WHITE PAPER BY JOHN PHILLIPS

iUIT: Evolution or Revolution?

GRIFFIN PHILLIPS LLC

SECTION 1

Executive Summary

A new twist on an old standard investment product has come to light in recent months; a no transaction fee/sales charge UIT designed specifically for the individual investor and the fee based advisors who services this group. This new twist on the classic UIT, dubbed the “iUIT” is quickly changing how investors invest their money.

Historically the UIT has been a wholesaler driven, front loaded, fixed life, fixed portfolio investment fund. Now Millington Securities, Inc. has taken this familiar standby and moved it into the 21st century. The new iUIT has all the characteristics of the traditional UIT your father knew, i.e. known cost, professional selection, known portfolio, fixed life, daily liquidity, etc; all the things that made it a clean, transparent, WYSIWYG investment option. Millington has removed two of the more onerous characteristics and a market truism (UITs are expensive) and made the new UIT into something more--and less.

Section 2

Introduction

As with any of the SEC regulated investment companies, the Unit Investment Trust, or UIT, has gone through a long and interesting evolutionary process. This paper will attempt to outline a small but significant change in the continuing growth of the Unit Investment Trust, its marketing and distribution. First, I will outline a brief history of the UIT. Then I will look into what a UIT is and some of its particular attributes that set it apart from its other ’40 Act cousins. Finally, I will compare and contrast within the UIT product itself, and especially a new offering, the iUIT, that takes this unique product one step further in its evolutionary process.

Section 3

What is a Unit Investment

A Unit Investment Trust is a regulated 1940 act packaged product that invests in a fixed portfolio of securities, for a predetermined period of time (referred to as buy and hold). Rather than selecting from individual stocks or bonds, Unit Investment Trust portfolios allow individuals to invest in a basket of securities in a single purchase. Each portfolio is strategically designed to answer a specific set of investment objectives or needs, keeping in mind customer risk tolerance, income requirements, diversification and liquidity.

SECTION 4

Types of Unit Investment

Fixed Income Unit Investment Trusts: A single category of bond is typically found in many fixed-income UITs. These may be corporate bonds, state municipal bonds, national municipal bonds, international bonds, or mortgage-backed and government securities. Investors in UITs can usually receive interest monthly, quarterly or semi-annually.

Equity Unit Investment Trusts: These are baskets of strategically selected stocks targeting a single sector or industry that generally invest for their potential to provide total returns through income and growth.

Specialty Unit Investment Trusts: These are baskets of '40 Act qualified securities that are part of a strategy rather than a target sector or an income generating fixed income pool. Some examples are covered call strategies, REIT portfolios, target date funds that mix fix income and equities, fund of funds, etc.

SECTION 5

Brief History of the Unit Investment Trust

UITs first appeared in the late 1920s as a transparent, flow through investment vehicle for holding a fixed portfolio of fixed income securities. The package and its purpose saw very little change in the first 40 years of its existence, UITs were seen as an investment vehicle for holding a fixed portfolio of bonds, and especially tax free municipal bonds. However, in the late 1970s and early 1980s, a new feature evolved in this staid package. One lead sponsor, Van Kampen, began to wrap the bond portfolios with insurance policies that insured the investment and the ultimate investor against loss from a default of any of the underlying bonds. This was seen as a fairly expensive luxury until Whoops and Orange County defaults which proved the need and viability of this innovation.

With the equity boom of the 1990s, sponsors such as Merrill Lynch, Van Kampen and First Trust/Nike Securities began to use the UIT as a vehicle to offer a variety of equity pools to the investing public. After the tech bubble burst in the late 90s and early 2000s the UIT has revived as a unique investment vehicle that can offer a limited pool of known securities, in a highly targeted sector or strategy for a fixed period of time. As with any investment package, there are excellent reasons for the existence of the UIT and a number of current uses of the product that are inappropriate.

An interesting side note on the evolutionary development of the UIT is the creation of Exchange Traded Funds or ETFs. All index ETFs were originally UITs that used an index tracking exemption that allows a UIT to be managed to match the ongoing changes within the target index. This particular iteration of the UIT has now become its own product with its own specific uses and reason for existence.

