

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71263; File No. SR-NYSEArca-2013-121)

January 9, 2014

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change Relating to the Listing and Trading of Shares of AdvisorShares Sage Core Reserves ETF under NYSE Arca Equities Rule 8.600

I. Introduction

On November 5, 2013, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares (“Shares”) of AdvisorShares Sage Core Reserves ETF (“Fund”) of the AdvisorShares Trust (“Trust”). The proposed rule change was published for comment in the Federal Register on November 25, 2013.<sup>3</sup> The Commission received no comments on the proposal. This order grants approval of the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade Shares of the Fund under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares. The Shares will be offered by the Trust,<sup>4</sup> a Delaware statutory trust that is registered with the Commission as an open-end management investment company. The investment adviser to the Fund will be

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 70902 (Nov. 19, 2013), 78 FR 70370 (“Notice”).

<sup>4</sup> On August 13, 2013, the Trust filed with the Commission an amendment to its registration statement on Form N-1A under the Securities Act of 1933 (“Securities Act”), and under the Investment Company Act of 1940 (“1940 Act”) relating to the Fund (File Nos. 333-157876 and 811-22110) (“Registration Statement”). In addition, the Exchange states that the Trust has obtained certain exemptive relief under the 1940 Act. See Investment Company Act Release No. 29291 (May 28, 2010) (File No. 812-13677).

AdvisorShares Investments, LLC (“Adviser”). Sage Advisory Services Ltd. Co. (“Sub-Adviser”) will be the Fund’s sub-adviser and will provide day-to-day portfolio management of the Fund. Foreside Fund Services, LLC will be the principal underwriter and distributor of the Fund’s Shares. The Bank of New York Mellon will serve as the administrator, custodian, transfer agent, and accounting agent for the Fund. The Exchange represents that neither the Adviser nor the Sub-Adviser is registered as a broker-dealer or is affiliated with a broker-dealer.<sup>5</sup>

The Exchange has made the following representations and statements in describing the Fund and its investment strategies, including other portfolio holdings and investment restrictions.<sup>6</sup>

#### Principal Investments

The Fund will seek to preserve capital while maximizing income. Under normal market conditions,<sup>7</sup> the Sub-Adviser will seek to achieve the Fund’s investment objective by investing at

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<sup>5</sup> See Commentary .06 to NYSE Arca Equities Rule 8.600. The Exchange represents that, in the event that (a) the Adviser or the Sub-Adviser becomes a registered broker-dealer or becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, the Adviser or Sub-Adviser will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition of or changes to the portfolio and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding the portfolio.

<sup>6</sup> The Commission notes that additional information regarding the Trust, the Fund, and the Shares, including investment strategies, risks, net asset value (“NAV”) calculation, creation and redemption procedures, fees, portfolio holdings, disclosure policies, distributions, and taxes, among other information, is included in the Notice and the Registration Statement, as applicable. See Notice and Registration Statement, supra notes 3 and 4, respectively.

<sup>7</sup> The Exchange states that the term “under normal market conditions” means, without limitation, the absence of extreme volatility or trading halts in the fixed-income markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

least 80% of the Fund's net assets in a variety of fixed-income securities issued by U.S. and foreign issuers. These fixed-income securities will be U.S. dollar-denominated investment-grade debt securities rated Baa or higher by Moody's Investors Service, Inc. ("Moody's"), equivalently rated by Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, determined by the Sub-Adviser to be of comparable quality. The Fund may retain a security if its rating falls below investment-grade and the Sub-Adviser determines that retention of the security is in the Fund's best interest.<sup>8</sup>

The Exchange represents that the Fund's investment portfolio of fixed-income securities will meet certain criteria for index-based, fixed-income exchange-traded funds ("ETFs") contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.<sup>9</sup>

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<sup>8</sup> In determining whether a security is of "comparable quality," the Exchange represents that the Sub-Adviser will consider, for example, whether the issuer of the security has issued other rated securities; whether the obligations under the security are guaranteed by another entity and, if so, the rating of the guarantor (if any); whether and (if applicable) how the security is collateralized; other forms of credit enhancement (if any); the security's maturity date, liquidity features (if any), relevant cash flow(s), and valuation features; other structural analysis; macroeconomic analysis; and sector or industry analysis.

