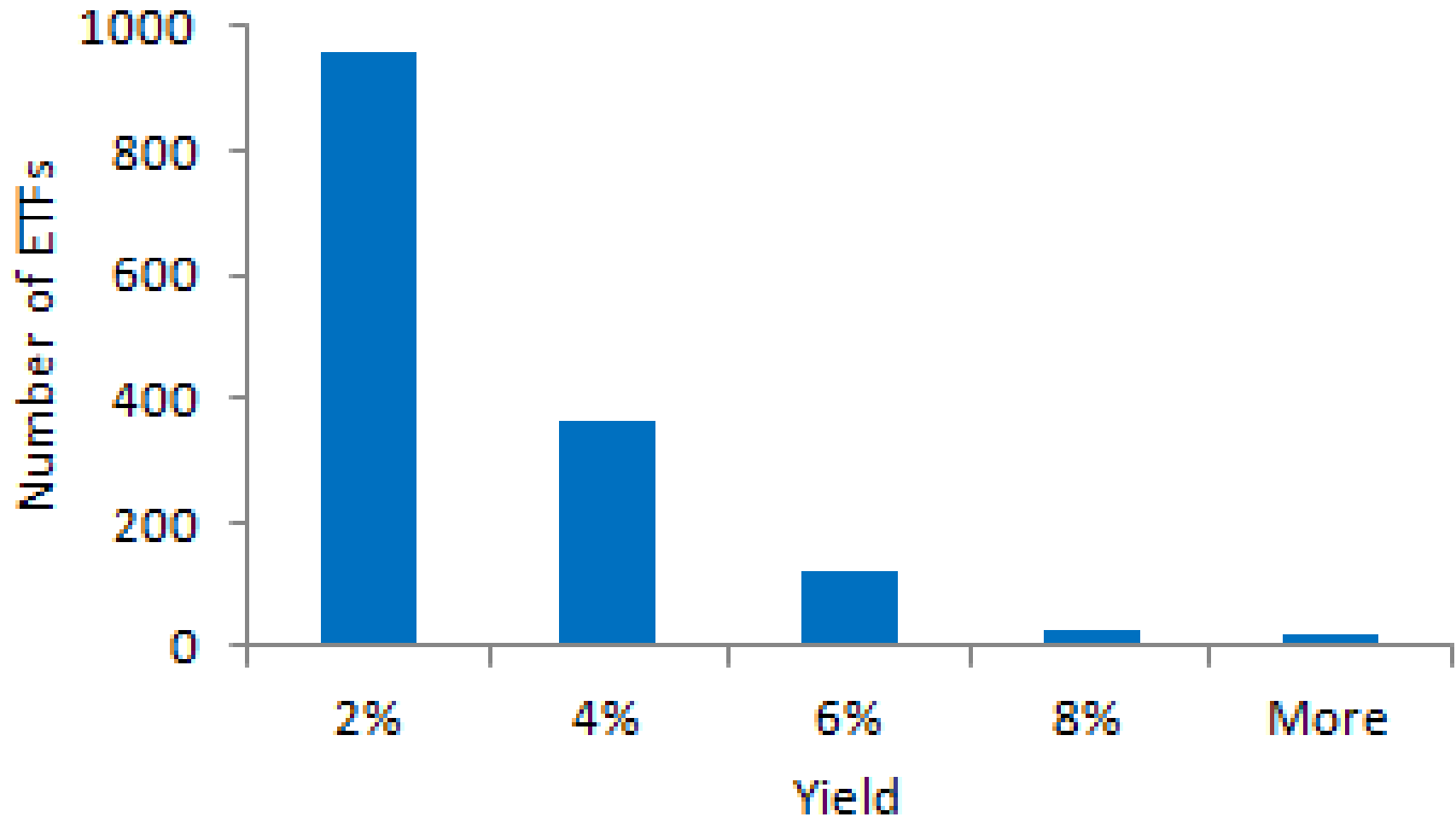




The 5 Highest-Yielding ETFs Examined

ETF Yield Landscape



Source: ETF.com 3/23/2015



ETF Yields

Distribution Yield (net):

$$\frac{\text{TTM **ETF** cash flows}}{\text{Current ETF value}}$$

Portfolio Yield (gross):

$$\frac{\text{TTM **current portfolio** cash flows}}{\text{Current ETF value}}$$

Highest yielding ETFs

ETF Name	Ticker	Dist'n Yield	Explicit Lever- age?	Key yield driver
ETRACS Monthly Pay 2x Leveraged M	MORL	23.0%	Y	Mortgage REIT
ETRACS Monthly Pay 2xLeveraged C	CEFL	21.8%	Y	CEF
ETRACS 2X Leveraged Long Wells Fai	BDCL	18.4%	Y	BDC
ETRACS Monthly Pay 2xLeveraged D	DVHL	15.3%	Y	Multi Asset
iShares Mortgage Real Estate Cappe	REM	14.4%	N	Mortgage REIT

Source: ETF.com 3/18/2015



Highest yielding ETFs: Ex-Leveraged

ETF Name	Ticker	Dist'n Yield	Explicit Lever- age?	Key yield driver
iShares Mortgage Real Estate Ca	REM	14.4%	N	Mortgage REIT
Yorkville High Income MLP	YMLP	13.3%	N	MLP
SPDR S&P International Telecom	IST	13.0%	N	Corporate Action
iShares Global Telecom	IXP	12.2%	N	Corporate Action
Global X Brazil Financials	BRAF	11.3%	N	Fund Flows
Recon Capital NASDAQ 100 Cove	QYLD	10.7%	N	Option Premiums

Source: ETF.com 3/18/2015



Mortgage REITs- Source of yield (REM)

- Buy mortgages; collect interest
- Are “pass-through” structures
- Use leverage...



