New Choices for New Challenges—

The Case for Liquid Alternatives Implementation

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Introduction: A search for new solutions

Investors are looking to advisors for new solutions that seek to protect portfolios from market extremes and, ultimately, help preserve wealth. In a 2011 study by Cerulli Associates, 22.7 percent of all households indicated that their greatest personal concern was protecting the current level of their wealth – underscoring just how defensive investors have become.[1]

Over the past five years, asset classes have become increasingly correlated. We believe that traditional diversification approaches may not provide an effective or consistent enough "shock absorber" to ease many investors' qualms. In our opinion, there is no question that investors and advisors who want to improve portfolio stability should consider "diversifying harder" – that is, expanding their investment universe into new areas via alternative investment strategies. The challenge is that, historically, alternatives have typically been illiquid, opaque and difficult to tap for all but the most sophisticated and wealthy investors. However, new approaches are making the alternative investment process more straightforward and accessible. In fact, in a recent report, consulting firm McKinsey & Co. stated that "alternatives…are becoming part of the investment management mainstream."[2]

In this paper, we review the demonstrated portfolio benefits and potential trade-offs of alternative investments and examine the emerging advantages of liquid structures, which bring powerful new efficiency and flexibility to alternative assets.

Responding to a changed investment environment – The enduring case for alternatives

Theories abound that, today, extreme market events – or "black swans," as Nassim Nicholas Taleb famously named them in 2007 – occur more frequently and in a more severe way than previously thought. Indeed, such events seem to have become more common over the past two to three decades. A 2009 paper by Abdullah Z. Sheikh of JP Morgan Asset Management, entitled "Non-Normality of Market Returns," noted that even before the crisis of 2007–2008, investors over the previous three decades had been faced with a string of financial meltdowns – for example, the Latin American debt crisis in the early 1980s, the stock market crash of 1987, the East Asian currency crunch of 1997 and the bursting of the U.S. tech bubble in 2000–2001 – that together represent a more frequent occurrence of extreme "non-normality" in real-world markets than anticipated by current risk management approaches.[3]

Different classes of equities and bonds – large-cap vs. small-cap, growth vs. value, high-quality debt vs. low-quality debt – may often have low correlations to each other. Increasingly, when severe market stress points occur, these asset types become highly correlated, with the potential for dire, if temporary, portfolio impact.

Investors may claim to have a long-term perspective and specific goals for the next 10, 20 or 30 years, but it is clear that they feel the pain of short-term portfolio loss acutely at these stress points. We think that better diversification approaches are needed, if only to try to help investors remain focused on their goals.

After the past decade's repeated market shocks, equities remain a tough sell for many investors. From 2008 through 2011, U.S. equity funds

[1] Cerulli Associates, 2011, "Quantitiative Update: Retail Investor Provider Relationships"
[2] McKinsey & Co., 2012, "The Mainstreaming of Alternative Investments: Fueling the Next Wave of Growth in Asset Management"
[3] JP Morgan, 2009, "Non-Normality of Market Returns: A Framework for Asset Allocation Decision-Making"

experienced net outflows of approximately $380 billion, while fixed-income funds attracted net flows of more than $750 billion over the same period.[4] According to Bank of America Merrill Lynch, 2012's second quarter saw the highest amount of inflows since the financial crisis into conservative bonds, despite a promising performance by equities and record low yields of "safe haven" investments.[5]

Yet bonds – the traditional refuge of skittish investors and income seekers – seem problematic as well at current valuations. The benchmark 10-year U.S. Treasuries yields merely 1.5 percent as of mid-July 2012. This presents both an income risk (retirees not earning enough to support their lifestyles) and principal risk: eventually, inevitably, we believe U.S. Treasury rates will rise, accompanied by a price impact. In addition, intermediate and long-term bonds may be threatened by inflation, which could decrease the purchasing power of both their coupon and their principal. An unexpected rise in inflation would mean that formerly adequate income from bonds could fall short.

So it's no surprise that advisors are recommending alternative investments, which may offset the weaknesses of stocks and bonds – a trend reflected in the large flows into the category.

