ENVESTAT INTERSECTION

April 2016

During this quarter's Envestats, we continued our journey of quantifying advisor behaviors in which value is created to the end consumer.

During this quarter we tried to answer a few particular questions:

1. In the prior quarter we talked about the importance of rebalancing portfolios, but we did not quantify the benefits. What is the value created through rebalancing based on actual account experience?

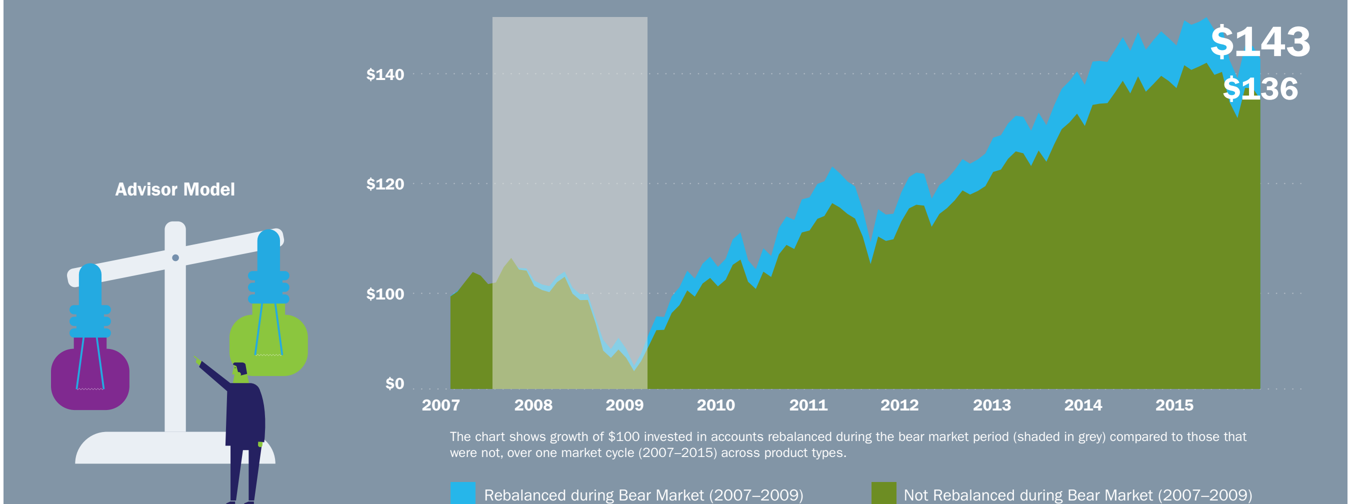
2. Many advisors have a sophisticated way of creating investment models or solutions for their clients, but is there a missed opportunity by not changing these models through varying market conditions?

3. The marketplace is talking a lot about impact investing. How prevalent is its use on the Envestnet platform? Is there a way to create value for a client using impact investing as a strategy, and does that strategy cause the client to sacrifice return?

High and Low—Rebalance?
We've talked in prior reports about the importance of rebalancing. We've had readers question some of our statistics and our opinion that rebalancing during certain market cycles really matters. The question we received most last quarter was based on the fact that we previously only discussed rebalancing in up markets. Envestat user feedback is important to us, so we drilled more into this question and reviewed bear market rebalancing. We focused solely on advisor-directed models for this analysis, as we wanted to test advisor behavior on accounts managed solely by the advisor vs. those managed by a third-party investment manager. The chart below shows the results of our analysis:

Impact of Rebalancing in Advisor Models

Hypothetical Growth of $100 Rebalanced vs. Not Rebalanced During Bear Market



The chart shows growth of $100 invested in accounts rebalanced during the bear market period (shaded in grey) compared to those that were not, over one market cycle (2007–2015) across product types.

Advisor models accounts that were rebalanced during the bear market in 2007–2009 experienced a 56 basis point improvement in annualized performance over those accounts not rebalanced.

Stay the Course or Change Model?
We also reviewed the model change behavior of advisor-based models in 2014 and 2015. We reviewed asset allocation model changes, because they are often a trigger for rebalancing events. In 2014 and 2015, the advisor-managed models were changed at a frequency of one-third the change of the MF/ETF wrap accounts. You may wonder why this matters? According to our February 23, 2016 Envestat report, financial advisors who made at least one model adjustment during the 2007–2015 time period, outperformed those advisors who made no changes—to the tune of 46 basis points per year over that time period.

Meeting Customized Client Needs
As advisors seek to add value in a digital age, those who focus on money management at the center of their value propositions will be required to have a compelling story as to why their asset allocation and investment vehicle choices meet the needs of their clients. Vanguard, Schwab and others have made it difficult to make the passive cost-sensitive approach the center of a money management value proposition.

Impact investing isn't a new concept, but people have referred to it by different names over its history. Since its earliest days, impact investing has evolved to work from an inclusive perspective, whereby clients no longer create a list of things to avoid, but rather invest in companies that have a positive impact aligned with their personal preferences.