One of the evolutionary features of a UIT was the method of distribution. In the early days most of the distribution came through syndication. A UIT sponsor would create a bond portfolio and approach the various wire houses or regional broker dealers with the concept and attempt to form a syndicate. Once the participants were all committed, the UIT was formed and the individual brokerage houses took down their allocation – some of which would have been pre sold in the red herring period and some which would "pushed" through the internal sales force. Usually once the initial allocation was sold no more new units would be created. If demand persisted a new UIT would be formed.

With the advent of equity based UITs this method of distribution was not necessary. With bond portfolios there had been acquisition profits that made it worth the investment risk for the syndicate members to participate in the take downs. With no spread and basically no liquidity issues in the general equity markets the “syndicates” really became a distribution pipeline that participated in the UIT offering on a “best efforts” basis. With this change in the distribution methodology, it became incumbent on the sponsors to sell the units to the individual brokers instead of relying on the Brokerage houses’ UIT desks to push the “taken down” product within their system. Also the sheer number of equity UITs that were produced made it impractical for the brokers’ UIT desks to focus on them all each month. As a result the UIT sponsors began to develop their own larger wholesaling forces that, once a specific product was approved by the UIT desks for their system, the wholesalers would begin to give presentations and distribute throughout the appropriate broker network. An interesting side effect of this development is that since UITs are transactional in nature, the sponsors have to produce a steady stream of products to keep the wholesaling force paid and busy. This has lead in some cases to the production of products with little or no investment logic or reason. This evolution from syndicated to transactional distribution also narrowed the sales to transactional brokers.

As Wall Street has developed more products and the advent of new managers and sponsors has put pressure on pricing, UIT sponsors have had to both lower or innovate the UIT sales charges. Most sponsors have had to do both. In the mid 90’s sponsors began to split the sales charges between an up front sales charge which was taken at the time of sale and a deferred sales charge that was take over time. However, the sponsors still paid the full sales charge to the broker and collected the deferred portion over time. This meant that the unit carried a liability until such time as the DSC was complete. This meant that the daily NAV carried the DSC liability for some portion of the initial life of the fund. Some other innovations were the “roll over option” where a unit holder could roll from one UIT of the same sponsor into another UIT with a reduced sales charge.

As the industry has moved from transactional to asset based Financial Advisors, the UIT sponsors developed a unit that would work within a wrap account environment as there was no sales charge levied on this unit.

Section 6

Why a Buy and Hold Philosophy?

Unit Investment Trusts enable the individual investor to implement a disciplined approach to investing. UITs are professionally constructed, well positioned portfolios, which are designed to be held over a fixed period of time. If you believe that timing the market does not produce the best returns, then a UIT's structure offers investment opportunities that rely on a disciplined investment strategy.

SECTION 7

Features of UIT Portfolios

Fixed Portfolios - The investments that are held in UIT portfolios are never actively managed. Each unit, regardless of purchase date, contains the same securities as any other unit.

Fixed Time Frame - UITs have a specific, declared termination date. This allows fixed income portfolios to be coordinated with the maturities of the underlying securities which eliminates reinvestment risks associated with actively managed funds and allows the investor to determine their income stream and final principal return.

Fully Invested – UITs have fixed portfolios to the degree that each unit is made up of exactly the same stocks and same proportions of those stocks. Because there is no active trading and all units are alike, there is no need to sit on cash and allows a UIT to be fully invested at all times.

Diversification - Because UIT portfolios can be diversified across many different investments they help implement an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of investment trusts or funds rather than through ownership of individual stocks or bonds.

Liquidity - UITs can usually be redeemed on any business day at the market redemption price, which may be more or less than the original investment.

Ease of Holding - UITs allow investors to quickly own diversified, professionally managed portfolios that match their investment strategy.

