

Measuring Affluent and HNW Investor Expectations of the Investment and Financial Community

Survey Data
March 2008

Prepared for:



On behalf of iShares, Cogent Research recently conducted an online survey among affluent and HNW investors to understand their perceptions of the overall investment community, specifically measuring the roles of the fund industry, the financial advisor and the media in driving investor confidence.

A total of 1,004 surveys were completed between January 24 and February 1, 2008. All participants met the following criteria:

- Have at least \$500K in assets, excluding employer-sponsored retirement plans and real estate.
- Have mutual funds in their investment portfolios
- Are at least 22 years old

Participants with \$500K-\$999K in assets are classified as “affluent” while participants with \$1 million or more in assets are classified as “high net worth” (HNW). A mix of “advised” and “non-advised” investors were included, based on their current usage of financial advisors in their investment management and decision processes.

All data have been weighted to reflect national “affluent” and “HNW” populations using benchmarks from the Federal Reserve Survey of Consumer Finances and the U.S. Census Bureau.

Affluent/HNW investors believe the fund industry fails to put investors' needs first, leading to low levels of trust and satisfaction. Indeed, while the majority of investors (81%) believe that the industry should put the needs of investor's first, only one in three are satisfied with the industry on this critical dimension. In fact, the fund industry ranks last on "trustworthiness" among a list of service providers, falling below auto mechanics and insurance agents.

Contributing to the low overall level of trust are perceptions that the fund industry is: underperforming regarding fee transparency; not providing a clear understanding of investment risk relative to investment return; and failing to clearly articulate the tax implications of funds owned. While most investors (88%) believe that it is important for the industry to clearly articulate fees, less than half (46%) are satisfied with the industry's performance on this metric. Further, while nearly 80% say the fund industry must clearly articulate the amount of risk relative to return, less than 50% are happy with what the industry provides in this category. Finally, the industry receives an "F" for articulating the tax implications of funds owned by investors.

Investors also implicate the media in failing to provide credible reporting on the fund industry, citing too much hype and not enough focus on important fee- and tax-related issues. Nearly three in four investors believe that the media sensationalizes financial issues or trends, and only one in five believes that the media provides accurate reporting. Further, only two in ten investors say that the media does a good job on recognizing the importance of tax implications and fees on investment returns.

In contrast to the fund industry and the media, financial advisors enjoy high levels of trust, service satisfaction and loyalty, and are seen as champions of investors' interests. Advised investors believe that the advisor is "championing" their interests. Nearly all advised investors believe that the advisor clearly understands their needs and financial goals. Unlike the fund industry, advisor's trust scores are high and are in line with trust scores garnered by family physicians. Interestingly, fee-based advisors receive higher accolades than commission-based advisors in many advisory-related metrics.

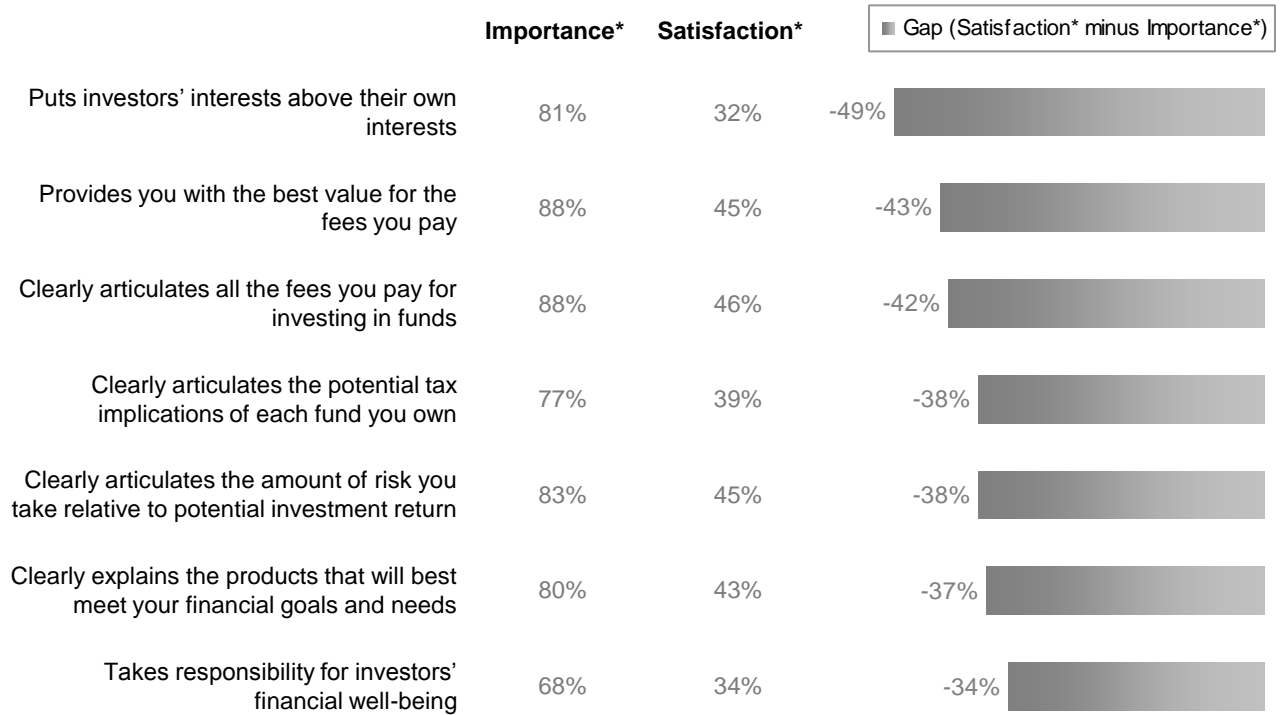
A paradox exists between investor confidence and their reported investment knowledge. While nearly nine in ten investors say they fully understand the level of risk in their portfolios, fewer than two in three can confidently say they understand how the financial markets work and can communicate the purpose of each investment in their portfolio.

ETF users have significantly higher confidence scores than non-ETF users when it comes to understanding the impact of fees on their investments and understanding tax implications of funds owned.

Fund Industry Fiduciary Responsibilities – Performance Gap

Q1. Using a 1 to 5 scale where “1” means “not at all important” and “5” means “very important,” how important is it that the fund industry...?

Q2. Using a 1 to 5 scale where “1” means “not at all satisfied” and “5” means “very satisfied,” how satisfied are you with the fund industry on...?

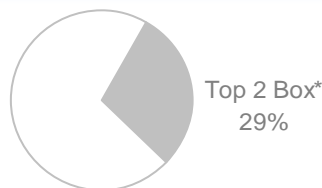


* Top 2 Box scores (percent rating 4 or 5 on a 1-5 scale).

Based on 1,004 responses

Fund Industry Trust

Q3. How much do you trust the fund industry? Please use a 1 to 5 scale where “1” means “do not trust at all” and “5” means “trust completely.”



* Percent rating 4 or 5 on a 1-5 scale.

Based on 1,004 responses

Self-Stated Concerns about the Fund Industry

Q4. Is there anything about the fund industry that troubles you? If so, please respond in your own words and be as detailed as possible.

Disregard for Investor's Best Interests

Includes mentions of: greed, self-interest; dishonesty, fraud, scandal, or insider trading; unnecessary trading; small investors not treated the same as large investors; lack of regulation



Lack of Transparency

Includes mentions of: hidden or obscure fees/costs; failure to disclose sufficient information



Risk or Investment Performance Concerns

Includes mentions of: market volatility; state of the economy; poor investment performance; risk or uncertainty; lack of long-term focus



Lack of Clarity

Includes mentions of: too much complexity and technical language; too many options to choose from, too difficult to compare



Fees, Costs and Taxes

Includes mentions of: expensive, high fees; don't like the fees charged; capital gains/tax issues



Industry Personnel Experience and Compensation

Includes mentions of: turnover, inexperience; high compensation despite poor performance; salaries, bonuses too high

