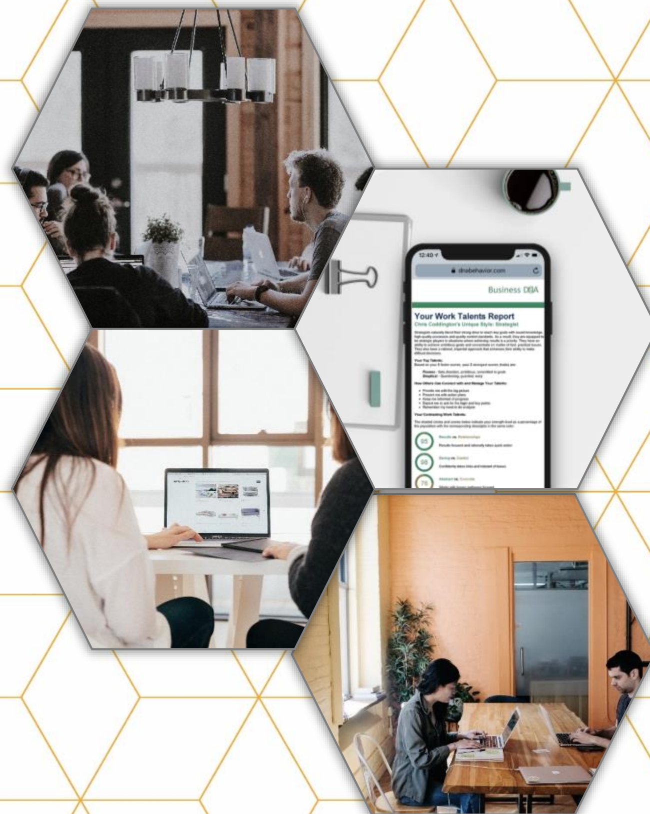

Financial DNA® Methodology for Know Your Client

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DNA Behavior®

DNA Behavior®

Who Is DNA Behavior International?

DNA Behavior is an international people insights firm that helps financial services firms become client centered using validated behavioral insights on a scalable basis. The business was established in 2001 and is the global leader of the behavioral management revolution for enhancing relationships and unlocking human potential. Our belief is that "Behavior Drives Financial Planning Performance.™"

We help grow behaviorally smart advisors to gain competitive advantages using the most reliable psychometric assessment systems on cutting-edge technology platforms. Our Financial DNA® solutions and training equip financial advisors and their teams to act as the "behavioral guide" in navigating the human differences in their business by discovering and aligning different communication styles, behaviors and solution preferences for people of all ages, cultures and levels of wealth.

The uniqueness of our "understanding people before numbers" approach ensures advisors build a corporate memory bank of independently validated DNA behavioral data for matching their teams to clients and solutions on a continuous basis. We are an industry-recognized global leader and pioneer in:

- The online discovery and application of natural behaviors as the core starting point for financial planning discovery, client experience management, investment portfolio design and family succession planning
- Shifting the paradigm of situational investment risk profiling on a singular basis to holistic financial personality discovery covering all known dimensions of human behavior risks and biases
- The use of the "Forced Choice Assessment Model" as a more reliable measure of natural behavior, including risk-taking and decision-making biases
- The behavioral matching of advisory teams to clients and solutions
- The application of technology to seamlessly deploy human behavioral applications and services on other financial planning and client engagement platforms

Since our launch, DNA Behavior International has served organizations and people in more than 123 countries through eleven languages. We have 12 proprietary DNA Behavior® Discovery Processes under three primary brands that reliably predict a person's behaviors and preferences in different areas of focus with unparalleled depth. Our proprietary Financial DNA Discovery Processes have been developed and independently validated since 2001 by a highly qualified team with 100+ years of combined academic and practical financial behavioral discovery instrument development experience.

Furthermore, DNA Behavior International has invested more than 50 years in the development of these systems and its programs.

We currently have a client base of more than 2,000 leading international, Fortune 500 and financial services businesses that use our online hub of human behavior solutions and advisory services. Please visit to learn more: **http://www.dnabehavior.com/about/dna-clients-and-community**

For more information about our internationally recognized suite of behavioral relationship management solutions for financial planning, please contact us at **inquiries@dnabehavior.com.**

1. Overview of the Worldwide Know Your Client Regulations

Throughout the world there are varying laws and regulatory guidelines in the area of "Know Your Client" that need to be met by providers of financial advice and investment securities (for instance, financial advisors, planners, investment advisors, investment managers and insurance agents) in order to deliver compliant financial advice and make investment securities recommendations.

The worldwide trend over the last 5 years is that these "Know Your Client" requirements are becoming more prevalent, specific and strictly enforced. This is evidenced by the increasing frequency and size of fines being imposed by regulators.

