Cerulli Special Quantitative Update

State of the RIA Marketplace 2012:

Sizing, Product Trends, and Distribution Opportunities

CERULLI ASSOCIATES
Global Analytics

Overview

This annual report, in its second iteration, provides in-depth analysis of the registered investment advisor (RIA) landscape. It offers a sizing of the market and leaderboards by assets under management and growth. In addition, the book provides data on advisory practices, service agents, and dually registered practices. Practice coverage also includes information on product use, as well as portfolio construction strategies unique to the RIA channel. Finally, the report includes details on sales organizations that target RIAs.

This report features findings from two proprietary surveys: a survey of RIA and dually registered advisors, and a survey of RIA servicing agents that make up over 65% of the industry.

Key Reasons to Buy This Report:

- Overview of the industry, including market sizing projections, role of new Super-RIAs, and sources of growth
- In-depth look at how RIAs are operating, including service and distribution trends
- Detailed analysis of product landscape, including product and portfolio construction trends
- Thorough review of the role of dually registered advisors
- Close look at challenges within the industry, including regulatory impact
- Review of merger and acquisition activity and the impact on the industry

Answer These and Other Critical Questions:

1. What is the size of the RIA market? What is the source of growth?
2. How are asset managers structuring sales teams to target RIAs?
3. What is the best approach to starting an RIA team?
4. What are RIAs charging their clients?
5. How can a distributor gain access into the RIA channel?
6. What product changes are RIAs making in their portfolios?
7. How are asset managers serving dually registered advisors?
8. What are the technology demands of advisors and service agents?
9. What challenges are RIAs facing from an operational, product, regulatory, and technology perspective?

134 pages, 87 exhibits

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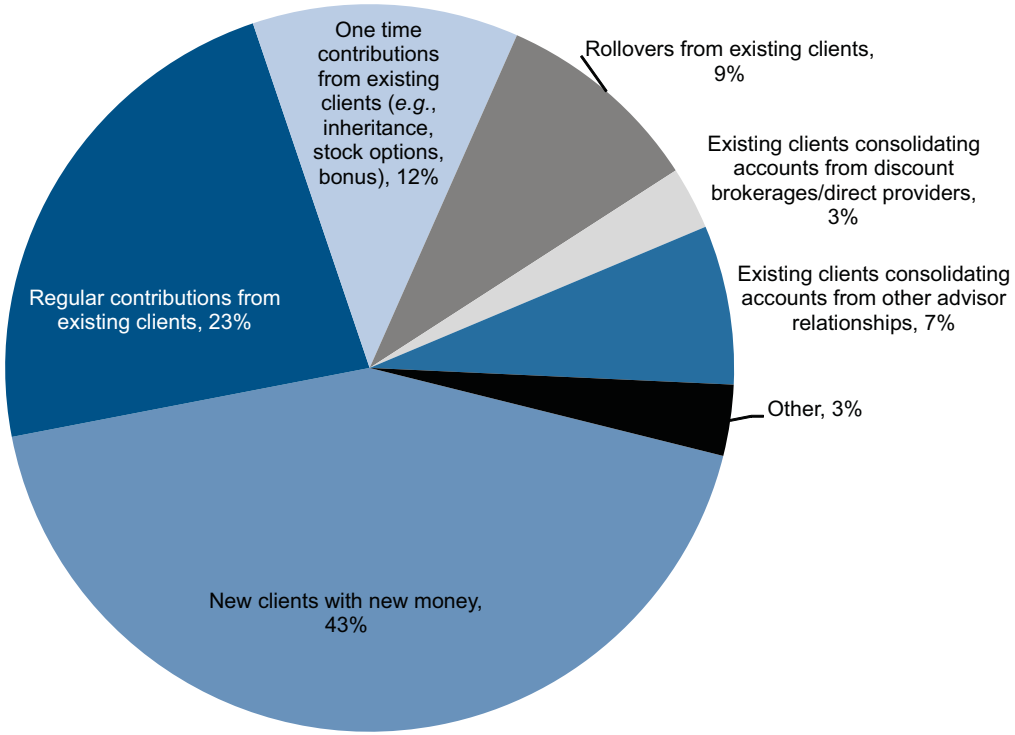
CERULLI SPECIAL QUANTITATIVE UPDATE: STATE OF THE RIA MARKETPLACE 2012: SIZING, PRODUCT TRENDS, AND DISTRIBUTION OPPORTUNITIES

EXHIBIT 4.03

Source of New Money, 2012

Sources: Cerulli Associates, in partnership with the Financial Planning Association, the Investment Management Consultant Association, Bill Good Marketing, WealthManagement.com, and Morningstar



- Two-thirds of new assets into RIAs were sourced through a combination of new clients with new money (43%) and regular contributions from existing clients (23%). Only 9% of assets were generated from rollovers.