Professional Portfolio Construction - UIT research teams are typically experienced, knowledgeable professionals who know and understand how to research and select (or assist in the selection of) appropriate securities for each portfolio. Once the portfolio is selected and deposited, the holdings of each portfolio are monitored by the same research team. Most of these teams are CFAs employed by the UIT sponsor select the securities for the targeted sector or asset class. They are typically not specialized equity or fixed income asset managers, but apply their knowledge to a third party research firm’s rating or grading of the securities within the equity sector or whatever other asset class encompassed by the anticipated UIT.   Sometimes a sponsor will team up with a professional asset manager and allow them to select the portfolio along the predetermined investment objective or strategy. This allow the UIT investor to access truly professional asset management that would normally be available in SMA with much higher investment minimums as compared to a UIT.

UIT Tax Advantages - Since UITs are not actively traded and since stated maturities are longer than 12 months, equity unit trust portfolios allow investors holding their units longer than 12 months to receive the more favorable long-term capital gains rate at maturity. In addition, UITs do not incur any capital gains or losses from active trading during the holding period of a unit.

Low Expenses - UITs have historically featured lower expenses compared with other investment bundled products, such as Mutual Funds.

Comparison with Other '40

Mutual (Open End) Funds – A mutual fund is an actively managed, pooled product that is sold by prospectus and whose assets are managed by a professional asset manager. A mutual fund has a board of directors that oversee the day to day operations of the fund. Each buyer owns a pro rata number of shares of the entire pool and in the profits/loss of the pool's assets, accrued liabilities and a pro rata portion of the annual tax liabilities – regardless of when the shareholder bought or sold their shares. Mutual funds can have multiple classes of shares with a variety of sales charges (0-5%) and annual expense ratios (0.75 – 2.0% with the average at 1.44% Mutual or open end funds are priced daily and are bought and sold on a net asset value (NAV) established at the close of the market every business day. Fund assets are sold or cash positions used to fund redemptions. Mutual funds are by far the most widely held pooled asset vehicle in the United States and are useful in holding liquid, '40 Act approved securities in a diversified actively managed open ended (no maturity date) fund.

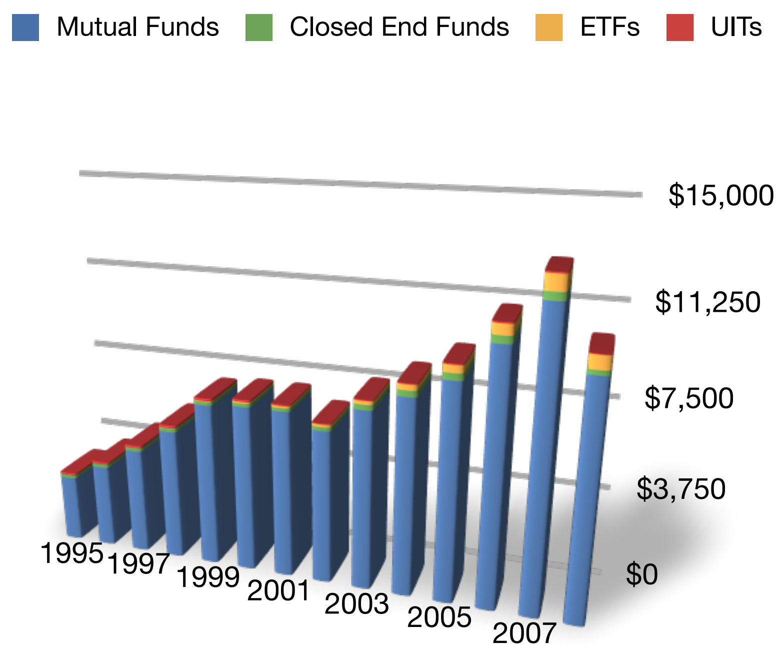
Closed End Funds(CEF) – Closed end funds are generally established as registered investment companies with a fixed number of shares created on funding. CEFs are offered by prospectus and the shares are sold to the public in a syndicated offering with a single close date. A fixed number of CEF shares are then listed on an exchange and traded on a daily basis. The CEF is run by a board of directors and managed by a professional asset manager and have only one traded class of shares. Shares of a CEF are not generally liquidated but are traded in a two-sided market on a nationally recognized stock exchange. The two major differences between a mutual fund and a CEF are that the shares of the mutual fund are bought and sold with reference to the share's NAV, where the shares of the CEF are traded on the exchange at a market determined price. Therefore a CEF share can trade at a premium or discount to its NAV based on supply and demand for its shares on the exchange. CEF are uniquely positioned to hold illiquid assets since the number of shares are fixed and exchange traded – therefore the asset manager does not have to liquidate securities or use cash to redeem shares.