<sup>9</sup> See NYSE Arca Equities Rule 5.2(j)(3), Commentary .02 governing fixed-income-based Investment Company Units. The requirements of Rule 5.2(j)(3), Commentary .02(a) that will be met include the following: (i) The index or portfolio must consist of Fixed-income Securities (as defined in Rule 5.2(j)(3), Commentary.02) (Commentary .02(a)(1)); (ii) components that in the aggregate account for at least 75% of the weight of the index or portfolio each must have a minimum original principal amount outstanding of \$100 million or more (Rule 5.2(j)(3), Commentary.02(a)(2)); (iii) a component may be a convertible security; however, once the convertible security converts to an underlying equity security, the component is removed from the index or portfolio (Rule 5.2(j)(3), Commentary.02(a)(3)); (iv) no component fixed-income security (excluding Treasury Securities) will represent more than 30% of the weight of the index or portfolio, and the five highest weighted component fixed-income securities do not in the aggregate account for more than 65% of the weight of the index or portfolio (Rule 5.2(j)(3), Commentary.02(a)(4)); and (v) an underlying index or portfolio (excluding exempted securities) must include securities from a minimum of 13 non-affiliated issuers (Rule 5.2(j)(3), Commentary.02(a)(5)).

The average duration of the Fund will vary based on the Sub-Adviser's forecast for interest rates and will normally not exceed one year.<sup>10</sup> The dollar-weighted average portfolio maturity of the Fund will normally not be expected to exceed three years.

The Fund may invest in debt securities, which are securities consisting of a certificate or other evidence of a debt (secured or unsecured) on which the issuing company or governmental body promises to pay the holder thereof a fixed, variable, or floating rate of interest for a specified length of time and to repay the debt on the specified maturity date. Some debt securities, such as zero-coupon bonds, do not make regular interest payments but are issued at a discount to their principal or maturity value. The debt securities that the Fund will invest in will include a variety of fixed-income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities.

The Fund may invest in variable- and floating-rate instruments, which involve certain obligations that may carry variable or floating rates of interest and may involve a conditional or unconditional demand feature. These instruments bear interest at rates that are not fixed, but that

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The Commission notes that the Fund's investment portfolio of fixed-income securities would not be required to meet the quantitative criteria in NYSE Arca Equities Rule 5.2(j)(3) Commentary.02(a)(6), which requires that component securities that in aggregate account for at least 90% of the weight of the index or portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Securities Exchange Act of 1934; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Securities Exchange Act of 1934; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

<sup>10</sup> According to the Exchange, duration is a measure used to determine the sensitivity of a security's price to changes in interest rates. The longer a security's duration, the more sensitive it will be to changes in interest rates.

vary with changes in specified market rates or indices. The interest rates on these securities may be reset daily, weekly, quarterly, or according to some other reset period, and there may be a set floor or ceiling on interest rate changes. There is a risk that the current interest rate on these obligations may not accurately reflect existing market interest rates. A demand instrument with a demand notice exceeding seven days may be considered illiquid if there is no secondary market for the security.

The Fund may invest in bank obligations, including certificates of deposit, bankers' acceptances, and fixed time deposits. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return. Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, that are "accepted" by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. The Exchange states that fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties that vary depending upon market conditions and the remaining maturity of the obligation.

The Fund may invest in commercial paper. The Exchange represents that commercial paper is a short-term obligation with a maturity ranging from one to 270 days issued by banks, corporations, and other borrowers and that these investments are unsecured and usually discounted. To the extent the Fund invests in commercial paper, the Fund will invest in commercial paper rated A-1 or A-2 by S&P or Prime-1 or Prime-2 by Moody's.

The Fund may invest in U.S. government securities. Securities issued or guaranteed by the U.S. government or its agencies or instrumentalities include U.S. Treasury securities, which

are backed by the full faith and credit of the U.S. Treasury and which differ only in their interest rates, maturities, and times of issuance. U.S. Treasury bills have initial maturities of one year or less; U.S. Treasury notes have initial maturities of one to ten years; and U.S. Treasury bonds generally have initial maturities of greater than ten years. The Exchange represents that certain U.S. government securities are issued or guaranteed by agencies or instrumentalities of the U.S. government including, but not limited to, obligations of U.S. government agencies or instrumentalities such as Fannie Mae, Freddie Mac, the Government National Mortgage Association (“Ginnie Mae”), the Small Business Administration, the Federal Farm Credit Administration, the Federal Home Loan Banks, Banks for Cooperatives (including the Central Bank for Cooperatives), the Federal Land Banks, the Federal Intermediate Credit Banks, the Tennessee Valley Authority, the Export-Import Bank of the United States, the Commodity Credit Corporation, the Federal Financing Bank, the National Credit Union Administration, and the Federal Agricultural Mortgage Corporation.

