PROSPERA
FINANCIAL SERVICES

Disclosures and Other Important Information About Exchange Traded Products (ETFs and ETNs)

As of October 2012

TABLE OF CONTENTS

EXCHANGE TRADED FUNDS DISCLOSURE STATEMENT

Prospera makes certain exchange traded funds ("ETFs") available to its customers. This brochure is designed to provide a brief overview regarding the merits and risks of certain ETF products you and your Financial Advisor are considering for your investment portfolio.

WHAT ARE EXCHANGE-TRADED FUNDS?

Exchange-traded funds (ETFs) at their core are entire portfolios of securities, sometimes referred to as baskets of securities, which are traded like individual stocks on an exchange. When you purchase an ETF, you are purchasing shares of the overall portfolio, not the actual shares of the underlying investments. ETFs are generally categorized in this guide as "traditional" ETFs or as the more complex "non-traditional" ETFs. This guide also describes complex "futures-linked" ETFs. As further described below, these and other exchange-traded products may seem similar, but their functional risks and characteristics are quite different.

Traditional ETFs

ETFs are typically structured as registered unit investment trusts (UITs) or open-end investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. Some ETFs that invest in commodities, currencies, commodity- or currency-based instruments, or volatility instruments are not registered as investment companies and are generally established as grantor trusts. Unlike traditional UITs or mutual funds, shares typically trade throughout the day on an exchange at prices established by the market.

Like individual stocks, ETFs can be bought and sold throughout the trading day at the current market value, which continuously fluctuates and reflects the value of each share at any particular time. Shares of the ETF are bought and sold on various stock exchanges.

ETFs can track a wide variety of sector-specific, country-specific and broad-market indexes. ETFs may provide diversification to your overall portfolio because one share or one unit may represent multiple underlying stocks, bonds and/or other asset classes. Each ETF seeks to replicate the market performance of the underlying index that makes up its basket of securities. Although ETFs seek to mirror the performance of a particular index, the relationship between performance of the index or sector and the ETF is not exact because of the fees and trading costs associated with the ETF, as well as the difficulties in exactly mimicking an index.

Non-traditional ETFs

Non-traditional ETFs may be "leveraged" or "inverse," and function like traditional ETFs, but may offer leverage depending on the product's investment objective. These ETFs, which are sometimes referred to as "geared," "responsive" or "exotic," generally rebalance daily, although some rebalance monthly. They are complex financial instruments designed to meet a stated investment objective although their performance can change significantly from their stated objective on a daily or monthly basis, depending upon the trading session.

- Leveraged ETF – Leveraged ETFs attempt to track a multiple of the daily (or monthly) returns of an index usually by using total return swaps. A leveraged ETF may be two times (2x) or three times (3x) leveraged, which means it attempts to provide two or three times the daily index return or loss, respectively. For instance, the double leveraged ETF seeks to provide a 2% gain on that daily return for each 1% increase in the market index return. Conversely, if the index drops 1%, your loss, in theory, would be 2% for that given day, assuming the ETF is rebalanced daily.
- Inverse ETF – Some leveraged ETFs are inverse or "short" funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. An inverse ETF generally engages in trading strategies, such as short selling, or enters into total return swap agreements and futures contracts. An inverse ETF seeks to deliver the inverse (-1x) of the index's performance, while a two times (-2x) or

three times (-3x) leveraged inverse ETF seeks to deliver two or three times the opposite of the index's performance, respectively.

Non-traditional ETFs seek to deliver multiples of the performance of the index or benchmark they track. To accomplish their objectives, non-traditional ETFs involve investment strategies that use swaps, futures contracts and other derivative instruments. Both leveraged and inverse non-traditional ETFs are trading vehicles and are not suitable for investors who are interested in a buy-and-hold strategy, particularly in volatile markets.

