VOLUME 8— PAGE 1

DECEMBER 31, 2014

AFTER HOURS QUARTERLY

INSIDE THIS ISSUE:

ETFs: The Year in Review and a Look Forward

As we come to the end of 2014 and look forward to 2015, I thought it would be a good time to take a look at the year that has just passed as well as to submit a few predictions for the year ahead in ETF land. Late December saw US ETF assets cross $2 trillion for the first time ever. It took ETFs 18 years to reach $1 trillion in assets and only another 4 years to cross $2 trillion. Flows for 2014 were also a record coming in just over $230 billion with a week left in the year. The large flows, coupled with positive returns for most asset classes, drove the total over $2 trillion.

The big 3 ETF sponsors (Blackrock, State Street, and Vanguard) continue to dominate the market with a collective 81.83% (compared to 81.68% at the end of 2013) market share, though Blackrock and State Street lost some market share year on year while Vanguard gained (likely driven by their low cost leadership). The largest inflows and outflows among individual ETFs saw some of the largest and most core funds reflect general performance which included a strong US equity market, falling gold and energy prices and falling interest rates.

2014 also saw Penserra enter the ETF sub-advisory business. As sub-advisor, Penserra performs portfolio management and basket maintenance functions for 3rd party ETFs. We are grateful for the funds we took on in 2014 and look forward to a robust pipeline of new business in 2015.

Top 10 Inflows and Outflows:

Ticker	Fund Name	Net Flows (millions)	Ticker	Fund Name	Net Flows (millions)
SPY	SPDR S&P 500	24,982.02	QQQ	PowerShares QQQ	(11,325.07)
VOO	Vanguard S&P 500	10,203.28	EEM	iShares MSCI Emerging Markets	(5,427.70)
IVV	iShares Core S&P 500	9,604.90	GLD	SPDR Gold	(3,172.10)
BND	Vanguard Total Bond Market	7,934.42	MOO	Market Vectors Agribusiness	(3,088.65)
AGG	iShares Core U.S. Aggregate Bond	7,392.75	XLB	Materials Select SPDR	(1,634.79)
VEA	Vanguard FTSE Developed Markets	7,195.88	SSO	ProShares Ultra S&P 500	(1,610.09)
VTI	Vanguard Total Stock Maret	6,877.58	XLK	Technology Select SPDR	(1,558.10)
EFA	iShares MSCI EAFE	5,076.98	DEM	WisdomTree Emerging Markets Equity Income	(1,533.62)
HEDJ	WisdomTree Europe Hedged Equity	4,951.63	MDY	SPDR S&P MidCap 400	(1,482.38)
XLE	Energy Select SPDR	4,931.21	XLI	Industrial Select SPDR	(1,257.03)

Data from ETF.com as of 12/29/14

ETFs: The Year in Review and a Look Forward(cont.)

A Look Ahead

Let's review what I wrote here a year ago with a fresh perspective on what 2015 holds:

- Last year I wrote: Most pundits agree cap weighted index based ETFs have run their course as far as new product launches are concerned. AUM in these products will continue to dominate as the overall market grows and new distribution channels open up, but you will see fewer launches and what you do see will be thematic, targeted and niche type strategies. Current: AUM flowing into the most core market cap weighted funds drove total AUM over $2 trillion for the first time ever. ETFs are becoming more main stream and finding adoption with new investors all the time and across the spectrum (retail, advisor, institutional). This will continue and will eventually allow for ETFs to overtake mutual funds.