The Fund may invest in inflation-indexed bonds, which are fixed-income securities whose principal value is periodically adjusted according to the rate of inflation. According to the Exchange, two structures are common. The U.S. Treasury and some other issuers use a structure that accrues inflation into the principal value of the bond. Most other issuers pay out the Consumer Price Index accruals as part of a semi-annual coupon. Inflation-indexed securities issued by the U.S. Treasury have maturities of five, ten, or thirty years, although it is possible that securities with other maturities will be issued in the future. The U.S. Treasury securities pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount.

The Fund may invest in mortgage-related securities and asset-backed securities (“ABSs”).<sup>11</sup> According to the Exchange, mortgage-related securities are interests in pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks, and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related, and private organizations. The Fund also may invest in debt securities that are secured with collateral consisting of mortgage-related securities. According to the Exchange, interests in pools of mortgage-related securities differ from other forms of debt instruments, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment that consists of both interest and principal payments. In effect, these payments are a “pass-through” of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of these securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred. Some mortgage-related securities (such as securities issued by Ginnie Mae) are described as “modified pass-through.” These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

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<sup>11</sup> According to the Exchange, ABSs are bonds backed by pools of loans or other receivables. ABSs are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. ABSs are issued through special purpose vehicles that are bankruptcy remote from the issuer of the collateral. The credit quality of an ABS transaction depends on the performance of the underlying assets. To protect ABS investors from the possibility that some borrowers could miss payments or even default on their loans, ABSs include various forms of credit enhancement.

The Fund may invest in agency mortgage-related securities. According to the Exchange, the principal governmental guarantor of mortgage-related securities is Ginnie Mae. Ginnie Mae is a wholly owned United States government corporation within the Department of Housing and Urban Development. Ginnie Mae is authorized to guarantee, with the full faith and credit of the United States government, the timely payment of principal and interest on securities issued by institutions approved by Ginnie Mae (such as savings and loan institutions, commercial banks, and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

The Fund may invest up to 10% of its net assets in privately issued (non-government-sponsored entity (“non-GSE”)) mortgage-related securities, including commercial mortgage-backed securities,<sup>12</sup> collateralized mortgage obligations (“CMOs”),<sup>13</sup> and adjustable rate mortgage-backed securities (“ARMBSs”).<sup>14</sup> According to the Exchange, commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers, and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. These issuers may be the originators or servicers of the underlying mortgage

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<sup>12</sup> The Exchange states that commercial mortgage-backed securities include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property.

<sup>13</sup> The Exchange states that CMOs are debt obligations of a legal entity and that they are collateralized by mortgages and divided into classes. Similarly to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans or private mortgage bonds, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by Ginnie Mae, Freddie Mac, or Fannie Mae, and their income streams.

<sup>14</sup> The Exchange states that ARMBSs have interest rates that reset at periodic intervals. Acquiring ARMBSs permits the Fund to participate in increases in prevailing current interest rates through periodic adjustments in the coupons of mortgages underlying the pool on which ARMBSs are based. These ARMBSs generally have higher current yield and lower price fluctuations than is the case with more traditional fixed-income debt securities of comparable rating and maturity.



loans as well as the guarantors of the mortgage-related securities. The Fund will not purchase mortgage-related securities (including non-GSE mortgage-related securities) or any other assets that in the Sub-Adviser's opinion are illiquid if, as a result, more than 15% of the Fund's net assets will be invested in illiquid securities.

The Sub-Adviser will seek to manage the portion of the Fund's assets committed to privately issued mortgage-related securities in a manner consistent with the Fund's investment objective, policies, and overall portfolio risk profile. In determining whether and how much to invest in privately issued mortgage-related securities, and how to allocate those assets, the Sub-Adviser will consider a number of factors. These include, but are not limited to: (1) the nature of the borrowers (e.g., residential or commercial); (2) the collateral loan type (e.g., for residential: First Lien – Jumbo/Prime, First Lien – Alt-A, First Lien – Subprime, First Lien – Pay-Option or Second Lien; for commercial: Conduit, Large Loan, or Single Asset/Single Borrower); and (3) in the case of residential loans, whether they are fixed-rate or adjustable-rate mortgages. Each of these criteria can cause privately issued mortgage-related securities to have differing primary economic characteristics and distinguishable risk factors and performance characteristics.

