ETF Overview: An Asset Manager's Perspective

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1. Efficient Market Advisors & ETF Strategists
2. Growth of the ETF Industry
3. Institutional Usage of ETFs
4. ETF Structure
5. Replicating the Institutional Consultant Model

EMA Overview

History:

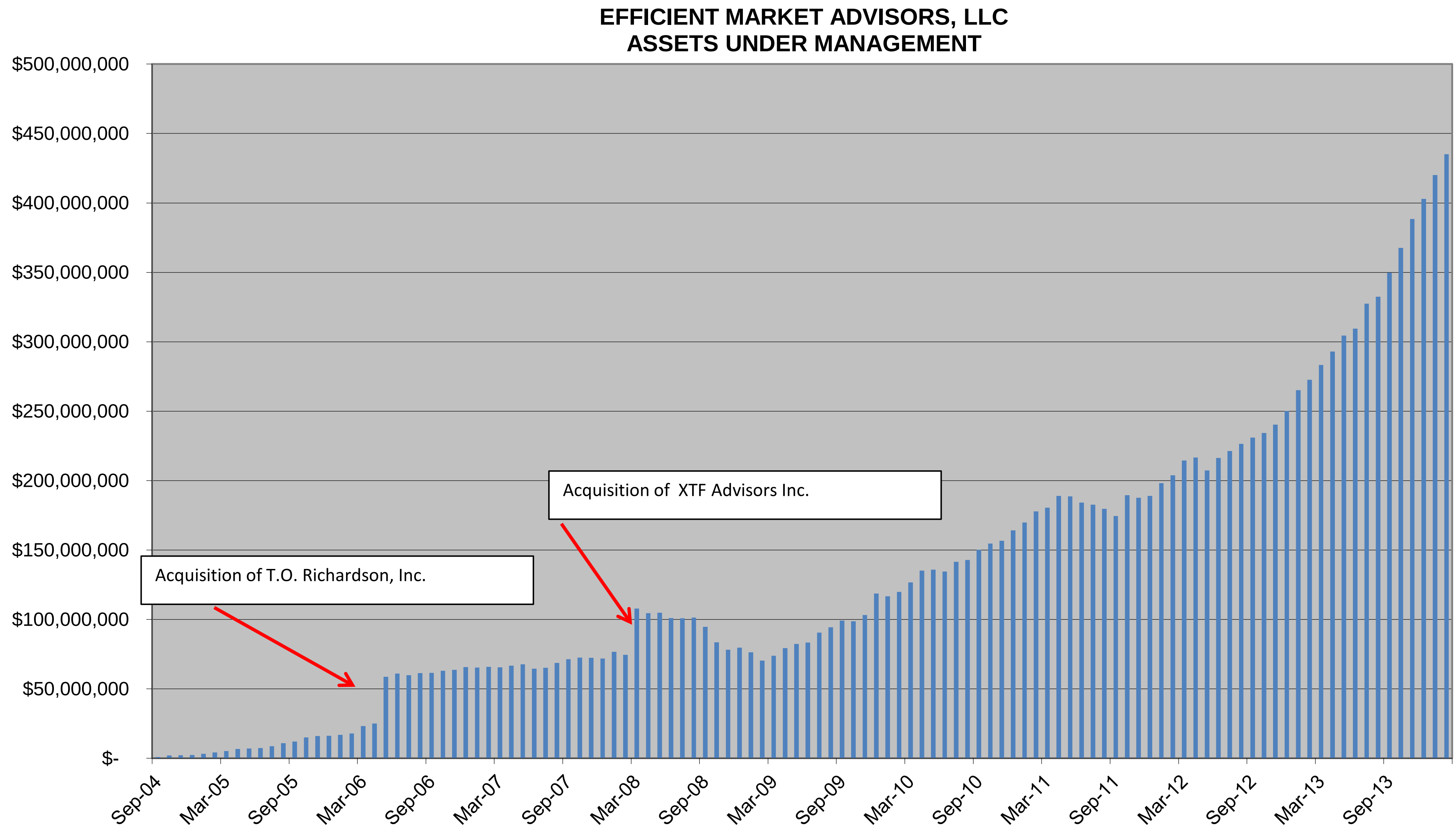
Efficient Market Advisors, LLC is an employee-owned, SEC-registered, separate account management firm that constructs investment portfolios using **Exchange Traded Funds (ETFs)**. We serve high net worth investors, trusts, foundations, retirement plans and institutions.

