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AFTER HOURS QUARTERLY

ETF Usage Continues to Grow

INSIDE THIS ISSUE:

Some recent reports confirm what we have been seeing first hand here at Penserra, which is ETFs being used more widely, by a broader audience of investors, and for more core or strategic purposes. I wrote in this space last year that I believe ETFs will overtake mutual funds, not because investors will buy ETFs instead of mutual funds, but because investors will buy ETFs instead of individual securities. The statistics are supporting this on-going trend.

According to a joint survey from Blackrock and Fidelity, "nearly three-quarters of financial advisors expect to increase their ETF allocation in the coming three years, with a quarter expecting to significantly increase their allocation to ETFs." This comes on the heels of data showing total assets under management for ETFs in the US now at $2.1 trillion. One of the most interesting statistics noted in the survey is that just 32% of individual investors currently own any ETFs in their portfolios. The fact that 68% of individual investors don't own any ETFs is what I view as the largest future driver of growth and the thing that could ultimately allow ETFs to become bigger than traditional mutual funds. Especially when you consider that the reason given for not investing in ETFs is "a lack of general familiarity with the products." ETFs are only about 20 years old and investor awareness has only grown and continued to build since the products came on the scene.

"ETFs are being viewed more as a core, long term holding…"

Another interesting aspect is how ETFs are being viewed more as a core, long term holding. 88% of investors in the survey said they view ETFs as being part of their long term strategy and 43% are using ETFs as the core of their portfolios. The survey also noted younger investors being bigger users of ETFs, which one would expect to lead to increased ETF AUM over time as younger investors accumulate wealth, savings and investments.

As strong as the growth has been, there is still an enormous opportunity. The market size for individual equities and bonds dwarfs ETF assets and continues to be where most of the new ETF money is coming from. We expect these trends to continue and for ETFs to overtake mutual funds within the next 10 years.

For additional information please contact Dustin Lewellyn at ETF@penserra.com.

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Market Structure Changes – Helping Investors?

In a June 2014 speech, SEC Chair Mary Jo White announced a comprehensive review of equity market structure that would be data-driven. A major pain point could be changes in rebates, exchange-access fees, and other economic incentives, which influence where brokers route buy and sell orders.

As the first quarter of 2015 wraps up, two pilot programs were supposed to be on the forefront of market structure change. First, the SEC was ready to go ahead with the somewhat controversial Tick Size Pilot Program. The program was to test the use of varying tick sizes and regulations as an incentive for smaller companies to use the market place to raise capital; however, the program included a disputed "trade-at" provision, which is the supposed cause for a delay until May 6, 2015.

The second was a pilot program that did hit the ground running - the NASDAQ Access Fee pilot program was launched on February 2, 2015. The Access Fee Pilot program seems logical on paper. In order to incentivize market takers to access liquidity in the NASDAQ market place, NASDAQ lowered access fees from 30 mils ($0.0030) to 5 mils per share, and reduced the rebate given to liquidity providers ("makers") to 4 mils per share for displayed liquidity. A little over a month into the four month program and the preliminary results are in for the 14 test names, which included both large cap and small cap names.

A Nasdaq MarketSite sign in New York.

Source: *BLOOMBERG NEWS*

Of the 14 names, 12 names dropped in volume on NASDAQ, while other exchanges that favored liquidity makers gained the lost volume. Not only that, but the frequency of NASDAQ posting the NBBO (next best bid and offer) significantly dropped, and spreads widened by around 5%. Looking at the results, it makes sense when the incentives to post on NASDAQ were lowered for market makers; they went to other exchanges that favored their service.

Even though there are still 3 months left in the program, the results are fairly conclusive. This new pilot drove liquidity providers to the competition, and as a result NASDAQ suffered and the NASDAQ customers suffered. If NASDAQ wants to be a better alternative than other exchanges, then they need to look into innovation rather than disincentivizing competition.

When people compete, the best possible price is offered, and the investor always wins. Though that is the goal of the SEC – let us hope that is the result.

For additional information please contact Jason Valdez at EquityTrading@penserra.com.

Beta Management Within a Transition

In its simplistic form, beta management allows a client to temporarily maintain their desired asset class exposure while eliminate the potential performance slippage from their overall asset allocation. While there are several ways to implement a beta management strategy, the two more common tactical approaches used by transition managers are derivatives based and non-derivatives based solutions.

Derivatives Based Solution

Often times, a situation will arise where cash may be held for an unknown period of time. This is usually a result of an unplanned event, such as the immediate termination of a manager, the need for maintaining short-term liquidity needs, ongoing cash equitizations or timing constraints with their target investment managers during an asset allocation shift.

In such instances, by understanding the client's objectives including the desired interim benchmark and timing requirements, utilizing an optimized basket of futures to synthetically obtain your market beta may be optimal. Compared to a non-derivatives based solution, this can be cost-effective and allow a client the flexibility of deploying the underlying cash at any time.

Non-Derivatives Based Solution

For a client who already holds an existing portfolio but needs someone to temporarily manage it (also known as interim management) until a more permanent portfolio management solution is found, a transition manager can offer a solution based on some or all of the current legacy portfolio holdings. The thought behind this solution is to minimize the cost of moving into an eventual target while also managing risk relative to a benchmark.