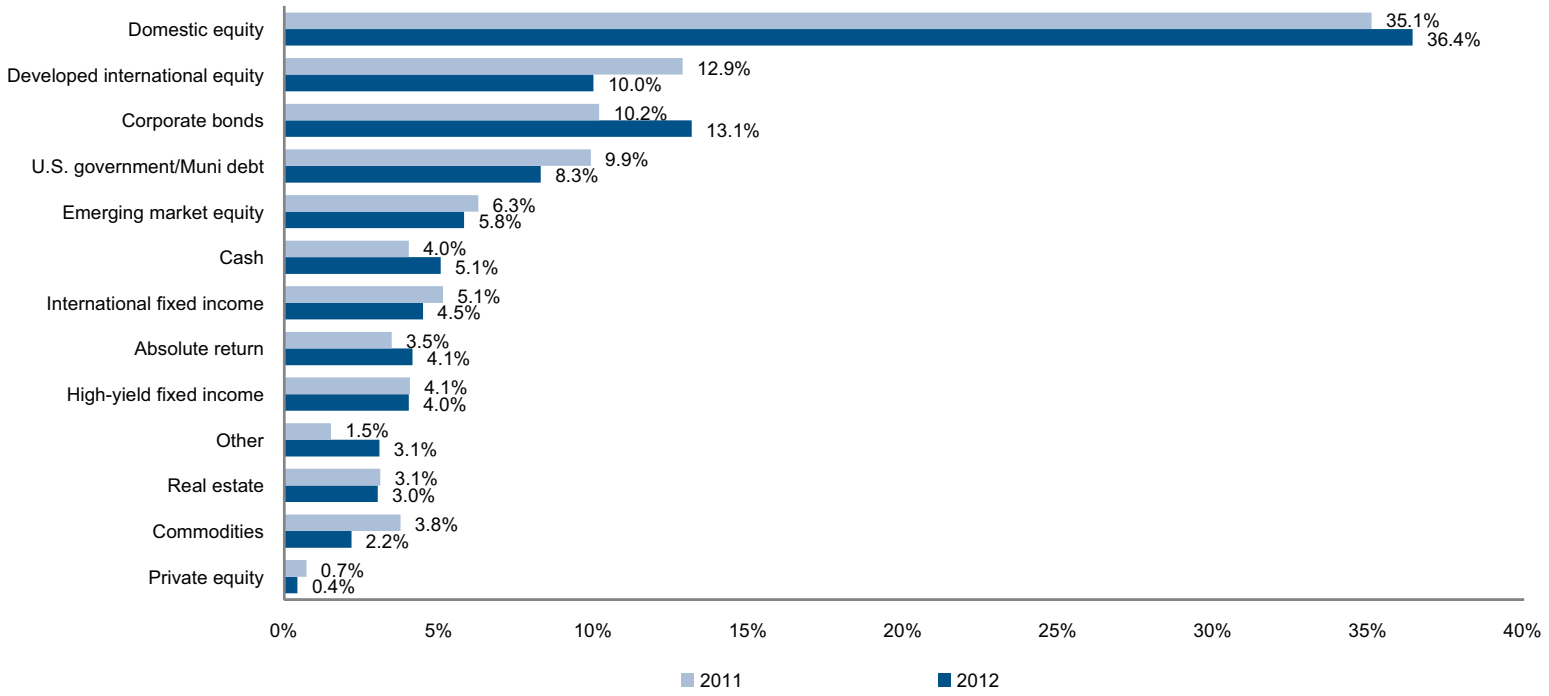
Key Implication: On a Cerulli research call, one multi-billion dollar RIA said, "We have more opportunity than people to deal with it." Such opportunity is arising from new clients and contributions from existing clients. Successful RIAs have mined opportunities such as leveraging referrals from their service agent and utilizing in-house business development officers to develop the skills of their advisors. Advisors indicated that new client assets were generated from direct relationships that had grown too large to self-manage, as well as from clients who were drawn away from traditional B/Ds. When considering client acquisition, one RIA offered this recommendation: "Make sure you consider your web presence. Though none of our existing clients go, every potential client has already been there. By the time they're at your desk, the decision is nearly complete."

EXHIBIT 9.04

Average RIA Moderate Portfolio Allocation, 2011-2012

Sources: Cerulli Associates, in partnerships with the Investment Management Consultants Association, the Financial Planning Association, WealthManagement.com, Bill Good Marketing, and Morningstar

Analyst Note: Other responses include fixed indexed annuities, options, and global allocation.



- Political uncertainty in Europe has caused a reduction in allocation to developed international equity among RIAs. Domestic equity (36.4%) and corporate bonds (13.1%) were beneficiaries of allocation changes, adding a combined 4.2%.

Key Implication: Investor and advisor uncertainty about market conditions resulted in conservative portfolio positioning. Advisors increased allocation to corporate bonds, cash, and domestic equity as safe harbors from the risks abroad and those perceived in our own government debt. Despite conservatism, equity markets have performed well to date, up nearly 15% as of November. Just as advisors must counsel investors to remain consistent throughout market conditions, asset managers should make efforts to keep money from flowing into cash and out of managed investments, despite cyclical market movements.

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