- **Founded in 2004 as ETF SMA manager**
- **One of the longest GIPS Firmwide Verified pure ETF records**
- **In-house and third-party research**

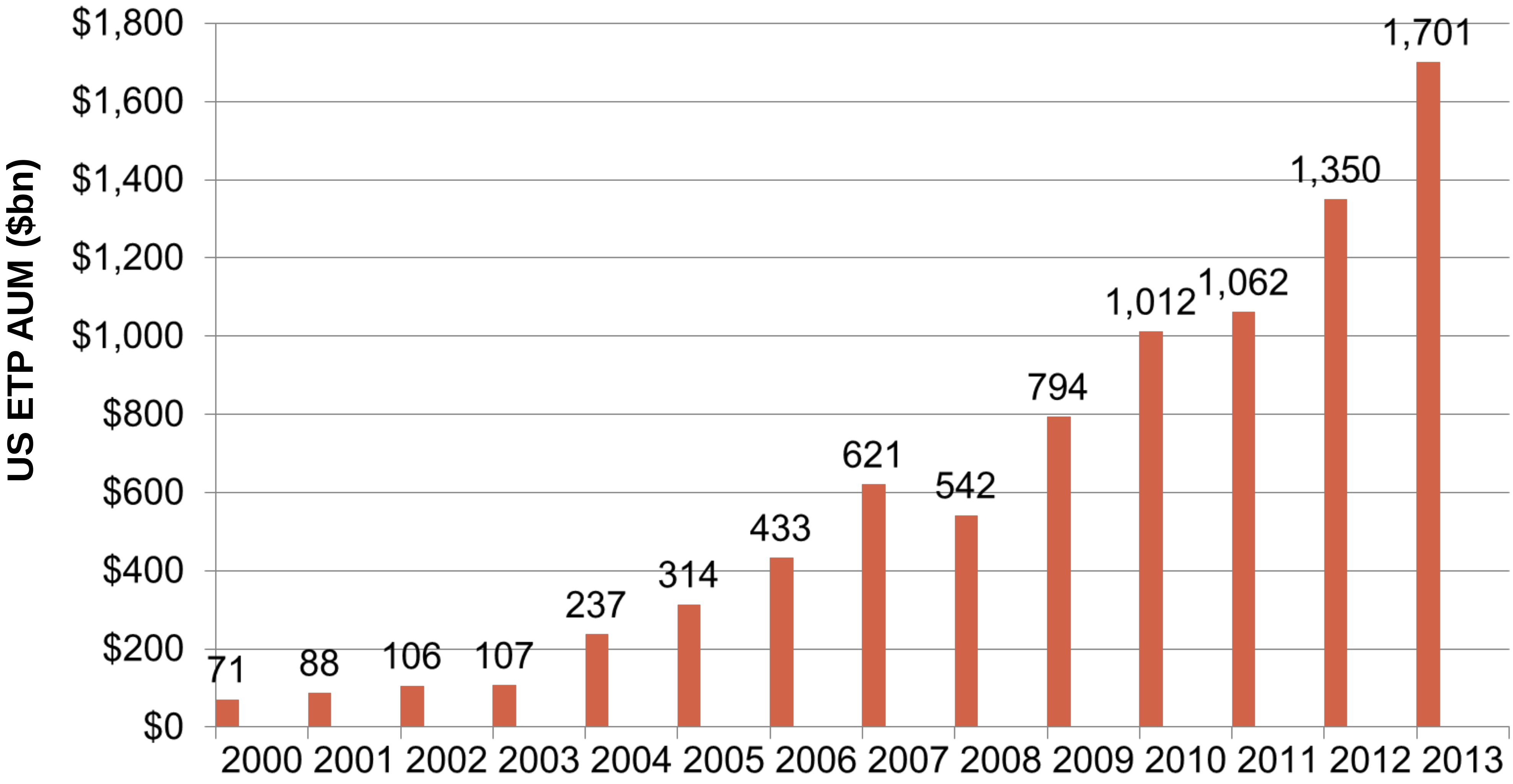
Mission:

Our mission is to deliver superior investment returns over full market cycles through the implementation of our proprietary asset allocation and ETF selection process.

