The Unit Investment Trust: Maintaining Integrity Through Time

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"The task is not so much to see what no one has yet seen, but to think what nobody yet has thought about that which everybody sees."

\- Arthur Schopenhauer

Today, the asset management business is adapting to significant shifts in investor behavior. [1] Among the most observable trends are an increasing sensitivity to fees, a growing appetite for alternative streams of return and a pronounced desire for regulated investment vehicles. [2] At the same time, traditional asset managers are confronting the dual threat of disintermediation and margin pressure as at no time in recent memory. [3]

Against this backdrop, a lesser known corner of the investment products universe is gaining increased attention from investors and asset managers alike. While unit investment trusts (each, a "UIT", and together, "UITs") have evolved already "far beyond their humble origins as fixed packages of municipal bonds" [4] and have seen increasing inflows in recent years, the possibilities for this fund wrapper seem far from exhausted. [5] In fact, many believe that the UIT can play an important part in the portfolios of today's retail and institutional investors alike. [6]

Through each of these incarnations, the UIT has retained successfully its integrity as a reliable and transparent wrapper for a point-to-point portfolio.

Advances in product structuring, pronounced fee sensitivity, shifting investor tastes and evolving regulation are coalescing to again expand the UIT's possible applications.

Unit investment trusts enjoy a colorful and dynamic history – from their earliest days as "fixed trusts" to a successful run as a tax favored vehicle for municipal bond portfolios. More recently the UIT has played a prominent role in introducing customers to the basic concepts of smart beta investing, served as the underlying structure for the first Exchange Traded Funds and thrived as an equity portfolio wrapper for the retail distribution channel. Through each of these incarnations, the UIT has retained successfully its integrity as a reliable and transparent wrapper for a point-to-point portfolio.

Advances in product structuring, pronounced fee sensitivity, shifting investor tastes and evolving regulation are coalescing to again expand the UIT's possible applications. It remains to be seen, however, whether the structure will prove adaptable enough to address investor requirements

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[1] *See,* e.g. *The Rise of Liquid Alternatives & the Changing Dynamics of Alternative Product Manufacturing and Distribution,* CITI PRIME SERVICES (May 2013) at 5 (noting that "shifting dynamics in the wealth adviser market are creating a growing need for alternative strategies.").

[2] Michael C. Macchiarola, *Abstinence in the Face of the Mutual Fund Debt Elixir: In Response to Professor John Morley,* 31 YALE J. ON REG. ONLINE 60 (2014). *See also The Retail Alternatives Phenomenon,* SEI (2013) at 2 (noting that "the blend of alternative strategies with the transparency, liquidity and regulatory oversight of regulated retail investment vehicles has growing appeal to financial advisors and their clients."); *Going Mainstream: Developments and Opportunities for Hedge Fund Managers in the '40 Act Space,* Barclays Prime Services (Apr. 2014) at 4 (observing that "investors and their advisors like the liquidity, transparency and increased regulation of '40 Act products."); Jeff Benjamin, *The perfect storm: Why alts make sense,* INVESTMENT NEWS (Mar. 30, 2014) (asserting that "diversifying into products and strategies designed to hedge risk can mean that clients can sleep soundly at night.").

[3] *See* Marlon Weems, *Disintermediation: The Real Race to Zero,* Tabb Forum (Sept. 25, 2013) available at http://tabbforum.com/opinions/disintermediation-the-real-race-to-zero (arguing that institutional accounts are struggling "to cut costs and recover from the turmoil of the past five years"). *See also* SEI, *Seeing Beyond: Unlocking the Long-Term Opportunities in Wealth Management and Asset Management,* at 2 (2015) (noting that "client by client and product by product, competitive pressures and increasing client sophistication are driving unit prices down.").

[4] Daisy Maxey, *Advisers Warm Up to Unit Investment Trusts,* WALL ST. J. (Nov. 29, 2012). *See also,* Thomas S. Harman, *Emerging Alternatives to Mutual Funds: Unit Investment Trusts and Other Fixed Portfolio Investment Vehicles,* 1987 DUKE L. J. 1045 (1987) (commenting that the UIT "has experienced many changes since its inception some sixty years ago as a 'fixed trust.'"); Jay B. Gould and Gerald T. Lins, *Unit Investment Trusts: Structure and Regulation Under the Federal Securities Laws,* 43 BUS. LAW. 1177 (Aug. 1988) (observing that "the number and variety of investment products offered to the general public has dramatically increased.").