Top 10 US Listed ETF Issuers

Issuer	AUM (millions)	Percent of Total
BlackRock	760,782.27	37.93%
SSgA	453,884.54	22.63%
Vanguard	426,565.26	21.27%
Invesco PowerShares	97,419.88	4.86%
WisdomTree	38,581.39	1.92%
First Trust	33,280.62	1.66%
Guggenheim	29,295.81	1.46%
Charles Schwab	26,770.32	1.33%
ProShares	25,336.54	1.26%
Van Eck	21,147.95	1.05%

Data from ETF.com as of 12/22/14

- Last year I wrote: Active ETFs dominate the discussion about what is next. The largest hurdle by far is the transparency issue. As things stand now, the SEC requires daily disclosure of portfolio holdings for an active ETF, which is a concern for most active managers, especially in the equity space. There are several proposals in front of the SEC to address the transparency issue and if it can get resolved to everyone's satisfaction (sponsors, regulators, investors, market makers, etc.) the traditional mutual fund companies could well be the next big wave of ETF launches. I believe this will happen eventually, but not in 2014. The big thing in 2014 will continue to be talk and preparation. Current: I was mostly right. Eaton Vance did get approval in November for their exchange traded managed funds (ETMFs), which are a non-transparent wrapper for active funds. ETMFs are not ETFs as they trade at a price relative to end of day NAV and not a current market price. Precidian had their application for non-transparent active ETFs turned down by the SEC. I believe 2015 will see a modified Precidian application approved and possibly some others. Blackrock, State Street and several large mutual fund companies have licensed the Precidian methodology as their solution for non-transparent active ETFs.
- Last year I wrote: The bridge between market cap weighted indexes and active strategies has been alternatively weighted indexes. One of the on-going debates here is what to call them. Smart beta (which sort of implies the traditional definition is dumb), alternative beta, factor based or whatever you want to call them, alternatively weighted indexes will continue to be popular strategies for new ETF launches in 2014. Current: Many of the new product launches in 2014 would fall under the name of smart beta, and many of those were focused on income. I expect this trend to continue.
- Last year I wrote: ETF managed portfolios continue to be one of the hottest areas for ETF asset growth and they will continue to gather momentum as investors find the combination of advice implemented with low cost, tax efficient and transparent ETFs to be attractive. Current: this was true in 2014 and will continue to gather momentum in 2015.

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

Tale of the Tape…Transition Manager or Investment Manager…you decide!

We are often asked by fund managers the advantage of transition management versus having legacy and target managers handle the asset moves. While most investment managers have the trading capability to handle these situations let's take a look at a few of the questions fund managers should think about before allowing that to happen:

Expertise - Investment Managers are hired for their portfolio management capabilities and they know their portfolios inside and out. However, that focus is narrow in scope while a transition manager has an entire business model built solely to implement changes in the most efficient and effective way possible.

Incentive - If a new manager is given a terminated manager's holdings their goal is only to get out of those names and into their own as quickly as possible. A transition manager's goal is to manage the overall event and move you from your legacy to target portfolio while managing all aspects along the way. So basically a manager's goal is to BE the target, a transition manager's goal is to MOVE you to your target. Very distinct differences.

Are Explicit Costs (i.e.-Commissions) lower? – There is a belief by some that introducing a Transition Manager will increase commission costs. In most cases this is simply not true. Commission rates Transition Managers receive are lower on average than full service rates managers paying during the normal course of business.

"A transition manager's goal is to manage the overall event and move you from your legacy to target portfolio while managing all aspects along the way…"

Overall Costs – We are all familiar with the "tip of the iceberg" cost model. In moving assets, commissions are that tip. You have to look at all of the implicit costs that sometimes aren't as visible at the beginning. The opportunity cost of being in the wrong names or sectors, delays due to poor project management, failure to capture in-kinds. A poorly managed event in normal market conditions could easily cost an asset owner 40 – 50 bps more than it should.

Exposure Management – If a target manager's sole goal is to get into their optimal portfolio what does that mean about overall exposure management? For example maybe your legacy and target both have a 5% weighting in technology but hold completely different names. A manager trading that may not pay attention to the sector exposure and you could have weighting swings up to +/- 5% away from your target, a significant risk in volatile markets.