EMA's Growth in Assets



Increasing adoption of exchange traded products (ETPs)



Notable statistics

- US ETPs had approximately $190 billion of inflows in 2013
- The largest ETP provider in the US is iShares ($660 billion), 39% market share
- ETFs represented approximately 25% of U.S. daily equity trading volume in 2013

Institutional users are major holders of ETFs

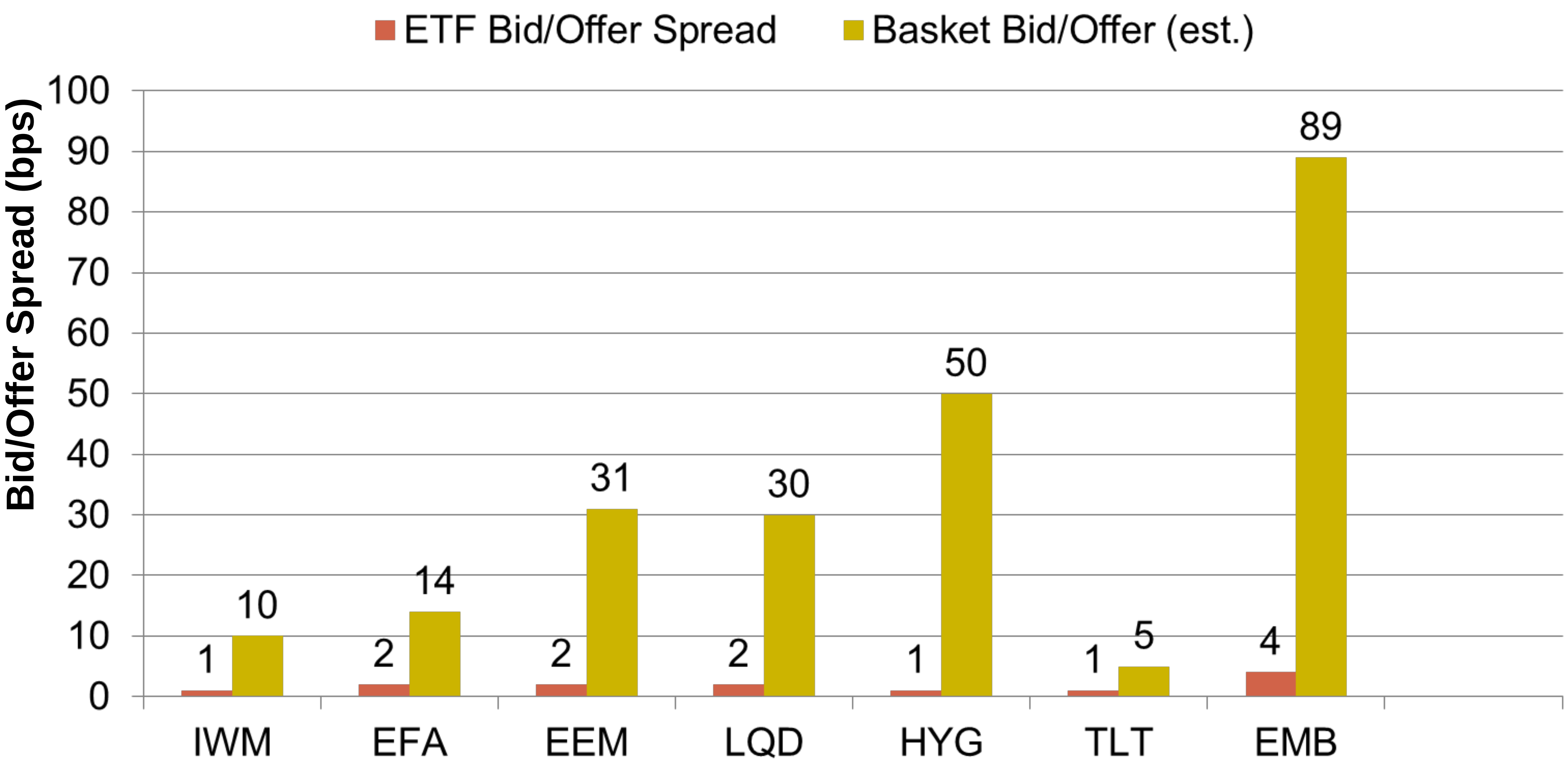
Firm	13F Assets ($m)
Blackrock Advisors LLC	20,969
Northern Trust Investments, Inc.	12,841
The Bank of New York Mellon Corp.	8,204
SSGA Funds Management, Inc.	6,526
US Bancorp Asset Management, Inc.	4,962
Goldman Sachs Asset Management LP	4,823
Columbia Management Investment Advisers LLC	4,456
Genworth Financial Wealth Management, Inc.	3,612
Raymond James & Associates, Inc.	3,558
Curian Capital LLC	3,320
Alliance Bernstein LP	2,914
JP Morgan Investment Management	2,358
The Vanguard Group, Inc.	2,325

