ETP GROWTH AND THE CHANGING RISK PROFILE

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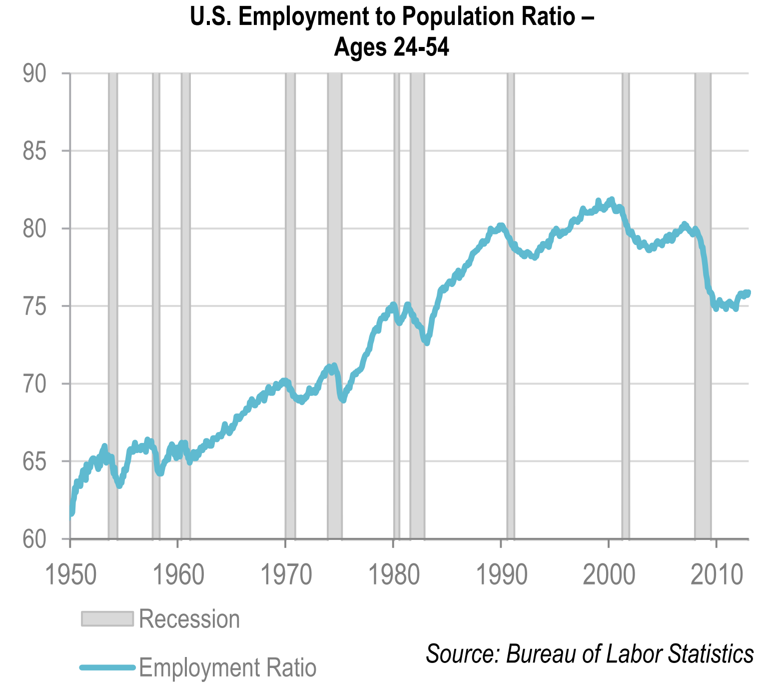
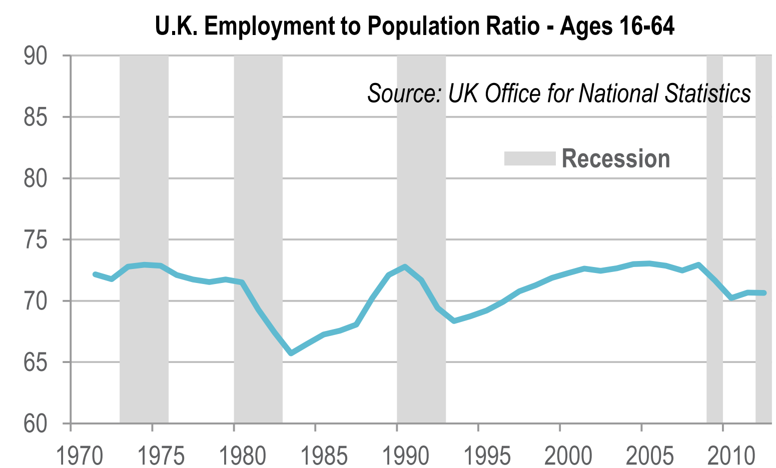
ECONOMIC DRIVERS

- In economics, “taste” and “technology” are viewed as significant drivers of change.
- “Taste” refers to choices made by an individual.
- “Technology” is innovation or invention of a new product or process.
- Changes in technology can facilitate changes in taste or drive changes.
- The employment to population ratio for workers 24-54 can have powerful effects on economy.
- The U.K. employment ratio has stayed relatively consistent over the past 40 years primarily varying during recessions, while the U.S. rose 12 percentage points from 1970 to 2000 and has been declining since 2000.





