

Cetera Investment Management

PASSIVE STRATEGY OVERVIEW

Passive Strategy Overview

Cetera Investment Management was created in 2012 to draw upon the internal talent and thought leadership of Cetera Financial Group and deliver expanded opportunities for the investing public. With portfolio management services available exclusively to the clients of the advisors at our broker-dealer and registered investment adviser firms, we are dedicated to giving advisors the tools, resources and insight they need to help their clients pursue their goals and carefully manage risk.

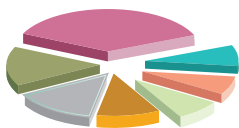
We believe that the most prudent approach to achieving long-term investment objectives is through well-diversified portfolios, carefully structured according to risk tolerance and then periodically rebalanced to meet the changing economic landscape. All Cetera Investment Management passive portfolios strive to:

- Offer a sound, proven and repeatable asset allocation process
- Carefully manage exposure to risk
- Deliver low-cost investment exposure

Creating the Portfolio

Because the way a portfolio is constructed can be just as important to its overall success as the way in which it is managed, we use the following process when building our passive portfolios.

SET STRATEGIC ASSET ALLOCATION WEIGHTS



SELECT INVESTMENTS



MONITOR THE OVERALL PORTFOLIO



While the steps may seem deceptively simple, each entails a wealth of decisions that can make or break a portfolio's return. At Cetera Investment Management, we have honed a repeatable strategy based on straightforward, proven logic.

1

Set Strategic Asset Allocation Weights

Strategic asset allocation is one of the most important decisions in the investment process and can be a dominant factor in performance. It consists of determining the long-term allocations to the asset classes that present the best opportunities over a given time horizon. While there are numerous processes and methods throughout the industry, we believe the following process is a best practice of blending the art and science of strategic asset allocation.

The science begins with establishing broad investment objective allocation weights based on mean variance optimization—the efficient combination of asset classes based upon historic risk, returns and correlations. Next, we carefully deconstruct each investment objective to determine specific asset class exposures. We apply a mean reversion methodology to the resulting initial strategic asset allocation weights to create a forward-looking bias. Then, the art of incorporating market beliefs and assumptions in the right proportions is brought to bear to ensure a holistic, “real world” allocation that takes into account the best predictions for the market.

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Select Investments

With the asset allocation weights established, we populate the portfolios with exchange traded funds (ETFs). Each ETF comprises a portfolio of securities designed to track the performance of a market index (such as the S&P 500 or the Dow Jones Industrial Average), or a particular industry or market sector (such as health care companies or technology stocks). While ETFs are a cousin to mutual funds, there are important differences between the two types of securities. ETFs are typically more tax-efficient, less costly because of their passive management, and offer intraday pricing and trading similar to a stock.

It is important to note, however, that though mutual funds and ETFs each have their distinct advantages, both can be very effective portfolio construction tools. ETFs are used in our passive strategy portfolios precisely because of the opportunities they offer by being passively managed. The process we use to evaluate these securities within the portfolio is outlined on page 5.

Exchange traded funds (ETFs) and mutual funds are sold only by prospectus. Investing in ETFs and mutual funds is subject to risk and potential loss of principal. ETFs incur trading and commission costs similar to stocks and frequent trading can negate the lower cost structure of an ETF. There is no assurance or certainty that any investment or strategy will be successful in meeting its objectives. Investors should consider the investment objectives, risks and charges, and expenses of the fund carefully before investing. The prospectus contains this and other important information about the fund. Contact your registered representative or the issuing company to obtain a prospectus, which should be read carefully before investing or sending money.

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3

Monitor the Overall Portfolio

Once the passive portfolios have been constructed, they are continuously monitored. Because we expect the elevated market volatility we have seen over the past few years to continue, we do not believe static portfolio management, which would maintain the same allocations regardless of the market environment, offers the best opportunities. With this in mind, our monitoring process entails these three primary components:

Annual Review

We conduct a thorough review of the passive portfolios following the annual June rebalancing of the Russell indices. Because Russell rebalances its indices in order to maintain a true representation of global equity markets, capitalization and style, this may lead us to alter the underlying weights of our allocations based on their changes.