#### Other Fund Investments

In order to respond to adverse market, economic, political, or other conditions, the Fund may invest 100% of its total assets, without limitation, in investment-grade debt securities and money market instruments, either directly or through ETFs.<sup>15</sup> The Fund may be invested in this

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<sup>15</sup> The ETFs in which the Fund may invest will be registered under the 1940 Act and include Investment Company Units (as described in NYSE Arca Equities Rule 5.2(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Equities Rule 8.100); and Managed Fund Shares (as described in NYSE Arca Equities Rule 8.600). These ETFs all will be listed and traded in the U.S. on registered exchanges. While the Fund may invest

manner for extended periods, depending on the Sub-Adviser's assessment of market conditions. These debt securities and money market instruments include shares of other fixed-income mutual funds, commercial paper, certificates of deposit, bankers' acceptances, U.S. government securities, repurchase agreements, and bonds that are rated BBB or higher. While the Fund is in a defensive position, the opportunity to achieve its investment objective will be limited.

While the Fund, under normal market conditions, will invest at least 80% of its net assets in investment-grade fixed-income securities, as described above, the Fund may invest its remaining assets in the following.

The Fund may invest in non-investment-grade securities. According to the Exchange, non-investment-grade securities, also referred to as "high-yield securities" or "junk bonds," are debt securities that are rated lower than the four highest rating categories by a nationally recognized statistical rating organization (for example, lower than Baa3 by Moody's or lower than BBB- by S&P) or are determined to be of comparable quality by the Fund's Sub-Adviser. These securities are generally considered to be, on balance, predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation and will generally involve more credit risk than securities in the investment-grade categories. According to the Exchange, investment in these securities generally provides greater income and increased opportunity for capital appreciation than investments in higher quality securities, but they also typically entail greater price volatility and principal and income risk.

The Fund may invest in equity securities, including common stocks, preferred stocks, warrants to acquire common stock, securities convertible into common stock, investments in master limited partnerships, and rights. With respect to its equity securities investments, the

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in inverse ETFs, the Fund will not invest in leveraged or inverse leveraged (e.g., 2X, -2X, 3X, or -3X) ETFs.

Fund will invest only in equity securities that trade in markets that are members of the Intermarket Surveillance Group (“ISG”) or are parties to a comprehensive surveillance sharing agreement with the Exchange.

The Fund may invest in exchange-traded notes (“ETNs”). According to the Exchange, ETNs (also called “index-linked securities” as would be listed, for example, under NYSE Arca Equities Rule 5.2(j)(6)), are senior, unsecured, and unsubordinated debt securities, issued by an underwriting bank, that are designed to provide returns that are linked to a particular benchmark, minus investor fees. ETNs have a maturity date and, generally, are backed only by the creditworthiness of the issuer.

The Fund may invest in CMO residuals, which the Exchange states are mortgage securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing. CMO residuals, whether or not registered under the Securities Act, may be subject to certain restrictions on transferability and may be deemed “illiquid” and subject to the Fund’s limitations on investment in illiquid securities.

The Fund may invest in the securities of exchange-traded pooled vehicles that are not investment companies and, thus, not required to comply with the provisions of the 1940 Act.<sup>16</sup> As a result, as a shareholder of these pooled vehicles, the Fund will not have all of the investor protections afforded by the 1940 Act. These pooled vehicles may, however, be required to

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<sup>16</sup> These securities include Trust Issued Receipts (as described in NYSE Arca Equities Rule 8.200); Commodity-Based Trust Shares (as described in NYSE Arca Equities Rule 8.201); Currency Trust Shares (as described in NYSE Arca Equities Rule 8.202); Commodity Index Trust Shares (as described in NYSE Arca Equities Rule 8.203); and Trust Units (as described in NYSE Arca Equities Rule 8.500).

comply with the provisions of other federal securities laws, such as the Securities Act. These pooled vehicles typically hold currency or commodities, such as gold or oil, or other property that is itself not a security. If the Fund invests in and, thus, is a shareholder of a pooled vehicle, the Fund's shareholders will indirectly bear the Fund's proportionate share of the fees and expenses paid by the pooled vehicle, including any applicable management fees, in addition to both the management fees payable directly by the Fund to the Adviser and the other expenses that the Fund bears directly in connection with its own operations.