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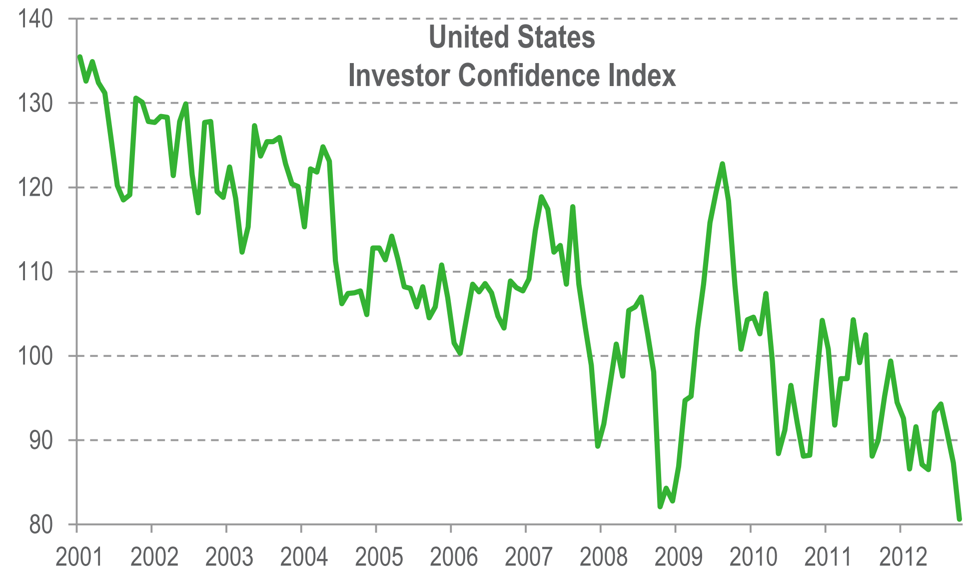
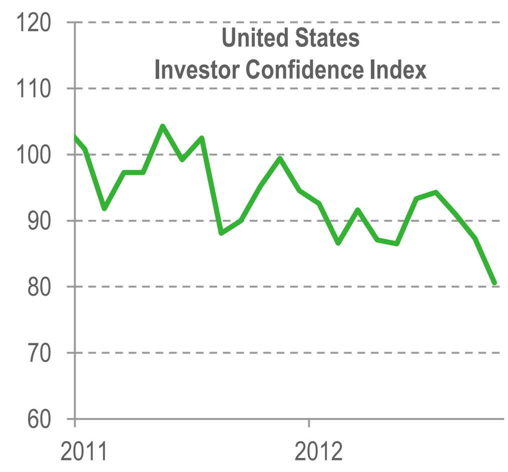
INSTITUTIONAL INVESTORS' ATTITUDES ARE INCREASINGLY CAUTIOUS

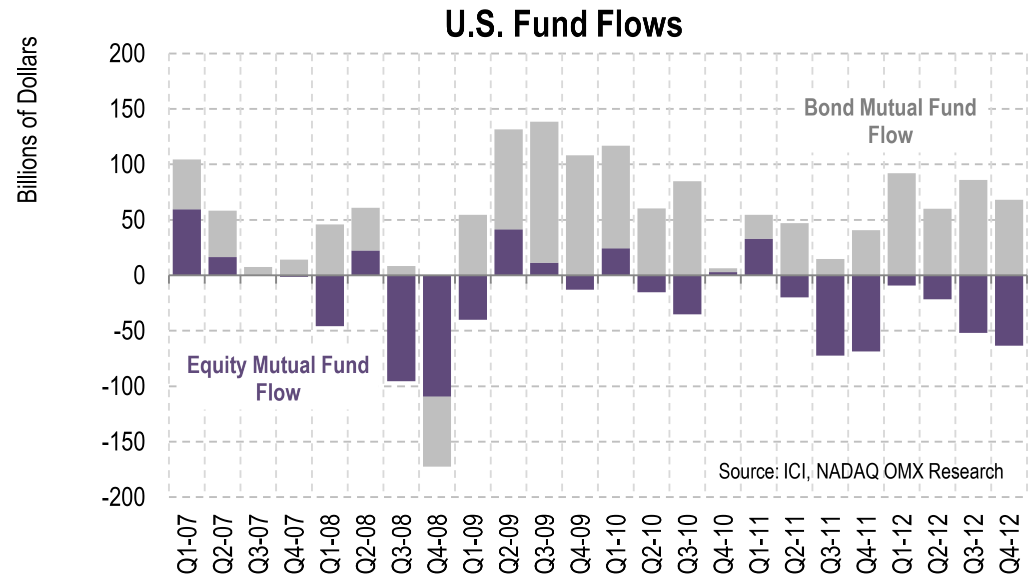
- Demographics can affect attitude towards risk.
- The Investor Confidence Index measures confidence of institutional investors by the riskiness of their trading decisions.
- Purchases of riskier assets show more confidence while purchases of less risky assets show less confidence.
- Institutional investor flows reflect both the decisions of asset managers as well as decisions of fiduciaries & beneficiaries.
- The Investor Confidence Index shows that U.S. investor portfolios have become progressively less risky than European portfolios over the last few years.