> To learn more about our perspectives on risk tolerance, please refer to our Whitepaper: "Dealing with Financial Planning Risk – Directing Portfolio Decisions or Navigating Human Behavior."

Historically, the Know Your Client regulations have tended to focus in some way on the requirement to know the "risk tolerance" of the client (ie the investor). The risk tolerance being typically defined as the degree of variability in investment returns that an individual is willing to withstand.

The regulations do not typically specify how the risk tolerance of the client is to be discovered other than that there should be a reasonable basis for the provision of advice or making investment securities recommendations. That is, there is no legal or regulatory requirement that a risk tolerance questionnaire must be used. Certainly, there are no regulations which specifically define the parameters of what is an acceptable risk tolerance questionnaire. Further, the regulators given their enforcement role will never endorse specific risk tolerance questionnaires or other processes. Further, they will not be the provider of such processes.

Therefore, it is ultimately the responsibility of each service provider to define what their Know Your Client Process will be to meet the prescribed regulations and use the tools that will support such a process.

1.1 Risk Rating in Europe

European regulators and the funds management industry have become acutely aware of the need to give retail investors a greater understanding of the amount of risk they might be taking when making an investment. The European Securities and Markets Authority [ESMA], which is an independent committee of European Securities regulator has produced guidelines as to how investment managers should represent risk and return to consumers. It is intended that these guidelines will be adopted as the standard approach across all European fund managers. The ESMA Risk Rating methodology uses a seven point scale for defining risk tolerance based on 5-year annualized volatility without the scope for subjective intervention.

The Markets in Financial Instruments Directive (MifiD) 20014/39/EC (which is a European Union Directive that provides harmonized regulation for investment services across the 30 member states of the European Economic Area) requires providers of advice to classify their clients based on their risk tolerance level before making relevant product recommendations, and overall to know their financial situation, investment knowledge, experience and objectives. The ESMA risk rating methodology is generally intended to be used to match investors to investments so that the investor can make informed decisions. However, MifiD does not endorse a specific risk tolerance discovery process that must be used to identify the risk tolerance of investors. The Financial DNA reporting does classify the risk tolerance of investors on a 1 to 7 scale consistent with the ESMA Risk Rating methodology (refer Section 2.4 below).

1.2 Emerging Trends

Given the increased regulatory focus on "Knowing the Client" there is an emerging trend that regulators are requiring a psychometrically validated risk tolerance discovery system is used by providers of advice and investment securities recommendations. The providers of financial advice and investment securities recommendations will be free to choose the risk tolerance questionnaire that best fits their needs and overall financial planning processes. However, given the increased attention of the regulator the instrument used should have been the subject of a rigorous development and validation process.

In April 2013, the Financial Conduct Authority ("FCA") in the UK issued Occasional Paper No. 1 indicating that the providers of financial advice and investment solutions (the packagers) need to recognize that consumers have behavioral biases which influence their decisions. This paper is recognizing the fact that identifying the risk tolerance of the client is not enough to Know the Client. The paper issued by the FCA identified a number of the behavioral biases which should be known about a consumer, and are specifically revealed by the Financial DNA Discovery Process (refer Section 2.4 below). These behavioral biases have been identified in "behavioral finance research" and are in essence psychological traits which investors may exhibit in some way when making investment decisions. The topic of behavioral finance is gaining traction in the financial services industry with advice providers increasingly recognizing the need to identify these types of behavioral biases <u>in addition</u> to the risk tolerance of the client.