The Fund may invest in equities issuers located outside the United States directly<sup>17</sup> or through financial instruments, ETFs, ETNs, and exchange-traded pooled vehicles that are indirectly linked to the performance of foreign issuers.

The Fund may invest directly and indirectly in foreign currencies. The Fund may conduct foreign currency transactions on a spot (i.e., cash) or forward basis (i.e., by entering into forward contracts to purchase or sell foreign currencies). At the discretion of the Adviser, the

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<sup>17</sup> Securities of equities issuers may be any one of the following: American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs"), European Depositary Receipts ("EDRs"), International Depositary Receipts ("IDRs"), "ordinary shares," and "New York shares" issued and traded in the U.S. (collectively, "Equity Financial Instruments"). The Exchange states that ADRs are U.S.-dollar-denominated receipts typically issued by U.S. banks and trust companies that evidence ownership of underlying securities issued by a foreign issuer. Generally, ADRs in registered form are designed for use in domestic securities markets and are traded on exchanges or over-the-counter in the U.S. GDRs, EDRs, and IDRs are similar to ADRs in that they are certificates evidencing ownership of shares of a foreign issuer; however, GDRs, EDRs, and IDRs may be issued in bearer form and denominated in other currencies, and they are generally designed for use in specific or multiple securities markets outside the U.S. EDRs, for example, are designed for use in European securities markets while GDRs are designed for use throughout the world. Ordinary shares are shares of foreign issuers that are traded abroad and on a U.S. exchange. New York shares are shares that a foreign issuer has allocated for trading in the U.S. ADRs may be sponsored or unsponsored, but unsponsored ADRs will not exceed 10% of the Fund's net assets. With respect to its investments in equity securities (including Equity Financial Instruments), the Fund will invest at least 90% of its assets invested in securities that trade in markets that are members of the ISG or are parties to a comprehensive surveillance sharing agreement with the Exchange.

Fund may, but is not obligated to, enter into forward currency exchange contracts for hedging purposes to help reduce the risks and volatility caused by changes in foreign currency exchange rates. When used for hedging purposes, forward currency contracts tend to limit any potential gain that may be realized if the value of the Fund's foreign holdings increases because of currency fluctuations.

The Fund may invest in other mortgage-related securities, which include securities other than those described above that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property, including mortgage dollar rolls (that is, a series of purchase and sale contracts),<sup>18</sup> or stripped mortgage-backed securities ("SMBS"), which are derivative multi-class mortgage securities.<sup>19</sup> The other mortgage-related securities may be debt securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts, and special purpose entities of the foregoing.

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<sup>18</sup> According to the Exchange, a mortgage dollar roll involves the sale of mortgage-backed securities by the Fund and its agreement to repurchase the instrument (or one which is substantially similar) at a specified time and price.

<sup>19</sup> According to the Exchange, SMBSs are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive all of the principal (the principal-only or "PO" class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including pre-payments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on the Fund's yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated pre-payments of principal, the Fund may fail to recoup some or all of its initial investment in these securities even if the security is in one of the highest rating categories.

The Fund may invest in closed-end funds. Closed-end funds are pooled investment vehicles that are registered under the 1940 Act and whose shares are listed and traded on U.S. national securities exchanges.

The Fund may invest in U.S. exchange-traded futures contracts, including stock index futures and U.S. Treasury futures, and options on these futures contracts. The Fund also may invest in U.S. exchange- and over-the-counter-traded options, which will generally be based on U.S. Treasuries.

The Fund may enter into swap agreements generally based on fixed-income securities, including, but not limited to, total return swaps, index swaps, and interest rate swaps. The Fund may utilize swap agreements in an attempt to gain exposure to the securities in a market without actually purchasing those securities, or to hedge a position. The Fund will utilize cleared swaps, if available, to the extent practicable and will not enter into any swap agreement unless the Adviser believes that the other party to the transaction is creditworthy. Swaps utilized by the Fund will be backed by collateral of the Fund's assets, as required. The Sub-Adviser will evaluate the creditworthiness of counterparties on an ongoing basis. In addition to information provided by credit agencies, the Sub-Adviser's credit analysts will evaluate each approved counterparty using various methods of analysis, including company visits, earnings updates, the broker-dealer's reputation, past experience with the broker-dealer, market levels for the counterparty's debt and equity, the counterparty's liquidity, and the broker-dealer's share of market participation.