Exchange Traded Funds (ETF) – An ETF is essentially an index tracking vehicle. Most of the early ETFs were UITs that relied on an index tracking exemption to allow the trust to change the constituent securities to match the target index. Because of this characteristic, the ETF acted more like a open end fund and could have a long dated termination and could trade over time without the restriction of a primary period of only 3 to 6 months. With this feature and the resulting open end nature, the ETF could list and trade on exchanges like an equity. As with an equity, here is intra-day pricing and you may short the ETF as a hedge to the underlying index or as a proxy to a broad market exposure. The ETF also has another unique feature in that as they contract and expand the assets under surveillance they will only trade the units and underlying securities with institutional brokers on an in-kind basis which prevents the trust from triggering tax liabilities for the shareholders and makes an ETF a very useful and tax efficient investment vehicle.

One issue that investors should recognize with the ETF is that the purpose of an ETF is typically to gain broad market exposure. In general the constituent securities of an index are chosen for their representation with in a sector and capitalization class rather than the individual security's quality as a good investment target in its own right--great for broad market exposure but not recommended as a pool of investment qualified securities.

Investment Companies' Total Net Asset by Type

BILLIONS OF DOLLARS, YEAR-END, 1995–2008	Mutual Funds	Closed End Funds	ETFs	UITs	Totals
1995	$2,811	$143	$1	$73	$3,028
1996	$3,526	$147	$2	$72	$3,747
1997	$4,468	$152	$7	$85	$4,712
1998	$5,525	$156	$16	$94	$5,791
1999	$6,846	$147	$34	$92	$7,119
2000	$6,965	$143	$66	$74	$7,248
2001	$6,975	$141	$83	$49	$7,248
2002	$6,390	$159	$102	$36	$6,687
2003	$7,414	$214	$151	$36	$7,815
2004	$8,107	$254	$228	$37	$8,626
2005	$8,905	$277	$301	$41	$9,524
2006	$10,387	$298	$423	$50	$11,158
2007	$12,000	$313	$608	$53	$12,974
2008	$9,601	$188	$531	$29	$10,349



Mutual fund data exclude mutual funds that primarily invest in other mutual funds.

ETF data prior to 2001 were provided by Strategic Insight Simfund; ETF data include investment companies not registered under the Investment Company Act of 1940 and exclude ETFs that primarily invest in other ETFs.

Total investment company assets include mutual fund holdings of closed-end funds and ETFs.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute and Strategic Insight Simfund

Section 10

The iUIT: the Next Generation UIT

The above commentary is really background in pursuit of placing the major SEC registered, '40 Act companies and trusts into context with each other. All the pools have valid reasons for existing and are appropriate for investors assuming the sponsors use the vehicles properly. Each of these particular structures continues to evolve and produce answers to many investors' needs.

In this paper, I am more focused on the next generation of the UIT, the iUIT. As described above, the UIT has its history and warrants a place in an investor's portfolio. With the increasing shift of brokers from wire houses to the regional broker/dealers, investment advisory and CFP communities, the UIT has had to examine some of the logic behind why it is created and its nature as a "bought" or "sold" product.

Marketing and Distribution – UITs have historically been a "sold" security. The sponsor creates a UIT, sends its wholesales out to the brokerage firm offices on a road show and sells the concept to, and provides sales literature for the broker (mostly transactional oriented reps) who in turn sells it to the individual investor for a commission. This process is labor intensive and fairly expensive and has historically caused two unintended and problematic results. The first result is that the sponsors have to produce a constant and increasing flow of UITs to keep the sales force occupied and the UIT has to have an appropriate sales charge to support the commission structure for both the wholesaler and the transaction broker. As a result UIT have been seen as expensive relative to other investment options and has marginalize the structure to a small group of transaction brokers and their clients. A second result of this method of distribution is that UITs produced are sometimes spurious (from an investment logic point of view) as the sponsor struggles to find new and appropriate investment themes to feed the distribution machine.