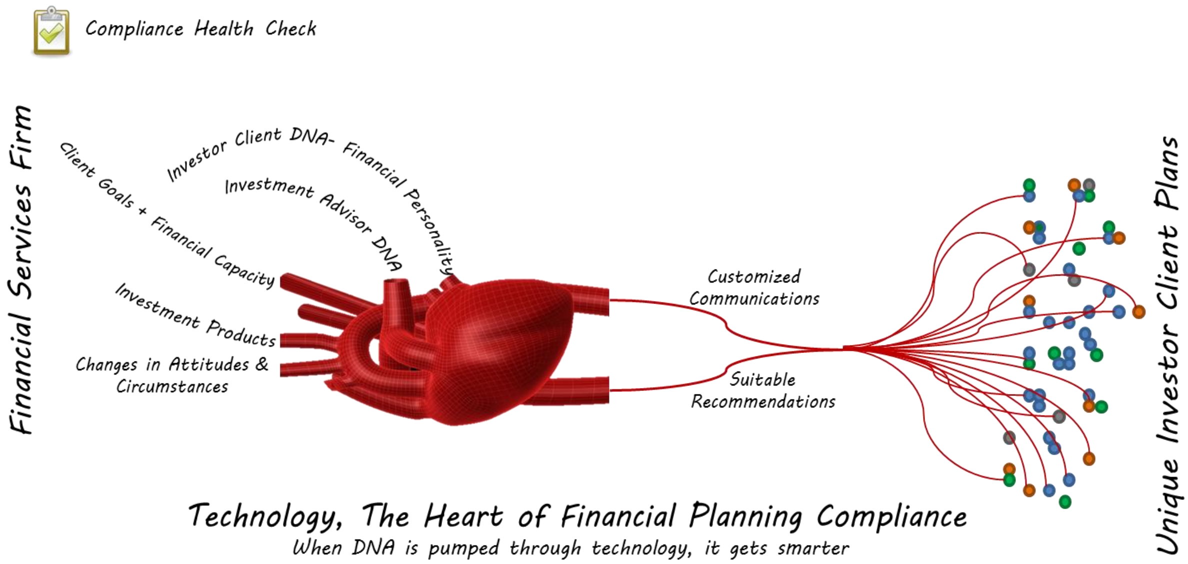
While all of the regulators around the world are operating independently and assessing the needs of investors and advisor behavior in their own markets, they are clearly watching each other's best practices. From a discovery process perspective, risk tolerance is being focused on as a requirement. However, with the broader requirements for what needs to be identified under these stronger worldwide suitability rules, there is a clear direction that knowing more about client behavior will become the increasing minimum requirement. Once monitoring and reviews of suitability take place, it is likely that momentum to understand all of the behavioral biases of clients will increase.

> To learn more about our perspectives on building a robust compliance process which meets regulatory compliance processes worldwide, please refer to our Whitepaper: "Blind Spots in Financial Advice Processes".

2. How Financial DNA Helps Know Your Client

DNA Behavior International developed the Financial DNA Discovery Process in 2001 (with continuous development since then) with the intention of being the world's most robust and psychometrically validated process to holistically uncover the complete financial personality of the client. The Financial DNA Discovery Process has been designed to serve the dual objectives of improving client engagement in the financial planning process and also meet the regulatory compliance requirements that are in place worldwide. Our desire is for financial services businesses all over the world to implement Financial DNA as an "Engagement Compliance" System.

> The Financial DNA Discovery Process is the next generation of behavioral discovery capturing all dimensions of financial personality by utilizing the most academically sound psychometric systems.



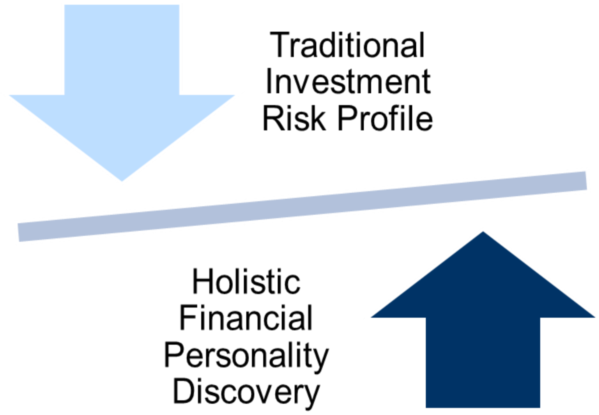
2.1 Knowing Financial Personality Is More Holistic than Only Knowing Risk Tolerance

The financial personality of the client measured by the Financial DNA Discovery Process reflects all of the key dimensions of how a person makes life, financial and investment decisions, their behavioral (finance) biases and includes their risk tolerance. Further, the Financial DNA reporting provides insights on how to communicate with a client so that relevant information is framed on the client's terms. This increases the client's chances of understanding the advice or recommendations and can reduce the impact of behavioral biases triggering irrational decision-making.

> To learn more about how the Financial DNA Discovery Process has been developed, please refer to our "DNA Behavior - Behavioral Discovery Product Outline".

Put another way, the Financial DNA Discovery Process is far more than a risk tolerance questionnaire. Our perspective is that the behavioral discovery methodology and the more in-depth behavioral insights provided by Financial DNA are what is required now and in the future to have a sound foundation for "Knowing the Client".