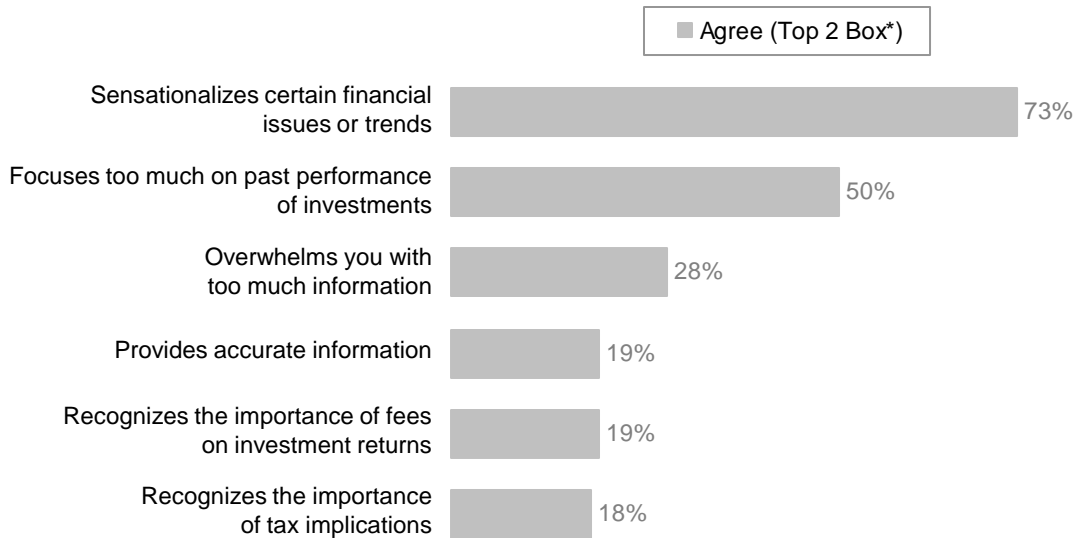


Additional Categories: Other (3%), Don't know (1%), Nothing (43%)

Based on 1,004 responses

Media Credibility

Q5. How much do you agree or disagree with each of the following statements about the way the media presents the fund industry? Please use a 1 to 5 scale where “1” means “strongly disagree” and “5” means “strongly agree.”

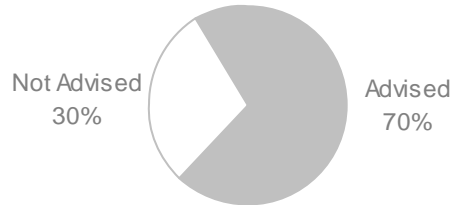


* Percent rating 4 or 5 on a 1-5 scale.

Based on 1,004 responses

Financial Advisor Usage

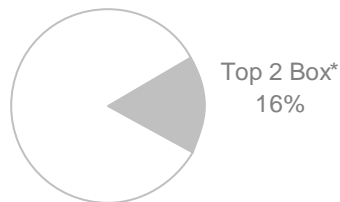
Q6. Which one of the following best describes a professional financial advisor's level of involvement in your financial decision-making?
By financial advisor, we mean an individual or firm you turn to for investment and financial planning advice for which you pay a fee and/or commission.



Based on 1,004 responses

Likelihood to Seek a Financial Advisor (among non-advised investors)

Q7. In the next 12 months, how likely are you to seek the services of a professional financial advisor to help you with financial planning, investment selection or other investment service?
Please use a 1 to 5 scale where "1" means "not at all likely" and "5" means "very likely."
By financial advisor, we mean an individual or firm you turn to for investment and financial planning advice for which you pay a fee and/or commission.

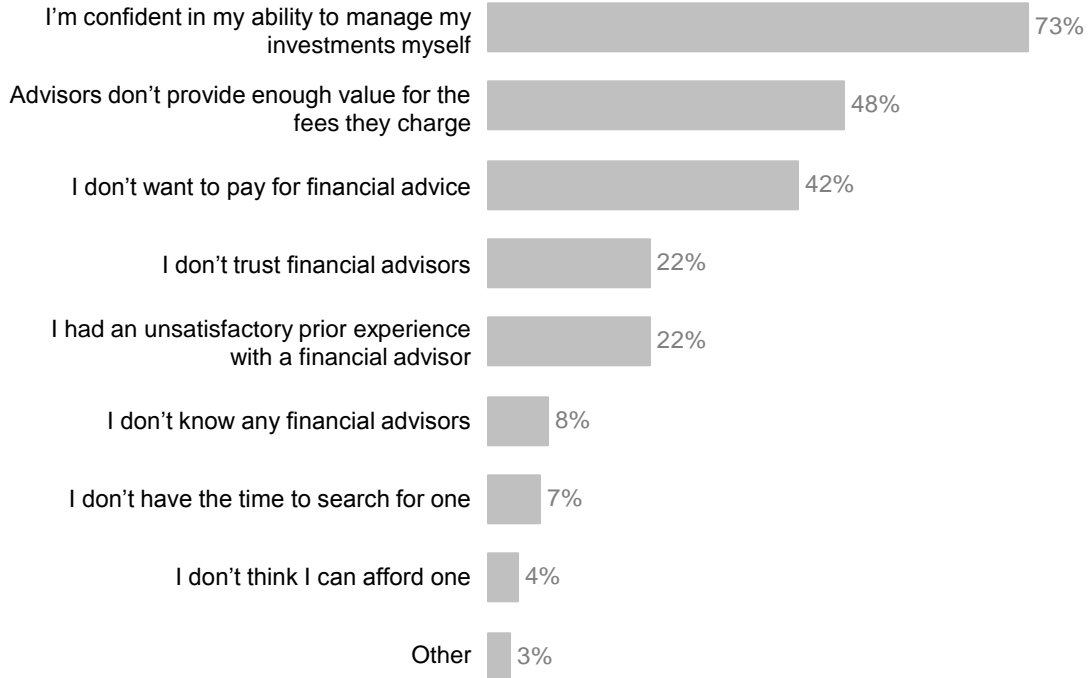


* Percent rating 4 or 5 on a 1-5 scale.

Based on 305 responses

Reasons for Not Seeking a Financial Advisor (among non-advised investors who are not likely to seek an advisor)

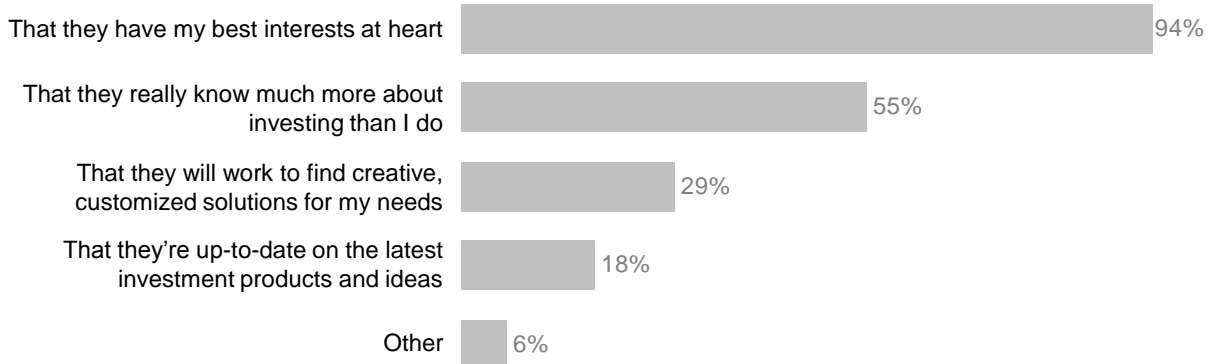
Q8. Why are you not very likely to seek the services of a professional financial advisor in the next 12 months? Select all that apply.



Based on 256 responses

Reasons for Not Trusting Financial Advisors (among non-advised investors who say they don't trust advisors)