[5] In 2014, new UIT deposits were more than five times greater than those just a dozen years ago. In fact, last year represented the largest year for new deposits into the product, eclipsing the prior record established in 1999. *See* 2015 Investment Company Fact Book, INVESTMENT COMPANY INSTITUTE (55th ed. 2015) (hereinafter "2015 ICI Fact Book") at 186, available at www.icifactbook.org (providing $11.6 million and $65.5 million as the new UIT deposits for 2002 and 2014, respectively.)

[6] *See,* e.g. Invesco, Invesco Unit Trusts: An investor's guide (2015) at 2 available at https://www.invesco.com/static/us/investors/contentdetail?contentId=2a4507c649400410VgnVCM10000046f1bf0aRCRD&dnsName=us (describing UITs as a "simple, convenient way to gain exposure to an asset class, market sector or investment discipline" and a "complement" to an overall portfolio). *See also* Morgan Stanley, *Unit Investment Trusts: A Disciplined Approach to Investing* (Jan. 2015) at 1 available at http://www.morganstanleyfa.com/public/projectfiles/17ecdf3f-29b9-47b2-9971-3230519db598.pdf (observing that "unit investment trusts offer a range of features and benefits that may complement your investment portfolio.").

for a reliable, economic and efficient conduit to access the more outcome-driven returns derived from smart beta and other alternative streams of return. [7] If the UIT's history is any indication, however, there is no telling just how flexible and reliable this vehicle might yet prove to be.

THE BASIC STRUCTURE AND ATTRIBUTES OF A UNIT INVESTMENT TRUST

Most simply, a unit investment trust is an investment vehicle which purchases a fixed portfolio of stocks, bonds or other property and qualifies as an "investment company" pursuant to the Investment Company Act of 1940 the "Investment Company Act". [8] A UIT's portfolio is chosen by its sponsor and follows a buy and hold strategy for a pre-determined term to achieve a specific investment objective. Organized under a trust indenture, UITs are similar to mutual funds in that they issue "only redeemable securities, each of which represents an undivided interest in a unit of specified securities." [9] Like closed-end funds, UITs typically issue a specific fixed number of shares. Unlike mutual funds or closed-end funds, however, UITs have a pre-set termination date based on the portfolio's underlying investments and/or investment objectives. [10]

The trust indenture sets forth the important provisions of the UIT, including its term, the conditions by which it may be terminated early, and the responsibilities of the sponsor, evaluator, administrator and the trustee who conduct the trust operations. [11] Because UITs lack a board of directors, corporate officers or an investment advisor, active management is prohibited within the vehicle. [12] As a result UIT sponsors utilize rigorous portfolio selection methodologies in choosing portfolio securities. During the life of the trust, the supervisor reviews the holdings and may recommend selling positions that fail to maintain specific criteria. [13] Substitution of trust property, however, is not permitted. Also, unlike with a mutual fund, the UIT sponsor typically creates a secondary market in the units sold by the trust.

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One commenter has described UITs as "attractive investments because they offer liquidity and diversity at an affordable price." [14] In fact, there are two main drivers behind the UIT's "affordability" as compared to the typical mutual fund. First, the UIT lacks an investment adviser "to whom it must pay an annual management fee." [15] Instead, a trust's portfolio "will theoretically remain in the trust for its entire life," allowing the investor "to make the investment decisions in place of an advisor." [16] In addition, the fixed nature of the UIT "removes the potential for emotional

[7] The relative size of the markets for open end funds, closed end funds, exchange traded funds and unit investment trusts is instructive. Total assets for each category are by no means stagnant and have fluctuated significantly over time. *See generally* 2015 ICI Fact Book.

[8] *See* Section 4(2) of Investment Company Act of 1940, as amended (defining a unit investment trust as "an investment company which (A) is organized under a trust indenture, contract of custodianship or agency, or similar instrument, (B) does not have a board of directors, and (C) issues only redeemable securities, each of which represents an undivided interest in a unit of specified securities; but does not include a voting trust.").

