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FRC ANNOUNCEMENT

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Marketplace Underestimates the Threat Posed by Actively Managed ETFs, According to Latest Financial Research Corporation Study

April 13, 2009, Boston, MA – Exchange-traded funds (ETFs) have grown at a rate of 35% compounded annually since 1999, making them the fastest growing global fund management products to surface in the last ten years. Recognizing the potential threat these emerging vehicles may pose to mutual funds in the years ahead, Financial Research Corporation (FRC) has carefully monitored ETF developments and recently teamed up with ETF industry expert Gus Fleites to explore the next frontier in ETF development actively managed ETFs.

In this new study, *Actively Managed ETFs: Competitive Threat or Passing Fad?*, FRC seeks to determine whether these innovative products are in fact a competitive threat to mutual funds and other retail-oriented investment products. FRC provides an understanding of the ETF marketplace, key considerations for developing an active ETF, and an examination of distribution opportunities.

In their short history, the growth potential of ETFs has been underestimated by the marketplace. In 2000, FRC surveyed ETF experts and early-adopting advisors regarding their predictions for the ETF marketplace. At the time, these innovators forecasted that ETFs would capture one-quarter of index assets by March 2005. In fact, FRC found that ETFs met this mark by March 2003, and by March 2005, the products controlled nearly

one-third of index assets. For our latest study, FRC surveyed 15 asset management firms to gauge the impact they believe active ETFs will have on the future marketplace for active management. One-fifth indicated they strongly believe that active ETFs offer advantages over mutual funds. Despite the small number of products and low asset level of active ETFs, the industry is beginning to believe that these emerging products will affect the future structure and distribution of active management.

“Today’s conservative outlook for actively managed ETFs is likely a sign of the times, as the market is not particularly bullish on active management right now,” said Rob Ivanoff, research analyst and contributing researcher for the study. “However, we believe the industry is minimizing the potential threat active ETFs pose to mutual funds.”

Study highlights:

Competitive Advantages – Active ETFs allow all types of investors—from retail buy-and-hold investors to market timers—to invest in the same portfolios by transferring shareholder activity from within the portfolio to the securities markets. This separation of shareholder activity reduces portfolio trading costs, enhances performance, and improves tax efficiency.

Roadblocks to Widespread Acceptance - While active ETFs represent a disruptive technology that is here to stay, they continue to face a number of challenges, including a long, complex regulatory approval process and the ability to provide portfolio transparency to investors and market makers.

Distribution Opportunities - Given the preference that 401(k) plan sponsors and investors have for active management, active ETFs have the opportunity to infiltrate the retirement plan space if they are able to overcome the administrative hurdles associated with the ETF structure.

For more information on this study or to set up a press call, please contact Trisha Langlois at FRC at 617-399-5631 or via e-mail at Trisha.Langlois@frcnet.com.

About Financial Research Corporation

Financial Research Corporation (FRC) provides the knowledge to build stronger relationships through product development and management, distribution solutions, and marketing strategies. For more than 20 years, our insightful research and consulting services have been assisting marketing, product development, and strategic planning professionals in the creation of innovative products and services. Based in Boston, FRC is at the forefront of assisting its clients to comprehend and respond to the rapid changes occurring in the manufacture and distribution of investment products. Our more than 200 clients include the world's leading asset managers and distributors. For more information, contact us at 866-532-8009, e-mail us at frcsales@frcnet.com, or visit our Web site at www.frcnet.com.
