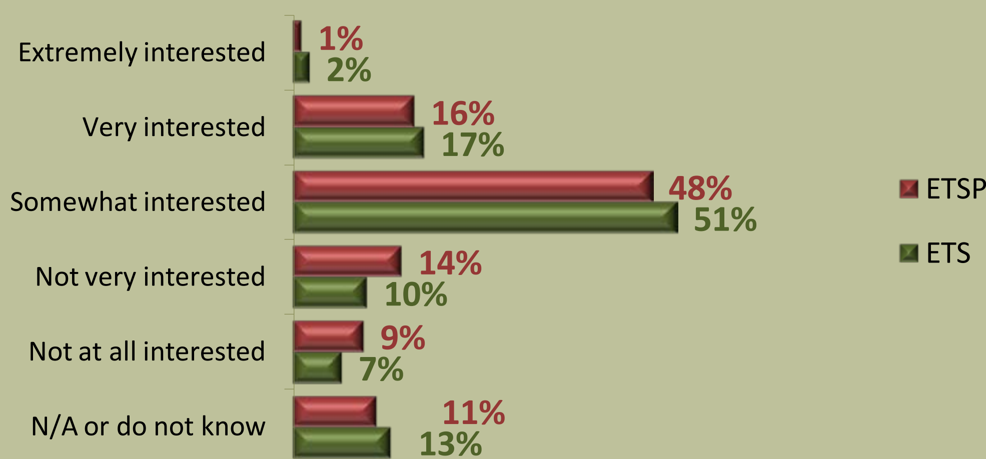


Base: n=180 (ETSP) and 185 (ETS).

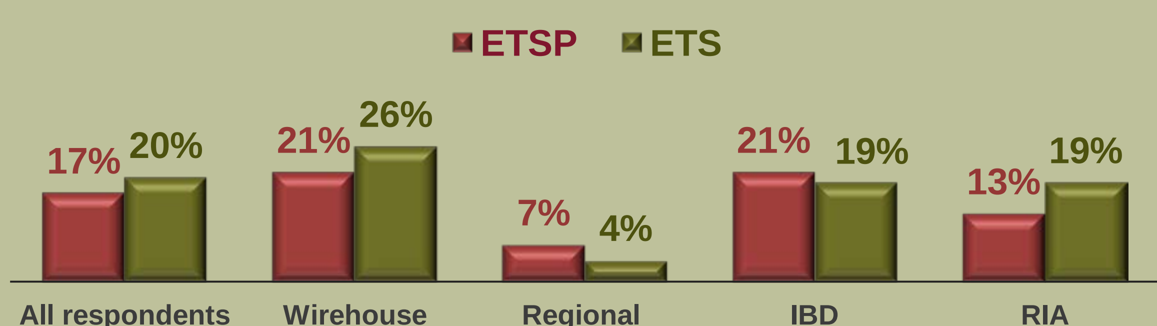
3.20 Predicted firm interest in new product

The majority of respondents believe their firm would be at least somewhat interested in distributing the new product based on both positioning descriptions. In fact, the positioning used does not significantly change the expected firm interest.

From the limited information presented to you, what do you think your firm's overall interest in distributing Exchange Traded Structured Products/Exchange Traded Strategies would be?



Percent indicating "extremely" or "very" interested presented by channel.



Base: all respondents; (n=405).

WRITE-IN RESPONSES

Which of the following best describes your firm? Other responses:

Bank
Deutsche Bank AWM
Hybrid RIA with B/D affiliation
Institutional money manager
Insurance 403B
Life insurance and annuity sales and service

Please specify the broker dealer with which you are affiliated.

Aegis capital
American Portfolios – 2 mentions
Ameriprise – 6 mentions
Avant-Garde Advisors LLC
Baird
Berthel Fisher
Cadaret Grant
Cambridge Investment Research – 3 mentions
CapFinancial Partners, LLC (dba CAPTRUST)
Capital Investment Group
Capstan Financial Consulting Group
Centaurus Financial, Inc.
Centennial Securites LLC
Cetera – 4 mentions
Cetera Adviser Networks – 4 mentions
Cetera Financial Specialists
Charles Schwab – 4 mentions
Commonwealth Advisors, Inc.
Commonwealth Financial Network
D A Davidson & Co
Edward Jones – 24 mentions
Ensemble Financial – 2 mentions
Fidelity – 2 mentions
Fidelity and Schwab
Fidelity for RIA custody; PKS for B/D
Fifth Third
Financial Network Investment Corp--Cetera
FINET
Fintegra
First Allied – 3 mentions
First Financial Equity Corp.
Gates Capital Corporation
Gbs financial corp
Geneos
Girard Securities
GuideStone
H. Beck, Inc.
Hazard & Siegel
Hennion & Walsh, Inc
Hickman Asset Management, LLC
Hilliard Lyons
Integrity Investments, Inc
Interactive Brokers
Invest Financial Corp but soon to be Girard Securities
Janney Montgomery Scott – 3 mentions
jeffrey matthews financial group llc
JPM – 2 mentions
Kovitz Securities
LeafHouse Financial Advisors, LLC
Legend Equities
LFA
Lincoln Financial – 3 mentions
LPL – 4 mentions
LPL Financial – 4 mentions
Merrill Lynch – 24 mentions
Mid America
Monte Marti
Morgan Stanley – 50 mentions
Morgan Stanley Smith Barney – 4 mentions
Morgan Stanley Wealth Management
N/A – 5 mentions
National Planning
New England Financial
Next
NEXT Financial
NFP Securities, Inc.
None – 13 mentions
None we are independent RIA
NPB Financial Group LLC
Oppenheimer & Co Inc – 5 mentions
Pershing – 2 mentions
Pershing, Charles Schwab and TD Ameritrade
PFS Investments – 2 mentions
Pinnacle Financial Partners
Pinnacle Investments
Puritan Brokerage Services
Quest Capital Strategies, Inc.
RAMIREZ & CO INC
Raymond James – 17 mentions
Raymond James & Associates – 3 mentions
Raymond James Financial Services, Inc. – 8 mentions
Raymond James Morgan Keegan