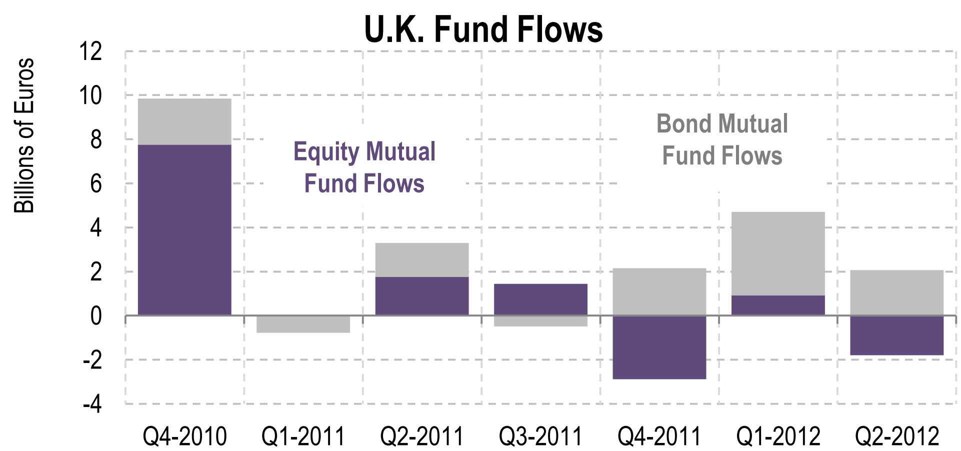




INDIVIDUAL INVESTORS ALSO REDUCING RISK

- Mutual fund flows: money moving in or out of mutual funds with the net amount indicating whether aggregate mutual fund investment is rising or falling.
- Recent mutual fund flows show individual investors began moving out of U.S. equity mutual funds in 2008 and have not yet returned.
- Tentative flows into equities in the early months of 2011 ended in April, with equity outflows every quarter since then.
- Fund flows in the U.K. have been less pessimistic. Consistent with the more robust levels of investor confidence in the U.K.