Let the old manager liquidate then provide cash to the new manager – There are unfortunately still many situations where this happens. The terminated manager liquidates their portfolio; the client waits for those trades to settle then provides cash to the incoming manager. The client pays all costs associated with selling, then re-purchasing securities common between the two managers, which can be significant. Of much greater concern is being completely out of the market for a period of 3-5 days.

Tale of the Tape…Transition Manager or Investment Manager…you decide!(cont.)

Project Management – We often say that 90+% of the success or failure of an event happens before the first trade hits the market. The project management expertise and time commitment performing all of the ancillary duties to ensure a smooth and seamless event are significant. If proper attention isn't paid any number of them can cause serious problems.

Reporting: A transition manager will be responsible for, and provide detailed reporting for the transition itself. You will know all the details of what happened along with performance during the time period. If a manager is left to handle it they will most certainly request a performance holiday and will not be able to provide the same level of reporting a transition manager can.

Third Party Oversight: The ability to outsource the liability of the event to a fiduciary is more important than ever in the fund arena.

For the reasons listed above in addition to others we highly recommend consulting a transition manager before making decisions for every event.

For additional information please contact Steve Lowden at Transitions@penserra.com.

Equity Research: The Tick Pilot

Two events highlighted market structure issues during 2014.

The first was the publication of Flash Boys by renowned author Michael Lewis. Mr. Lewis' book weaves a compelling story detailing the current structure of the equity markets, and brings into question the practice of high frequency trading (HFT). Although I take issue with how Mr. Lewis portrayed the application of HFT, his book ignited a healthy dialogue across our industry debating both the effectiveness and legitimacy of high frequency trading . In the end, I side with the majority of opinions who believe in changing the market structure that created high frequency trading vs. regulating HFT participants out of business.

Advances in trading technology have created profitable opportunities for those who know how to use them. Whether one agrees or disagrees with the validity of high frequency trading, the use of sophisticated technological tools and computer algorithms has added liquidity to the equity marketplace. Whether or not this is a fair and equitable development remains to be seen. That being said, there appears to be agreement on the need to review and reconsider all of the various order types. In fact, the SEC is preparing to levy a $13MM fine to BATS (the largest fine ever imposed on a trading exchange) over how Direct Edge handled customer orders through their order types. This is a good first step toward cleaning up some of the fallout resulting from REG NMS and will no doubt shed more light onto the practices of HFT.

The second development during 2014 is the comment period of the SEC's Tick Pilot program. This topic appears to have received little interest, and those I've discussed it with seem indifferent. This lack of focus could be attributed to the fact that the test securities represent so little as a percentage to the greater investing public. Numerous whitepapers and articles have suggested the Tick Pilot program is a great attempt to improve our market structure, however, I'm not sure what benefit will be gained as its currently presented.

Equity Research: The Tick Pilot (cont.)

The proposed pilot has so many moving parts with the control and test groups that I think it will be difficult to evaluate the results with all of the new complexity. I also wonder if it will unintentionally increase trading costs in these names by arbitrarily widening the spreads – there is no evidence that suggests it won't. Additionally others have expressed concern that the pilot has expanded beyond what Congress and the JOBS Act attempt to identify. Lastly, the Trade-At component potentially favors certain market participants, namely the exchanges, which is inconsistent with the SEC's intent to pursue rulemaking that improves market structure without being biased to specific participants.

Needless to say it will be interesting to watch what is ultimately attempted, but as with the order review, I believe it's encouraging that the SEC is taking a systematic and thorough approach at improving our overall market quality. I look forward to seeing how this and other discussions take shape in 2015.

As Heraclitus so wisely put it – "The only thing that is constant is change". And change is not the enemy.

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

WHAT'S NEW AT PENSERRA

In November, Penserra was excited to launch its asset management business! The firm participated in two Exchange Traded Fund launches as sub-advisor. The first, PureFunds ISE Cyber Security ETF (HACK), was created to provide the market with a transparent vehicle to invest in the increasingly important Cyber Security industry. The second, Emerging Markets Internet and eCommerce ETF (EMQQ), is based on a strategy created by our friend, Kevin Carter, at Big Tree Capital. We have many more ETF strategies coming in-house early next year and we will begin offering a variety of passive index strategies to our institutional customers. Wish us luck!