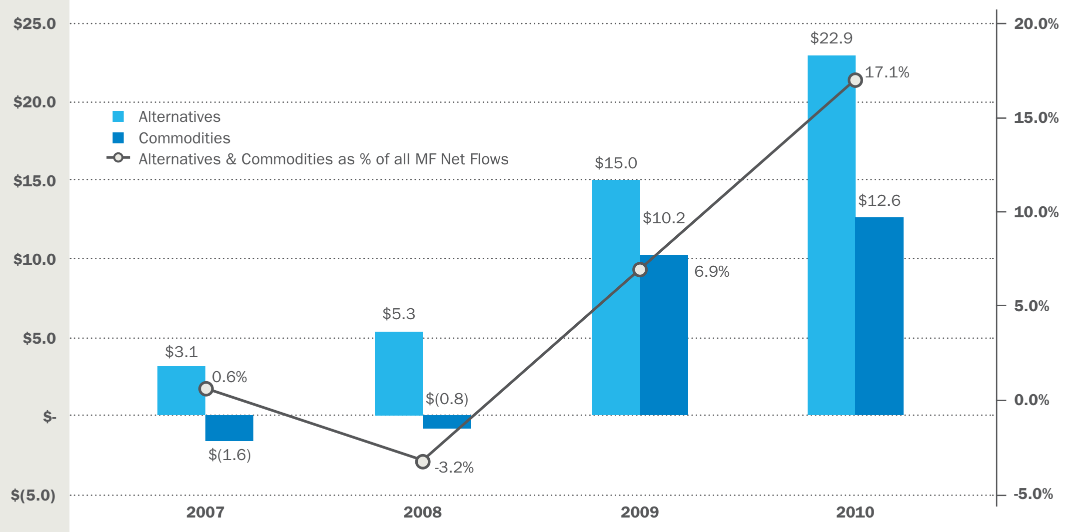
In a 2012 Cerulli Associates study, asset managers predicted that alternative mutual funds would make up 9.7 percent of mutual fund assets in five years and rise further to 15.8 percent of assets in 10 years. One third of managers in the retail channel rated alternative investments as their most important initiative.[6]

The trend is driven partly by investor demand, but even more by the financial industry's recognition of the need. According to Cerulli, 89 percent of asset managers said that the most significant driver of interest in alternatives was the need for risk-adjusted performance optimization in investor portfolios.[7]

Alternative investments – which we define as investment vehicles that use shorting, leverage and financial engineering, including instruments such as derivatives, puts, calls, futures and forwards –

Exhibit 1

Alternative and Commodity Mutual Fund Net Flow and % of Industry Total 2007–2010



Source: Morningstar Direct

[4] Envestnet, 2012, "Compendium of Industry Trends," page 3
[5] http://www.bondsquawk.com/2012/07/12/investors-shun-equities-for-the-safety-of-bonds
[6] *Financial Planning*, July 19, 2012
[7] Envestnet, 2012, "Compendium of Industry Trends," page 63

Exhibit 2

Correlation of Hedge Funds to U.S. Stocks and Bonds

	S&P 500 Correlation (USD)			BarCap US Agg Correlation (USD)		
	3-Year	5-Year	Since Index Inception 01-01-2003	3-Year	5-Year	Since Index Inception 01-01-2003
Morningstar 1000 HF USD	0.81	0.79	0.77	0.28	0.18	0.17
Morningstar Convertible Arbitrage HF USD	0.72	0.70	0.65	0.44	0.37	0.30
Morningstar Corporate Actions HF USD	0.75	0.74	0.73	0.25	0.16	0.13
Morningstar Debt Arbitrage HF USD	0.71	0.69	0.65	0.42	0.35	0.34
Morningstar Distressed Sec HF USD	0.66	0.66	0.66	0.03	-0.03	-0.01
Morningstar Dvlp Asia Equity HF USD	0.81	0.76	0.70	0.30	0.21	0.11
Morningstar EM Equity HF USD	0.80	0.76	0.74	0.24	0.15	0.17
Morningstar Equity Arbitrage HF USD	0.64	0.61	0.58	0.36	0.21	0.22
Morningstar Europe Equity HF USD	0.76	0.74	0.72	0.28	0.16	0.16
Morningstar Global Debt HF USD	0.72	0.70	0.67	0.37	0.30	0.29
Morningstar Global Equity HF USD	0.82	0.79	0.79	0.29	0.18	0.13
Morningstar Global Non-Trend HF USD	0.48	0.44	0.43	0.37	0.23	0.28
Morningstar Global Trend HF USD	0.11	0.17	0.21	-0.01	-0.06	0.08
Morningstar Multi-Strategy HF USD	0.78	0.76	0.73	0.23	0.13	0.15
Morningstar Short Equity HF USD	-0.05	-0.06	-0.04	-0.41	-0.35	-0.23
Morningstar US Equity HF USD	0.88	0.88	0.87	0.11	0.05	0.04
Morningstar US Small Cap Equity HF USD	0.89	0.88	0.87	0.12	0.06	0.03

Source: Morningstar Alternative Investments Observer (First Quarter 2011), p.26.

have shown the potential to reduce volatility and to offset the depredations of inflation.