2.2 Why the Financial DNA Approach to Financial Planning Risk Discovery is the Future

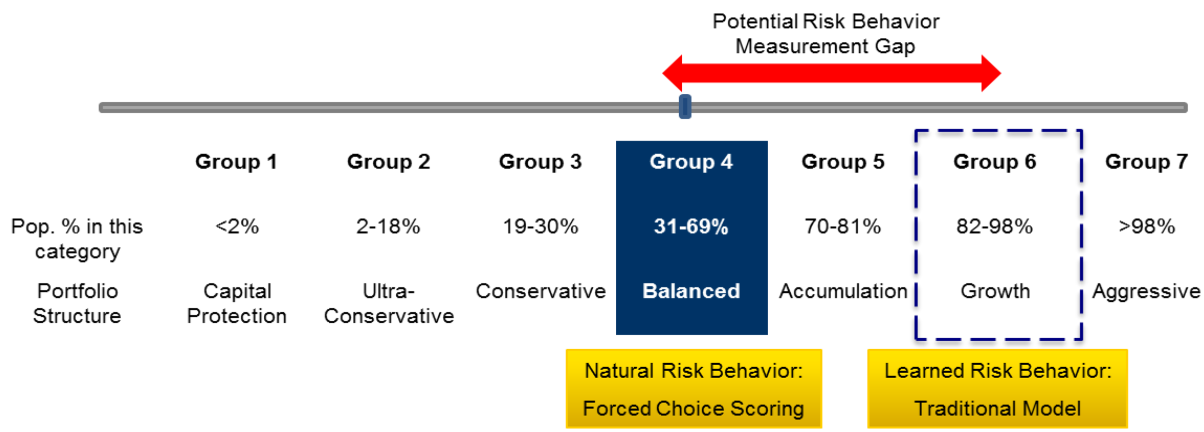


1. The customary approach to addressing risk in the financial planning process is to measure investment risk propensity on a singular and situational basis. The strategic weakness with such investment risk profiling instruments is that their singular nature perpetuates financial planning as being solely about investment management and investment products. This has led to many financial planning practitioners misusing investment risk profiling tools. Further, there is serious doubt about the accuracy and reliability of many of these systems and which has been commented upon severely by regulatory authorities. (For instance, the UK Financial Services Authority. Assessing suitability - Establishing the risk a customer is willing and able to take and making a suitable investment selection (January 2011).

While there are investment risk profiling systems in the market that are better than others and have been professionally psychometrically tested, there are a number of general concerns about these tools, chief among which are:

> The structure of many investment risk profiling tools is fundamentally flawed leading to the inflation of the scores and not being reliable for long term portfolio development.

1. Their questionnaire format inherently leads to the measurement of situational investment risk taking that is likely to change with different life and financial events. Therefore, they cannot be relied upon for building long term investment portfolios;
2. The scoring system of many of these systems inherently leads to the inflation of the risk score by the participant even if attempting to answer the questions honestly. As most such systems use a traditional questionnaire format (e.g. Likert-type scaling approach or a True/False Model) that is designed to assimilate situational preferences. Through DNA Behavior's research since 2001 of a range of investment risk profiling tools, we have consistently seen business people's investment risk scores being higher than their Natural DNA™ behavior risk score. This research is also supported by academic research which demonstrates that traditional questionnaire formats can lead to the inflation of the risk score by potentially one standard deviation;



3. Numerous investment risk profiling tools ask leading questions which will increase the likelihood of inflated answers being generated;

4. In many cases, the participant cannot realistically answer the questions because they have never experienced the event before, or do not have sufficient education or investment knowledge to answer the question;

5. The reporting provides little investment and financial education to the client and limited framework for counseling;

6. The instruments are singular in nature and do not address behavioral issues at a multi-dimensional level, including financial and relationship risk behaviors. Further, the reporting is too simplistic to be of ongoing significant value to the overall financial planning process;

7. The measurement of investment risk taking behavior fails to distinguish between risk propensity (boldness to make decisions) and risk tolerance (the ability to live with the consequences of the decision made). These are important behaviors to distinguish between when holistically understanding client behavior. Further, the measurements are used on a singular basis for all of a client's investments.;