Non-traditional ETFs are not suitable for most investors. The effects of mathematical compounding can grow significantly over time, leading to scenarios whereby performance over the long run can differ significantly from the performance (or inverse performance) of their underlying index or benchmark during the same period of time. Leveraged, inverse, and leveraged inverse ETFs may be more volatile and risky than traditional ETFs due to their exposure to leverage and derivatives, particularly total return swaps and futures. In addition, these instruments are typically designed to achieve their desired exposure on a daily (in a few cases, monthly) basis. Holding leveraged, inverse, and leveraged inverse ETFs for longer periods of time potentially increases their risk due to the effects of compounding and the inherent difficulty in market timing.

Futures-Linked ETFs

Many commodity, currency or volatility ETFs attempt to track a futures-based index. Typically these ETFs invest all their assets in a pool which may hold futures contracts, swaps, and/or forward contracts. They are not the equivalent of investing directly in the actual physical commodity, currency or volatility instrument.

Futures-linked ETFs are complex investment vehicles and, as a result of the use of futures contracts and swaps are subject to unique risks and characteristics. Futures-linked ETFs are generally passively managed. These products may be volatile and may use leverage, similar to non-traditional ETFs.

Due to a number of factors associated with ETFs in general, the performance of commodity, currency or volatility ETFs may be misunderstood by investors. Their performance may not necessarily correspond to the underlying spot price performance (the spot price is the price of goods, currencies, or securities that are offered for immediate delivery and payment). In fact, when there are significant differences between the spot price and the futures price, the performance of the ETF may be very dissimilar to the spot price performance and may adversely impact your return. This deviation could be positive or negative depending on market conditions and investment strategy.

The difference between the performance of futures-linked ETFs and the underlying spot price may also be affected by the "rolling" of contracts by the fund manager. For instance, the manager wants to have ongoing, continual exposure to the particular commodity (or commodities) by using futures contracts or swap contracts. Therefore, if the manager is long (or holds) the contract, the manager must liquidate the contract that is currently held, sometime before expiration, and then gain exposure to another contract with a later expiration. The manager must continually liquidate and buy in contracts as the contracts' expiration date approaches. When commodity futures-linked securities are rolled, the difference between the price of the contract it sells and the price of the new contract it buys is called the "roll yield".

The effect of rolling contracts will vary depending on whether a particular commodity of futures market is in contango or backwardation. Contango and backwardation are unique risks associated with futures.

- Contango – When a market is in contango, contracts for more distant future delivery are more expensive than near-term contracts for the same commodity. Accordingly, if contracts are rolled in an attempt to maintain a long position while in contango, then the result is a loss or a negative roll yield.
- Backwardation – Backwardation is the opposite of contango. Backwardation is when more distant futures contracts are less expensive than the near-term contracts, possibly resulting in a gain when rolling. Thus, backwardation generally results in a positive roll yield for an investor who is long futures contracts and rolls into contracts with a later expiration.

It is important that you understand how futures-linked ETFs are structured, in addition to understanding the risks and characteristics of purchasing investments that focus on futures trading.

Futures-linked ETFs are not suitable for all investors. The performance of the futures-linked ETFs does not necessarily replicate the spot price and can deviate significantly from the performance of the spot price of the referenced commodity.

WHAT ARE THE FEATURES AND CHARACTERISTICS OF ETFs?

Some key features and characteristics associated with ETFs include:

- Tax Efficiency – Traditional ETFs are generally not actively managed and, as a result, typically generate fewer capital gains due to the low turnover of the securities within their portfolio. Taxes must be paid on all distributions made by the underlying securities and any capital gains associated with transactions made by the fund. However, because ETFs offer in-kind redemptions to qualified entities, they can avoid realizing capital gains for the fund although shareholders must still pay any taxes on realized gains. Non-traditional ETFs may not be tax efficient due to the increased amount of portfolio turnover due to periodic rebalancing as well as the use of leverage. If you have questions about the possible tax consequences associated with these funds, you should consult your tax advisor before making any investment decision.
- Expense Ratios – Non-traditional ETFs will generally have higher fees than traditional ETFs. Associated charges may include management, interest and transaction fees. The management fees are charged by the fund management company, which cover both marketing and fund administration costs. Interest and transaction fees are costs related to holding and transacting in derivatives securities and are generally built into the pricing. Purchases and sales of ETFs are subject to brokerage commissions. All fees and expenses are described in detail in the prospectus.
- Transparency – The securities in the underlying ETF portfolio are made public every day. Since these securities generally trade within an index or sector that the ETF follows, you may be able to determine the positions within the portfolio at any time. You may find this beneficial because the transparency could allow you to have more control over your overall investment portfolio allocation and weightings.
- Portfolio Diversification (access to wide range of sectors) – ETF portfolios can be diversified across many different securities, offering a set of portfolios for almost every asset allocation need. This diversification can help reduce an investor's risk by potentially offsetting losses from some securities with gains in others. Of course, individual securities in the ETF portfolios and the net asset value of the portfolios will fluctuate in price. Also, keep in mind that asset allocation and/or diversification cannot eliminate the risk of fluctuating prices and uncertain returns.
- Buying and Selling Flexibility – Unlike traditional mutual funds, which are only priced at the end of each day, ETFs are priced and can be purchased and sold throughout the trading day. Furthermore, you can buy or sell ETF shares on a stock exchange much like the purchase or sale of any other listed stock.

HOW DO ETFs DIFFER FROM OTHER PRODUCTS?

The chart below summarizes the main differences among ETFs, closed-end funds and mutual funds, followed by additional discussion.

	Traditional ETF	Non-Traditional ETF (Leveraged/Inverse)	Closed End Fund	Mutual Fund / Open End Fund
Management Style	Generally Passive	Generally Passive, and Activity Rebalanced	Active	Active and Passive (index funds)
Exchange Traded	Yes	Yes	Yes	No
Purchase/Sell At	Price on Exchange	Price on Exchange	Price on Exchange	NAV
Premium/Discount to NAV*	Yes	Yes	Yes	No
Leverage Used	Yes	Yes	Yes	Sometimes
Share Classes	Common Shares	Common Shares	Common (and Preferred, if leveraged)	Several (by cost structure)
Execution Cost	Standard Commission Rates	Standard Commission Rates	Standard Commission Rates	Sales Charge (typically 0-5.75%)
NAV Pricing*	Intraday	Intraday	Daily (some weekly)	Daily
Expense Ratios	Typically 0.15- 0.99% (depending on the asset class &intensity of management activity)	Typically 0.70- 0.95% (depending on the asset class and intensity of management activity)	Typically 0.5- 2% (depending on the asset class and leverage)	Typically 0.25- 3% (depending on the asset class & intensity of management activity)
Maturity Date	Perpetual**	Perpetual	Perpetual, except for term trusts	Perpetual, except for target date funds

*Net asset value (NAV) – The current value of a collective investment fund share which is calculated by dividing the total value of all securities in its portfolio, less any liabilities by the number of fund shares outstanding. Because ETFs and closed-end funds trade like stocks, their shares trade at market value which price can be at a premium or discount to NAV.

**Exchange-traded notes (ETNs) have a maturity date. Consult with your Financial Advisor for more details.

ETFs versus open-end mutual funds

ETFs and open-end mutual funds share many similar characteristics, but it is important to note that the two products are quite different in a number of aspects, including pricing and overall fund management. As noted above, prices of ETFs change throughout the trading day as investors buy and sell shares in the marketplace. Mutual funds, on the other hand, are priced at net asset value (NAV) only once a day, at the close of trading. The availability of continuous market value pricing allows ETF investors the capability to potentially take advantage of market fluctuations throughout the day, rather than just once a day like they would with open-end mutual funds.

ETFs may also offer increased tax efficiency compared to open-end mutual funds due to their in-kind creation and redemption process. Conversely, with a mutual fund, this process takes place in cash. Some ETFs that invest in commodities may issue a Schedule K-1 to be used for individual tax reporting purposes. Some non-traditional ETFs may not be tax efficient during certain market environments.

ETFs versus closed-end mutual funds

ETFs can appear fairly similar to closed-end funds with the exception of the overall management style and intraday price fluctuations. However, they are very different.