An innovation in creating a fee-based CUSIP (a way to create what appears to be a separate class of shares) has allowed the sponsor to introduce the UIT to brokers who also had wrap accounts and took a fee on assets managed rather than charge a transaction fee. However, this action was a convenience and could not stand alone without the transaction base to support the necessary income for the sponsor. A new UIT sponsor, Millington Securities, has innovated within the UIT space to create a UIT with only one CUSIP and no transaction sales charges, designed to be directly marketed to the investor and the fee based advisor or FP, the iUIT.

The concept is, that with the advent and maturation of the internet and resulting social networks, investment vehicles, including UITs, can be marketed and distributed in a new way – directly (electronically) to the investor and the fee-based broker rather than through the traditional, costly wholesaling effort and move this new UIT into a “bought” product. Most of the problems they will have to overcome are more compliance issues, but with the approval of electronic deliver of the prospectus seen as “good delivery”, the regulators and the industry have taken an initial step in the direction of electronic marketing and distribution.

Sales Charges – With the elimination of any upfront and transactional sales charges the iUIT commits itself to the new mantra of the UIT as a bought security. Without sales charges there is no incentive for the wholesaler or transaction broker to “push” this product for the larger commission. The investment advisor, whether a broker, RIA or CFP, can and will have to represent this product as an answer to the larger questions of asset allocation or the more specific question of investment quality without the pull or push of the sales charge.

From the investors’ point of view the higher expense normally associated with UITs is no longer a deterrent to giving a longer look at the iUIT product as an investment option.

Portfolio Construction – Another unique feature of the iUIT is that it is committed to the delivery of institutional quality asset management to the retail investor as the norm and not as an occasional one off. Most current UIT sponsors currently use in house research to identify the individual constituents of the UIT. There is no way for an investor to know, based on past performance or history, what the qualifications are for these individuals that would allow the investor to have confidence that the securities included in the portfolio are of “invest-able” quality. The iUIT has committed itself to search out and team up with the highest quality institutional asset managers and bring their experience and demonstrable track records to the retail investor instead of the institutional buyers alone. Since a steady flow of product is not imperative in the new iUIT (no expensive sales force) the iUIT sponsor has more latitude to “pick and chose” what product to bring and when to bring it based on quality and access to the third party asset manager and the specific logic and timing of the packaged strategy.

Operational Advances - Operationally traditional UITs have been an island unto themselves. Because UITs are a sold vehicle with a fixed life, fixed portfolios offered in a limited time frame they have never really fit within the broad securities operational and delivery systems. Although some of the UIT’s characteristics re-enforced the development of this parallel operational and delivery system, the UIT evolution and the intent of the sponsors on a sold vehicle allowed the UIT to not be included in the normal securities delivery system. The iUIT is targeted at the end user and the fee based advisors that service this slice of the investing public. To more efficiently offer itself to these groups, the iUIT sponsor must assure the iUIT is FIX protocol compatible and not part of a proprietary and isolated system. If an end user hears about this iUIT and searches the normal investor servicing platforms such as a Schwab, Ameritrade, Fidelity etc., they will now be able to locate it among the plethora or other '40 Act offerings whereas the current UITs are placed in the alternative investment category and not easily located. This is all based again on the major shift of the new iUIT morphing from a sold investment fund into a solid, bought investment fund.

SECTION 11

Conclusion

The iUIT manifesto of “bought not sold” can be easily encapsulated into three bullet points:

•Institutional quality asset management delivered to the retail investor;

•A functional, efficient and cost effective package to hold the portfolios;

•Portfolios that are created with investment logic, timed for the offering and where the constituent securities are chosen with the investor in mind and not for the sales force imperative.

Bottom line, the iUIT is a significant step forward within this product space and should be seriously considered by investors and their advisors