8. These tools do not sufficiently address the broader behavioral finance concepts that reflect investor behavior;

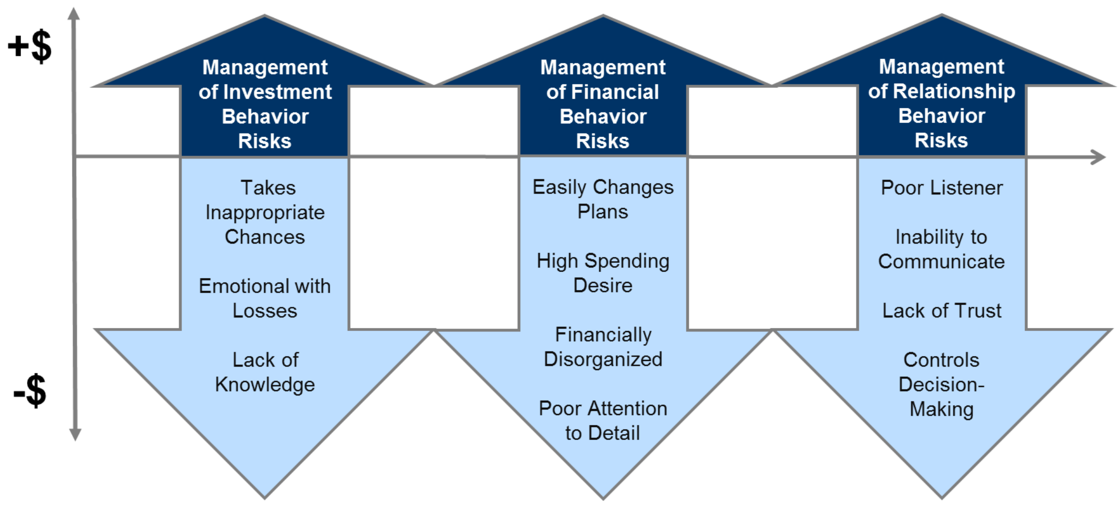
9. Some investment risk profiling instruments automatically generate portfolios without the proper level of advisor involvement. This is a "sales set up" which can lead to unsuitable recommendations being made to the client.

While identifying a client's investment risk profile is important it is only one of the financial planning risks that most people have to deal with in drawing up a personal financial plan. We advocate the development of holistic financial planning that can assist clients to achieve their life and financial goals. This is not just our perspective. The Financial Planning Standards Board defines Personal Financial Planning as:

"The process of meeting your life goals through the proper management of your finances"

We believe that this broader viewpoint embraces far more than just investment risk. It also necessitates the objective and reliable measurement of how personal financial clients will behave on a long-term basis and points very clearly towards educating them on how their behaviors will impact on their financial wellbeing. Apart from their propensity to take a specific level of investment risk or their intolerance to investment losses, the client behaviors in other financial matters as well as dealing with relationships are as important if not, in some circumstances, more important than managing investment risk.

Holistic financial planning requires the management of risk across the 3 core areas of investment behavior, financial behavior and relationship behavior.

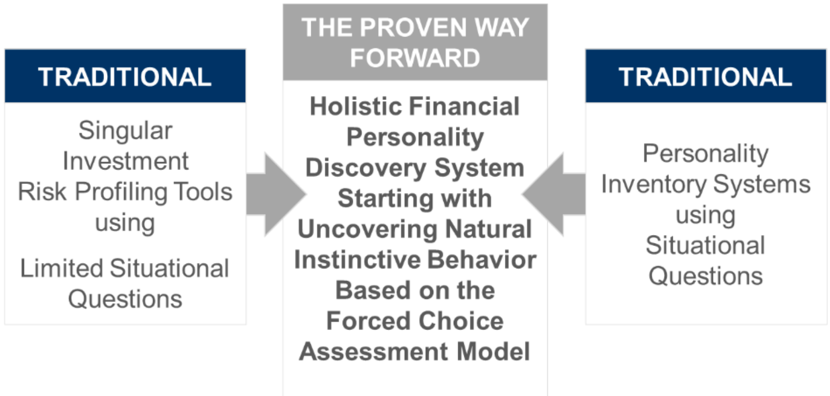


Therefore, the Financial DNA Discovery Process has been specifically designed to uncover the client's complete financial personality to identify the key broader financial planning risks shown in the graphic above.

The failure to reliably measure and manage each of these financial planning risk elements can play a significant role in a client not making the right decisions to properly manage their personal finances. If these risks are mismanaged the financial consequences can be hugely detrimental to an individual's lifetime financial plan. If managed positively, the additional financial effects will help secure an individual's financial future as well as that of their family.