Closed-end funds are typically actively managed by a professional money manager, whereas ETFs are generally passively managed. Closed-end fund managers have the capability to react to market conditions by adjusting the composition of their portfolio.

Closed-end funds and ETFs can generally be traded throughout normal market hours as investors buy and sell shares at the current market value in the marketplace, which may be higher (premium) or lower (discount) than its NAV.

ETFs versus exchange traded notes (ETNs)

An ETF is similar to an ETN in that they are listed on an Exchange and can be sold throughout the day. An ETN is a common name for a senior unsecured debt obligation designed to track the total return of an underlying index or benchmark, minus investor fees.

ETNs are not funds and are not registered under the Investment Company Act of 1940. Some non-traditional ETNs seek to track the leveraged or inverse performance of an index. Similarly, commodity futures-linked ETNs seek to track a commodity or currency index. These unique non-traditional and commodity futures-linked ETN products share many of the same risks and characteristics as non-traditional ETFs.

WHAT ARE SOME OF THE RISKS TO CONSIDER?

Shares are ETF investments and have risks similar to stocks. There are risks involved with investing in Exchange Traded Funds (ETFs), including the loss of your investment. Ordinary brokerage commissions apply. ETFs are subject to a number of risks that may affect the value of its shares, including (but not limited to) the following:

- Derivatives Risk. Derivatives are financial contracts whose value depends on, or is derived from, the value of underlying assets, such as a reference security, rate or index. Since the value of derivatives is calculated and derived from the value of other assets, instruments or references, there is a risk that they will be improperly valued. The ETF may use derivatives, such as futures contracts and foreign currency forward contracts. If the ETF's portfolio managers incorrectly forecast currency exchange rates in utilizing a derivatives strategy for an ETF, the ETF could lose money. For certain derivatives, it is possible to lose more than the amount invested in the derivative. There can be no assurance that any derivatives strategy used will succeed.

  Derivatives also are subject to market risk, liquidity risk, and credit and counterparty risk. Counterparty risk is the risk that the counterparty on a derivative transaction will be unable to honor its financial obligations to the ETF. Derivatives also involve the risk that changes in their value may not correlate perfectly with the assets, rates, or indices they are designed to hedge or closely track. The ETFs' Statement of Additional Information contains a description of the various derivatives the ETF may utilize.

- ETF Risk. The Shares may trade above or below their NAV. The NAV of each ETF will generally fluctuate with changes in the market value of the ETF's holdings. The market prices of Shares, however, will generally fluctuate in accordance with changes in NAV as well as the relative supply of, and demand for, Shares on the Exchange. The trading price of Shares may deviate significantly from NAV during periods of market volatility. The investment manager cannot predict whether Shares will trade below, at or above their NAV. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for Shares will be closely related to, but not identical to, the same forces influencing the prices of the securities held by an ETF.

- Foreign Investing Risk. Investing in foreign securities carries potential risks not associated with domestic investments. Such risks include, but are not limited to: (1) currency exchange rate fluctuations, (2) social, political and financial instability, (3) less liquidity of foreign investments, (4) lack of uniform accounting, auditing and financial reporting standards, (5) less government regulation and supervision of foreign stock exchanges, brokers and listed companies, (6) increased price volatility, (7) delays in transaction settlement in some foreign markets, and (8) less availability of information for an ETF's portfolio manager(s) to determine a company's financial condition.