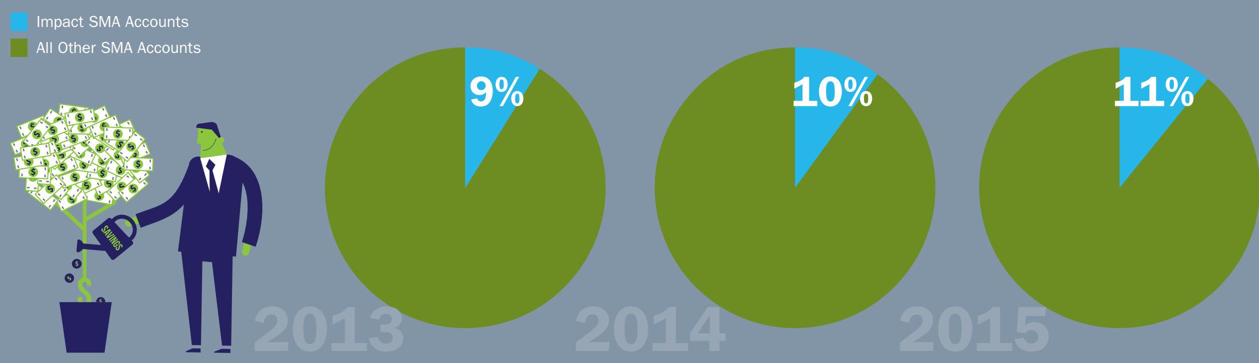
According to the Forum for Sustainable and Responsible Investing, 69% of millennials believe investment decisions are a way to express their social, political and environmental views. Based on current client research, the demand for advisors who focus on impact investing is only going to grow. We believe impact investing is a focus area that can allow advisors to provide value to a certain subset of clients, but the question is how common is its usage.

During this quarter we analyzed the usage of impact investing on our platform. Although the trend is moving upward (see chart on next page), the growth in impact account utilization is still significantly less than the growth in overall separately managed accounts.

Doing Well and Doing Good Are Not Mutually Exclusive
Advisors can customize portfolios for their end clients based on impact investing desires, but doesn't that mean they have to give up return versus the overall investment universe? This question has been long debated, so we reviewed the

Impact Investing: Poised for Growth

Growth in % of Impact SMA Accounts



performance of the impact vehicles on our platform versus the overall universe of products on our platform. We found that, during the time we reviewed, clients did not give up return; in fact, they gained it.

As shown below, when we looked at impact SMAs on our platform, they outperformed their non-impact counterparts by 15.45% over a complete market cycle. This translates to 1.61% on an annualized basis.

Navigating Today's Markets Requires an Active, Customized Approach for Your Clients

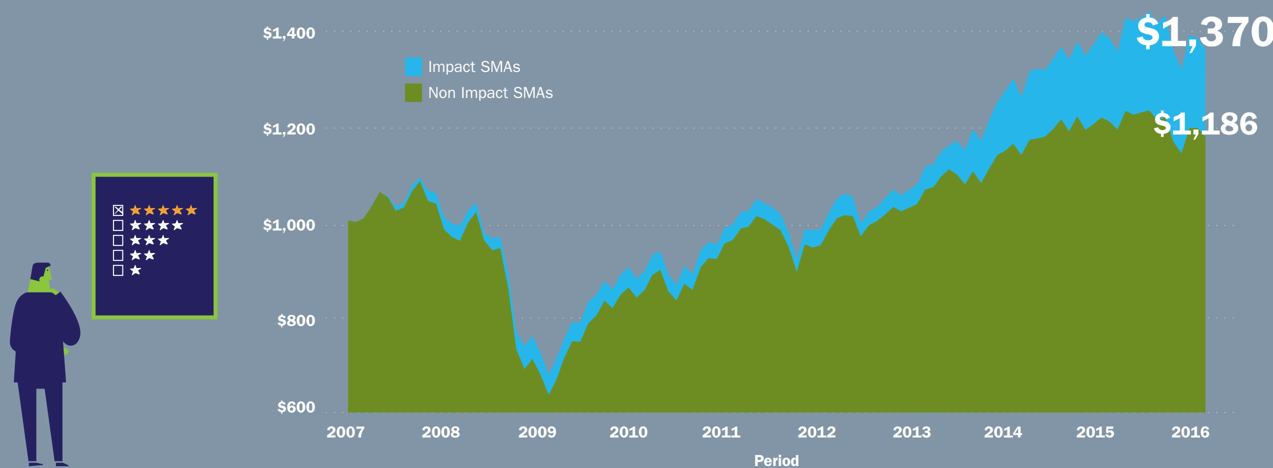
Today, advisors who choose to manage money on their own, vs. outsourcing to a third-party money manager, are required to spend more time on the task than ever before. A growing number of investment options, heightened market volatility and increased client demand for investment solutions customized to their specific needs are all contributing to the increased time tax on advisors. This quarter's series of Envestats revealed that advisors who take an active approach, monitoring portfolios closely and making changes as needed, and aligning investment solutions to their clients' values, delivered higher returns for their clients. While advisors can add incremental value to their client relationships by actively managing money on their own, we believe there is often a trade-off. Advisors managing money often find it difficult to find the time to develop new client relationships and thus, grow their practices.

Next Quarter

We will examine how advisors are successfully navigating today's heightened market volatility.

Doing Well and Doing Good Are Not Mutually Exclusive

Hypothetical Growth of $1,000 in Impact and Non-Impact SMAs (Jan 2007 to Dec 2015)



About Envestnet

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Envestnet, Inc. (NYSE: ENV) is a leading provider of unified wealth management technology and services to investment advisors. Our open architecture platforms unify and fortify the wealth management process, delivering unparalleled flexibility, accuracy, performance, and value. Envestnet solutions enable the transformation of wealth management into a transparent, independent, objective, and fully aligned standard of care, and empower advisors to deliver better outcomes.

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