BLUE TRACTOR

March 19, 2018

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

RE: Notice of Filing of a Proposed Rule Change to Adopt BZX Rule 14.11(k) to Permit the Listing and Trading of Managed Portfolio Shares and to List and Trade Shares of the ClearBridge Appreciation ETF, ClearBridge Large Cap ETF, ClearBridge MidCap Growth ETF, ClearBridge Select ETF, and ClearBridge All Cap Value ETF (Release No. 34-82705; File No. SR-CboeBZX-2018-010)

Dear Mr. Fields,

On behalf of Blue Tractor Group, LLC ("Blue Tractor") I am pleased to provide the U.S. Securities and Exchange Commission (the "Commission") with additional comments regarding the Commission's February 13, 2018 notice (the "Notice") whether to approve or disapprove the rule change application submitted on February 5, 2018 by Cboe BZX Exchange, Inc. (the "Exchange"). [1]

The Exchange wishes to list and trade exchange traded funds ("ETF") sub-advised by ClearBridge Investments, LLC ("ClearBridge") that would operate using intellectual property owned by Precidian Investments LLC ("Precidian"). The intellectual property was detailed in Precidian's fifth amended and restated application for exemptive relief filed with the Commission on December 4, 2017. [2]

I would also note that an initial exemptive application substantially identical to the fifth amended and restated application from Precidian was filed on February 2, 2018 by American Century ETF Trust and American Century Investment Management, Inc. ("American Century"). American Century announced on November 14, 2017 that it had licensed Precidian's intellectual property. [3, 4]

Reverse Engineering Precidian's VIIV Time Series

After years of denials, Precidian finally acknowledged to the Commission and the ETF community in their December 4, 2017 amended filing that predatory traders will be able to apply statistical methods against the disseminated verified intra-day indicative value ("VIIV") price time series so as to reverse engineer the specific composition of the underlying portfolio with precision and then use this information to determine the fund's trading strategy in order to undertake front running and the like.

---

[1] https://www.sec.gov/rules/sro/cboebzx/2018/34-82705.pdf (Release No. 34-82549; File No. SR-CboeBZX-2018-010)
[2] https://www.sec.gov/Archives/edgar/data/1396289/000114420417062140/tv480576_40appa.htm (File No. 812-14405)
[3] https://www.sec.gov/Archives/edgar/data/52388/000171060718000042/non-transparentactiveetf22.htm
[4] https://corporate.americancentury.com/content/corporate/en/newsroom/press/press-center/precidian-activeshares-licensed.html

Precidian, as well as American Century, confirm in their respective applications (both on page 22) that,

> "Each Fund will prominently disclose in its prospectus and on its website that…market participants may attempt to **use the VIIV to calculate with a high degree of certainty ("reverse engineer") a Fund's trading strategy** [emphasis added], which if successful, could increase opportunities for certain predatory trading practices, such as front-running, that may have the potential to harm Fund shareholders."

The VIIV is the Same as an iNAV

Reverse engineering by predatory traders is readily feasible because the VIIV is calculated directly from actual portfolio holdings and weightings and takes into consideration a fund's cash, income and expenses. In other words, Precidian's disseminated VIIV time series is an intra-day net asset value ("NAV") time series exactly like what is disseminated for a transparent ETF. This is commonly referred to by many market participants as the 'iNAV'. [5]

Precidian describes the parallel this way on page 24 of their application and its echoed verbatim by American Century on page 25 of their filing,

> "The Exchange on which a Fund is primarily listed will disseminate the VIIV for each Fund in one-second intervals during regular trading hours, through the facilities of the Consolidated Tape Association. **The VIIV is essentially an intraday indicative NAV calculation every second throughout the trading day** [emphasis added]."

NYSE's View on iNAV and Reverse Engineering

On January 22, 2018 an initial application for exemptive relief was filed with the Commission by Natixis Advisors, L.P. and Natixis ETF Trust II (together, "Natixis") for an actively managed non-transparent ETF structure that would operate using intellectual property licensed from the NYSE Group, Inc. ("NYSE"). The Natixis application refers to the intellectual property as the "NYSE Proxy Portfolio Methodology". [6]

On page 11 when describing the daily methodology for disclosure of the proxy portfolio price time series the application opines,

> "The NYSE Arca will disseminate at least every 15 seconds throughout the trading day through the facilities of the Consolidated Tape Association an amount representing, on a per Share basis, the sum of the current value of the instruments in the Proxy Portfolio, which is referred to as the "Proxy Portfolio Indicative Intraday Value" or "iProxy". The Fund will post on its website the final iProxy value calculated at the close of trading on the prior Business Day. **No Fund will publish an indicative intra-day value of its NAV ("iNAV"). iProxy is intended to be an effective transparency substitute for iNAV. Applicants believe that disclosure of a Fund's iNAV could permit third-parties to replicate the Actual Portfolio and thereby potentially disadvantage Fund shareholders** [emphasis added]."

---

[5] https://www.investopedia.com/terms/i/indicative_net_asset_value.asp
[6] https://www.sec.gov/Archives/edgar/data/1018331/000119312518015812/d521051d40app.htm

This is wholly ironic. While the Exchange is affirming to the Commission that it wishes to list and trade the ClearBridge ETF Funds that Precidian acknowledges can be reverse engineered, a competitor stock exchange - NYSE - is affirming to the Commission that it would <u>not</u> use an iNAV (or VIIV) time series as it can be reverse engineered.

So, we have NYSE informing the Commission via the Natixis filing that it would not use an iNAV pricing time series, yet the Exchange is currently seeking permission from the Commission to list and trade the ClearBridge ETF Funds that will use an iNAV (or VIIV) time series methodology.

How is it that the Exchange on February 5, 2018 can request approval to trade and list the ClearBridge ETF Funds that will be purchased by retail investors, yet in the Natixis application filed fourteen (14) days earlier on January 22, 2018, have the NYSE inform the Commission that it would not use an iNAV (or VIIV) time series as it would *"…disadvantage Fund shareholders"*?

Conclusion

All parties associated with the Precidian structure have now confirmed it can be reverse engineered. As a result, the letter the Commission's Division of Investment Management submitted on April 17, 2015 to Precidian's counsel is wholly relevant when it stated on page 4 that, [7]

> *"Should that be the case, one of the goals of the proposed ETFs – namely, maintain portfolio confidentiality – would be foiled. In light of that possibility, we find it difficult to reach the conclusion that the proposed ETFs would be "necessary or appropriate in the public interest," one of the statutory standards for exemptive relief."*

And now we have the Exchange again requesting approval to list and trade the ClearBridge ETF Funds that use a VIIV (or iNAV) pricing time series methodology, while another exchange - NYSE - is independently affirming to the Commission through the Natixis filing that it would not employ this method as it could be reverse engineered and thus *"…disadvantage Fund shareholders."*

For these reasons, along with the other important issues raised by Blue Tractor and others in earlier comment letters, the Commission should disapprove the Exchange's rule change application.

<div align="center">********</div>

Thank you in advance for your consideration of my commentary. I welcome any questions the Commission may have as a result and can be reached at ███████████████████ .

Sincerely,

Simon P. Goulet
Co-Founder
Blue Tractor Group, LLC

---

[7] funds.eatonvance.com/includes/loadDocument.php?fn=19309.pdf&dt=FundPDFs