The Fund may invest in collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs"), other collateralized debt obligations ("CDOs"), and other similarly structured securities. CBOs, CLOs, and other CDOs are types of ABSs. According to the

Exchange, a CBO is a trust that is often backed by a diversified pool of high-risk, below-investment-grade, fixed-income securities. The collateral can be from many different types of fixed-income securities such as high-yield debt, residential privately issued mortgage-related securities, commercial privately issued mortgage-related securities, trust preferred securities, and emerging market debt. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinated corporate loans, including loans that may be rated below-investment-grade or equivalent unrated loans. Other CDOs are trusts backed by other types of assets representing obligations of various parties.<sup>20</sup>

The Fund may invest in hybrid instruments. The Exchange represents that a hybrid instrument is a type of potentially high-risk derivative that combines a traditional stock, bond, or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some security, commodity, currency, or securities index; another interest rate; or some other economic factor (each a “benchmark”). The interest rate or (unlike most fixed-income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark. An example of a hybrid instrument could be a bond issued by an oil company that pays a small base level of interest with additional interest that accrues in correlation with the extent to which oil prices exceed a certain

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<sup>20</sup> According to the Exchange, the risks of an investment in a CBO, CLO, or other CDO depend largely on the type of the collateral securities and the class of the instrument in which the Fund invests. Normally, CBOs, CLOs, and other CDOs are privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CBOs, CLOs, and other CDOs may be characterized by the Fund as illiquid securities; however, an active dealer market may exist for CBOs, CLOs, and other CDOs allowing them to qualify for Rule 144A transactions.

predetermined level. Such a hybrid instrument would be a combination of a bond and a call option on oil.

The Fund may invest in structured notes, which the Exchange states are debt obligations that also contain an embedded derivative component with characteristics that adjust the obligation's risk/return profile. Generally, the performance of a structured note will track that of the underlying debt obligation and the derivative embedded within it.<sup>21</sup> The Fund would have the right to receive periodic interest payments from the issuer of the structured notes at an agreed-upon interest rate and a return of the principal at the maturity date.

The Fund may invest in shares of exchange-traded real estate investment trusts ("REITs"). According to the Exchange, REITs are pooled investment vehicles that invest primarily in real estate or real estate-related loans. REITs are generally classified as equity REITs, mortgage REITs, or a combination of equity and mortgage REITs.

The Fund may enter into repurchase agreements with financial institutions, which may be deemed to be loans. The Fund follows certain procedures designed to minimize the risks inherent in these agreements. These procedures include effecting repurchase transactions only with large, well-capitalized, and well-established financial institutions whose condition will be continually monitored by the Sub-Adviser. In addition, the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. It is the current policy of the Fund not to invest in

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<sup>21</sup> According to the Exchange, structured notes are typically privately negotiated transactions between two or more parties. The Fund bears the risk that the issuer of the structured note will default or become bankrupt, which may result in the loss of principal investment and periodic interest payments expected to be received for the duration of its investment in the structured notes.



repurchase agreements that do not mature within seven days if the investment, together with any other illiquid assets held by the Fund, amounts to more than 15% of the Fund's net assets.

The Fund may enter into reverse repurchase agreements as part of the Fund's investment strategy. According to the Exchange, reverse repurchase agreements involve sales by the Fund of portfolio assets concurrently with an agreement by the Fund to repurchase the same assets at a later date at a fixed price. Generally, the effect of this transaction is that the Fund can recover all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement, while the Fund will be able to keep the interest income associated with those portfolio securities.

The Fund may engage in short sales transactions in which the Fund sells a security it does not own.

The Fund may invest in mortgage-related securities that are equity securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts, and special purpose entities of the foregoing.<sup>22</sup>

The Fund, from time to time, in the ordinary course of business, may purchase securities on a when-issued, delayed-delivery, or forward commitment basis (i.e., delivery and payment can take place between a month and 120 days after the date of the transaction).

The Fund may invest in U.S. Treasury zero-coupon bonds. The Exchange states that these securities are U.S. Treasury bonds which have been stripped of their unmatured interest

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<sup>22</sup> The Exchange states that, with respect to its mortgage-related securities holdings that are equity securities, the Fund will invest only in securities that trade in markets that are members of the ISG or are parties to a comprehensive surveillance sharing agreement with the Exchange.

coupons, the coupons themselves, and receipts or certificates representing interests in these stripped debt obligations and coupons. Interest is not paid in cash during the term of these securities, but is accrued and paid at maturity.