Please specify the broker dealer with which you are affiliated. (…continued)

A RBC Wealth Management – 5 mentions
Resource horizons
Robert W Baird & Co – 3 mentions
Royal Alliance
SagePoint – 2 mentions
Sammons Securities
Schwab
Schwab and Fidelity
Securities America – 3 mentions
Several
SII
ssn
Stifel Nicolaus – 10 mentions
Stephens Inc.
Summit
Sunbelt Securities
TD Ameritrade – 2 mentions
TD Ameritrade and Charles Schwab
TD Ameritrade Institutional – 2 mentions
TD Ameritrade, Fidelity, & Schwab
TFA
The Capital Advisory Group
The Investment Center
Tradestation Securities
Transamerica
UBS – 3 mentions
VALIC
VSR Financial Services, Inc. – 2 mentions
Walnut Street Securities
Wedbush Securities – 3 mentions
Wells Fargo Advisors – 49 mentions
Wells Fargo Advisors Financial Network – 2 mentions
Westbourne Investments
Western intl
WFADV
WFG – 2 mentions
Winslow Evans & Crocker - Pershing
Wunderlich Securities
Ziegler Wealth Management – 2 mentions

Prefer not to answer – 58 mentions

What are the most important reasons you do not proactively offer Structured Products to your clients? Other responses:

Corporation doesn't like them
Counterparty risk

Why do you have little interest in selling Exchange Traded Structured Products?

Because our entire focus and process revolves around mutual funds.

Can't be all things to all people and would find it dilutive of my time and efforts

Client base is not sophisticated enough.

Complex products always for the seller, not the consumer

Don’t like products

Don't need them

Don't think it is in the client’s best interest in most cases.

I am happy with the open end funds that we are currently using.

I don't believe in re-inventing the wheel to sell something. Most things clients ask for never quite do as they are supposed to do.

I think the complexity and lack of transparency will make this hard for clients to understand.

I'm very content with our current investment strategy. I believe it is one that will be difficult to improve upon, particularly with a new product.

My client base is all public fund investors restricted to specific fixed income types.

No reason

No transparency, trust, need, don’t like complicated products.

Not familiar

Not my model. ETFs are trading vehicles that usually trade at a discount to NAV.

Show me where the value is to the client

Structured products are gimmicks and a fad that won't be around in a few years

These products are created to provide benefits to the creators and sales people and none to the investor. They ought to be illegal.

They are complex and they cost too much. Simply a vehicle to increase payouts.

They seldom work as promised

They seldom work to the clients benefit.

Think they are just another product to confuse the client

Too complicated to understand the risk involved. It's not until they "unwind" that you get a real sense of the risk you are taking.

Too complicated. Concern about fees.

We are an institutional firm and our clients are large and would generally not buy these types of products from us. We specialize in liquidity products and alternatives, primarily real estate.

We serve mainly seniors who are not interested in such products.

We're interested in partnerships with active managers

Would be complicated, confusing and expensive

WRITE-IN RESPONSES

Why do you have little interest in selling Exchange Traded Strategies?

As I said we do not sell products to our clients we are fee based

Claim there is little or no issuer risk. How?

Do not like any gimmicks or packaged products

Do not like derivative securities. The more moving parts the more can go wrong.

ETF's only work well in certain areas/allocation. Funds stocks and bonds still work in most cases.

Firm isn't a big fan

Generally, clients don't really understand the workings of structured products.

Guaranteed to underperform the index after fees

High fees

I don’t utilize a lot trading strategies. I invest

I have my own strategies

I like simple investments that both my clients & I can understand.

I prefer active management

I prefer to know the business of the companies that I invest in

I pursue clients who are investors and understand the importance of asset allocation, volatility and patience. Structured products are high cost gimmicks that diminish long-term investor returns...I would prefer clients buy them from someone else.

I’m from the old school and ready to retire in couple years, and not interested in trying to bring something new to older long time clients.

I'm just not comfortable with the product

It is does not fit in our Firm's investment strategy.

It's not part of my business model

Like active management of funds.

My book is structured in CEF. I do not currently use ETF/ETS. I have only recently considered ETF to hedge against interest rates.

NA

New products are challenging for my client base.

Not convinced they are sound, low cost investments appropriate for my clients.

Not our investment focus

Not using many ETFs today; more mutual funds

Prefer individual stocks

Seems to layer more complexity and, potentially, more fees on top of an existing product that is simple, inexpensive, and already meets my needs

Skeptical

Still struggling with what are the counterparty risks.

Structured or Leveraged ETF's don’t appeal to me because of the complexity of the structure. It's too difficult to understand, much less explaining it to a client. It seems to me that I would have to explain this over and over again during the holding period. Straight up, simple indexed ETF are better for my clients and practice.

There are too many other investment products that perform very well without fixed maturities.

They do not fix in my overall client strategy.

We feel ETFs have become the "next hot investment", Therefore, we take a more cautious approach.

We only sell proprietary products.

We primarily buy individual securities

We use proprietary funds exclusively