Source: EFAMA; NASDAQ OMX Research

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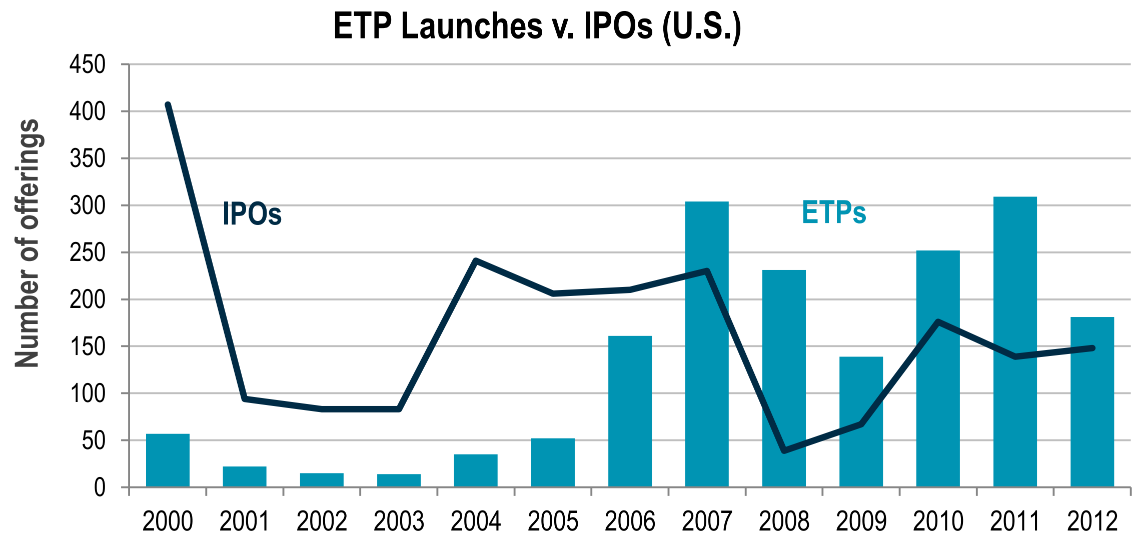
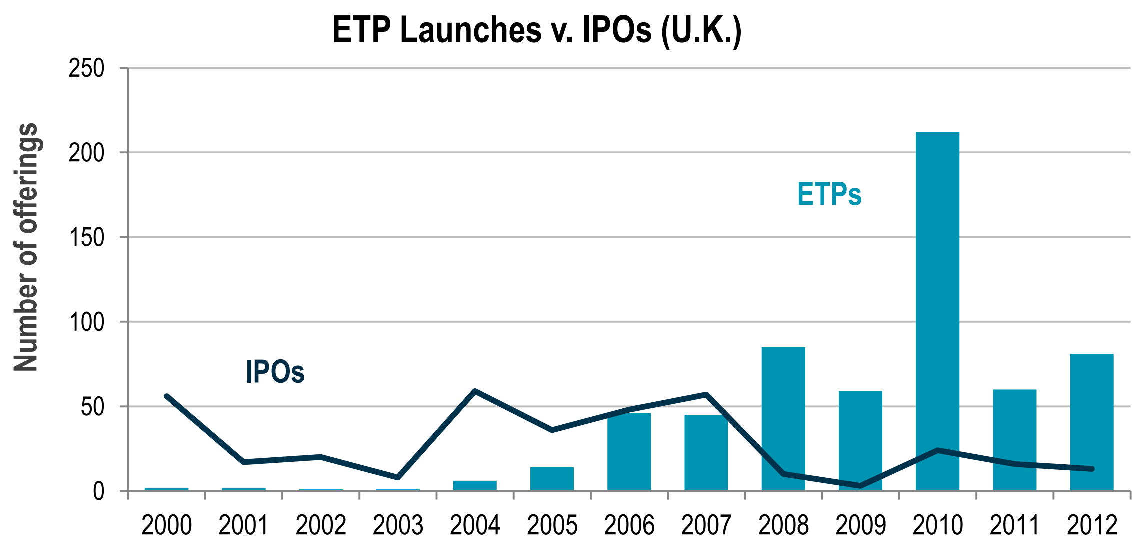
INVESTORS' ATTITUDES REFLECTED IN MARKET FOR ETPS AND IPOS

- IPOs offer opportunities to invest in new companies with risk and return. ETPs can be structured to offer different types of risk and return.
- The number of IPOs has had a modest recovery since the financial crisis but remains below pre-crisis levels, more so in the U.K.
- The number of ETP launches has fully recovered since the crisis in the U.K and nearly recovered in the U.S.
- Furthermore, in neither economy did the number of ETP launches drop as sharply as IPOs.
- This shift is evident in the growth of other types of ETPs since the financial crisis.