Institutional Uses

Strategy	Objective
Tactical/macro adjustments	Over or underweight style, region, country, bond duration, credit quality
Operational Access	Ease of entry into difficult to reach markets
Hedging	Go neutral on a strategy by shorting an ETF without selling portfolio
Transitions	Maintain sector or beta exposure while identifying individual names
Portfolio completion	Diversify an “incomplete” portfolio to meet prudent standards that dictate broad diversification
Quick Trade	The liquidity and transparency of ETFs can be particularly appealing to investors during times of market stress
Cost Savings	Bid/Ask LQD spread 2bps v. 35 bps on underlying, if manager has a non hold to maturity horizon, management fee may be less than t-cost

Low-cost market access

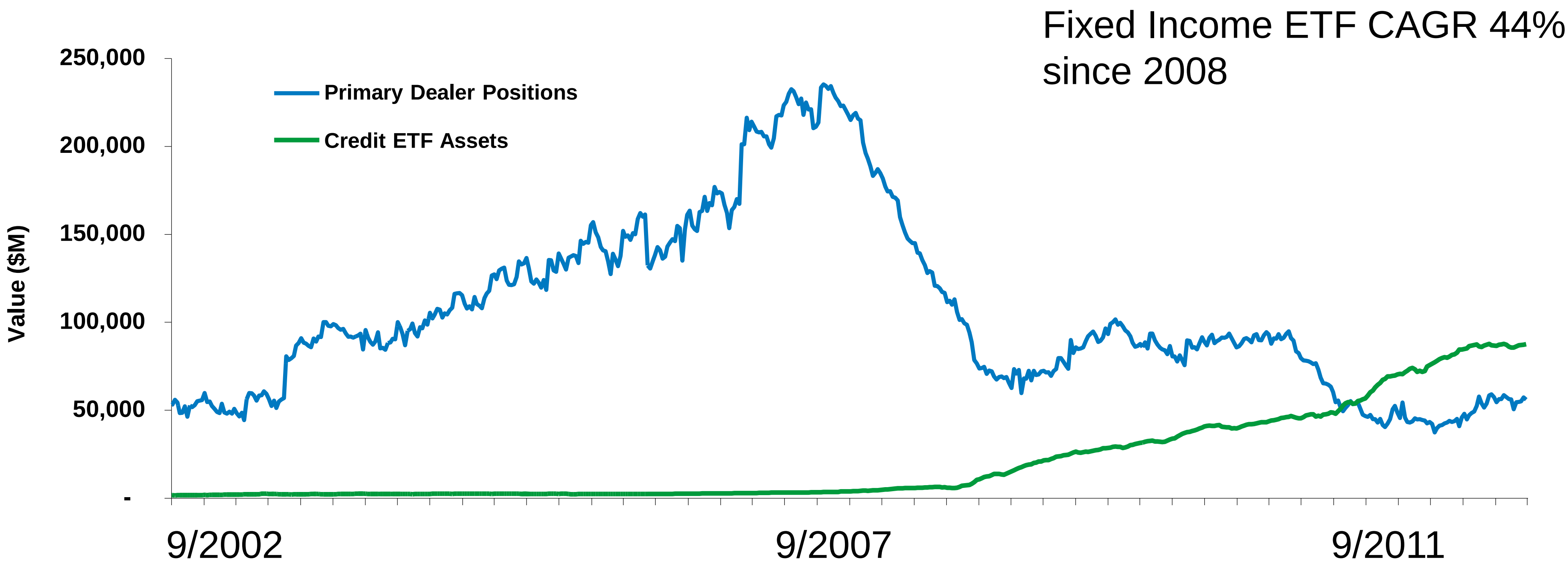
ETFs generally offer price improvement, making them less expensive to trade than the underlying securities of the respective index



20 day average volume, as of 12/31/13, spread efers to underlying securities of index, for illustrative purposes only. Source: BlackRock

The changing sources of corporate credit exposure

- Constructing broad beta portfolios from bonds available at dealers can be challenging given low inventory levels and market fragmentation
- Corporate bond ETFs represent a significant pool of single-trade beta assets with the added layer of exchange-traded liquidity