Reducing volatility

It's commonly accepted that adding investments that are less correlated – or negatively correlated – is one of the better ways to reduce a portfolio's overall volatility. Alternative investments could play this role. For example, the correlations of Morningstar's hedge fund indexes to the U.S. stock and bond markets ranged between 0.87 and 0.04 over the eight years since the indexes' inception in January 2003 (refer to Exhibit 2 for more information).

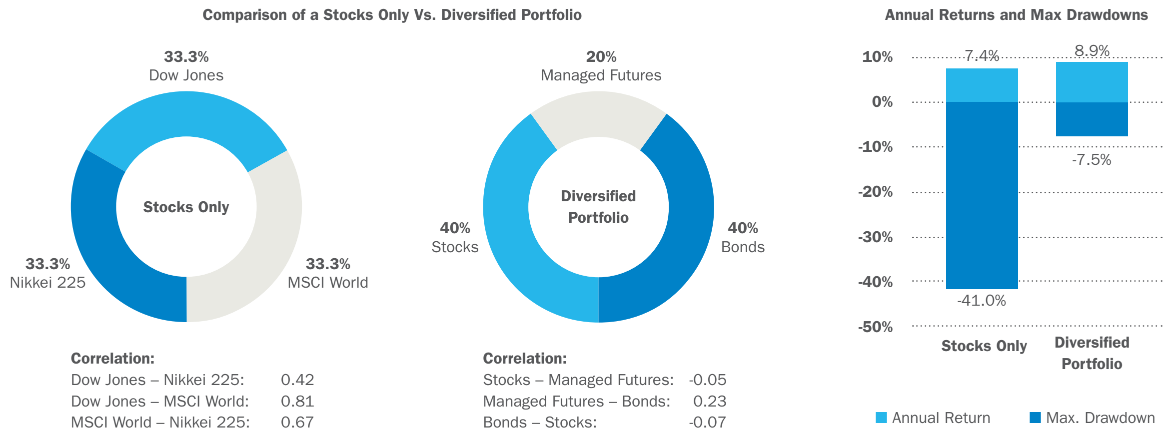
Exhibit 3 shows how incorporating one kind of alternatives – managed futures – into a diversified portfolio influences a portfolio's risk and return, as compared with a portfolio of stocks alone. In this example, from March 1993 to March 2011, the overall risk, as measured by the maximum drawdown, was reduced by almost 82 percent, from -41 percent to -7.5 percent, and the annualized return increased almost 20 percent, from 7.4 percent to 8.9 percent. These effects are mainly due to the lack of correlation and, in some cases, negative correlation between the components of the diversified portfolio.[8]

By enhancing portfolio diversification, alternatives can improve risk-return trade-offs. According to Goldman Sachs Asset Management, "historically, alternative investments such as hedge funds have had lower volatility levels than equities and they have generally delivered attractive risk-adjusted

[8] http://www.parkavenueassetmgt.com/pdf/mpt7.pdf

Exhibit 3

Comparison of Stocks Only Versus Diversified Portfolio*



Managed futures: CASAM CISDM CTA Equal Weighted; Bonds: JP Morgan Government Bond Global; Source: Bloomberg

returns. Over the past decade (October 2002–October 2012), hedge funds, as measured by the HFRI Fund Weighted Composite Index, have returned 6.7% on an annualized basis with 6.5% standard deviation, compared to the S&P 500, which has returned 6.4% annualized returns with a 15.2% standard deviation over the same time period."[9] Hedge funds, as measured by the same HFRI Fund Weighted Composite Index, also outperformed global stocks, as measured by the MSCI EAFE for the three-year and five-year periods ending October 31, 2012, measuring 3.93 and 0.85 versus -0.08 and -7.57 annualized respectively for each index.[10]

Offsetting inflation

When investors are willing to take on additional risk, alternative fixed-income investments can take on a different role and provide a route to supplementing returns. Certain types of alternatives may offer the potential to outpace inflation and bond returns.