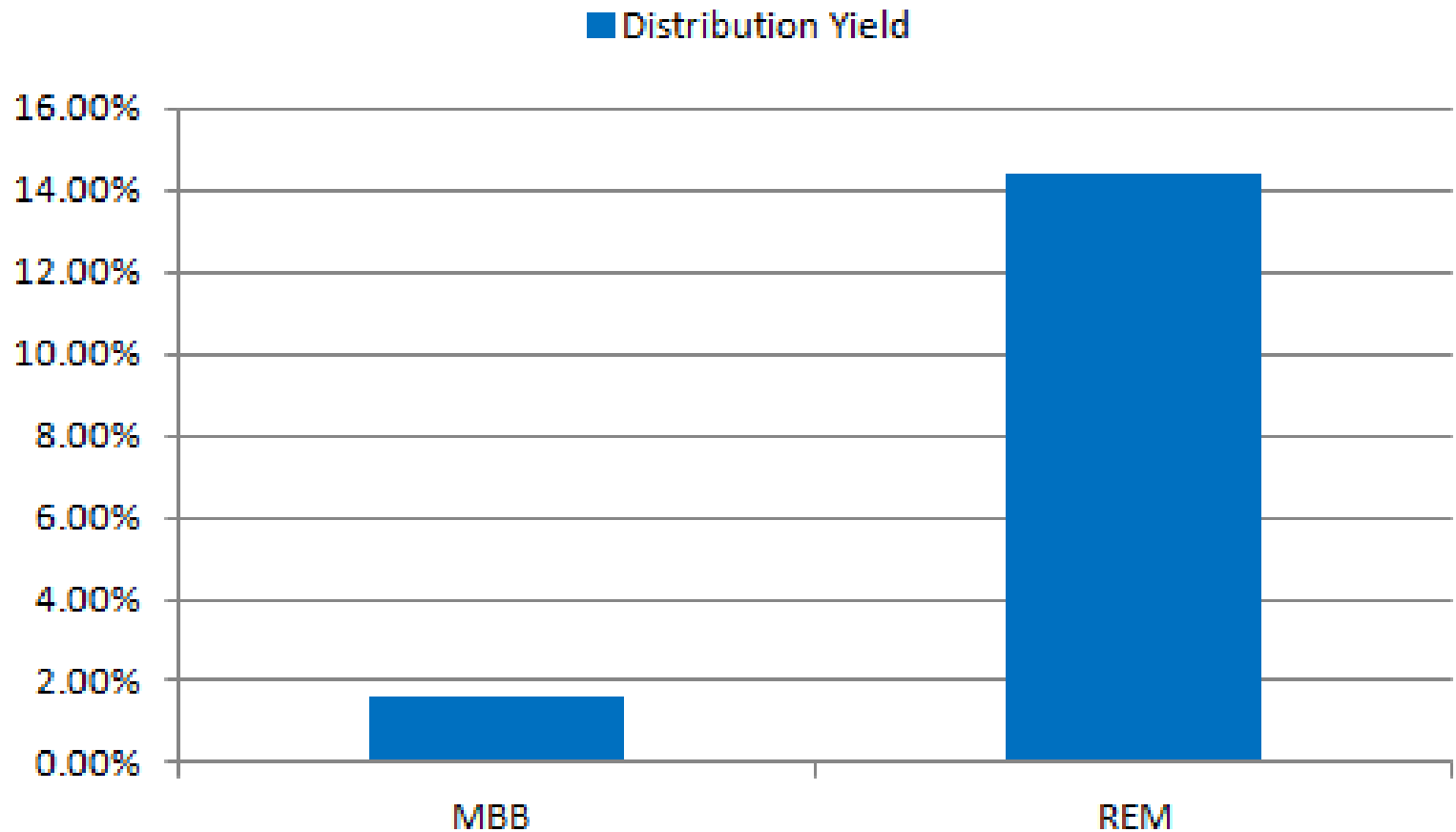
Mortgage REITs- Source of yield (REM)

“Mortgage REITs typically use leverage (and in many cases, may be highly leveraged), which increases investment risk...” *-REM Prospectus*

“Our strategy involves the use of leverage...We incur this leverage by **borrowing against a substantial portion of the market value of our assets**. Leverage, which is fundamental to our investment strategy, creates significant risks.”

-ANNALY CAPITAL MANAGEMENT, INC 10-K, 2014

Mortgage REITs— Special Risks (REM)