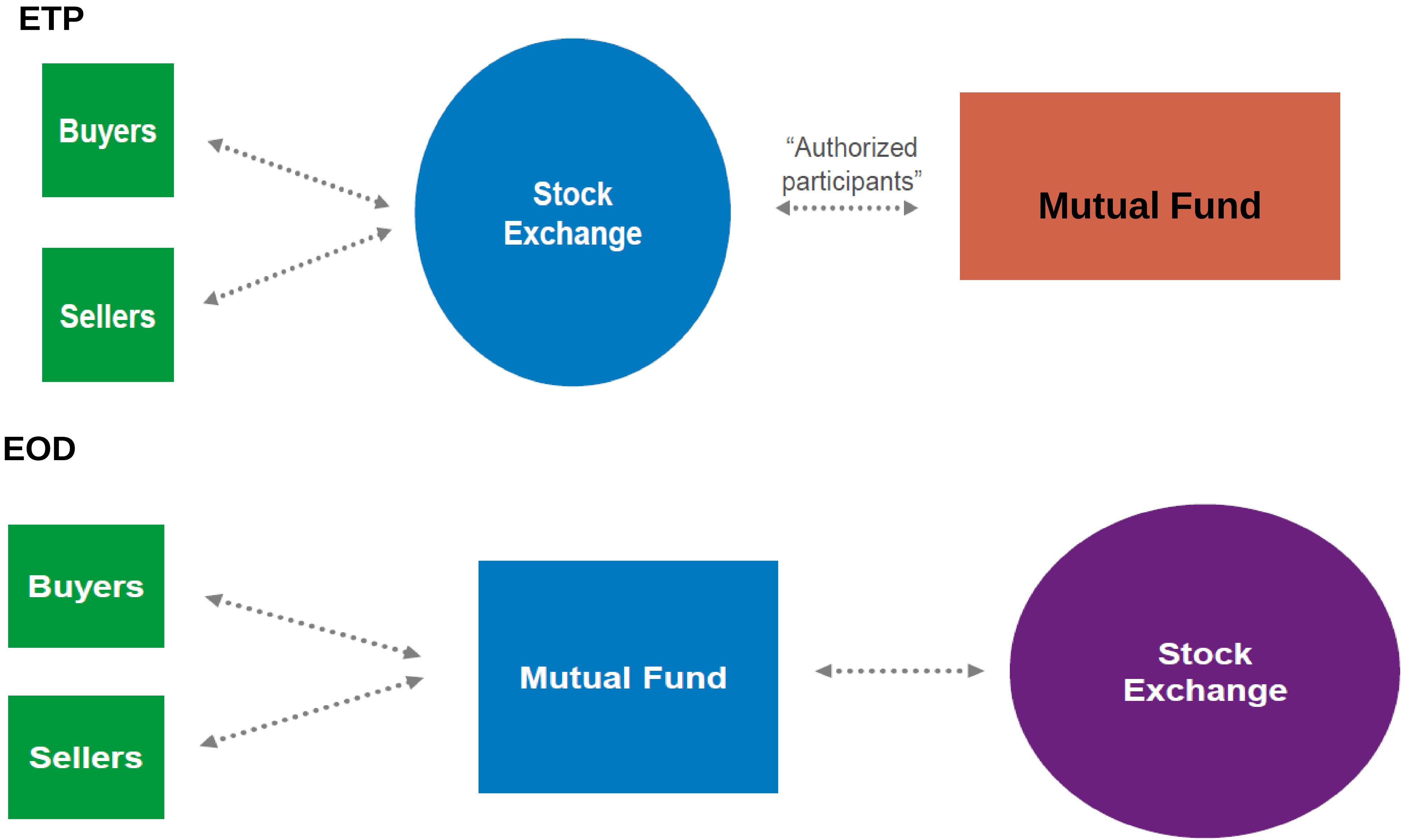
Source: BlackRock, Bloomberg as of 3/31/2013. Primary dealer inventory is measured by the Primary Dealer Positions Outright Level of Corporate Securities Due Greater Than 1 Year. Credit ETF assets include US listed corporate and credit bond ETFs, excluding leveraged or inverse funds, bank loan funds, floating rate funds and convertible funds.