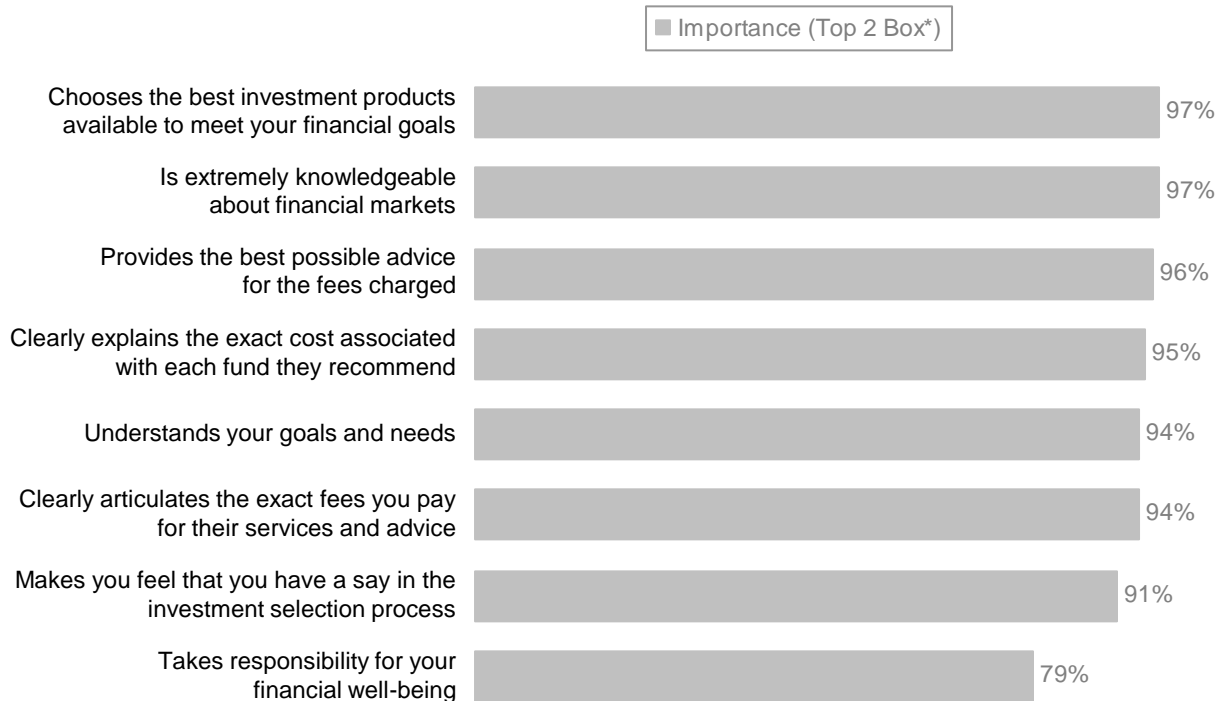
Q9. You indicated that you don't trust financial advisors. What is it about advisors that you don't trust?



Based on 58 responses

Financial Advisor Fiduciary Responsibilities – Importance (among non-advised investors who are likely to seek an advisor)

Q10. Using a 1 to 5 scale where “1” means “not at all important” and “5” means “very important,” how important are each of the following financial advisor characteristics?



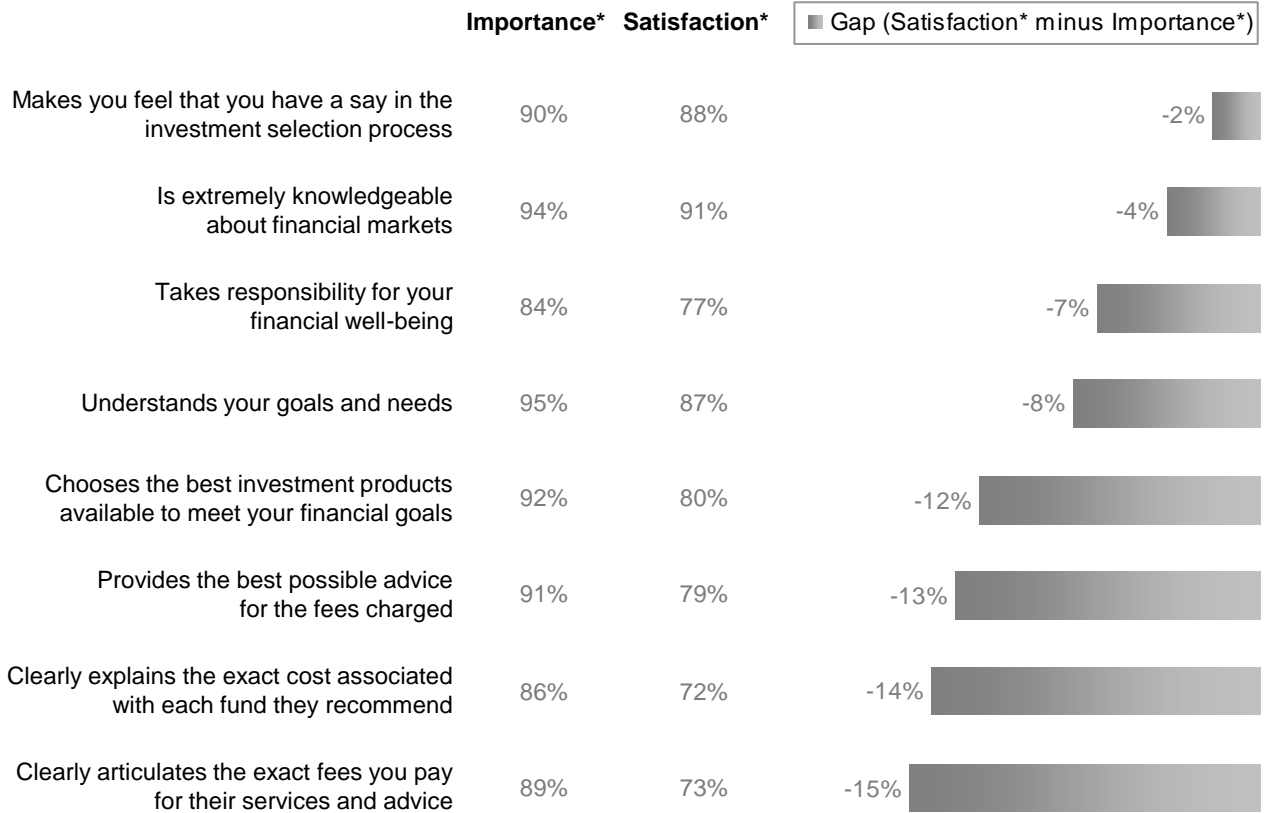
* Percent rating 4 or 5 on a 1-5 scale.

Based on 49 responses

Financial Advisor Fiduciary Responsibilities – Performance Gap (among advised investors)

Q11. Using a 1 to 5 scale where “1” means “not at all important” and “5” means “very important,” how important are each of the following financial advisor characteristics?

Q12. Using a 1 to 5 scale where “1” means “not at all satisfied” and “5” means “very satisfied,” how satisfied are you with your primary financial advisor on ...? If you have more than one advisor, please rate your primary financial advisor – that is, the one you work with most often.



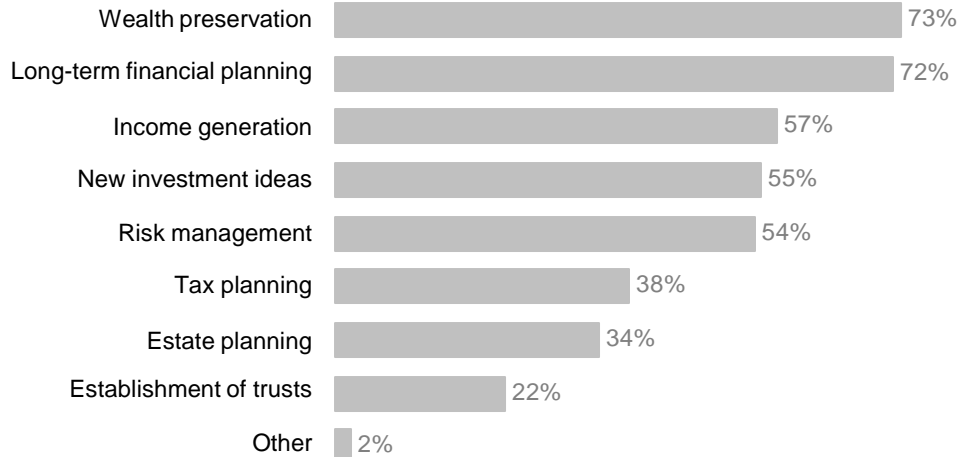
* Top 2 Box scores (percent rating 4 or 5 on a 1-5 scale).

Based on 699 responses

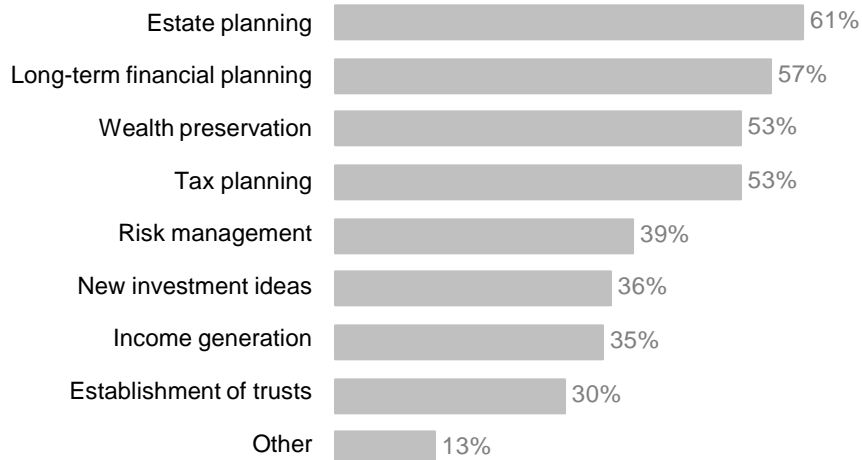
Financial Advisory Service Needs

Q13. For which of the following do you most need a financial advisor's services or advice?
Select all that apply.