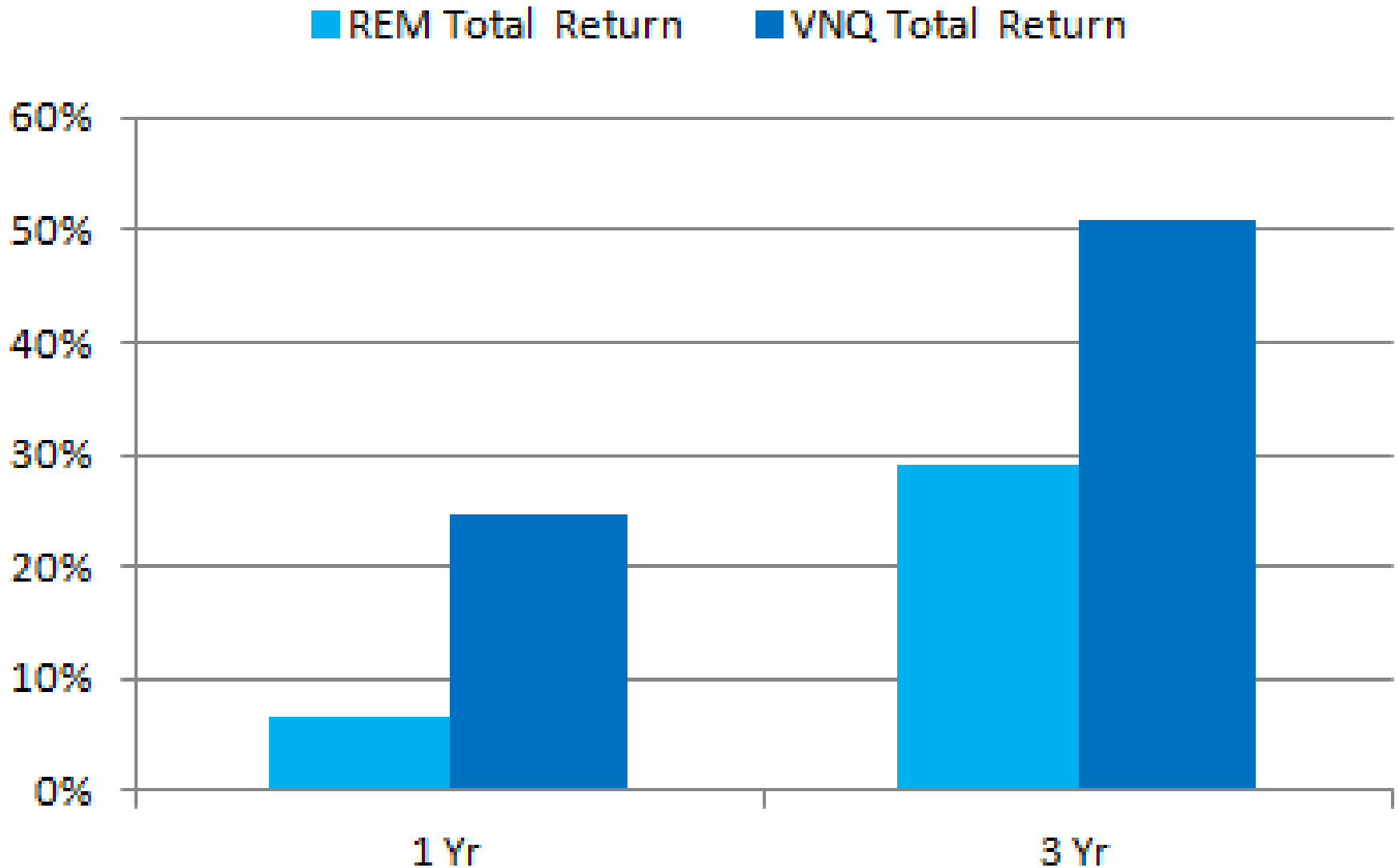


Annaly Cap. Mgmt. 2014 leverage: 5.4 to 1

Source: ETF.com 3/18/2015



Mortgage REITs– Special Risks (REM)



Source: Bloomberg TR NAV as of 3/18/2015

Mortgage REITs– Special Risks (REM)

- Interest rate sensitivity
- Yield taxed as ordinary income

MLP – Source of yield (YMLP)

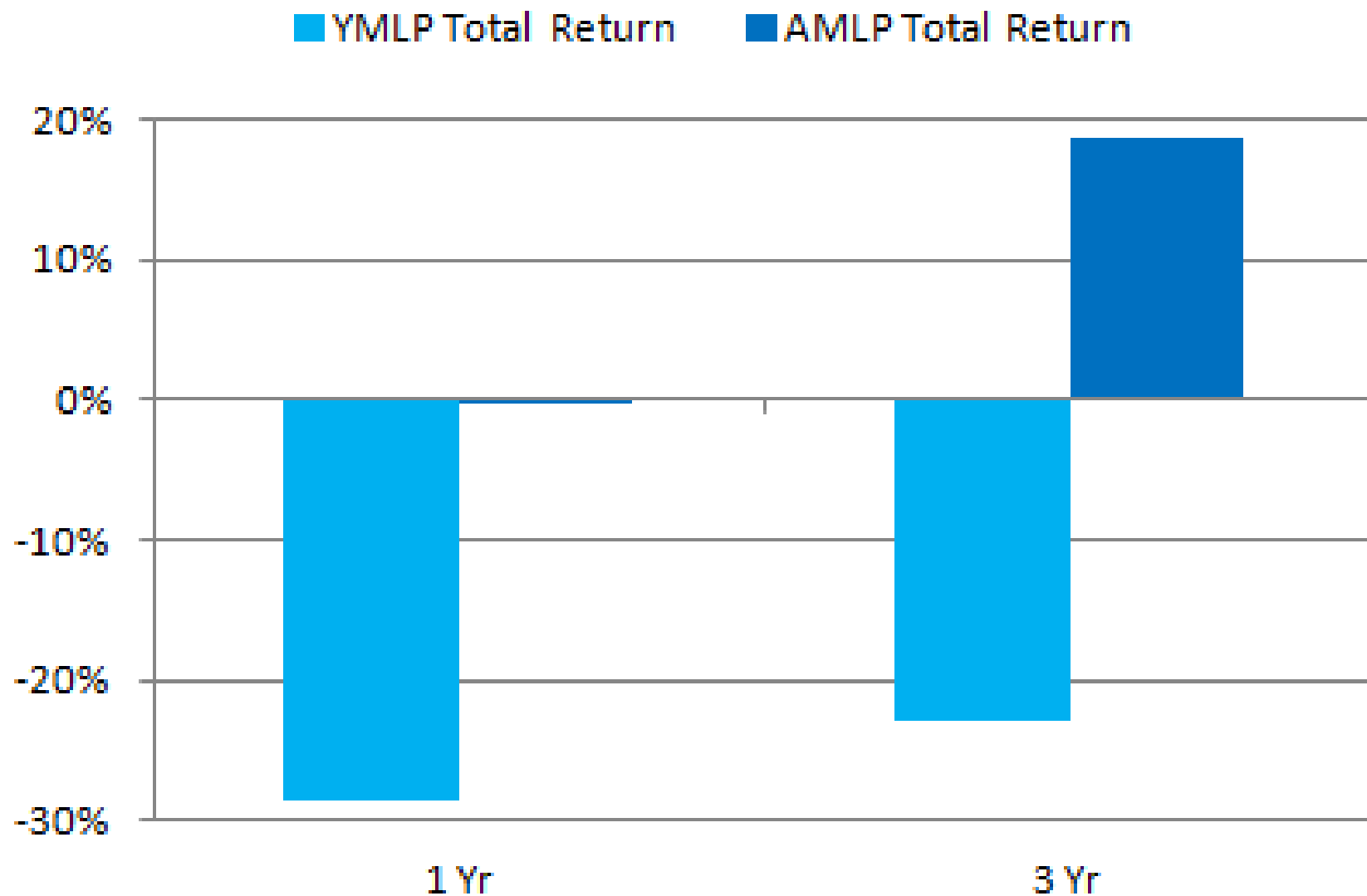
- Transportation of oil & gas
- Toll road model
- Pass-through structure