Implications of the ETF structure

- Complete and transparent exposure
- Low cost
- Tax Efficiency
- Insulation from the activities of other shareholders (Vanguard excepted)

Types of ETP structures

ETPs work differently than end of day (EOD) funds



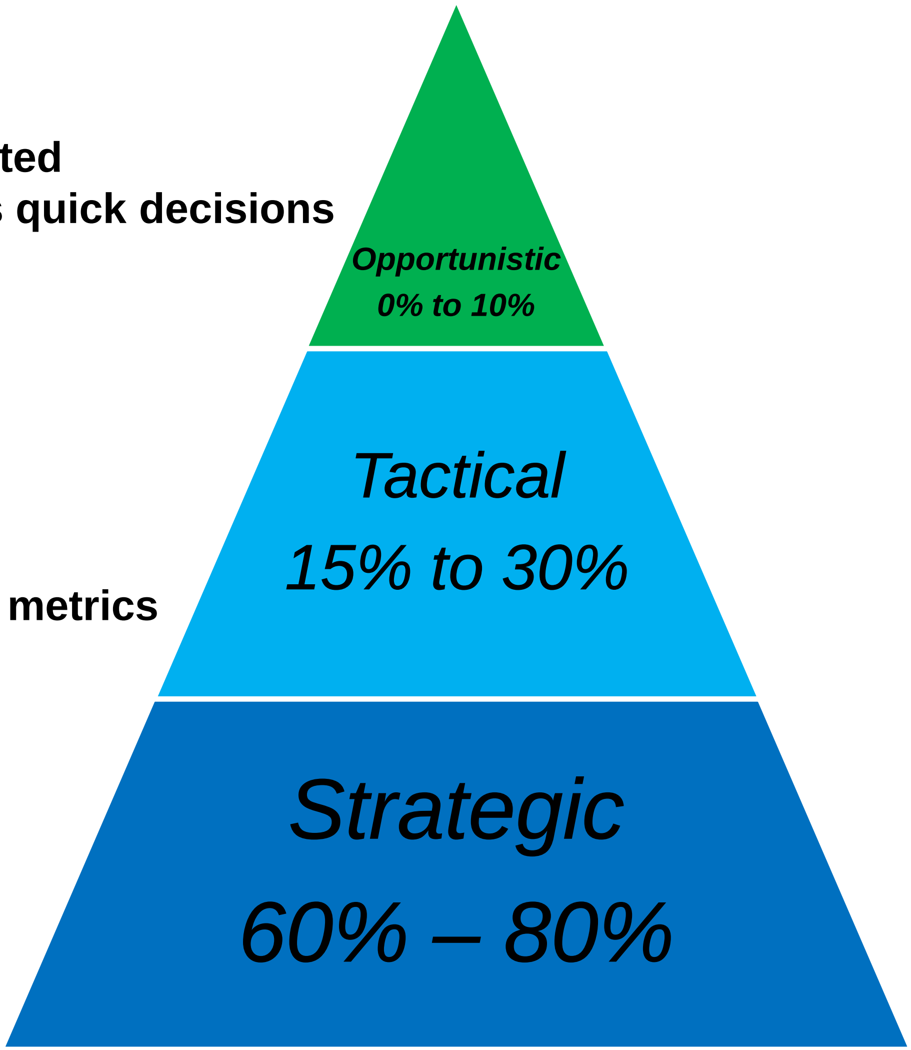
ETFs allow investors to recreate the institutional consultant model

EMA's proprietary approach re-creates the institutional consultant model using ETFs

- **Unique**
- **Unexpected**
- **Requires quick decisions**

- **Opinions of managers**
- **Mechanical signals**
- **Cycle analysis**
- **Considers valuations & other metrics**

- **Time Horizon**
- **Risk Tolerance**
- **Historic Optimization**
- **Monte Carlo**



EMA's ETF Asset Classes and Categories

Equities (stocks): U.S. or foreign: large cap, mid cap, small cap, real estate investment trusts, sector or industry as well as emerging markets

Fixed Income (bonds): Investment grade, high yield, preferred stocks, foreign or domestic, government and agency bonds, emerging market bonds

Alternative Investments (absolute return): Commodities, precious metals, currencies, timber, agriculture, managed futures, hedge fund replication, arbitrage and others