[9] *Id. See also* Securities and Exchange Commission website, "Unit Investment Trusts" at www.sec.gov/answers/uit.htm.

[10] Trusts typically range from 1 to 30 years depending on the type of holdings in the portfolio and the requirements of the sponsor and the unitholders. *See generally,* Incapital Institute, *Unit Investment Trust Education Manual* (2015) at 4, available at http://www.incapital.com/~/media/2E39031871834276B08BEEA0FC278F8F.ashx.

[11] *See* Gould and Lins, *supra,* note 4 at 1180.

[12] *See* generally Section 4(2) of Investment Company Act of 1940, as amended. *See also* Harman, supra note 4 at 1047 ("Because UITs, unlike mutual funds, have no investment adviser or board of directors, certain provisions of the 1940 Act clearly are irrelevant to them.").

[13] *See* Nike Securities, L.P., SEC No-Action Letter (Nov. 20, 1992) ("Where the UIT indenture permits the elimination of securities upon the occurrence of certain specified events, and does not permit the sponsor to purchase new securities, the staff has concluded that the indenture does not involve management.").

[14] Harman, *supra* note 4 at 1046. *See also* Gould and Lins, *supra* note 4 at 1177 (observing that "a UIT permits the average investor to diversify at an affordable cost" and listing "diversification, professional investment management and economies of scale in transaction costs" as attributes of the UIT).

[15] Harman, *supra* note 4 at 1046.

[16] Gould and Lins, *supra* note 4 at 1181.

reaction to market events and ensures a consistent application of the investment concept or methodology, without style or sector drift." [17] Finally, the relatively fixed nature of the UIT portfolio means that brokerage commissions will be smaller than those of the typical mutual fund which pays to turn over its portfolio on a more frequent basis. [18]

As an investment company, the UIT must adhere to the strict registration and disclosure regime of the federal securities laws. In particular, a UIT sponsor must navigate both the Securities Act of 1933 (the "Securities Act") and the Investment Company Act of 1940, as UITs register their units under the Securities Act and the trust entity itself under the Investment Company Act. [19] A UIT is typically comprised of multiple series, with each series referencing a distinct portfolio of assets. An individual unitholder, therefore, looks only to the performance of a particular series' portfolio of underlying assets for her investment return. [20] And, each series is considered a distinct offering under the Securities Act, filing a separate registration statement to gain effectiveness under Section 8(a). [21] By contrast, the trust itself – and not each series – registers under the Investment Company Act.

THE HISTORY OF THE UNIT INVESTMENT TRUST

The first true U.S. investment companies of any size were formed in the 1920s, with significant growth shortly before the market crash of 1929. Just prior to Black Tuesday, the number and size of these investment companies was increasing rapidly, with new funds being created "at the rate of almost one a day." [22] And, when the crash came, it "dealt an almost fatal blow to closed-end companies." [23] Following the misfortunes for the closed-end funds, investors focused attention increasingly on (i) the feature of the open-end fund that made it redeemable daily at its net asset value, and (ii) the feature of the fixed trust that dispensed with management entirely. [24]

Fixed trusts gained in popularity in the early 1930s. The rapid growth was encouraged by the public's demand for common stock and from its distrust of managed investment companies in the wake of the misbehavior of those companies' management during the 1929 crash. [25] Fueled by newspaper, magazine, mail and radio advertisements, over $600 million in trust certificates were issued in the first two years of that decade alone. [26] One commentator described the attributes of a particular trust sold during the period as follows:

> "This investment represented an ownership interest in common stocks deposited with the American Depository Receipt Corporation. The Chase National Bank acted as trustee. The stocks in this unit trust included those issued by twenty-eight of America's 'most successful corporations' and the shares were recommended as a 'conservative investment.'" [27]

[17] Incapital Institute, *Unit Investment Trust Education Manual, supra* note 10 at 4. *See also* First Trust, *A Guide to First Trust Unit Investment Trusts,* at 1 (commenting that the buy and hold philosophy of a UIT "helps eliminate emotional investing and the temptation to buy and sell for various reasons that an investor cannot control").

[18] Harman, *supra* note 4 at *1046*.

[19] *See generally* Harman, supra note 4 at 1061:
"Each series is considered a separate offering under the 1933 Act and must file a separate registration statement that becomes effective under section 8(a) of that act. Only the trust itself, however – and not each series – need register under the 1940 Act."