MLP – Special Risks (YMLP)

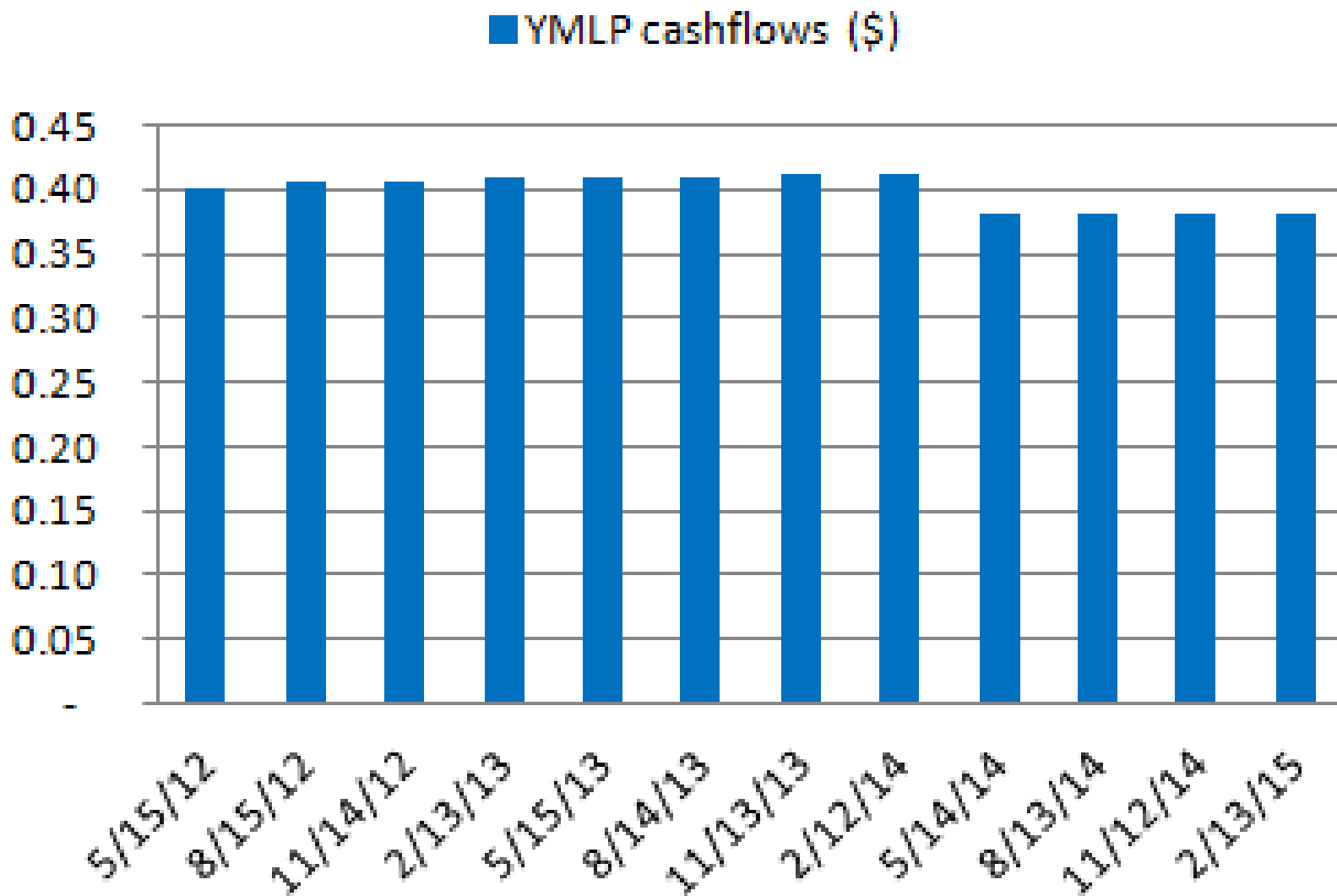
- Very Complex Taxation / High Fee
- Some oil price correlation
- Small-cap exposure
 - YMLP 78%; AMLP 1%
- Yield-focused MLP ETPs hit hard...

MLP – Special Risks (YMLP)



Source: Bloomberg TR NAV as of 3/18/2015

MLP – Special Risks (YMLP)