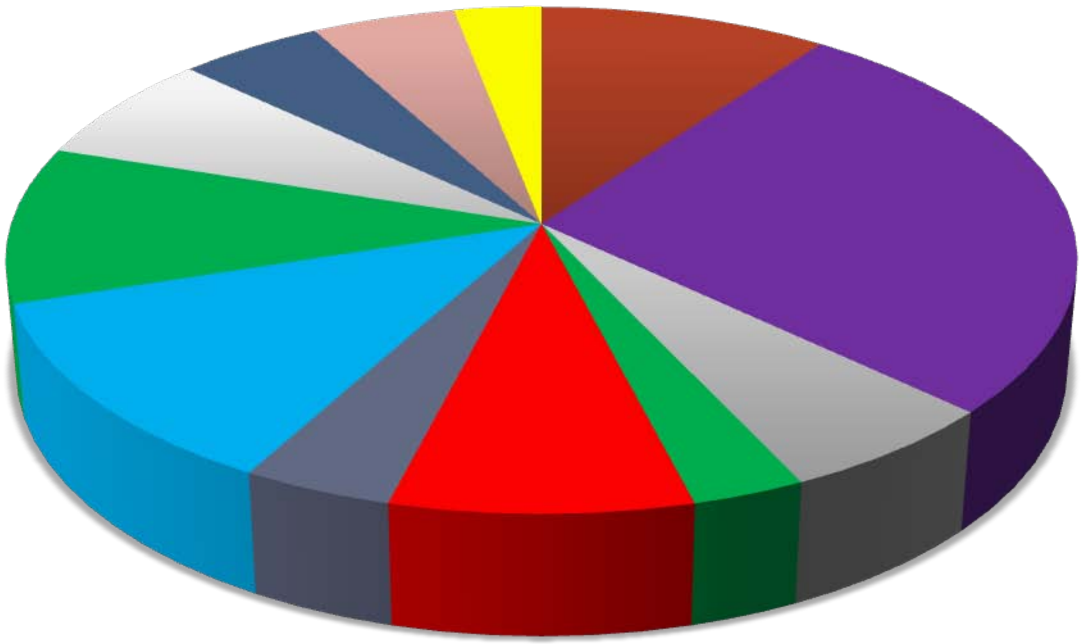
Cash: Money market and bank deposit accounts

EMA's ETF Portfolios

EMA offer 15 managed ETF portfolios, all of which have been constructed using Modern Portfolio Theory and sophisticated financial modeling. Target weightings of each asset class have been determined using mathematical techniques known as optimization.

<u>Five time-horizon portfolios with three "tilts" (Conservative, Moderate, Aggressive)</u>

- **Taking Income**
- **2-5 Years**
- **6-10 Years**
- **11-19 Years**
- **20 Plus Years**



EMA's Performance Recognition

***ETF Managed Portfolios Landscape Q4 – 2013** (Ranked by 3-Year Return) and Selected Risk Statistics*

- *United States Balanced*
  - *11-19 Years Aggressive ranked #3*
  - *11-19 Years Moderate ranked #4*
  - *11- 19 Years Conservative ranked #6*
  - *6-10 Years Moderate ranked #8*
  - *2-5 Years Aggressive ranked #9*
  - *6-10 Years Aggressive ranked #11*
  - *2-5 Years Moderate ranked #12*
  - *6-10 Years Conservative ranked #13*
  - *2-5 Years Conservative ranked #18*

- *United States Equity*
  - *20 Plus Years Moderate ranked #1*
  - *20 Plus Years Conservative ranked #4*
  - *20 Plus Years Aggressive ranked #5*

- *United States Fixed Income*
  - *Taking Income Aggressive ranked #2*
  - *Taking Income Moderate ranked #3*
  - *Taking Income Conservative ranked #7*

Morningstar “Star ranking” Criteria

What is the Morningstar Rating ?

The Morningstar Rating , commonly called the "star rating," brings both performance and risk together into one evaluation. Morningstar adjusts for risk by calculating a risk penalty for each fund based on "expected utility theory," a commonly used method of economic analysis. Although the math is complex, the basic concept is relatively straightforward. It assumes that investors are more concerned about a possible poor outcome than an unexpectedly good outcome and that those investors are willing to give up a small portion of an investment’s expected return in exchange for greater certainty. A "risk penalty" is subtracted from each fund’s total return, based on the variation in its month-to-month return during the rating period, with an emphasis on downward variation. The greater the variation, the larger the penalty. If two funds have the exact same return, the one with more variation in its return is given the larger risk penalty.

How does Morningstar calculate its star ratings?

Portfolios are ranked within their categories according to their risk-adjusted return (after accounting for all sales charges and expenses), and stars are assigned such that the distribution reflects a classic bell-shaped curve with the largest section in the center. The 10% of funds in each category with the highest risk-adjusted return receive five stars, the next middle 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star.