Quarterly Review

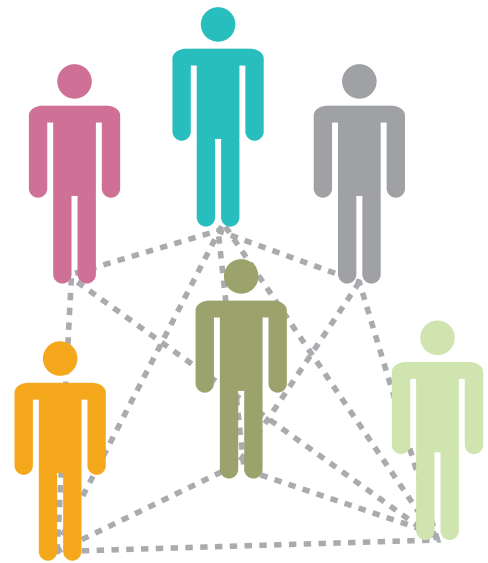
Each quarter, we review performance attribution of the models and include a forward-looking review of the major asset classes. If we believe that a clear opportunity or risk exists, we will alter the strategic asset allocation weights to take advantage of the opportunity or sidestep the loss.

Daily Review

Every day, we review performance of the strategic asset allocation models relative to the investment objective benchmarks. Any prolonged unexpected performance will trigger a formal review of the models.

Most of the drivers behind any asset allocation investment change may be found in our quarterly market outlooks, which highlight our analysis of the financial markets, discuss our current economic outlook, and offer investment guidance.

Your investment goals can be as individual as you are, and even change as your priorities do. But your portfolio should be based on the wisdom of time-tested methodologies. Your advisor, backed by Cetera Investment Management, can help you pursue an investment strategy that's not only right for you, but also founded on the right strategy. It's the difference between merely investing for the future, and preparing for it.



Selecting the Exchange Traded Funds

The Cetera Investment Management list of ETFs is pared from thousands of products. It aims to deliver high performance across a variety of asset classes while minimizing risk. Selection to the list is based upon a fundamental research process that employs both qualitative and quantitative analysis.

Initial Screening and Quantitative Analysis

We conduct a thorough review of the following quantitative factors, relative to both managed and unmanaged benchmarks, as well as ETFs of a similar style within each asset class:

- Analysis of the primary benchmark
- Assets under management
- Inception date
- Expense ratio
- Tracking error
- Bid/ask spread
- Turnover percentage
- Sector and holding attribution
- Risk-adjusted performance
- Upside- and downside-capture
- Modern portfolio theory (MPT) statistics
- Portfolio diversification by both sector and issue
- Current and historical portfolio allocation

Qualitative Analysis

While initial screening and quantitative analysis illustrate how well an ETF has performed in the past, the qualitative review focuses on factors that indicate whether or not it is well-positioned for strong performance in the future:

- Investment process and philosophy
- Organizational and management team structure and stability
- Management team experience and compensation structure
- Underlying portfolio characteristics
- Growth in assets under management and scalability of strategy/process
- Risk management, trading execution, and buy/sell discipline

Investment Committee Review

Once we identify a potential ETF for the portfolio, it is formally presented to the Investment Committee for approval. A majority approval is required.

Ongoing Monitoring

The invested ETFs are reviewed daily, quarterly and annually to ensure they meet the basic criteria for inclusion. An ETF may be removed from the list if it:

- Consistently underperforms its peers, or
- Deviates from its investment process, or
- Deviates from its benchmark, or
- Has experienced significant organizational changes or disruptions, or
- Its inclusion is no longer seen by the Investment Committee to be in the best interest of clients or the firm.