Among advised investors (699 responses)



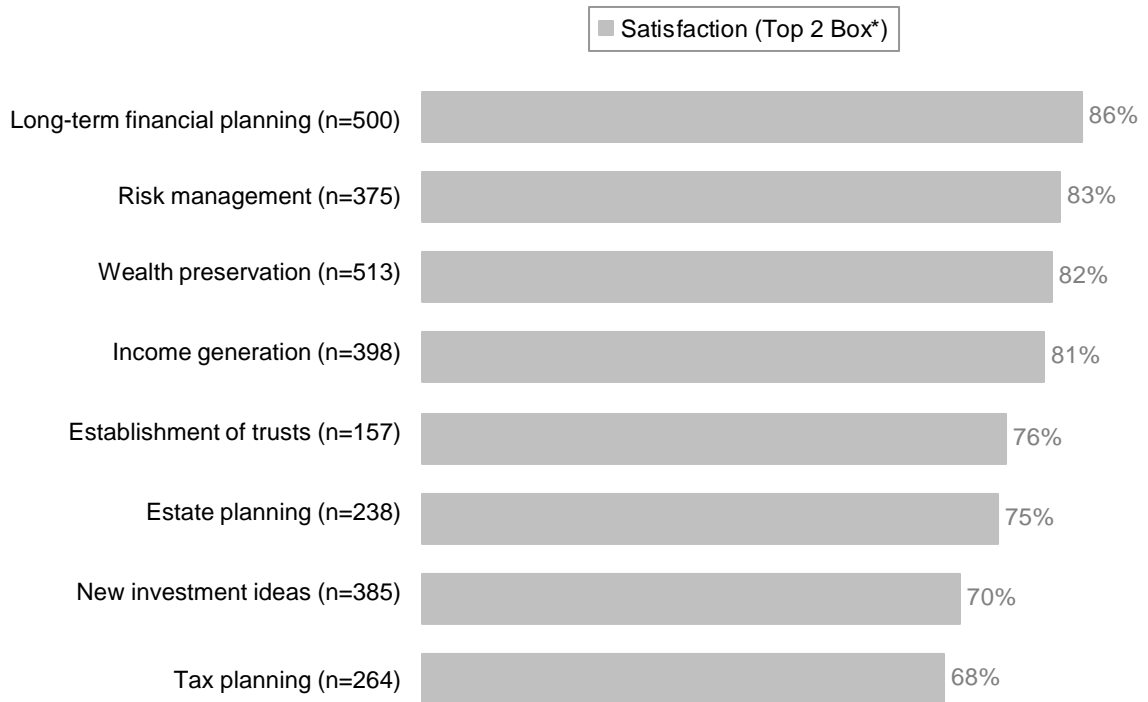
Among non-advised investors who are likely to seek an advisor (49 responses)



Financial Advisory Service Satisfaction

(among advised investors who have received specific service or advice)

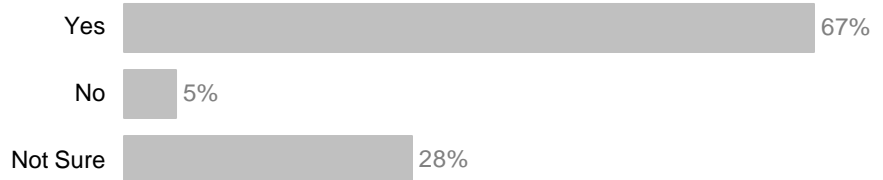
Q14. How satisfied are you with your primary financial advisor's services or advice on each of the following? Please use a 1 to 5 scale where "1" means "not at all satisfied" and "5" means "very satisfied." If your advisor doesn't offer these services or you have not experienced them yet, please select "N/A."



* Percent rating 4 or 5 on a 1-5 scale.

Financial Advisor-Investor Fit (among advised investors)

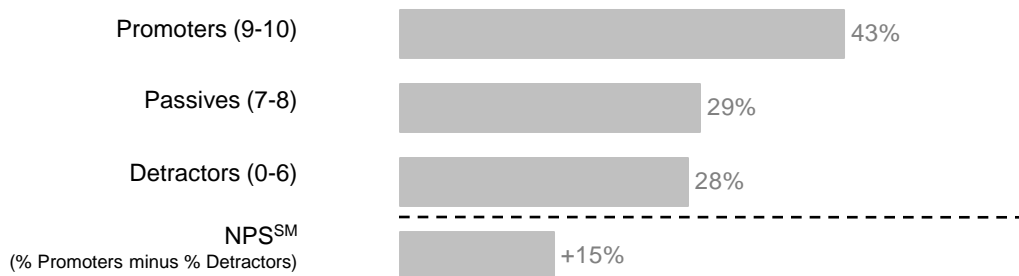
Q15. Do you believe your current primary financial advisor is the best person (or firm) to meet your needs?



Based on 699 responses

Financial Advisor Net Promoter Score® (among advised investors)

Q16. How likely are you to recommend your primary financial advisor to family, friends, or colleagues over the next 12 months? Please use a 0 to 10 scale where “0” means “not at all likely” and “10” means “extremely likely.”

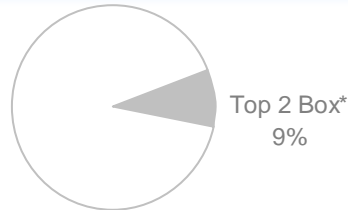


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Based on 699 responses

Likelihood to Seek a New Financial Advisor (among advised investors)

Q17. How likely are you to seek a new primary financial advisor over the next 12 months? Please use a 1 to 5 scale where “1” means “not at all likely” and “5” means “very likely.”



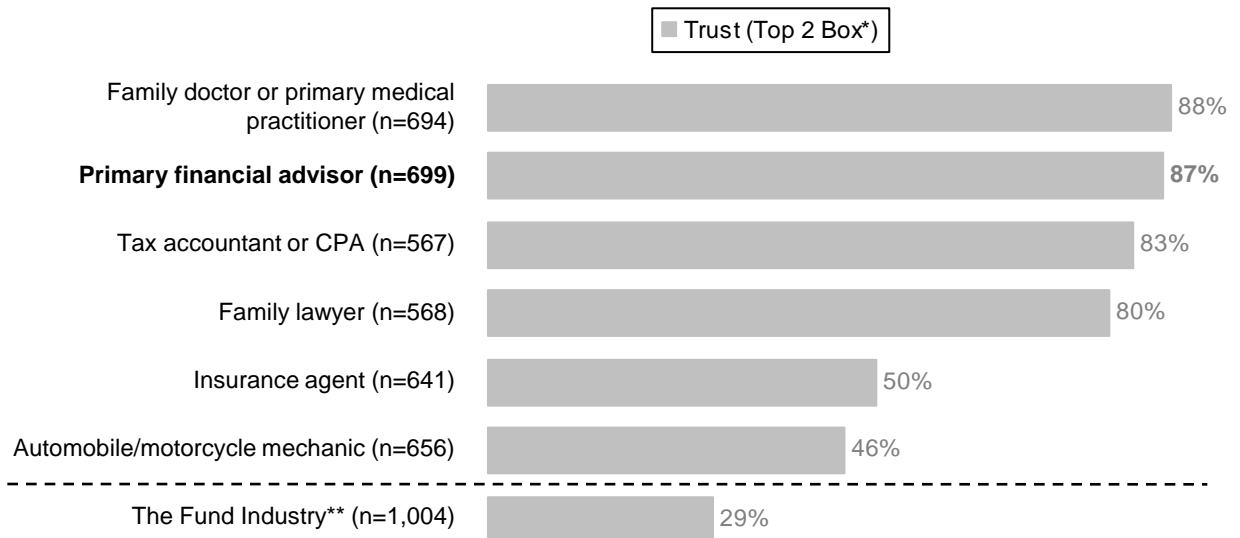
* Percent rating 4 or 5 on a 1-5 scale.

Based on 699 responses

Trust in Advisors (among investors with financial and other specified advisors)

Q18. How much do you trust your primary financial advisor? Please use a 1 to 5 scale where “1” means “do not trust at all” and “5” means “trust completely.”