[20] Harman, *supra* note 4 at 1061.

[21] *See* FINANCIAL PRODUCT FUNDAMENTALS (Clifford E. Kirsch, ed.) at 8-16.

[22] Thomas P. Lemke, Gerald T. Lins and A. Thomas Smith III, REGULATION OF INVESTMENT COMPANIES (1997, Rev. Ed.) at 2-2.

[23] *Id.*

[24] *Id.*

[25] Harman, *supra* note 4 at 1051.

[26] *See* Jerry W. Markham, A FINANCIAL HISTORY OF THE UNITED STATES: FROM COLUMBUS TO THE ROBBER BARONS (2002) at 238. *See also* SECURITIES AND EXCHANGE COMM'N, INVESTMENT TRUSTS AND INVESTMENT COMPANIES: FIXED AND SEMIFIXED TRUSTS at 15 (1940).

[27] *Id.* at 238.

Commonly referred to as "fixed trusts" at the time, the predecessor to unit investment trusts "essentially served as vehicles through which one could invest in common stocks, particularly securities listed on the New York Stock Exchange." [28] With high stock prices the norm, the trust vehicle offered investors a convenient and reliable method to pool monies and buy portfolios in smaller slices. These trusts quickly encountered troubles of their own, however, culminating with the president of the New York Stock Exchange asserting that the vehicles "charged excessive fees and that their advertising was often inappropriate." [29] Additional abuses in the unitized trusts of the early 1930s were uncovered by Congress, including the inequitable pricing of shares, excessive sales loads, hidden charges and excessive switching in and out of trust investments to churn commissions. [30]

As a result of these and other abuses, the popularity of the fixed trust vehicle declined during the remainder of the 1930s. [31] In addition, Congress authorized a study of the operations of investment companies which uncovered numerous abuses and formed the basis for the Investment Company Act. [32]

After being codified as one of the three types of investment companies in the Investment Company Act, "unit investment trusts" blossomed in number in the 1950s. But, "their raison d'être had completely changed." [33] Now, the UIT was employed as a funding vehicle for purchasing interests in either the stock of a single industrial corporation or a particular mutual fund. The UITs issued "periodic payment plan certificates," making them "merely a mechanism for buying something else on an installment basis." [34] In fact, by 1964, over seventy-five percent of the $2.9 million of active UIT assets were invested in investment companies other than UITs, most of which were mutual funds. [35]

In 1961, a new era in unit investment trusts was born with the introduction of the first UIT consisting of a tax-free bond portfolio. [36] And, until the Tax Reform Act of 1976 clarified that mutual funds could pass through income from municipal bonds on the same tax-free basis as investment companies organized as trusts, UITs offered investors the only tax-exempt means of obtaining a diversified portfolio of municipal bonds. [37] This proved a fertile ground for the UIT business with a marginal tax rate on the wealthiest Americans reaching 91% in the early part of the decade. [38] UIT investors also benefitted from the additional protections afforded by the Investment Company Act – as the municipal bond market was virtually unregulated until the creation of the Municipal Securities Rulemaking Board in 1975. [39] Finally, with $100,000 round lots for most bonds, the pooling effect of the UIT vehicle again provided investors access to a market which would have otherwise remained beyond their reach. [40]

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[28] Harman, *supra* note 4 at 1047.

[29] Markham, *supra* note 26 at 238.

[30] *Id.*

[31] In fact, only 56 trusts were registered with the SEC as of November, 1940. *See* Harman, *supra* note 4 at 1052 (citing Investment Company Act Rel. No. 13 (Nov. 19, 1940)).

[32] In a colorful description, one commentator referred to the Investment Company Act of 1940 as "the most intrusive financial legislation known to man or beast." *See* Jerry W. Markham, A FINANCIAL HISTORY OF MODERN U.S. CORPORATE SCANDALS: FROM ENRON TO REFORM (2015) at 422.

[33] Harman, *supra* note 4 at 1052.

[34] *Id.*

[35] *Id.* (citing 30 SEC ANN. REP. 111 (1964)).

[36] *See* 2015 ICI Fact Book, at 20.

[37] Harman, supra note 4 at 1052.