Also, please join me in welcoming Sean Gurson to Penserra. He joined the firm as a Research Sales Associate and will be focused on sales and marketing of our equity special situation research and our customer survey research. I am sure you will soon hear from Sean directly!

Penserra Research Universe

Ticker	Full Company Name	Ticker	Full Company Name
ACAT	Arctic Cat Inc.	ORLY	O'Reilly Automotive Inc.
ANN	ANN INC.	PIR	Pier 1 Imports, Inc.
BGFV	Big 5 Sporting Goods Corp.	PLAY	Dave & Buster's Entertainment, Inc.
BIG	Big Lots Inc.	PLCE	The Children's Place, Inc.
BJRI	BJ's Restaurants, Inc.	PTRY	The Pantry, Inc.
BONT	Bon-Ton Stores Inc.	RCII	Rent-A-Center, Inc.
BWS	Brown Shoe Co. Inc.	RDEN	Elizabeth Arden, Inc.
CAB	Cabela's Incorporated	SBH	Sally Beauty Holdings Inc.
CASY	Casey's General Stores, Inc.	SFM	Sprouts Farmers Market, Inc.
CHUY	Chuy's Holdings, Inc.	SHOO	Steven Madden, Ltd.
CNK	Cinemark Holdings Inc.	SKX	Skechers USA Inc.
CONN	Conns Inc.	SODA	SodaStream International Ltd.
CRI	Carter's, Inc.	SSI	Stage Stores Inc.
DDS	Dillard's Inc.	TCS	The Container Store Group, Inc.
DKS	Dick's Sporting Goods Inc.	TFM	The Fresh Market, Inc.
DLTR	Dollar Tree, Inc.	TUES	Tuesday Morning Corporation
DRI	Darden Restaurants, Inc.	TUMI	Tumi Holdings, Inc.
DSW	DSW Inc.	TXRH	Texas Roadhouse, Inc.
ETH	Ethan Allen Interiors Inc.	ULTA	ULTA Salon, Cosmetics & Fragrance, Inc.
FINL	Finish Line Inc.	VRA	Vera Bradley, Inc.
FRAN	Francesca's Holdings Corporation	WEN	The Wendy's Company
FRED	Fred's, Inc.	WGO	Winnebago Industries, Inc.
GNC	GNC Holdings Inc.		
GT	The Goodyear Tire & Rubber Company		
HGG	hhgregg, Inc.		
HIBB	Hibbett Sports, Inc.		
HOG	Harley-Davidson, Inc.		
IRBT	iRobot Corporation		
JMBA	Jamba, Inc.		
KATE	Kate Spade & Company		
LF	LeapFrog Enterprises Inc.		
LL	Lumber Liquidators Holdings, Inc.		
LTM	Life Time Fitness, Inc.		
MW	The Men's Wearhouse, Inc.		

For additional information please contact Sean Gurson at sean.gurson@penserra.com.

CONTACTS

Fixed Income Sales and Trading Hotline
Phone: 646.459.0596
Email: bondtrading@penserra.com

Equity Sales and Trading Hotline
Phone: 800.456.8850
Email: equitytrading@penserra.com

Transition Management Hotline
Phone: 855.736.7377
Email: transitions@Penserra.com

New York
(Headquarters)
140 Broadway, 26th Floor
New York, NY 10005
Phone: 844.736.7377

Orinda, CA
(San Francisco Bay Area)
4 Orinda Way, Suite 100-A
Orinda, CA 94563
Phone: 888.925.8008

Chicago
10 South Riverside Plaza, Suite 875
Chicago, IL 60606
Phone: 773.938.8108

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, a Registered Investment Advisor and affiliate of Penserra Securities LLC.

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

DISCLAIMER