2.3 How Should Financial Planners Best Serve Their Clients in The Future?

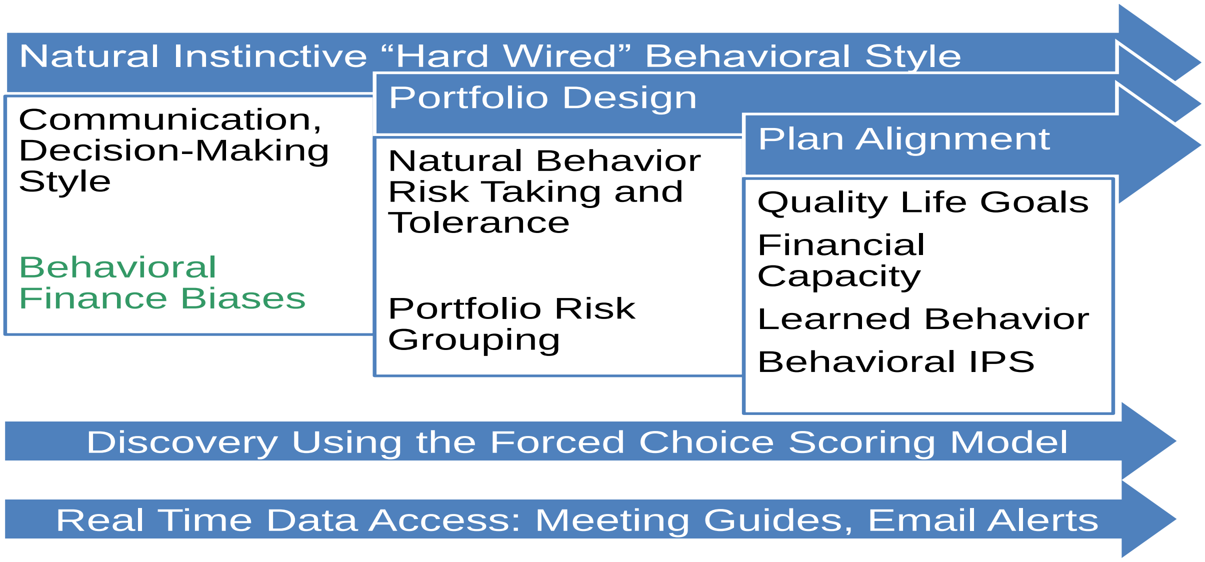
Independent Research shows that 93.6% of financial planning is behavioral management of the client and 6.4% is tactical investment management. (Statman M. The "93.6% Question of Financial Advisors" (2000). The role of the financial advisor is to "know the client" by helping them define their "Quality Life" goals, and then ensuring their behavioral biases and emotions do not get in the way of the planning strategy for achieving those goals.



The emerging growth of the “Life Planning” movement in financial planning is very important to the building of a client centric financial planning process focused on achieving goals. However, Life Planning must be connected to the financial planning process and not be a separate “nice to do” exercise. Importantly, a person’s behavioral talents are fundamental to their life and financial perspective, and therefore decision-making. This supports the need for advisors to adopt a truly holistic approach to financial planning that embraces behavioral awareness in order to achieve the following objectives:

1. Behavioral matching of the advisor and client to establish an optimal relationship based on effective communication;
2. Enables the advisor to deliver a customized financial planning experience based on knowing each client’s unique behavior, motivations and preferences;
3. Enables all of the financial planning risks to be managed – investment risk <u>and</u> the financial and relationship risks;
4. Creates a robust framework for the advisor to guide the client through discovery of all life and financial issues that may impact their financial planning;
5. Facilitates changing the focus and measurement of financial planning away from investment returns to achieving personal goals. In particular, enabling the alignment of the client’s goals to their financial capacity and their financial personality. This, in turn, enables the advisor to charge an advisory or retainer fee which are not held hostage to volatile investment management fees and transaction fees;
6. Enables a proper level of balance to be incorporated into the advisor-client relationship so that the advisor’s influence does not dominate;
7. Further, the process requires direct input from the advisor removing the possibility that an automated process does not overtake and eliminate the advisor role.

> Advisors need to become the behavioral guide of the client adopting a truly holistic approach that embraces behavioral awareness.

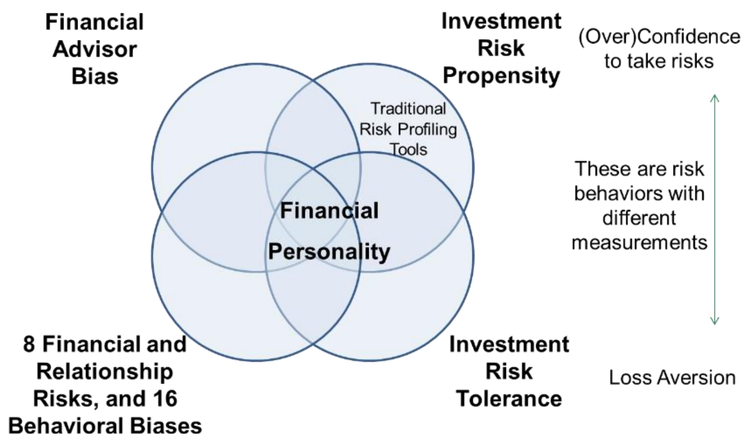


2.4 The Role of Financial DNA® In the Financial Planning Process

In order to produce a customized financial planning experience, the financial planner needs to be aware of each client's unique behavior, motivations and preferences. This will ensure that the various financial planning risks are seamlessly managed.

Historically, before the Financial DNA® Discovery Process was made available in the market place the only behavioral issues that drew the attention of the financial services industry was investment risk profiling. As has been mentioned earlier, such systems are not without significant drawbacks and do not provide very deep understanding of long-term financial personality.