Portfolios are rated for up to three periods--the trailing three, five, and 10 years and ratings are recalculated each month. Funds with less than three years of performance history are not rated. For funds with only three years of performance history, their three-year star ratings will be the same as their overall star ratings. For funds with five-year records, their overall rating will be calculated based on a 60% weighting for the five-year rating and 40% for the three-year rating. For funds with more than a decade of performance, the overall rating will be weighted as 50% for the 10-year rating, 30% for the five-year rating, and 20% for the three-year rating. The star ratings are recalculated monthly.

If a portfolio changes Morningstar Categories, its historical performance for the longer time periods is given less weight, based on the magnitude of the change. (For example, a change from a small-cap category to large-cap category is considered more significant than a change from mid-cap to large-cap.) Doing so ensures the fairest comparisons and minimizes any incentive for fund companies to change a fund’s style in an attempt to receive a better rating by shifting to another Morningstar Category.

Disclosure

The composite figures illustrated represent the returns only for the time periods indicated. These returns reflect the actual investment results of a composite of clients participating in the asset allocation program. Returns shown reflect reinvestment of all dividends and interest. Accounts less than $25,000, or with custom non model holdings or significant cash flow events are not included in the composite. All accounts not included in this composite are in the composite Managed Account. Managed Account results are available on request. Accounts are first added to the composite the month after the first complete month of management by EMA.

All investments, including investments in the mutual funds in the managed accounts, involve the risk of potential investment losses as well as the potential for investment gains. Past performance is no guarantee of future results and there can be no assurance, and clients should not assume, that future performance of any of the managed accounts will be comparable to past performance.

The performance of the managed accounts should be viewed in the context of the broad market and general economic conditions prevailing during the periods covered by the performance information. Standard Deviation- A measurement of dispersion about an average, depicting how widely a stock or portfolio’s returns varied over a certain period of time. Used by investors to try to predict the range of returns that is most likely for a given investment. When an investment or portfolio has a high standard deviation, the predicted range of performance is wide, and implies greater volatility. Beta-The measure of an asset or portfolio’s sensitivity to the market as a whole. A beta of 1.10 shows that the asset or portfolio has performed 10% better than its benchmark in up markets and 10% worse in down markets, assuming all other factors remain constant. Conversely, a beta of 0.85 indicates that the asset or portfolio’s excess return is expected to perform 15% worse than the benchmark’s excess return during up markets and 15% better during down markets. Beta performance is since inception of the managed account. The performance numbers reported is not a solicitation to buy or sell securities, nor does it make any claim to the suitability of the investment strategy for the individual.

Securities prices may vary dramatically over time and results will vary due to changing economic or market conditions. There is no guarantee that results will prove profitable. Actual client results are impacted by start and end dates, withdrawals, additional deposits, and any charges imposed by the investment custodian, which may materially affect client performance returns. Investing may involve risk including loss of principal. Investment returns, particularly over shorter time periods are highly dependent on trends in the various investment markets. Investment management services are generally suitable for long-term investment objectives or strategies, rather than for short-term trading purposes. Investors should consider the investment objectives, risks, charges and expenses of the underlying funds that make up the managed accounts carefully before investing. Prospectuses or offering documents contain this and other important information about the fund. Please call your financial advisor to obtain the prospectuses of the current underlying funds. Prospectuses should be read carefully before investing. For current month end performance numbers please contact our office at 888-327-4600. The S&P 500 is an unmanaged group of securities considered to be representative of the market in general.

ETFs and mutual funds each hold baskets of securities. ETFs trade on exchanges intraday at market price, which may be greater or less than net asset value. Shares of ETFs are not individually redeemed from the fund. Transactions in shares of ETFs result in brokerage commissions and generate tax consequences. Index ETFs are passively managed; they seek to track a market index, before fees and expenses, and do not attempt to outperform during rising or declining markets. ETF performance may diverge from the ETF's underlying index. Mutual funds are accessed directly from the fund company or through a select broker, pricing generally occurs once a day, and investors buy or redeem shares at the end-of-day net asset value, less any applicable fees. Some mutual funds may charge sales loads or redemption fees. Active mutual funds seek to outperform their benchmark while the goal of index mutual funds is to track their index. Consequently, active funds typically charge more than index-linked products for the increased trading and research expenses that may be incurred. Mutual funds and ETFs are obliged to distribute portfolio gains to shareholders.