- Management Risk. Securities selected by the portfolio managers for the ETF may not perform to expectations. This could result in the ETF's underperformance compared to other funds with similar investment objectives.
- Market Risk. For those ETF that invest most or a substantial portion of their assets in stocks, each is subject to stock market risk. Market risk involves the possibility that the value of the ETF's investments in stocks will decline due to drops in the stock market. In general, the value of the ETF will move in the same direction as the overall stock market in which the ETF invests, which will vary from day to day in response to the activities of individual companies, as well as general market, regulatory, political and economic conditions.
- Recent Market Events Risk. Recent unprecedented turbulence in financial markets and reduced liquidity in credit and fixed income markets may negatively affect many issuers worldwide, which may have an adverse effect on ETFs.
- Securities Lending Risk. Each ETF may make secured loans of its portfolio securities. Borrowers of the ETF's securities may provide collateral in the form of cash that is reinvested in securities. The securities in which the collateral is invested may not perform sufficiently to cover the return collateral payments owed to borrowers. In addition, delays may occur in the recovery of securities from borrowers, which could interfere with the ETF's ability to vote proxies or to settle transactions. To the extent the ETF lends its securities, it may be subject to these risks.
- Temporary Defensive Position Risk. Under adverse market conditions, the ETF may, for temporary defensive purposes, invest up to 100% of its assets in cash or cash equivalents, including investment grade short-term obligations. A larger percentage of such investments could moderate an ETF's investment results. An ETF may not achieve its investment objective using this type of investing.
- Trading Risk. Although the Shares will be listed on the Exchange, there can be no assurance that an active or liquid trading market for them will develop or be maintained. In addition, trading in Shares on the Exchange may be halted due to market conditions or for reasons that, in the view of the Exchange, make trading in Shares inadvisable. Further, trading in Shares on the Exchange is subject to trading halts caused by extraordinary market volatility pursuant to the Exchange "circuit breaker" rules. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of the ETF will continue to be met or will remain unchanged.
- Value Stock Risk. Value stocks are subject to the risk that their intrinsic value may never be realized by the market or that their prices may go down. While the ETF's investments in value stocks may limit its downside risk over time, the ETF may produce more modest gains than riskier stock funds as a trade-off for this potentially lower risk.

In addition, Traditional ETFs are generally not actively managed. This means that securities in the portfolio will not be purchased or sold in attempt to take advantage of changing market conditions.

A traditional ETF may continue to hold securities even though their market value and dividend yields may have changed. An ETF generally carries the same investment risk as the portfolio of securities within the ETF. Securities in a portfolio may depreciate, and the ETF may not achieve its intended objective. In addition, each ETF is subject to specific risks that vary depending on each ETF’s investment objectives and portfolio composition. Additionally, while premiums and discounts from NAV are generally small among ETFs, there is a potential for severe dislocation from NAV.

Non-traditional ETFs and futures-linked ETFs are complex products and should only be purchased by sophisticated investors who understand the speculative nature of these products. As a result, these products are subject to a number of risks that transcend those of traditional ETFs. These risks include, but are not limited to, the following:

- Speculative in Nature – Non-traditional ETFs are trading vehicles in which daily rebalancing and market volatility have a significant impact on the realized return. You can lose a significant amount of your principal in these securities rapidly.

- **Leverage** – The use of leverage in an investment portfolio can magnify any price movements, resulting in high volatility and potentially significant loss of principal.
- **Tracking Risk** – ETFs may not track the underlying Index due to imperfect correlation between the ETF's portfolio securities and those in the underlying Index, rounding prices, changes to the underlying Index and regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the ETF incurs fees and expenses while the underlying Index does not.
- **Volatility** – Non-traditional ETFs are volatile and not suitable for all investors. Futures-linked ETFs may also respond to volatility in the futures markets. Due to their volatile nature, you should consider your financial ability to purchase these products in volatile markets.
- **Holding Period** – Positions in non-traditional ETFs should be monitored closely due to their volatile nature and inability to track the underlying index over an extended period of time. Non-traditional ETFs are not intended to be held long term.
- **Liquidity** – Some ETFs may be thinly traded which could impact your ability to sell your shares quickly.
- **Counterparty Risk** – Non-traditional ETFs and futures-linked ETFs may enter into total return swaps with a counterparty. If the counterparty becomes unable to deliver its share of the contract, it will default on the swap, therefore negatively affecting the value of the non-traditional ETF.

Each type of ETF offers unique risks and characteristics. Please refer to the prospectus for additional details.

HOW ARE ETFs TAXED?