Q19. Thinking about other providers you hire to perform certain services or to give you advice, how much do you trust the advice you receive from each of the following, if applicable? Please use a 1 to 5 scale, where “1” means “do not trust at all” and “5” means “trust completely.” If you do not receive services or advice from any of the following, please select “N/A.”

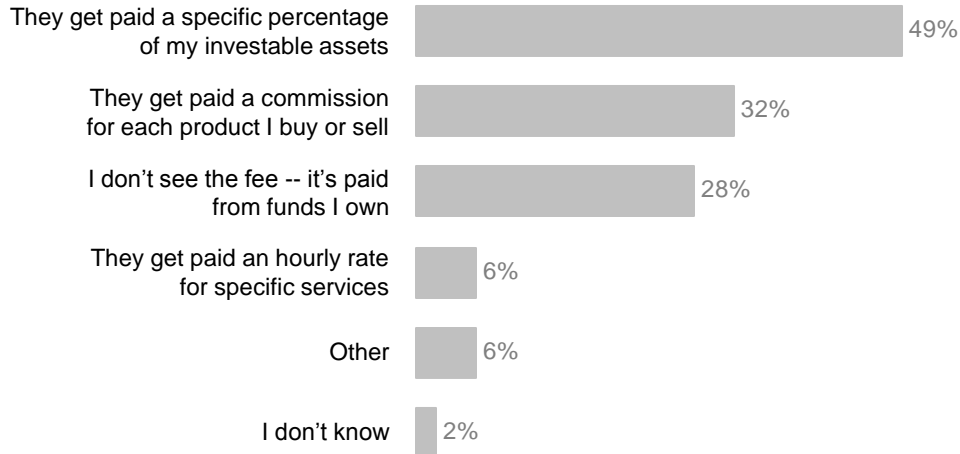


* Percent rating 4 or 5 on a 1-5 scale.

** From Q3, asked among all investors.

Financial Advisor Payment Method (among advised investors)

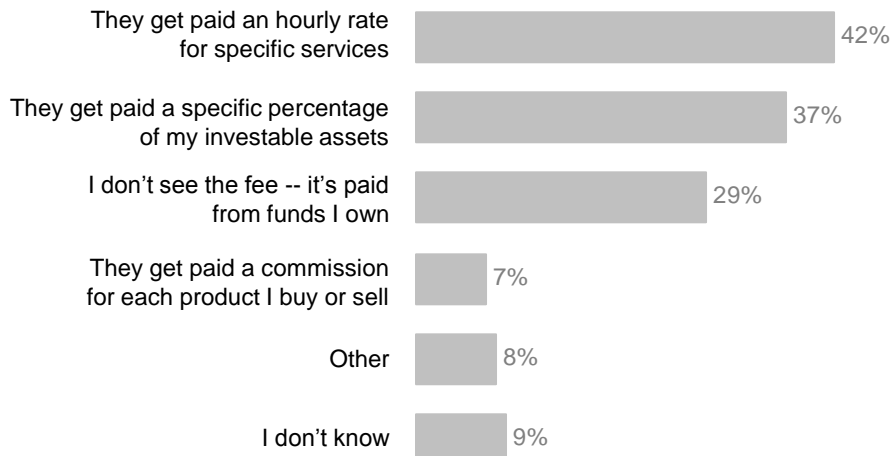
Q20. Which of the following describes how you pay your primary financial advisor for the investment services and advice he/she provides? Select all that apply.



Based on 699 responses

Preferred Financial Advisor Payment Method (among non-advised investors who are likely to seek an advisor)

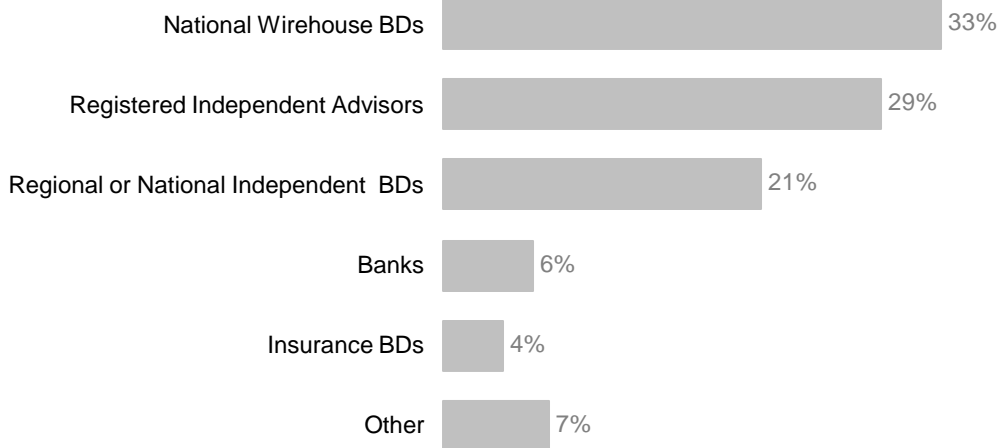
Q21. Which of the following describes how you would prefer to pay your primary financial advisor for the investment services and advice he/she might provide? Select all that apply.



Based on 49 responses

Financial Advisor Classification (among advised investors)

Q22. With which firm is your primary financial advisor employed?

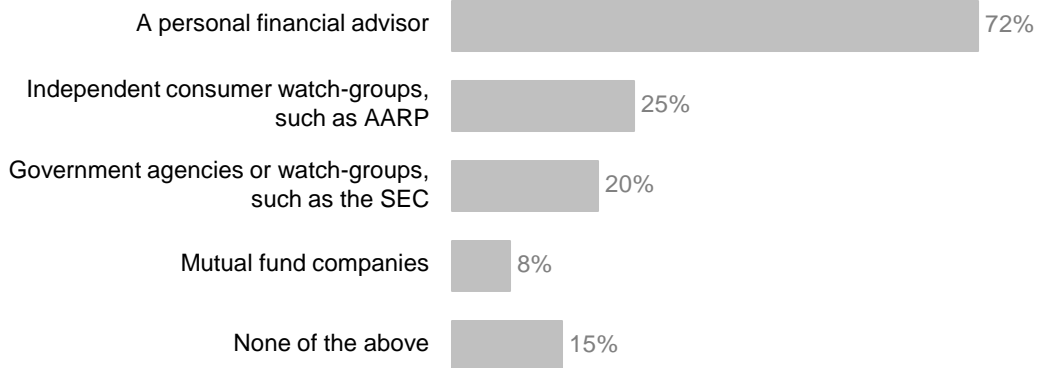


Based on 699 responses

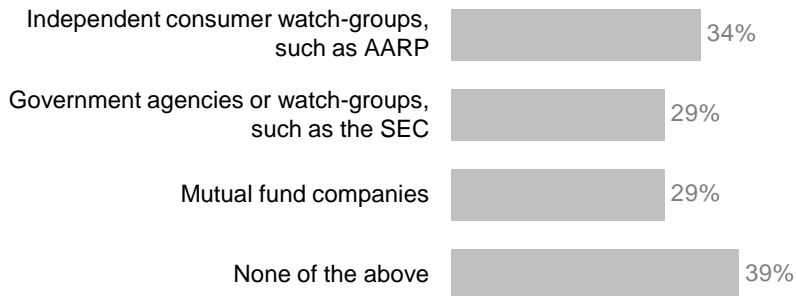
Champions of Investors' Interests

Q23. Which of the following, if any, do you consider to be a champion of your investment interests? Select all that apply.