Source: Bloomberg 3/18/2015

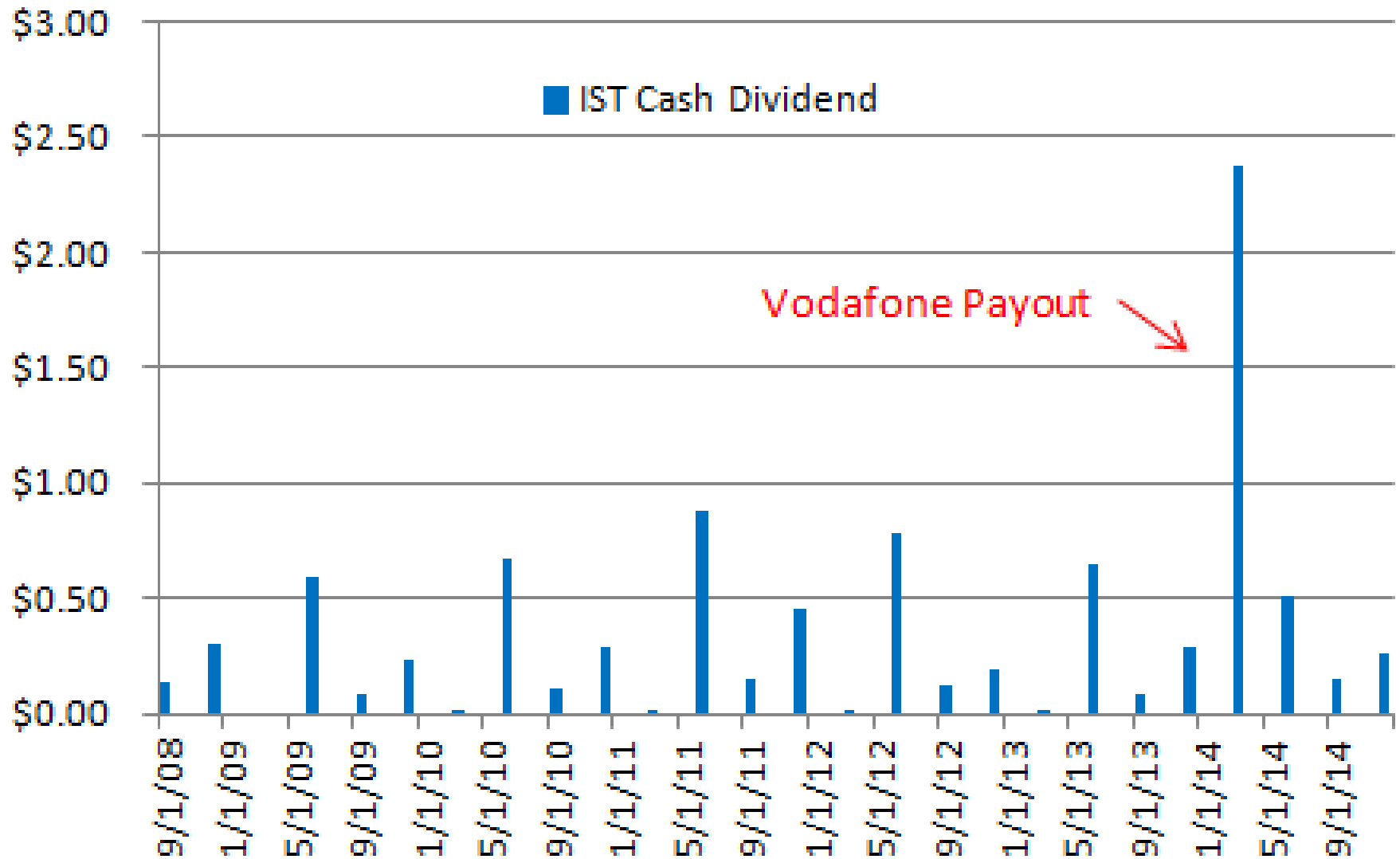


Telecom— Sources of Yield (IST, IXP)

- Steady utility-like cash flows
- Special case: One time payout on corporate action



Telecom – Special Risks (IST, IXP)