To create an interim solution, the legacy portfolio is evaluated versus the benchmark – the current tracking error is measured as well as the cost to fully transitioning from the current legacy portfolio into the benchmark. These two data points become the end points to form a range of possible solutions. One extreme is a zero cost solution where the client bears the full risk of tracking error with the existing portfolio to the benchmark. The other end of the spectrum is a zero risk solution of holding the benchmark but bearing all the trading costs associated with transitioning into that benchmark. With those end points, we would then create multiple solutions along that continuum allowing the client to choose the most appropriate combination of cost to trade and risk to the benchmark.

In discussion with the client, the appropriate target portfolio solution is determined based on preferences in the trade-off between costs of trading and risk versus the benchmark. The transition manager is able to create and hold that target portfolio for a negotiated period of time. Depending

Beta Management Within a Transition(cont.)

upon the duration of the mandate, reports are provided on a monthly basis evaluating the ongoing active risk relative to the benchmark allowing for a periodic rebalance of holdings to a target risk level. This solution allows a client the time to make decisions in terms of final disposition of assets while also preserving the cost savings of potential in-kinds in the event the physical assets are going to a target investment manager within the same asset class.

For additional information on our Transition Management Services please contact transitions@Penserra.com

WHAT'S NEW AT PENSERRA

In March our asset management line of business, Penserra Capital Management, hit a milestone by exceeding the $1 billion asset under management plateau. Of the nine ETF strategies where we sub-advise as the asset manager, one in particular, PureFunds ISE Cyber Security ETF (HACK), had extraordinary growth. Over the next few months, we are expected to launch additional funds and begin offering a variety of passive index strategies to our institutional customers towards the second half of the year.

Also, please join me in welcoming two new employees to Penserra. Dan Calandrillo joined the firm as a Sales Trader based in our New York City office and most recently came from Telsey Advisory Group. Dan will take the lead in building out a third-party independent research platform to complement our existing proprietary research offering. New Operations Specialist - Andrew Fox, a graduate of Rutgers University Business School. Andrew functioned as a Lending Analyst for Morgan Stanley prior to joining Penserra. He will help bolster the firm's growing need for back-office and middle-office support as the firm continues to expand.

Penserra Research Universe

Ticker	Full Company Name
AAP	Advance Auto Parts Inc
ACAT	Arctic Cat Inc
BGFV	Big 5 Sporting Goods Corp
BIG	Big Lots Inc
BJRI	BJ's Restaurants Inc
BONT	Bon-Ton Stores Inc/The
SAM	Boston Beer Co Inc/The
BWS	Brown Shoe Co Inc
CAB	Cabela's Inc
CRI	Carter's Inc
CASY	Casey's General Stores Inc
PLCE	Children's Place Inc/The
CNK	Cinemark Holdings Inc
CONN	Conn's Inc
TCS	Container Store Group Inc/The
PLAY	Dave & Buster's Entertainment Inc
DKS	Dick's Sporting Goods Inc
DDS	Dillard's Inc
DLTR	Dollar Tree Inc
DSW	DSW Inc
RDEN	Elizabeth Arden Inc
ETH	Ethan Allen Interiors Inc
FINL	Finish Line Inc/The
FRAN	Francesca's Holdings Corp
FRED	Fred's Inc
TFM	Fresh Market Inc/The
HOG	Harley-Davidson Inc
HGG	hhgregg Inc
HIBB	Hibbett Sports Inc
IRBT	iRobot Corp
JACK	Jack in the Box Inc
JMBA	Jamba Inc
KATE	Kate Spade & Co
LF	LeapFrog Enterprises Inc

Ticker	Full Company Name
LTM	Life Time Fitness Inc
MW	Men's Wearhouse Inc/The
ORLY	O'Reilly Automotive Inc
PTRY	Pantry Inc/The
PIR	Pier 1 Imports Inc
RCII	Rent-A-Center Inc/TX
SBH	Sally Beauty Holdings Inc
SKX	Skechers U.S.A. Inc
SODA	SodaStream International Ltd
SFM	Sprouts Farmers Market Inc
SSI	Stage Stores Inc
SHOO	Steven Madden Ltd
TXRH	Texas Roadhouse Inc
TUES	Tuesday Morning Corp
TUMI	Tumi Holdings Inc
ULTA	Ulta Salon Cosmetics & Fragrance Inc
VRA	Vera Bradley Inc
WEN	Wendy's Co/The
WGO	Winnebago Industries Inc

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ABOUT PENSERRA

Founded in 2007, Penserra is an institutional financial services firm with offices located in the New York, Chicago, and San Francisco areas. Through state of the art technology, Penserra Securities LLC delivers products and services in equity, fixed income, interest rates, and credit markets. Our networks deliver global connectivity to customers seeking unparalleled liquidity and flow in orderly marketplaces. Penserra Capital Management LLC is a Registered Investment Advisor and affiliate of Penserra Securities LLC. Advisory and fiduciary services including transition management and ETF sub-advising offered through Penserra Capital Management LLC, an SEC Registered Investment Advisor and affiliate of Penserra Securities LLC.

Penserra Securities is a certified Minority-Owned Business Enterprise (MBE).

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