[38] *See generally* Tax Policy Center, *U.S. Individual Income Tax: Personal Exemptions and Lowest and Highest Tax Bracket Tax Rates and Tax Base for Regular Tax, Tax Years 1913-2015,* available at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=543.

[39] *See generally* Municipal Securities Rulemaking Board, *Creation of the MSRB,* available at http://www.msrb.org/About-MSRB/About-the-MSRB/Creation-of-the-MSRB.aspx.

[40] $100,000 in 1961 has the equivalent buying power of $795,800 today. *See* Bureau of Labor Statistics, CPI Inflation Calculator available at http://www.bls.gov/data/inflation_calculator.htm.

For the next quarter century, unit investment trust offerings came to be dominated by bond portfolios, with the first corporate bond and preferred stock UIT appearing in 1972 and the first UIT with government securities offered in 1978. [41] During the period, a combination of historically high interest rates, changing perceptions in sources of retirement funding and an uninspiring equity market motivated individual investors to seek high levels of current income. Similar to the market for municipal bonds, fixed income markets were primarily institutional, so individuals embraced UITs as conduits to access these investments.

Offerings, which started with simple baskets of equities, quickly developed to meet evolving investor tastes and to take advantage of market anomalies.

Following a UIT market of the '60s and '70s dominated by fixed income trusts, the 1980s ushered in a line of new UIT offerings – focused on equities and equity strategies. Offerings, which started with simple baskets of equities, quickly developed to meet evolving investor tastes and to take advantage of market anomalies. One of the most successful and creative trusts of the era found its inspiration in "putting Humpty Dumpty back together again." In 1982, following AT&T's agreement to relinquish control of the Bell operating companies which provided local telephone service throughout the United States, investors in the phone company received when issued shares in the seven regional phone companies. The Merrill Lynch Equity Income Fund First Exchange Series AT&T Shares offered these investors an opportunity to retain their exposure through an exchange of AT&T shares for a unit investment trust holding a portfolio comprised of shares of the new AT&T along with shares of each of the newly created regional operating companies. [42] The product raised more than $1 billion.

In 1983, Americus Shareowners Service Corporation introduced the "PRIME" and "SCORE" line of unit investment trusts. [43] PRIMEs and SCOREs did not represent originally issued securities but instead were created through the establishment of a trust. Each Americus trust referenced a particular common stock and created three different securities: trust units, PRIMEs and SCOREs. One observer described the functioning of the trusts as follows:

> "An owner of 100 shares of Du Pont common stock, for example, can tender his holdings to Americus in return for 100 units in the Americus Trust for Du Pont. The trust certificate issued by Americus is perforated, with each of two detachable parts – the prime and the score – conferring ownership in a different aspect of the underlying Du Pont stock." [44]

Each Americus Trust stripped the underlying common stock into a PRIME component, which carried full dividend and voting rights and limited capital appreciation rights, and a SCORE component, which carried full capital appreciation rights above a threshold price. At least one commentator observed that "PRIMES and SCORES appeared to expand the range of securities available, thus helping make the capital markets more complete." [45] After a period of reasonable success, a change in tax law interpreted the separation of a share of common stock into a PRIME and a SCORE as a taxable event, effectively ending the Americus Trust product line. [46]

In the late 1980s, in a nod to the popularity of an investment strategy gaining a foothold, the first Dogs of the Dow UIT was launched to provide unitholders exposure to a basket of the poorest performing stocks in the Dow Jones 30 over the prior year. The offering was also a boon to UIT brokers, as it created an appetite for investors to roll into a similar offering the following year. Unsurprisingly, at about the same time as this offering gained in popularity, the UIT industry was

[41] *See* Harman, *supra* note 4 at 1053 (noting that by 1986, over ninety percent of the 7,900 UIT series were invested predominantly in municipal securities). *See also* 2015 ICI Fact Book, *supra* note 5 at 20.

[42] *See, e.g. Options abound for AT&T holders,* Milwaukee Journal (Oct. 11, 1983) (describing several AT&T related products designed by "[i] nventive minds at the nation's biggest brokerage companies").