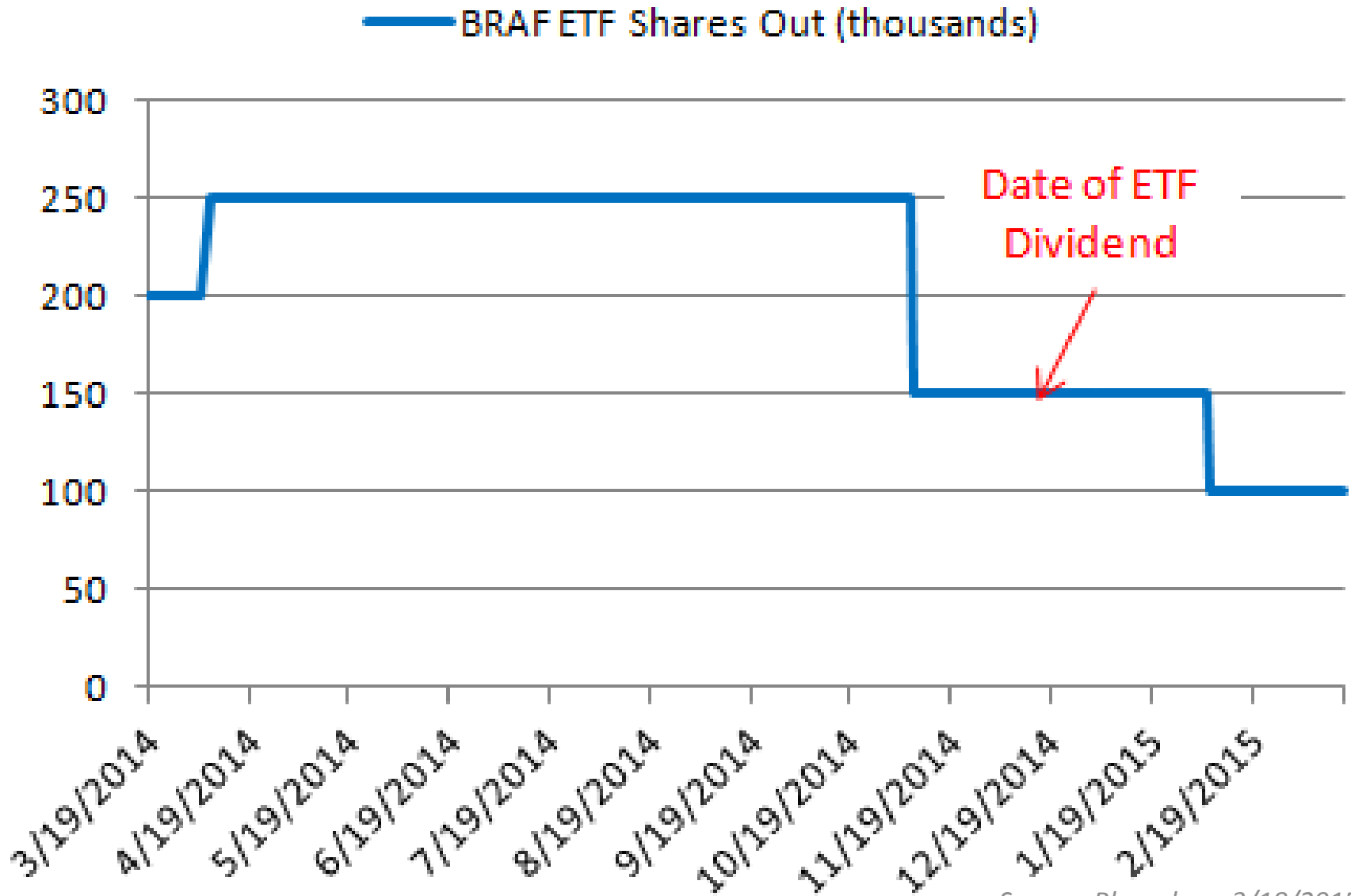
Source: Bloomberg 3/18/2015

Brazil Banks– Sources of Yield (BRAAF)

- Bank dividends in troubled market
- Special case: ETF fund flows

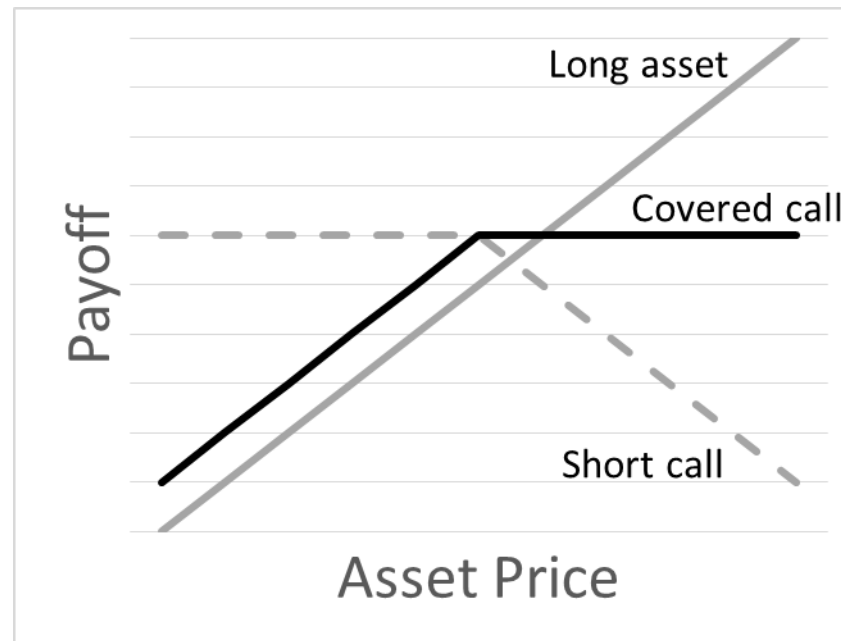


Brazil Banks– ETF AUM Flows (BRAFA)



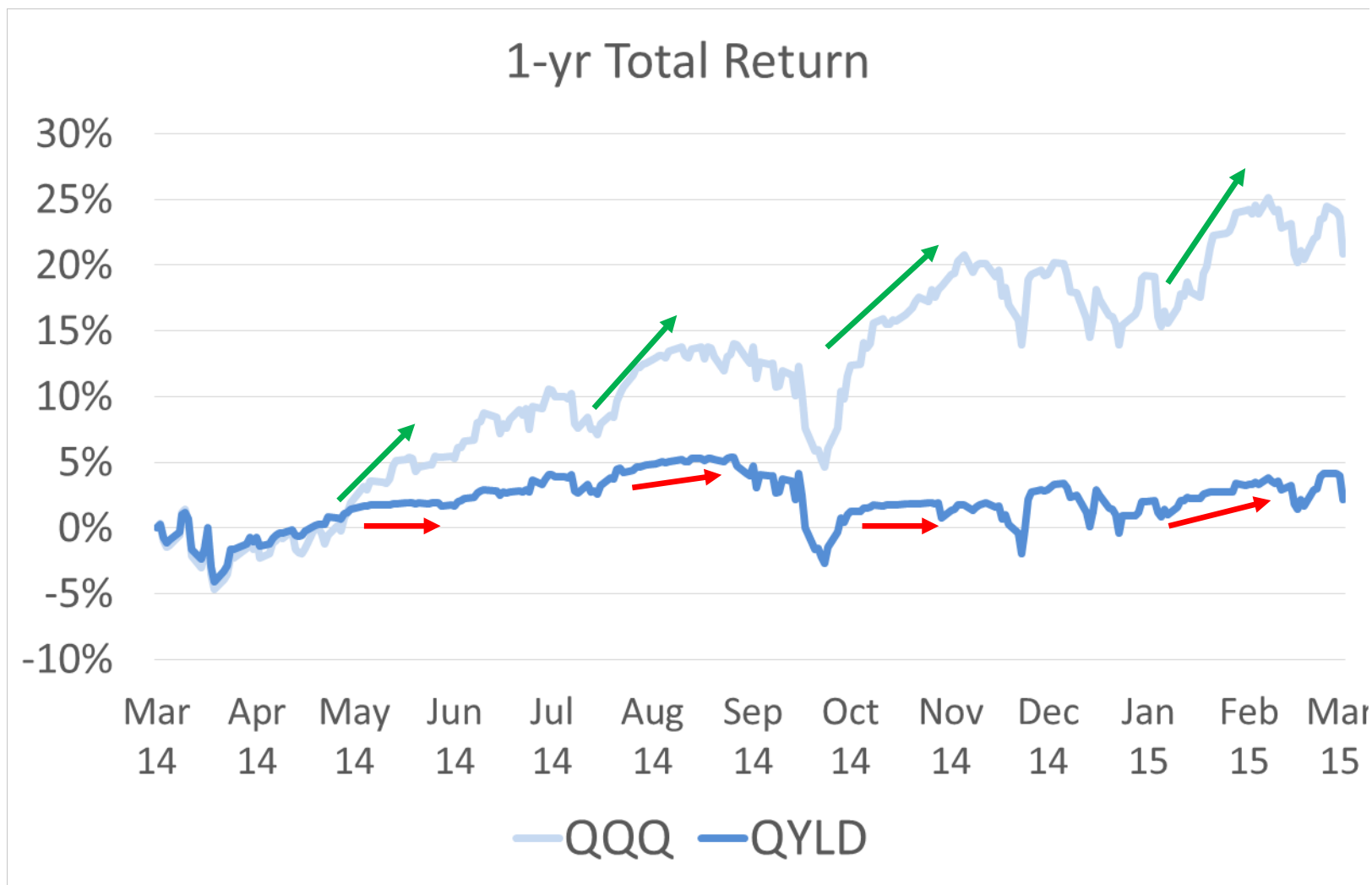
Covered Calls—Source of Yield (QYLD)

