

Understanding the Protection of Client Assets

Pershing's Strength, Stability and Focus



Pershing LLC has been a leading global provider of financial business solutions for over 70 years and serves many of the world's most respected financial organizations, remaining focused on the safekeeping, servicing, segregation and reporting of assets held in custody. Pershing's trading desks focus primarily on customer facilitation. This enables us to offer an unconflicted approach to serving financial organizations, money managers and registered investment advisors—we advocate for our customers' interests and support them exclusively, with no retail channel servicing investors directly. Pershing does not participate in credit default swaps or residential mortgage lending or securitization. However, Pershing's financial strength does not protect against loss due to market fluctuation.

Financial Strength

Our core financial strength provides the foremost measure of the protection of assets held in our custody. As of June 30, 2009, Pershing operated with net capital of \$1.2 billion, well above the minimum requirement.

Pershing's parent company, BNY Mellon, is one of the world's strongest global financial institutions, holding \$20.7 trillion in assets under custody and administration.¹ BNY Mellon remains highly liquid, as it is funded primarily by deposits from institutional businesses.

BNY Mellon At June 30, 2009	
Total assets	U.S. \$203 billion
Total shareholders' equity	U.S. \$27.3 billion
Tier 1 capital ratio	12.5%
Total capital ratio	16.0%
Tangible common equity to assets ratio ²	4.8%
Market capitalization	U.S. \$35.3 billion

Evaluation and Separation of Assets

For the benefit of our introducing broker-dealers and their independent auditors, Pershing participates in an annual SAS 70 Level II review, performed by a major independent audit firm, to provide additional evaluation of the design and operating effectiveness of Pershing's internal controls related to order and trade processing, clearance and settlement, corporate actions, physical custody, margin monitoring, account transfer, pricing, interest, broker-dealer billing, statements, confirmations and cash management functions. We are audited by a major independent audit firm and the audit team at our parent company, BNY Mellon.

As required, Pershing segregates fully paid-for, investor-owned assets from our own assets. Therefore, in the unlikely event of a financial failure at Pershing, investors' assets will remain untouched,

separate from Pershing's own assets. Pershing is required to maintain enough liquid assets, net of any liabilities, to ensure the return of investors' assets in the event of firm failure and liquidation.

Member of SIPC[®]

Pershing is a member of the Securities Investor Protection Corporation (SIPC[®]). As a result, securities in your account are protected up to \$500,000. For details, please see www.sipc.org. Please note that SIPC does not protect against loss due to market fluctuation. In addition to SIPC protection, Pershing also provides coverage in excess of SIPC limits through a private insurer, Lloyd's of London.

Excess Account Protection Through Lloyd's of London

The excess account protection purchased through Lloyd's of London offers the highest level of coverage that is available in the industry today.³ The excess insurance policy provides the following protection for assets held in custody by Pershing and its London-based affiliate, Pershing Securities Limited:

- > An aggregate loss limit of \$1 billion for eligible securities—over all client accounts
- > A per-client loss limit of \$1.9 million for cash awaiting reinvestment—within the aggregate loss limit of \$1 billion

The Lloyd's of London insurance does not protect against loss due to market fluctuation. For more information about Lloyd's of London, please see www.lloyds.com. An excess account protection claim would only arise when Pershing failed financially and client assets for covered accounts, as defined by SIPC (for Pershing LLC accounts) or the Financial Services Compensation Scheme (FSCS) (for Pershing Securities Limited accounts), cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.

Lloyd's currently has an A ("Excellent") rating with "Stable Outlook" from A.M. Best and an A+ ("Strong") rating with "Stable Outlook" from Fitch Ratings and Standard & Poor's[®] (S&P[®]). These ratings are based on the financial strength of the company and are subject to change by the rating agencies at any time.

The current Lloyd's of London excess insurance policy is scheduled to expire on December 10, 2009.

What Is Covered Under SIPC and Excess Account Protection?