Among advised investors (699 responses)



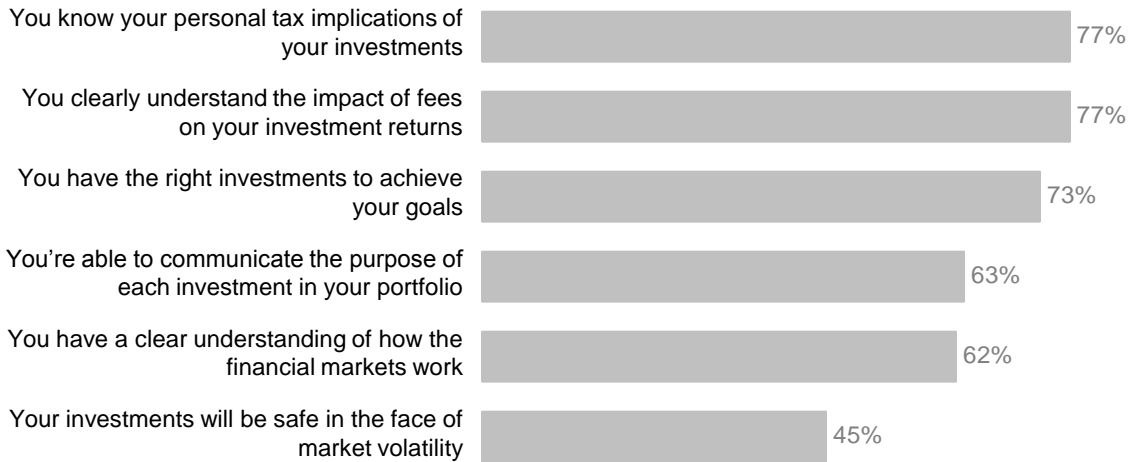
Among non-advised investors who are likely to seek an advisor (49 responses)



Investor Confidence

Q24. Using a 1 to 5 scale where “1” means “not at all confident” and “5” means “very confident,” please indicate how confident you are that...

■ Confident (Top 2 Box*)



* Percent rating 4 or 5 on a 1-5 scale.

Based on 1,004 responses

Investor Time Spent Managing Investments

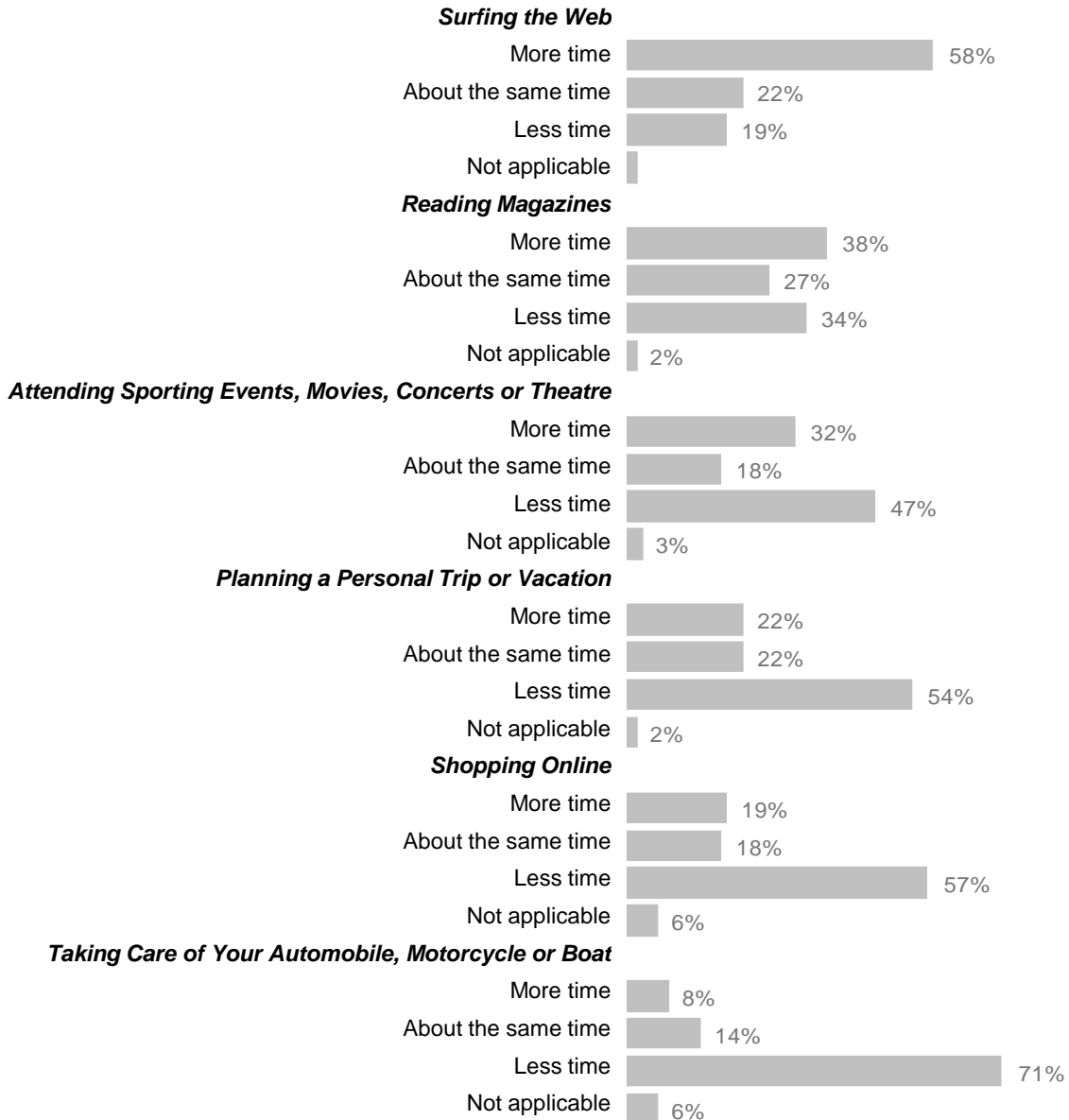
Q25. On average, how many hours per month do you spend monitoring or managing your investments, or discussing your investments with your financial advisor? Your best estimate is fine.



Based on 1,004 responses

Investor Time Spent on Other Activities (Relative to Investments)

Q26. Compared to the hours per month you spend managing your investments, do you spend (1) more time, (2) about the same time, or (3) less time on each of the following, in an average month? If you do not engage in any activity, please select "N/A."

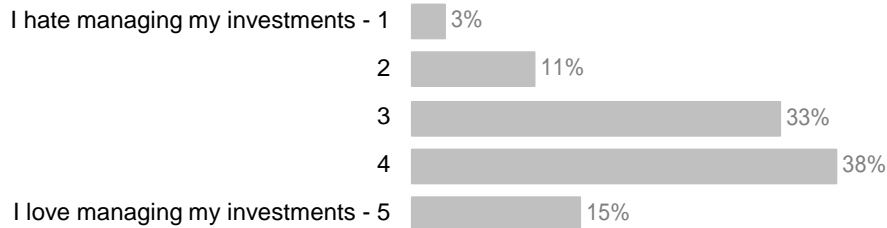


Based on 1,004 responses

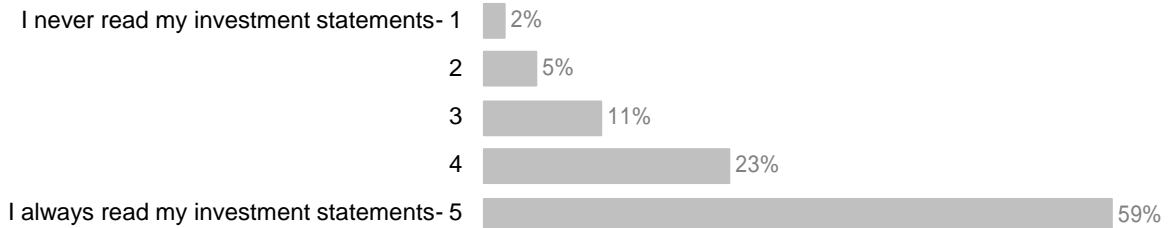
Investor Engagement

Q27. For each item below, two statements are listed. Please consider each statement and choose the point on the scale that best indicates how you feel about your investments, relative to each of the two statements.