- Sell call options
- Cover with long position in Nasdaq-100



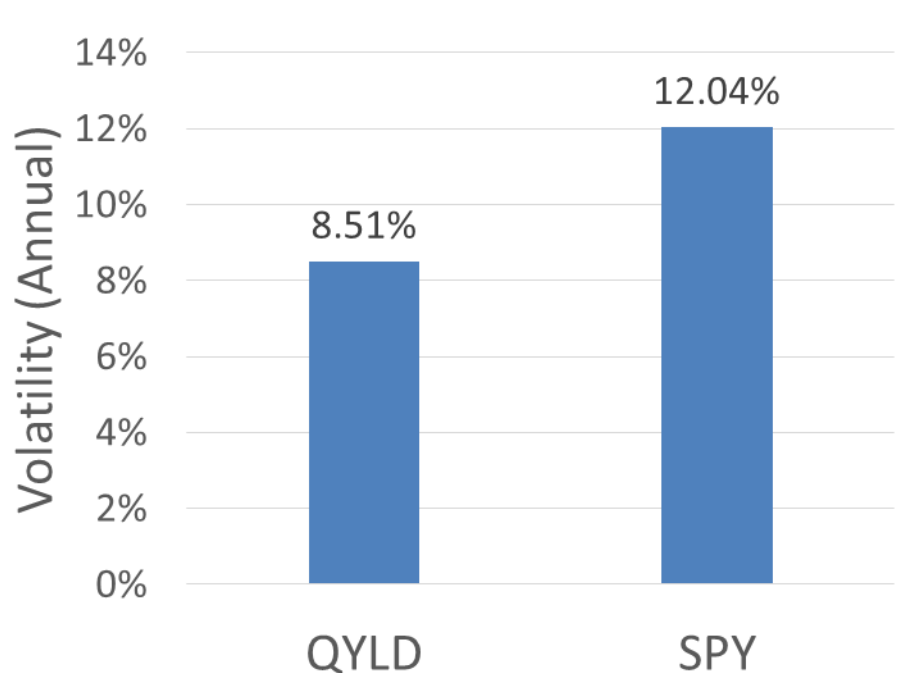
Covered Calls – Special Risks (QYLD)

- Limited gains, retained losses



Covered Calls – Special Risks (QYLD)

- Poor equity diversifier, but
 - Lower interest rate risk
 - Lower volatility



BDCs – Source of Yield (BIZD)

- Provide capital to middle market firms
- Senior secured loans, preferred equity and other instruments

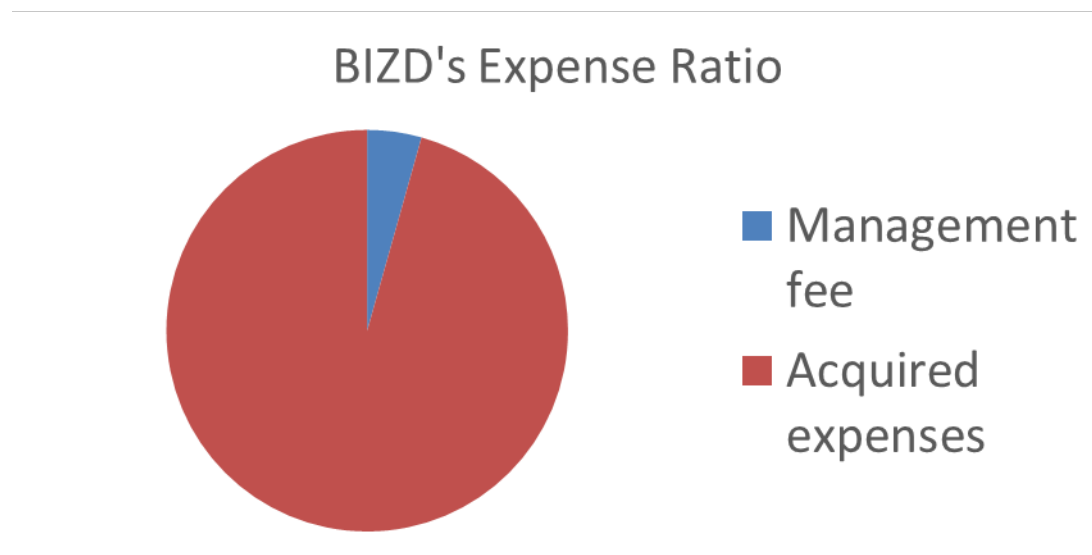


FS INVESTMENT
CORPORATION
A Business Development Company



BDCs – Special Risks (BIZD)

- High headline fee: 9.17%



- Correlation to equity: 0.65
- Equity-like volatility

BDCs – Special Risks (BIZD)