Generally ETF shareholders are subject to income taxes on the interest, dividends and/ or capital gains distributed to them from the portfolio. However, in retirement accounts such as individual retirement accounts (IRAs), taxes are deferred until distributions are taken from the account. Also, when an investor sells the ETF position, he or she will generally realize a taxable gain or loss that should be reported on their income tax returns. Nonresident aliens may be subject to special tax withholding and reporting requirements as a result of an ETF sale. Certain ETFs may be subject to the alternative minimum tax (AMT). You should review the prospectus for further details.

Leveraged and inverse ETFs may be less tax-efficient than traditional ETFs, partly due to the daily reset which can cause the ETF to realize significant short-term capital gains that may not be offset by a loss.

Neither Prospera nor your Financial Advisor can offer tax, legal, or accounting advice. As a result of complex tax-reporting requirements, investors should consult with their tax advisor or attorney before investing in ETFs.

WHAT ARE SOME OF THE COSTS OF INVESTING IN ETFs?

An ETF's prospectus includes a fee table that lists the charges you pay. Although ETFs are not subject to sales loads, ordinary brokerage commissions for purchases and sales will apply. You will incur a commission as a cost of processing each buy or sell transaction. ETF expense ratios are similar to open-end index funds. In addition, an expense ratio will apply on the fund's assets.

Advisory accounts are fee-based accounts in which clients may be charged a fee on the underlying assets. It is also possible to own ETFs through discretionary and nondiscretionary investment advisory programs. Instead of paying a sales charge or commission on each transaction, you may pay an annual fee that is based on a percentage of the account's value. Annual ETF operating expenses apply.

WHO INVESTS IN ETFs?

ETFs are not suitable for all investors. Selecting an ETF for your investment objectives involves a number of factors: fund strategies, fund performance history, risks, investment time horizon, etc. You should review any ETF's disclosure document, as well as the fund prospectus to fully evaluate your options. You should also talk with your Financial Advisor so that, together, you can make the choices suitable for you.

Non-traditional ETFs and futures-linked ETFs are suitable only for sophisticated and speculative investors as well as institutional clients who fully understand the complexities of these products and the significant risks that exist in purchasing or trading them. Non-traditional ETFs and futures-linked ETFs are for individuals who have a high tolerance for risk as well as the ability and willingness to absorb potentially significant losses. An increase in market volatility relative to the level of expected return in the underlying index, commodity, or other related products may negatively impact your expected return.

Non-traditional ETFs are not designed to be used as long-term investment vehicles. Most non-traditional ETFs rebalance on a daily or monthly basis. Due to the compounding of daily or monthly returns, the actual return of a non-traditional ETF may differ greatly from the return of a traditional ETF. The use of +2x or +3x leveraged ETFs does not guarantee double or triple the return, respectively, during any single or multi-day holding period.

We believe investors should diversify their investment portfolios. We recommend investors observe an asset allocation strategy and not overweigh their overall portfolio in any one class or sector of securities, including the underlying portfolio within an ETF. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating market prices and uncertain returns.

HOW IS BROKER & ADVISOR COMPENSATION PAID ON ETF TRANSACTIONS?

Prospera and your Financial Advisor are compensated in ways that vary depending on the selected investment. Prospera will receive compensation in the form of a commission from most transactions, a portion of which is passed through to your Financial Advisor. In brokerage accounts, compensation is based on the dollar amount purchased or sold in the ETF transaction. In certain fee-based accounts, compensation is based on a percentage of assets in the account rather than on a commission. The compensation formula that determines the amount of payment to Prospera and to your Financial Advisor is generally the same for all ETFs.

WHERE CAN YOU LEARN MORE ABOUT ETFs?

Prospera is fully committed to helping you understand an exchange traded product. The prospectus is the governing document for discussing and disclosing the risks and rewards of investing in ETFs. Please read this document thoroughly. You may also find information from the Financial Industry Regulatory Authority's website (www.finra.org) which has an investor publication available titled *Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors.* To learn more about ETFs, please contact your Financial Advisor.