[43] *See generally* Robert A. Jarrow and Maureen O'Hara, *Prime and Scores: An Essay on Market Imperfections,* 44 J FIN. 1263 (Dec. 1989)

[44] Ron Wolf, *The Man Who Splits Stocks In 2 for 14 Years, He's Pushed a New Investment,* Phil. Inquirer (Jan. 4, 1987).

[45] John D. Finnerty and Douglas R. Emery, *Corporate Securities Innovation: An Update,* J. APP. FIN. 7 (2002) at 28.

[46] *Id.*

able to introduce the concept of a deferred sales charge and a rollover option – two concepts which remain central to the industry's fee convention today.

With the success of the Dogs of the Dow strategy, UIT sponsors embarked in a new direction, offering trusts based on well-defined strategies with back-tested results. The majority of these strategies applied screens to established indices which, in effect, re-weighted those indices based on specific attributes or factors strikingly similar to the "Smart-Beta" strategies of today's market. Not long after the run of Americus Trusts, the UIT vehicle captured a related concept in its first buy write strategy. Buy-write structures offered unitholders a package comprised of a basket of long stock positions plus premium income generated from the sale of long term out-of-the-money call options (i.e. LEAPs) on the same underliers. These strategies remain popular today and UITs typically achieve these portfolios on baskets of underlying stocks with maturities ranging from one and a half to two years depending upon the expiry of the options included in the portfolio. [47]

The 1990s also saw the birth of the exchange traded fund ("ETF"). And, the first ETFs were structured as UITs. [48] Over time, the ETF market evolved away from the UIT structure for two main reasons. First, in an ETF, the UIT structure requires the investment manager to attempt to fully replicate the underlying index by owning every security in the index, thereby limiting the expected tracking error. Second, the UIT structure prohibits any dividends that the fund receives from being reinvested in additional securities.

Today's UIT market has evolved significantly from the first days of the fixed trust, with the majority of the UIT products now focused on quantitative strategies, asset allocation, thematic sectors, and income generation.

As the '60s and '70s were dominated by fixed income trusts, UITs comprised of equity portfolios have accounted for the majority of trusts over the past two decades. [49] First surpassing fixed income assets (including taxable and tax-free unit investment trusts) in 1998, equity portfolios accounted for 85% of the assets in unit investment trusts in 2014, the highest share ever recorded.[50]

Today's UIT market has evolved significantly from the first days of the fixed trust, with the majority of the UIT products now focused on quantitative strategies, [51] asset allocation, [52] thematic sectors, [53] and income generation. [54] UITs have been rather crudely categorized into two categories: equity trusts and fixed income trusts. The portfolio of an equity trust can focus on domestic or international equities or a combination of both. [55] And, fixed income trusts are generally further classified as taxable or tax-free. A chart of the UIT flows (by new deposits) from 1995 through year end 2014 is provided in Figure 1 on next page:

[47] *See, e.g.* Fact Sheet, First Trust, Capital Strength Buy-Write, 20 available at http://www.ftportfolios.com/retail/dp/dpsummary.aspx?fundid=10695.

[48] An example of a UIT is the SPDR S&P 500® ETF (SPY), the oldest, largest, and most traded ETF in the world. Other examples include SPDR MidCap 400® and SPDR Dow Jones Industrial Average.

[49] *See* 2015 ICI Fact Book at 20.

[50] *Id.* at 186.

[51] *See, e.g.* Fact Sheet, First Trust, The Dow® Target 10 Portfolio, October 2015 Series, available at https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=4c30f941-b1c1-48d6-815e-08e02b473a34.

[52] *See, e.g.* Fact Sheet, First Trust, 60/40 Strategic Allocation Portfolio, 4th Quarter 2015 Series, available at https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=cbf39986-c7a5-4511-9dd0-ad4b3913e96e.

[53] *See, e.g.* Fact Card, Invesco, Global Technology Leaders Portfolio 2015-4, available at https://www.invesco.com/static/us/investors/contentdetail?contentId=870f7f14b6dcf410VgnVCM100000c2f1bf0aRCRD&dnsName=us.

[54] *See, e.g*. Fact Sheet, Incapital, Nuveen Large Cap Dividend Portfolio, 4Q 2015, available at https://www.incapnet.com/Pages/Public/PublicWebsiteDocumentFetch.aspx?FileId=da7a23eb-5b33-4651-97d1-7813e059a601.