For example, by going short, a manager could create a bond fund with a negative duration. Because duration is a measure of bonds' sensitivity to interest rates, such a fund could provide protection against rising rates.

An alternative manager may also go long and short on specific bonds to take advantage of spreads that seem out of line with historical norms. Another possibility is to take advantage of global interest rate inequities by going long and short on interest rate futures. As of late 2012, for example, yields on fixed income were at all-time lows, with Treasuries yielding less than 200 basis points – though many investors expect rates to rise over time. With the expectation that rates would be on the rise, an investor could employ a mutual fund that goes short as well as long on certain fixed-income contracts and hedge against the possibility that bond principal would depreciate in a rising-rate environment.

Mitigating risk

In the equity space, an alternative manager that specializes in long/short equity funds can employ similar tactics. For example, a "pairs" trader may go long the shares of, say, an auto maker with favorable fundamentals but maintain a short position in a similar auto maker whose fundamentals are deteriorating.

[9] Goldman Sachs, 2010, "Breaking with Tradition: Mutual Funds Offer an Alternative Route," page 4
[10] Morningstar Direct, 2012

In this way, the portfolio manager can establish a position in particular sectors by implementing favorable positions based on best thinking as well as take advantage of research on overvalued securities – all the while managing the portfolio's overall exposure to the industry. If the manager's overall industry opinion is favorable, then the long positions would outweigh the short ones; if the outlook is negative, an opposite weighting would be maintained.

This approach could be executed with individual stocks, or groups of stocks in the same industry, sector, geographic sector or of a similar capitalization.

Overcoming implementation hurdles

Though the benefits of alternatives have been well documented, historically these strategies have not been accessible to many retail investors, creating a potential, critical portfolio gap. From an implementation standpoint, the use of alternatives has been challenging for most advisors due to issues including access, ability to perform due diligence, portfolio size and risk management – to say nothing of the relationship hurdles of ensuring client confidence and comfort with an alternatives strategy. Increasingly, advisors seek to overcome these challenges via the use of liquid alternative funds.

The first liquid alternatives appeared in the mid-1980s, with the introduction of SEC-registered, 1940 Act mutual funds and exchange-traded funds (ETFs) that employed versions of hedging techniques suitable for a fund structure. According to Cerulli Associates, in 2011 mutual funds became the preferred structure for accessing "hedge fund strategies," with 56 percent of advisors indicating they were "using more 1940-Act mutual funds" with these strategies.[11]

Over the past 20 years, the liquid alternative investments industry has taken numerous turns, pushed by market upheavals, pulled by institutional investors' asset allocation and liquidity needs, and reshaped by financial technology. As a result, liquid alternatives have become an increasingly realistic option.

Advantages of a liquid structure

Shock absorber: Liquid alternative funds can provide distinctive "shock absorption" benefits compared with a straight stocks/bonds/cash portfolio. By using short positions to help mitigate risk and adjusting the amount of overall market exposure in general as conditions change, liquid alternatives have historically shown themselves to be an effective buffer during times of maximum portfolio stress.

Specifically, liquid alternatives can be used in combination with traditional, long-only exposures to equity and fixed-income portfolios to create a new portfolio that is less exposed to extreme losses or periods of stress. This portfolio design process seeks to minimize the Conditional Value at Risk or Shortfall Risk found in a long-only portfolio.

"Conditional Value at Risk" and "Shortfall Risk" are terms for measurements of the risk and magnitude of portfolio losses during time periods when markets are at their worst. During periods of extreme negative market stress, correlations that may be low or negative during most other market conditions tend to become strongly positive. By using Conditional Value at Risk as a new lens to view investment risk, certain liquid alternative strategies can be combined to mitigate the risk experienced at such times.[12]

As a specific example of the potential buffer effect of liquid alternatives, consider the worst daily return for the Russell 3000 over the 10 years prior to July 31, 2012. On December 1, 2008 the Russell was down 9.28 percent during that one day. Yet, that same day, a diversified portfolio of liquid alternative mutual funds lost only 70 basis points – that is, 0.7 percent of its value.[13]

The time-tested adage of "buy low, sell high" seems easily implemented but, in fact, is very difficult in practice. When fear and greed are ruling the markets it's hard to maintain clarity. From a behavioral finance perspective, the shock absorption benefit of liquid alternatives helps guard against such irrational actions as exiting the market altogether during all-time lows – those

[11] Envestnet, 2012, "Compendium of Industry Trends," page 66
[12] Zvingelis, Janis, Envestnet, 2012,"Incorporating Liquid Alternatives in a Strategic Portfolio: An Overlay Approach," pages 2-4; 9-11
[13] Morningstar Direct, 2012

extreme stress points that, in reality, are probably the best time to commit to equities.