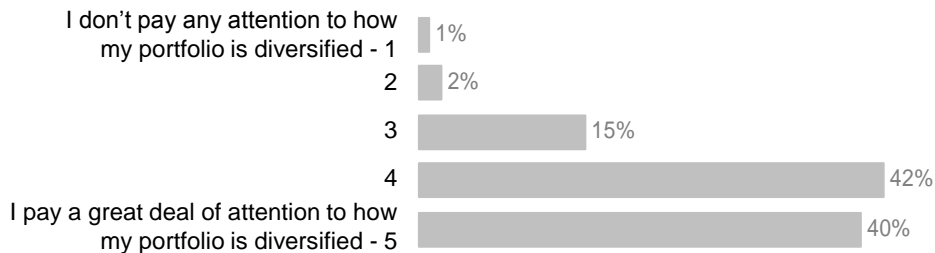
Interest in Investments



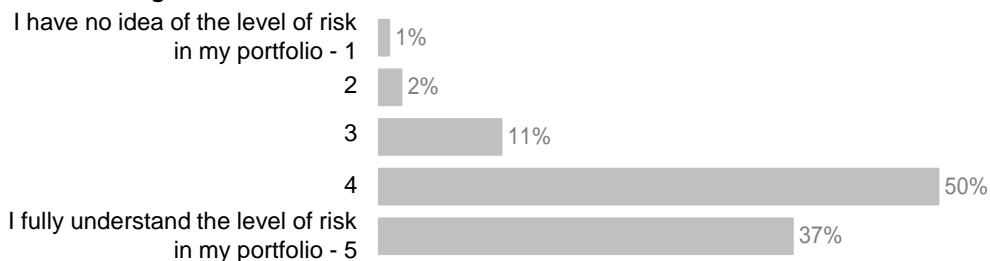
Attention to Investment Statements



Attention to Portfolio Diversification



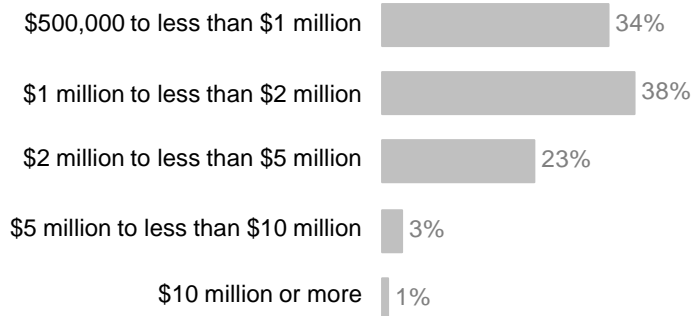
Understanding of Portfolio Risk



Based on 1,004 responses

Investable Assets

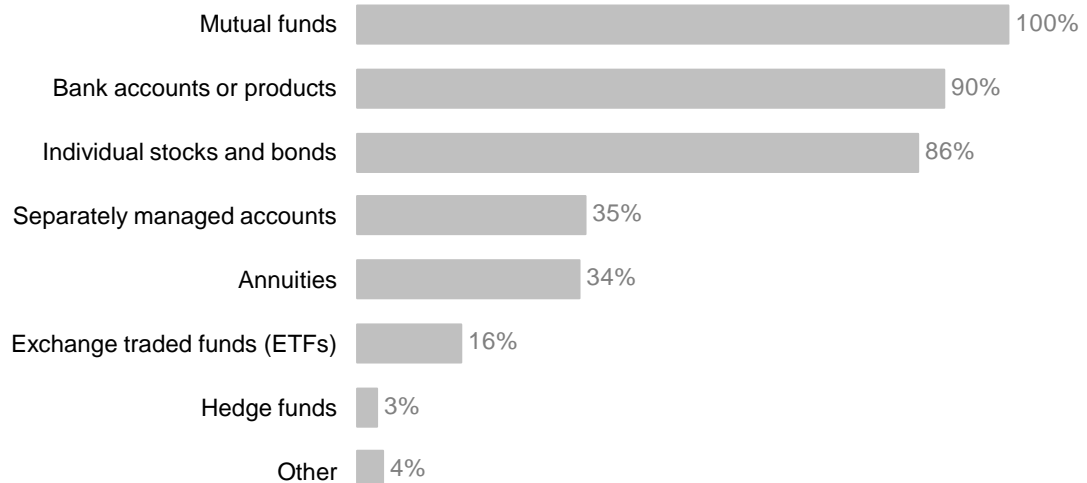
Q28. What is the value of your investable assets excluding employer sponsored retirement accounts (401(k), 403(b), 457 plans) and your home or other real estate value?



Based on 1,004 responses

Types of Investments Held by Investors


Q29. Which of the following types of investment do you have in your portfolio? Please exclude investments in employer-sponsored retirement accounts (401(k), 403(b), and 457 plans).



Based on 1,004 responses

Estimated 2007 Portfolio Returns

Q30. What was the percentage return of your investment portfolio return in 2007? Your best estimate is fine.

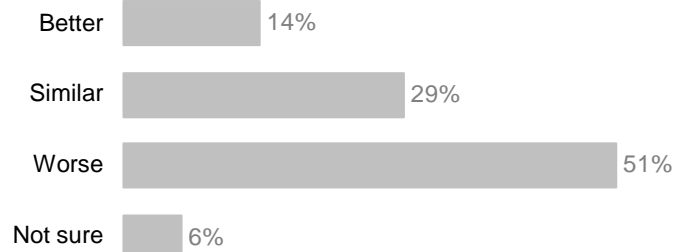
Average Return (n=859*)  11.2%

*14% of respondents (n=145) said "don't know" and are excluded from the mean.

Based on 1,004 responses

Expected 2008 Portfolio Returns versus 2007

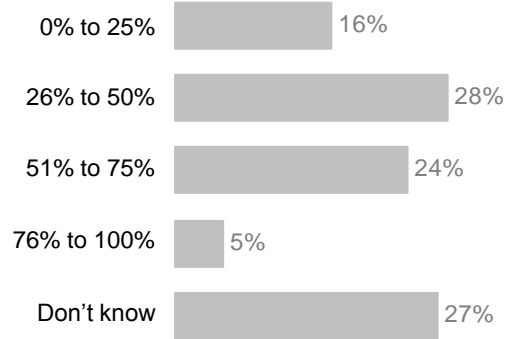
Q31. Compared to 2007, do you expect that your investment portfolio returns will be better or worse in 2008?



Based on 1,004 responses

Investment Performance Relative to Asset Class Benchmarks

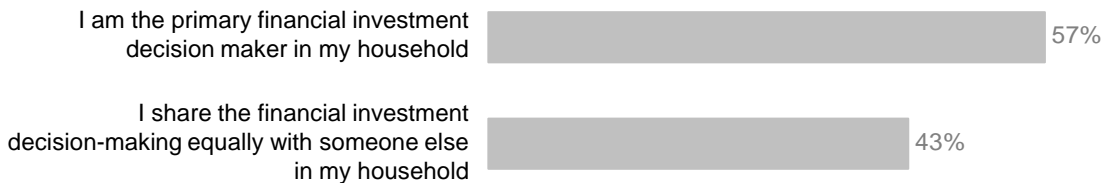
Q32. What percent of the investments in your portfolio outperformed their respective asset class benchmarks?



Based on 1,004 responses

Investor Financial Decision-Making Responsibility

Q33. Which of the following best describes your role in making financial investment decisions in your household?



Based on 1,004 responses

Investor Gender

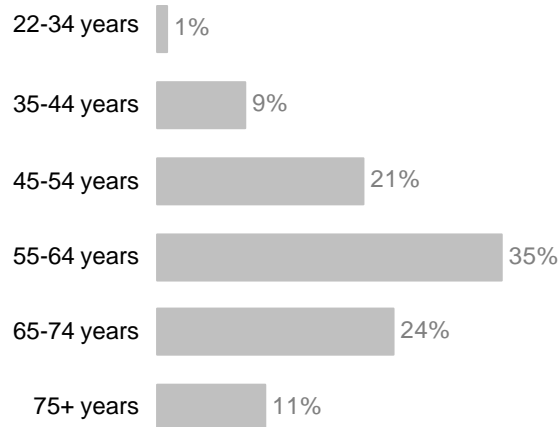
Q34. Are you ...?



Based on 1,004 responses

Investor Age

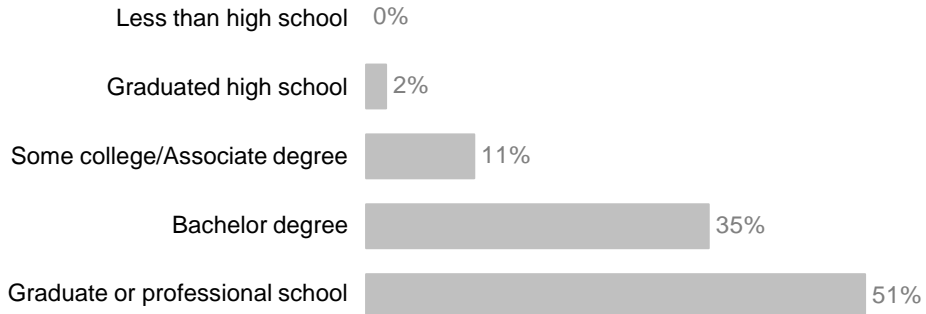
Q35. What is your age?