- Small-cap/obscure exposure
- Loans to portfolio firms are unrated and hard to value
- Troubled companies, limited access to capital

High Dividend Yield – Source (LVL)

- Common stocks with high dividends
 - 100 highest yielding global stocks
 - Weighted by yield
- 5.4% yield

High Dividend Yield – Risks (LVL)

- Recent performance suffered from:
 - Small-cap overweight
 - Energy sector overweight
 - US underweight
 - Canadian oil sands

High Dividend Yield – Risks (LVL)



ACTION check list

ACTION check list – Yield Drivers

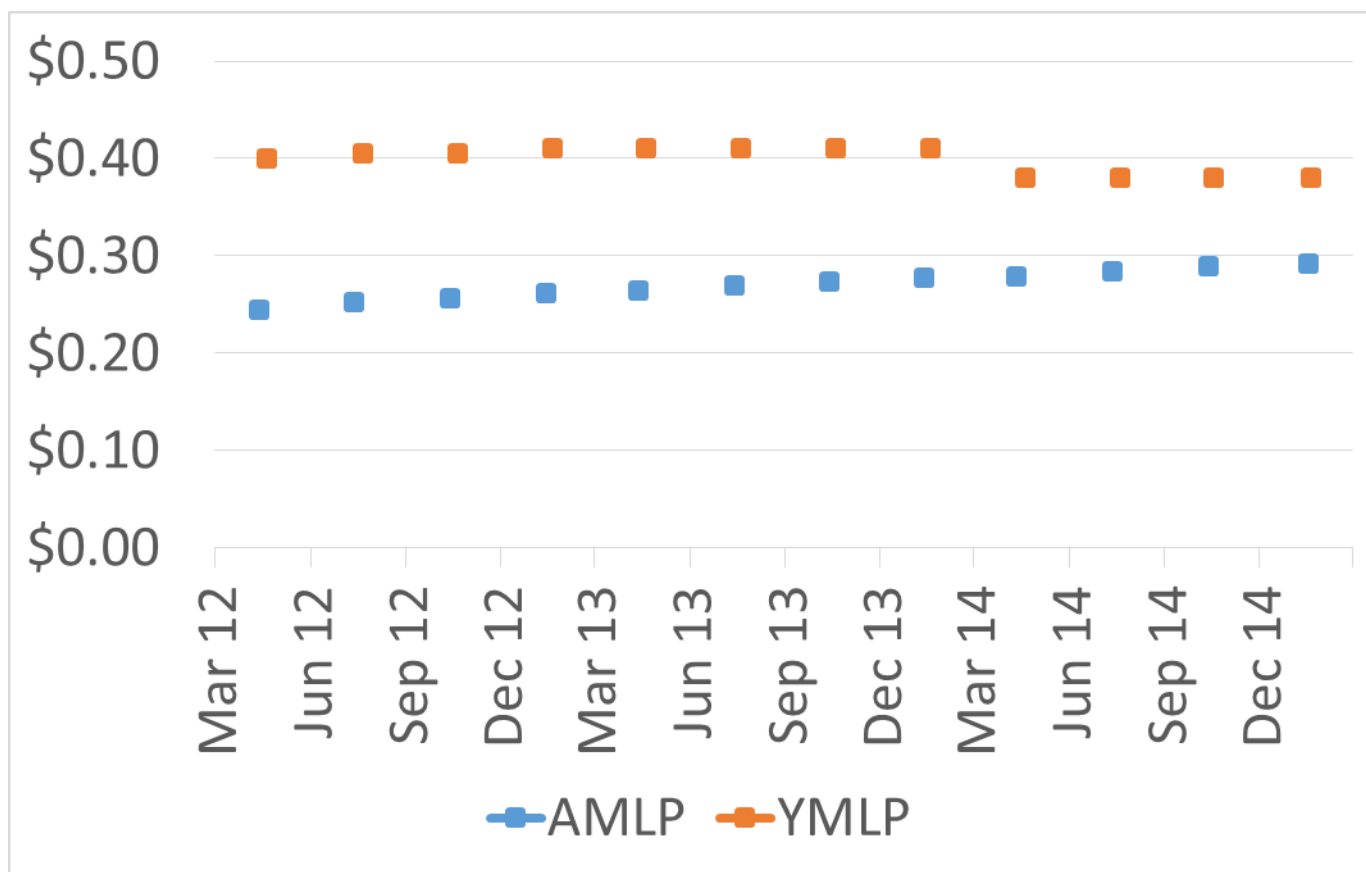
- Know—and like—the sources of yield
 - MLP, Mortgage REIT, options, BDCs, High dividend yield, high yield bonds, CEFs, preferreds, internal & external leverage
- Market view / scenario

ACTION check list – Yield Metrics

ETF Name	Ticker	Dist'n Yield	Portfolio Yield	Indicated Yield
iShares Mortgage Real Estate Capped	REM	14.4%	10.7%	10.0%
Yorkville High Income MLP	YMLP	13.3%	10.9%	12.8%
SPDR S&P International Telecom	IST	13.0%	3.3%	0.3%
iShares Global Telecom	IXP	12.2%	3.8%	3.4%
Global X Brazil Financials	BRAF	11.3%	4.5%	5.6%
Recon Capital NASDAQ 100 Covered	QYLD	10.7%	1.1%	8.2%

ACTION check list – Dividend growth

- Growing or shrinking?



ACTION check list – Total return

- TR \geq Yield: sustainable
- TR $<$ Yield: not sustainable

5% TR, 10% yield

t=	0	1	2	3	4	...
Capital	\$100.00	\$105.00	\$99.23	\$93.77	\$88.61	...
Dividend	-	\$10.50	\$9.92	\$9.38	\$8.86	...
Capital after Dividend	-	\$94.50	\$89.31	\$84.39	\$79.75	...

ACTION check list – Viable ETF?

- Liquidity
- AUM / fund closure risk
- Fees
- Taxes & Structures (MLPs; ETNs)