By avoiding extreme losses – and taming the investor's temptation to revert to cash at the worst time – a liquid alternatives approach may provide much more stability for a portfolio and limits lost value (which will eventually have to be restored).

While delivering many of the benefits of traditional alternative approaches, liquid alternatives also offer some valuable investor features that can enhance comfort with their use.

Liquidity, transparency, access: Because liquid alternatives are by definition mutual funds or ETFs, they generally provide daily liquidity to fund shareholder redemptions. They must file semi-annual reports and prospectus documents. Many have very low investment minimums, some as low as $1,000, and any investor can buy them. By contrast, in the hedge fund arena, investors must qualify to participate, either through extensive financial resources or deep financial acumen.

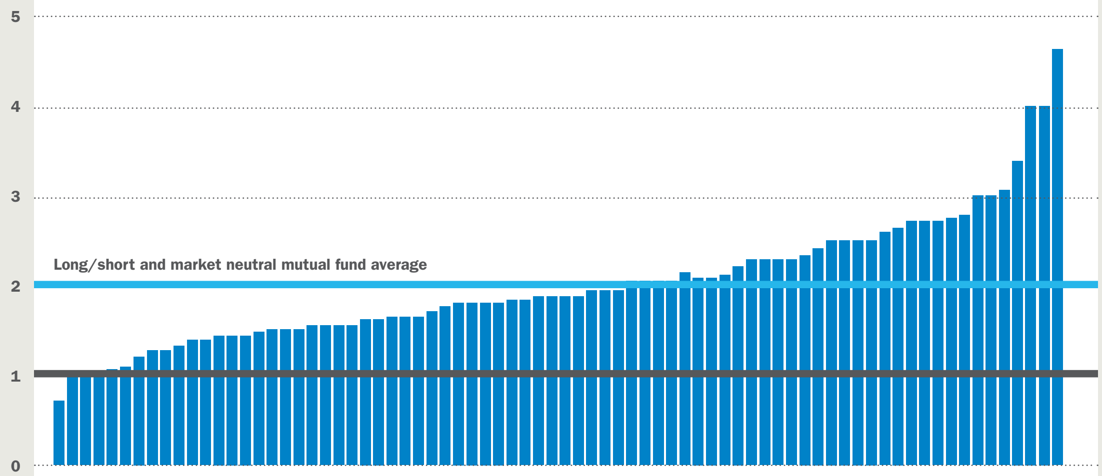
Alternative investments, even when packaged as mutual funds or ETFs, charge higher expenses than traditional investments. However, mutual funds and ETFs charge far less than hedge funds' traditional "two and twenty," a 2 percent management fee on assets and a 20 percent performance fee.

Understanding the trade-offs

Many liquid alternative mutual funds are new to the market, and few have significant long-term track records. Additionally, mutual funds and ETFs using alternative strategies face more constraints than hedge funds. For example, under SEC regulations, mutual funds must limit the amount of short exposure or leverage they use. Such limitations do have the potential to mute liquid alternative fund returns, compared to traditional alternatives – meaning that there is a relatively narrow difference between the relative risk and return of the very best versus the very worst liquid alternative funds, compared with pure hedge funds. Investors should not expect liquid alternative mutual funds to generate performance comparable to that of hedge funds on a consistent basis. Since mutual funds face stricter regulations, they may carry less operational risk than traditional hedge funds. However, those regulatory constraints potentially translate into

Exhibit 4

Fees Charged By Hedged Mutual Funds (Percent)



Source: Company websites, Investment Company Institute, Morningstar, Finadium

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performance that can be considerably different than hedge funds. Furthermore, as with all mutual funds, there is the risk of investment loss. No fund is intended to be a complete investment program by itself.

For example, consider a group of long/short equity hedge funds and a group of long/short equity liquid alternatives/mutual funds. Pure hedge funds can maintain higher leverage and concentration to fewer stocks, offering managers the ability to take fairly extreme bets. By comparison, mutual funds have restrictions on leverage and, because of holdings transparency, few would be in the position of buying or shorting just a limited number of stocks. For these reasons, in any given month, it is more likely that pure hedge funds will have very wide performance variability – say, -50 percent for the group's worst performance and +50 percent return for its best – compared with perhaps -5 percent on the worst side and +5 percent on the best side for the mutual fund group.