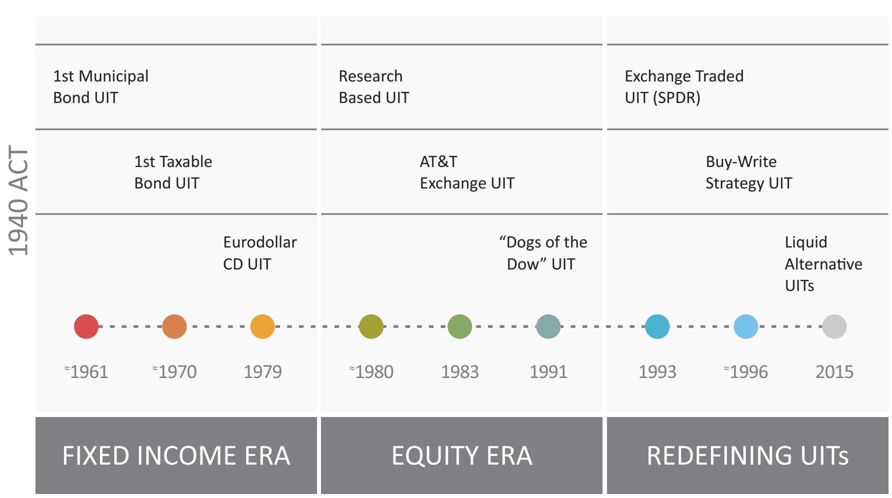
[55] Unfortunately, however, precision has suffered as the equity category typically includes trusts with portfolios comprised of exchange traded funds, closed-end funds and business development companies.

Figure 1. [56]

NEW DEPOSITS				
Millions of dollars, annual				
YEAR	**TOTAL TRUSTS**	**EQUITY**	**TAXABLE DEBT**	**TAX-FREE DEBT**
1995	11,264	6,743	1,154	3,367
1996	21,662	18,316	800	2,546
1997	38,546	35,855	771	1,919
1998	47,675	45,947	562	1,166
1999	52,046	50,629	343	1,074
2000	43,649	42,570	196	883
2001	19,049	16,927	572	1,550
2002	11,600	9,131	862	1,607
2003	12,731	10,071	931	1,729
2004	17,125	14,559	981	1,585
2005	22,598	21,526	289	782
2006	29,057	28,185	294	578
2007	35,836	35,101	298	438
2008	23,590	22,335	557	698
2009	22,293	16,159	2,201	3,933
2010	30,936	25,003	928	5,006
2011	36,026	31,900	765	3,361
2012	43,404	40,012	1,236	2,157
2013	55,628	53,719	916	993
2014	65,530	63,991	624	915

In recent years, some of the most interesting innovations in the UIT space have been found in the efforts of several sponsors to include structured payouts within the UIT wrapper. As one market participant described it, "the outcome-driven nature of the structured unit investment trust encourages targeting a specific defined return or 'outcome', with an allowance for a specific defined risk, at a specific point in time in the future." [57] In addition, when compared to structured notes, a structured fund offers the potential to improve the experience for investors. Such funds have the potential to improve the credit risk, transparency and secondary market liquidity.

THE HISTORY AND UTILITY OF THE UIT



[56] *Id.*

[57] *See* Convexcel, *Understanding SUITS,* available at http://www.convexcelsuits.com/understanding-suits/.

CONCLUSION

As the tastes and requirements of investors have evolved over time, the unit investment trust has shown a remarkable ability to tailor its portfolio in response to market needs. The structure has proven both adaptable across market cycles and responsive to popular consumer investment sentiments. Throughout its entire history, the UIT has retained its integrity as a conduit to pass reliably the return of a point-to-point portfolio. Today, UITs offer a viable alternative to mutual funds and other managed investment vehicles for investors seeking the certainty that accompanies a buy and hold strategy. Because of its relatively fixed nature, the UIT has proven its flexibility as a vehicle for investing efficiently in both debt and equity securities. And, if one of today's UIT sponsors can crack the code, its next incarnation might just be as a reliable, efficient and economic delivery vehicle for the outcome-driven returns gaining favor in today's market.

Throughout its entire history, the UIT has retained its integrity as a conduit to pass reliably the return of a point-to-point portfolio.

DISCLOSURES

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