Source: Bloomberg, Thomson.
Figures exclude IPO offerings from closed-end funds and from companies listed in the US OTC market.

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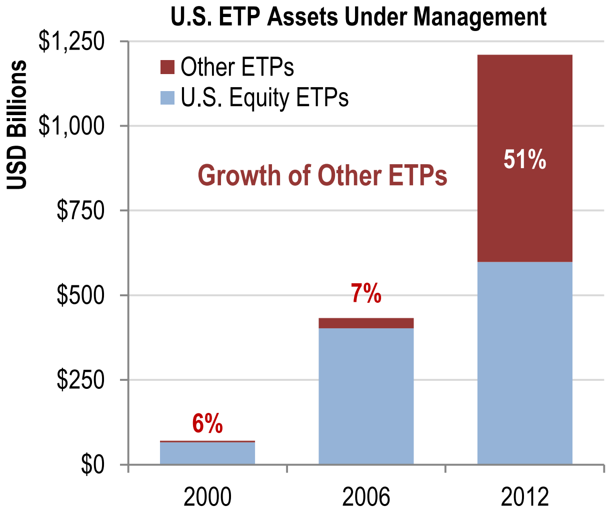
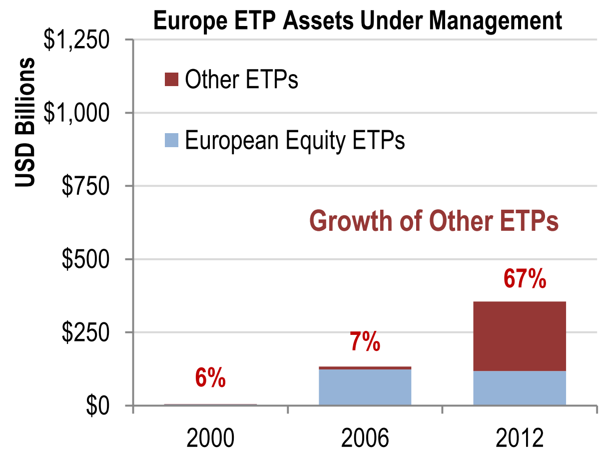
STRONG GROWTH FOR EXCHANGE TRADED PRODUCTS

- ETPs have experienced rapid growth over the past decade. Net assets across all U.S. ETPs have grown 27% annually since 2000 from $71 billion to over $1.2 trillion.
- Between 2000 and 2006, most of the growth in ETPs occurred in U.S. equity ETPs, where ETP assets under management increased 35% per year.
- Since 2006, non-domestic equity ETPs and specialized ETPs such as leveraged ETFs, which track indexes at a 2:1 or 3:1 ratio, have offered greater flexibility and have grown in popularity among investors.
- In the aftermath of the financial crisis, domestic equity ETPs became less popular with investors as many investors sought out new asset classes to diversify.
- This shift in preference is evident in the substantial growth of other ETPs since the financial crisis such as commodity, fixed income, non-domestic equity, and currency ETPs.
- Assets under management (AUM) for U.S. equity ETPs have increased a modest 7% yearly since 2006 while AUM for all other ETPs have grown at an extraordinary annual rate of 65%.





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2013 OUTLOOK

<u>2012 Recap</u>

- 2012 was not a year for risk-on investing and ended with a declining appetite for equity market risk.
- Consistent with strong capital flows into fixed income ETPs (U.S. and Europe) and gold commodity ETPs (Europe).

<u>Question for 2013</u>

- Will bonds remain low risk? Or more correctly, will bonds continue to exhibit low price volatility due to strong central bank intervention in the fixed income market?
- If so, flows into gold and other store-of-value commodity ETPs should remain strong as investors seek safety with some upside and accept low opportunity costs from holding non-income producing assets.
- If not, both bond and equity market volatility should increase significantly. While this may cause outflows from buy-and-hold fixed income ETPs it should benefit more short term structured fixed income and equity ETPs significantly.