An advisor and client using liquid alternatives might give up the opportunity for some of the potential returns that private, non-liquid alternatives may offer. Yet, owing purely to the regulatory requirements of the liquid structure, we believe that investors in this space are also more likely to avoid funds with potential operational, fraud or lack of scale issues, all of which can pose significant risk of shutdown.

In the hedge fund space, research by the consulting firm CAPCO into traditional hedge fund blowups found that an alarmingly high proportion of fund failures could be attributed to operational issues – 54 percent of failed funds had identifiable operational issues and half of all failures could be attributed to operational risk alone. The most common operational issues related to the losses were misrepresentation of fund investments, misappropriation of investor funds, unauthorized trading and inadequate resources.

Alternative mutual funds are much less susceptible to these events because of the need for independent audits, independent boards, transparency into holdings and the large number of SEC filings and other oversight measures.

As with any asset category, there is no "free lunch" – liquid alternatives offer their own distinctive risk and return attributes. But, for many clients, the prospect of tapping an alternatives approach with daily liquidity, transparency, cost and tax efficiencies, plus low investment minimums, may prove compelling.

Types of liquid alternatives

Advisors who want to utilize liquid alternatives are still faced with the challenges of selecting the vehicles best suited to their client's goals, determining an appropriate allocation and integrating alternatives into the overall portfolio strategy.

To support this process, Envestnet | PMC has extensively researched the liquid alternatives universe and developed a proprietary method for categorizing and evaluating liquid alternatives based on cluster analysis of management styles.

Key categories of liquid alternative funds include:

- **Hedged equity funds:** Seek to reduce overall equity portfolio volatility by going long and short individual stocks or equity sectors.
- **Hedged fund-of-funds:** Seek to diversify across multiple strategies to pursue different sources of returns.
- **Multi-strategy funds:** Seek to both diversify across multiple strategies to pursue different sources of return and to add value through tactical or strategic allocation shifts.
- **Equity arbitrage funds:** Seek to benefit from variations in related stocks with different pricing fundamentals but similar overall characteristics.
- **Strategic income funds:** Seek to exploit inefficiencies in the fixed-income markets.
- **Managed futures funds:** Seek to tap into non-correlated sources of returns across multiple asset classes via investments in financial, commodity or real asset futures contracts.
- **Short bias funds:** Seek to reduce equity exposure or implement a tactical view to

potentially profit from a declining equity market; also known as bear market funds, they generally have an inverse correlation to equity markets, with negative equity betas (that is, negative correlation to systematic equity market risk) of between 0.5 to up to 2 of equity indexes. Many of these funds are very volatile and, because they are designed to provide directly opposite equity exposure, should be used in small doses to specifically hedge market risk.

- **Equity market-neutral funds:** Seek to capitalize on a non-trending equities market by singling out stock picking ability and targeting zero equity beta. An equity market-neutral fund can employ one of two strategies to reach this market neutrality: asset-neutral, using an equal dollar amount of stocks long and short; or beta-neutral, with the total market beta of the long stock holdings equal to that of the short holdings. Because such funds seek an equity and fixed-income market beta of zero, they generally have low volatility and uncorrelated returns.

The portfolio approach to liquid alternatives

Third parties, such as Envestnet | PMC, can equip advisors to effectively and efficiently construct goal-oriented portfolios employing exposure to specific liquid alternative vehicles. Certain providers also offer a framework for determining how much to allocate to liquid alternatives and guidance on the composition of the specific portfolio, including what Envestnet | PMC considers the best possible combination of alternative sub-strategies.

From the perspective of the advisor, a liquid alternatives portfolio approach designed with the assistance of a dedicated provider empowers the advisor to tap into the experience of analysts dedicated to the implementation of liquid alternatives, including due diligence, fund selection and ongoing management of the portfolio.

The advisor also has the benefit of presenting to the client an alternatives portfolio specifically and clearly structured in line with a particular client goal – for example, management of equity exposure, management of fixed-income exposure or management of exposure across the entire client portfolio – via an appropriately diversified liquid alternatives approach.