To obtain the necessary deep insight which delivers a truly deep understanding of each person's financial make-up requires a more meaningful and robust discovery process that deals with the multi-faceted elements of our humanity, especially where financial loss may be a concern of each person. This is becoming an increasing concern to financial regulators.



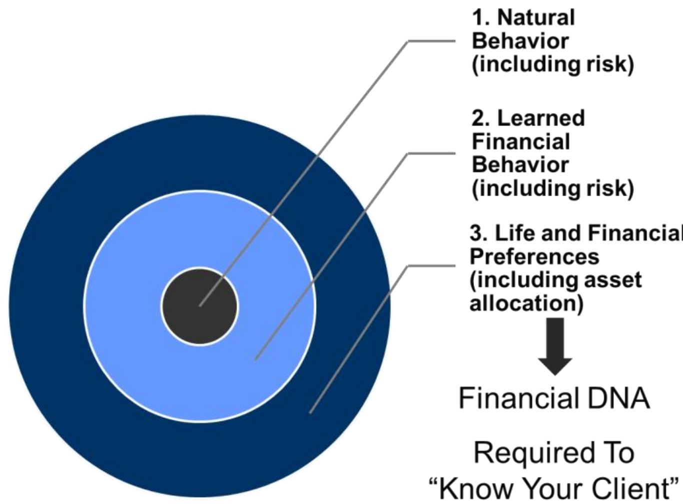
The Financial DNA® Discovery Process deals with these concerns by providing a detailed insight to each client's personal behaviors. By virtue of its design the Financial DNA Discovery Process captures all of the life and financial behaviors which influence the decisions made and eventual outcomes. This cutting-edge technology platform allows not only financial advisors to discover the unique life and decision-making patterns that make up the financial personality of their clients; it also educates the same clients to help them achieve their Quality Life goals.

> The Financial DNA Discovery Process is the next generation of behavioral discovery capturing all dimensions of financial personality by utilizing the most academically sound psychometric systems.

In order to appreciate the research and development of the Financial DNA Discovery Process it is important to recognize what "financial personality" is. From our long involvement in this area we have found that this can be expressed as:

"Every person inherently has a unique Financial DNA® code representing their financial personality. A person's natural born DNA behavioral style is shaped into their financial personality (including risk taking) by their current environment, life experiences, values and education. The natural DNA Behavioral style remains stable over time and will drive a how person consistently responds to different events, thereby always influencing life and financial decision making."

The implication of this description of financial personality is that there are 3 dimensions of personality that must be discovered in order to guide the client in making financial decisions at any time as shown in the graph below:



The Financial DNA Discovery Process was professionally designed with the assistance of independent experts with behavioral assessment development experience to provide objective measurement of "financial personality".

The structure of the process has been uniquely designed to provide the following components:

1. Initially, as a first step in the overall Financial DNA Discovery Process, we have prospects and clients complete the Communication DNA Discovery. The Communication DNA Discovery provides insights into the client's communication and learning style. The objective is to assist the advisor adapt their communication to be on the client's terms. Further, the advisor can use the insights to re-frame information about the solutions being offered so that the client will best understand them and have an optimal reaction. Ultimately, Communication DNA helps in building advisor-client trust which leads to a stronger relationship, enhanced environment for discovery and less risk of complaints.

2. As a second step, the Financial DNA Natural Behavior Discovery Process is typically deployed up-front when the planning process first commences with a committed client. The Financial DNA Natural Behavior Discovery Process provides a reliable prediction of the client's long term behavior, including risk behaviors, and also how they will instinctively make decisions when under pressure. On the basis this discovery is revealing natural instinctive behaviors which prevail through a person's life it is only every completed once.

   i. To ensure a reliable prediction of behavior the Forced Choice Scoring Model is used in the Financial DNA Natural Behavior Discovery involving 46 questions with 138 rating items (to learn more review "DNA Behavior – Behavioral Discovery Product Outline"). This discovery step is taken once only as the results are considered stable for life. We strongly advocate this approach because it provides a more accurate measurement of who the client is and therefore the best starting point for any discussions about key life and financial decisions, and longer-term education and development.

ii. The Financial DNA Natural Behavior reporting highlights risk across 10 dimensions covering the areas of investment, financial and relationship (refer to the graphic in Section 2.2 above).

iii. In the area of investment risk the Financial DNA system separately measures Investment Risk Propensity and Investment Risk Tolerance. Further, we provide a Natural Behavior Investment Portfolio Parameters table categorizing the participant into risk taking groups from 1 to 7 based on population weighting and consistent with international risk classification such as ESMA (refer to the table in Section 2.2 for a graphic illustration). However, we deliberately do not advise the client or advisor what the investment portfolio structure should be as this is considered to be the advisors responsibility, and should be based on the unique life and financial circumstances of the client. Usually, our recommendation is that the portfolio is structured so that the client is invested plus or minus 10% from their Natural Behavior Investment Portfolio Parameters. However, this will be subject to the client's specific goals, financial capacity and learned behaviors (refer below).