COVERED

SIPC and excess account protection coverage is available for the following products held in custody by Pershing:

- Bonds
- Cash balances
 - Up to \$100,000 in cash awaiting reinvestment through SIPC
 - A per client loss limit of \$1.9 million for cash awaiting reinvestment—within the aggregate loss limit of \$1 billion—through Lloyd's of London
- CDs
- Mutual funds
- Notes
- Stocks

NOT COVERED

Among the investments that are ineligible for SIPC protection are:

- Antiques and collectibles
- Bank deposits
- Commodity futures contracts
- Fixed and variable annuity contracts
- Investment contracts (such as limited partnerships)
- Precious metals

instead of the savings and loan institution itself. Brokered CDs are covered by FDIC insurance up to applicable limits and are available in both the new-issue and secondary markets in maturities as short as one month to as long as ten or more years.

The secondary market feature of Brokered CDs introduces market risk, or the risk that the CD may be sold for less than what it was purchased for, particularly if interest rates rose and there was less demand for a lower-yielding CD. Additionally, although Brokered CDs are covered by FDIC insurance, it is possible to exceed FDIC insurance limitations with a particular issuing bank.

FDIC-insured bonds were created by the FDIC's Temporary Liquidity Guarantee Program. For banks electing to participate in this new program, the FDIC is guaranteeing all newly issued senior unsecured debt (up to certain limits) issued between October 14, 2008, and October 31, 2009. The guarantee on debt issued before April 1, 2009, will expire no later than June 30, 2012. The guarantee on debt issued on or after April 1, 2009, will expire no later than December 31, 2012. It also provides full deposit insurance coverage for non-interest-bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount.

The government guarantee is only currently effective through December 31, 2012—even if a bond's maturity exceeds that date. In addition, bonds are generally subject to market risk if sold prior to maturity.

For additional information about the financial strength of Pershing and the protection of assets held in our custody, answers to frequently asked questions are available within Resources via NetX360™, or visit www.pershing.com/strength_stability.html.

¹ As of June 30, 2009.

² Adjusted for deferred tax liabilities associated with non-tax deductible identifiable intangible assets and tax deductible goodwill. In addition, at December 31, 2008, total and average assets were adjusted to exclude certain deposits and other short-term investment assigned a zero risk-weighting by regulators.

³ The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

⁴ Investments in the FDIC-Insured Deposits Program are not considered securities and are therefore not protected by SIPC or excess account protection coverage.

⁵ CDARS and Certificate of Deposit Account Registry Service are registered service marks of Promontory Interfinancial Network, LLC (Promontory). Pershing is a subsidiary of BNY Mellon. BNY Mellon indirectly holds a minority interest in Promontory.

⁶ Brokered CDs of any one issuer are FDIC-insured up to a maximum of \$100,000 aggregate principal and accrued interest in nonretirement accounts. The maximum coverage for CDs of any one issuer held through an individual retirement account (IRA), self-directed 401(k) plan, Keogh plan, and Section 457 plan is \$250,000. The FDIC-insurance for non-retirement accounts was temporarily increased from \$100,000 to \$250,000 per depositor (through December 31, 2013) for certain retirement accounts. Expanded FDIC coverage may be obtained by purchasing CDs from multiple issuing institutions.

⁷ FDIC-insured bonds are subject to market risk. For more information visit <http://www.fdic.gov/regulations/resources/TLGP/index.html>.

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FDIC-Insured Solutions

In addition to our focus on the physical protection of assets held in our custody, Pershing strives to offer access to a broad spectrum of FDIC-insured investment solutions. These products may offer a compelling alternative for those whose primary objective is protecting their principal within the context of their own individual needs.

The FDIC is an independent agency of the U.S. government that provides protection for insured deposits at a failed FDIC-insured bank or savings association. FDIC-insured investments are insured by the FDIC up to applicable limits, generally \$100,000 (\$250,000 most recently in certain instances, through December 31, 2013).

Certificate of Deposit Account Registry Service® (CDARS®)

In the case of Pershing's FDIC-Insured Deposits Program and the Certificate of Deposit Account Registry Service® (CDARS®), investors can access FDIC insurance for deposits in multiple FDIC-insured institutions with a single investment.^{4,5} Pershing also offers investors access to Brokered CDs and FDIC-insured bonds.^{6,7}

Brokered CD's and FDIC-Insured Bonds

Brokered CDs are certificates of deposit of a commercial bank or savings and loan association that are sold through an intermediary