Based on 1,004 responses

Education

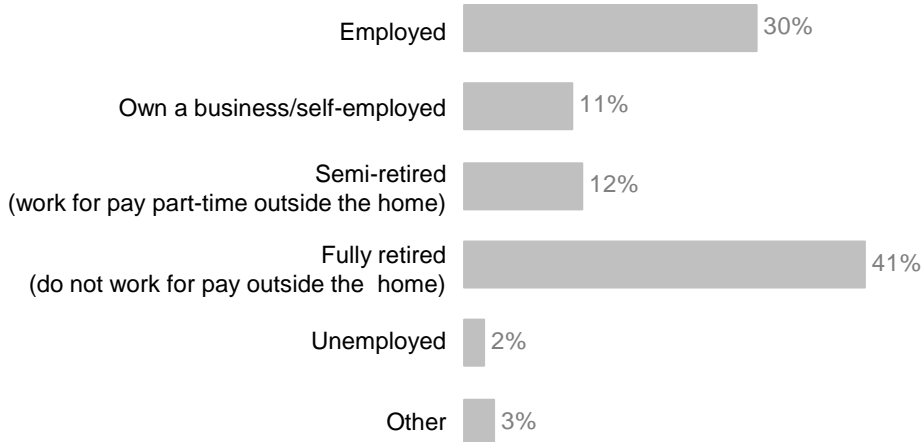
Q36. What was the highest level of education you completed?



Based on 1,004 responses

Employment

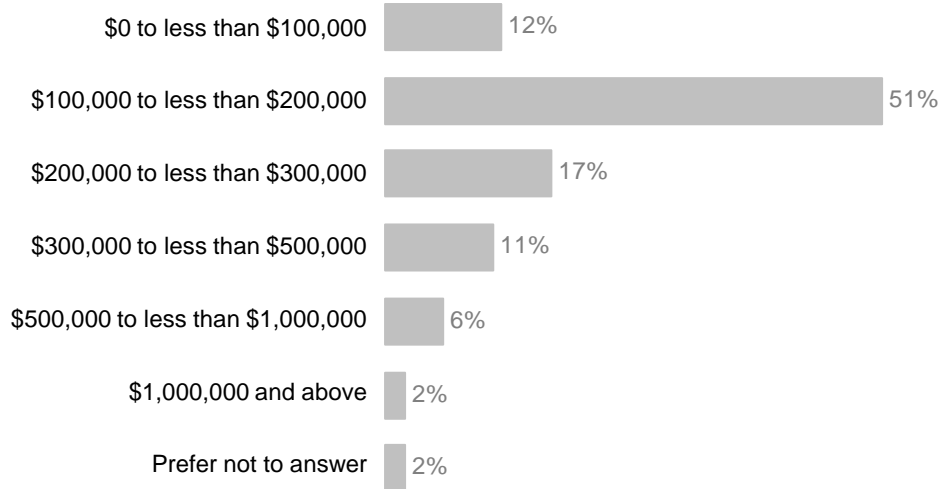
Q37. Which one of the following describes your employment status?



Based on 1,004 responses

Investor Annual Household Income

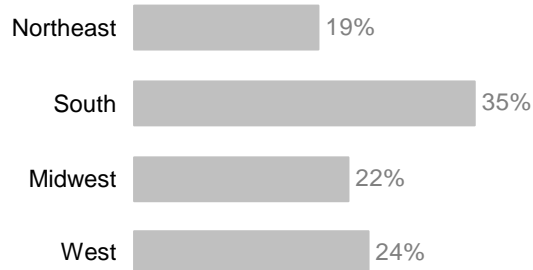
Q38. Which one of the following categories includes your total 2007 annual household income before taxes and other deductions?



Based on 1,004 responses

Investor Region

Q39. In what state do you live? (converted to region)



Based on 1,004 responses

Financial Advisor Performance by Payment Type

Financial Advisor Performance by Payment Type

Data shown below reflect various questions (Q11, Q14, Q15).

Percent of investors saying their advisors are paid...	Fees* (48%)	Commissions (30%)	■ Gap (Commissions minus Fees)
Satisfied with advisor on clearly articulating fees paid for service and advice**	78%	63%	-15%
Satisfied with advisor on providing best possible advice for fees charged**	82%	68%	-14%
Satisfied with advisor on taking responsibility for your financial well-being**	80%	68%	-12%
Current advisor is the best person or firm to meet your needs	70%	58%	-12%
Advisor Net Promoter Score®***	+19%	-4%	N/A
	(n=409)	(n=224)	

* Includes both specific percentage of assets and hourly fees for specific services. Excludes “directly paid from funds owned” responses.

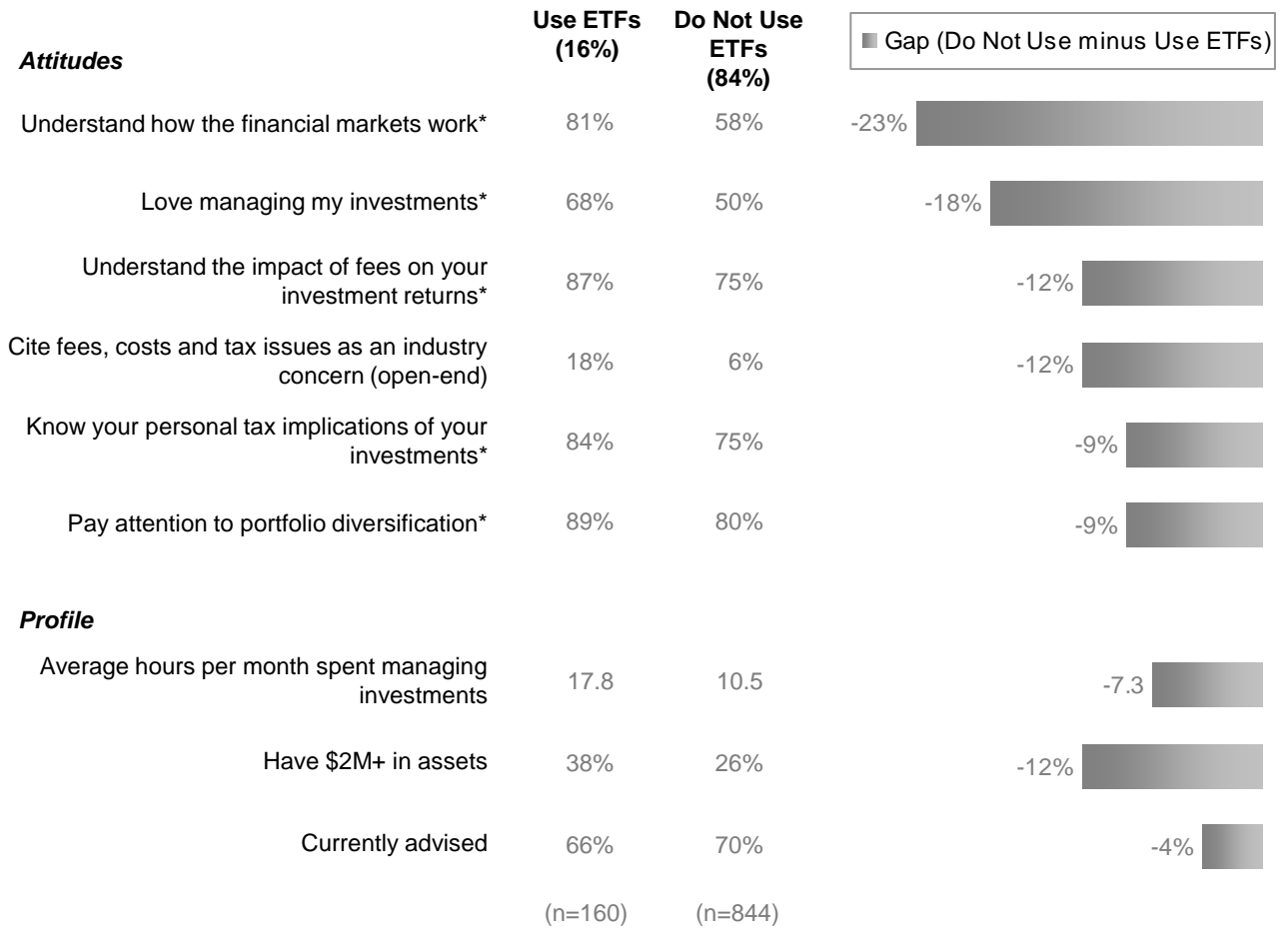
** Top 2 box (percent rating 4-5 on a 1-5 scale).

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ETF versus Non-ETF Investors

ETF versus Non-ETF Investors

Data shown below reflect various questions (Q4, Q6, Q23, Q24, Q26, Q38).



*Top 2 box (percent rating 4-5 on a 1-5 scale).