iv. In addition, we provide measurement of the following 16 behavioral (finance) biases:

3. As a third (optional) step, the Quality Life Goals Discovery provides insights into a person's top 18 life and financial goals across 6 key areas using 64 rating items. After identifying their 18 goals, the participants are then guided through a process to classify each goal as either 1) a Need or Want, and 2) Short-Term or Long Term Goal. Ideally, the Quality Life Goals Discovery is completed annually as part of reviewing the client's goals.

In addition, the client can complete the following discovery processes to help with building a Quality Life:

i. The Quality Life Planning Discovery to identify their passions, unique gift, mission, values, and Life Purpose. This process helps the client identify their goals from a place of knowing what is important to them.

ii. The Quality Life Performance Discovery measures the clients life balance across 8 key areas using 80 rating items. The reporting provides customized analysis of the participant's strengths and struggles to help them achieve their Quality Life goals with customized behavioral questions for Wealth Mentoring.

4. As a final (optional) step, the Financial DNA Learned Behavior Discovery is designed to reveal detailed insights into the client's learned financial behavior and financial preferences that make up the dynamic (potentially changeable dimension) of their complete financial personality. Ideally, the Learned Behavior Discovery is completed annually as part of reviewing the client's overall financial position and investment portfolio.

The Likert-type Scoring Model is used in the Financial Personality Discovery as this is the best model for uncovering situational changes and preferences which normally take place with every person through circumstances, experiences and education (business, financial and investment). This discovery step is taken annually or when there are significant life and financial events. The results of the Financial Personality Discovery are provided in the DNA Financial Performance Report. This report provides the following analysis of 5 key strands of decision-making behavior in the broad areas of risk taking, financial planning relationship, financial planning management, wealth creation and financial emotional intelligence. The depth of insight reaches to potentially different attitudes around capital losses and income stability. These items were developed after extensive review of 16 credible behavioral finance theories which describe tendencies of people making financial and investment decisions;

The system also provides access to reporting on how the questions were answered and identifies inconsistent answers for discussion with the client.

In addition, we provide a template Behavioral Investment Policy Statement for the advisor to use under their firm name which integrates the Financial DNA report scores and data. The advisor is required to input the clients required rate of portfolio return, financial capacity and financial goals. This creates a framework for enabling greater consistency between the uniqueness of the client's behavior, investment objectives (goals), investment horizons, agreed investment mandate and the portfolio that is implemented. The advisor is also required to input portfolio structure data for 7 levels of investment risk so that behavioral portfolio's can be produced. We have introduced this feature to recognize that the required portfolio is different across different regions and investment management styles. Also, we see it as the advisor's role to make portfolio recommendations and not DNA Behavior's role.

5. Comparative reporting data to extend the discussion to include the comparison of the behaviors of advisors and spouses or partners, and families and helps to mitigate the dominant bias of one of the parties, in particular the advisor.

6. Customized behavioral questions directed at the clients inherent strengths and struggles are provided for the advisor in the reports to lead guided discovery, and to allow for client self-reflection. In addition, there are "Powerful Question" manuals for the advisor to access to enhance their client facilitation processes.

2.5 Summary of the Financial DNA Methodology for Financial Planning Discovery

The paradigm shift that Financial DNA delivers from unreliable investment risk profiling to reliable financial planning risk management is highlighted in the table below:

Traditional Risk Profile Paradigm	Financial DNA Holistic Approach	New Generation of Financial Personality Discovery and Performance Measurement
Current Learned Behavior	→	Predictive Natural Behaviors Across 8 Factor and 16 Sub-Factors Providing Reliable Life Time Insights
Single Dimension Investment Risk Measurement	→	Separate Measurement of Risk Propensity and Risk Tolerance
N/A	→	8 Financial and Relationship Risks
N/A	→	16 Behavioral Finance Biases
N/A	→	Trust, Learning Style, EQ
N/A	→	Alignment of Natural and Learned Behavior
N/A	→	Quality Life Goals
N/A	→	IPS and Behavioral Portfolio Models
N/A	→	Advisor Client Matching + Communication
Situational Questions and Intelligence, Experience Bias	→	Forced Choice Questions to Mitigate Bias
Overweighting of Questions	→	Validated Psychometric Analysis
Basic Stand-Alone Platform	→	Powerful technology integration with customized reporting and branding

To learn more about each step in the Financial DNA Discovery Process, please visit: http://www.financialdna.com/financial-dna-discovery