Although alternative investments (hedge funds) have typically been geared toward institutional and high-net-worth investors, we believe that liquid alternatives enable a broader range of investors to take advantage of the historic strengths of hedge funds, while also benefiting from the attributes of mutual funds and ETFs. In addition, liquid alternatives have a low minimum account size. In order to create a portfolio that is well diversified across traditional asset classes as well as alternatives, advisors may consider $250,000 for the entire portfolio as a rough minimum. Generally, for portfolios of this size or larger, allocations of 10–40 percent to alternatives make sense. As clients near retirement, advisors may find it appropriate to decrease and adjust the allocation to alternatives, becoming more income-oriented over time.

Putting a portfolio approach into practice

Envestnet | PMC has created an optimized mix of liquid alternative allocations that is designed to provide a market shock absorber or buffer. The mix was created by measuring the risk-adjusted returns and volatility levels of the funds' average returns in each of the eight categories discussed above, throughout various market conditions, over the past 10 years. We also assessed particular manager attributes, including specific investment methodology, security selection, due diligence and others.

A key feature of our portfolio construction process was to consider risk in new ways, such as the risk of extreme loss like that associated with the financial crisis of 2007-2008, and not just risk as measured by standard deviation or overall volatility. Creating a solution that minimizes the chance of extreme loss in the most stressful market conditions – when the correlation of most asset classes narrows at the same, worst time – was a key goal in setting allocations to each of the eight alternative asset styles. We call our optimized portfolios Paradigm Liquid Alternatives.

Envestnet | PMC has created three portfolios designed specifically to work as complements to a traditional portfolio:

- **Equity Complement:** This portfolio is designed to reduce volatility in a traditional equity portfolio and minimize "shortfall risk" – that is, the risk that the investment's return will be less than expected. It aims to enhance an overall portfolio's ability to perform in a wide range of market conditions. Strategies employed by this portfolio include hedged equity as well as market neutral, a technique for earning positive returns regardless of market direction by hedging away market risk. Another potential technique is equity arbitrage, which benefits from historical and event-driven pricing differences among specific companies. A key feature of the market-neutral strategy is the use of long/short equity, which can cover US equities, global equities or special sectors. This technique involves establishing long positions in securities believed to be undervalued while selling short securities believed to be overvalued. Such approaches aim to reduce the portfolio's correlation to downward equity market movements while gaining as much of the market's positive performance as possible – with the ultimate goal of improving risk-adjusted returns.

- **Fixed-Income Complement:** This portfolio is designed to protect bond investors from the risk of rising interest rates and the accompanying loss of principal. The portfolio employs a strategic income focus, using advanced management techniques to seek profits from inefficiencies in fixed-income markets. Technique include going long/short credit based on the credit analysis of issuers and securities, and 2) long/short bonds based on the price of a fixed-income investment at a given maturity.

- **Portfolio Diversifier:** This portfolio brings together the features of the fixed income and equity complements to help manage both equity and fixed-income risk. The strategies employed by this portfolio include market neutral, managed futures and short bias. The portfolio works to achieve equity market returns with reduced equity correlations and enhanced risk-adjusted returns, while helping to protect bond investors from the risks of rising interest rates and the accompanying loss of principal. In this way, the portfolio represents an "all purpose" diversifier for comprehensive market buffering, and is designed for more risk-averse investors who are willing to tolerate somewhat lower returns for the benefit of enhanced downside protection.

Summing up

In today's "new normal," investors value portfolio stability the way yesterday's markets valued growth. Clients are looking to their advisors for solutions that are designed to help protect assets on the downside and seek to maintain wealth preservation.

Alternative investments can provide this valued downside protection and wealth preservation benefit. But we think advisors need an alternatives strategy that can be presented to clients in a straightforward way and implemented with optimal efficiency. Advisors and investors both need an alternatives approach that is transparent, liquid and readily monitored in order to inspire confidence in the use of these vehicles.

Increasingly, liquid alternatives will fill this urgent portfolio management need – delivering a unique diversification tool well suited to the demands of a dramatically changed investment environment.

Disclosure

You should consider the investment objectives, risks, fees and expenses of any exchange traded fund or mutual carefully before investing. This and other important information is available in the funds' prospectus and summary prospectuses, which you may obtain at the appropriate funds' websites. Please read the prospectus and summary prospectuses carefully before investing.

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Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. You should conduct your own due diligence to ensure you understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and non-traditional instruments such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks such as merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses. Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

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Envestnet, Inc. (NYSE: ENV)

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