### Investment Restrictions

According to the Registration Statement, the Fund may not:

(i) With respect to 75% of its total assets, purchase securities of any issuer (except securities issued or guaranteed by the U.S. government, its agencies or instrumentalities or shares of investment companies) if, as a result, more than 5% of its total assets would be invested in the securities of an issuer; or (ii) acquire more than 10% of the outstanding voting securities of any one issuer. For purposes of this policy, the issuer of the underlying security will be deemed to be the issuer of any respective depositary receipt.

(ii) Invest 25% or more of its total assets in the securities of one or more issuers conducting their principal business activities in the same industry or group of industries. This limitation does not apply to investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or shares of investment companies. The Fund will not invest 25% or more of its total assets in any investment company that so concentrates.

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser or Sub-Adviser<sup>23</sup> in accordance with Commission guidance, CMO residuals, and demand instruments with a demand notice exceeding seven days. The Fund will monitor its

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<sup>23</sup> In reaching liquidity decisions, the Adviser or Sub-Adviser may consider the following factors: the frequency of trades and quotes for the security; the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; and the nature of the security and the nature of the marketplace in which it trades (e.g., the time needed to dispose of the security, the method of soliciting offers and the mechanics of transfer).

portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid securities. Illiquid securities include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

The Fund may invest in the securities of other investment companies to the extent that this investment would be consistent with the requirements of Section 12(d)(1) of the 1940 Act or any rule, regulation, or order of the Commission or interpretation thereof. The Trust has entered into agreements with several unaffiliated ETFs that permit, pursuant to a Commission order, the Fund to purchase shares of those ETFs beyond the Section 12(d)(1) limits described above. The Fund will only make these investments in conformity with the requirements of Subchapter M of the Internal Revenue Code of 1986. The Fund will seek to qualify for treatment as a Regulated Investment Company ("RIC") under the Internal Revenue Code.

The Fund's investments will be consistent with the Fund's investment objective and will not be used to enhance leverage.

### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act<sup>24</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>25</sup> In particular, the Commission finds that the proposal is consistent

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<sup>24</sup> 15 U.S.C. 78f.

<sup>25</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

with Section 6(b)(5) of the Act,<sup>26</sup> which requires, among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission notes that the Fund and the Shares must comply with the initial and continued listing criteria in NYSE Arca Equities Rule 8.600 for the Shares to be listed and traded on the Exchange.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>27</sup> which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. Quotation and last-sale information for the Shares and U.S. exchange-listed equity securities, including ETFs, ETNs, exchange-traded pooled vehicles, ADRs, equity-related financial instruments and other exchange-traded products, REITs, and mortgage-related securities, will be available via the Consolidated Tape Association ("CTA") high-speed line and will be available from the national securities exchange on which they are listed. Information regarding unsponsored ADRs will be available from major market data vendors. Intra-day and closing price information relating to the fixed income and equities investments of the Fund, as well as Fund investments in spot currencies and derivatives, including futures, forwards, options, options on futures, and swaps, will be available from major market data vendors and from securities and futures exchanges, as applicable. Information relating to U.S. exchange-listed options will be available via the Options Price Reporting Authority. In addition, the Portfolio Indicative Value, as defined in NYSE Arca Equities Rule

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<sup>26</sup> 17 U.S.C. 78f(b)(5).

<sup>27</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

8.600 (c)(3), will be widely disseminated at least every 15 seconds during the Core Trading Session by one or more major market data vendors.<sup>28</sup> On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Fund will disclose on its website the Disclosed Portfolio that will form the basis for the Fund's calculation of NAV at the end of the business day.<sup>29</sup> In addition, a basket composition file, which includes the security names and share quantities (as applicable) required to be delivered in exchange for Fund Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the New York Stock Exchange, LLC ("NYSE") via the National Securities Clearing Corporation. The basket will represent one creation unit of the Fund. The Administrator will calculate NAV and NAV per Share once each business day as of the regularly scheduled close of normal trading on the NYSE (normally, 4:00 p.m., Eastern Time).<sup>30</sup>

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<sup>28</sup> According to the Exchange, several major market data vendors display or make widely available Portfolio Indicative Values taken from CTA or other data feeds.

<sup>29</sup> On a daily basis, the Fund's website will disclose for each portfolio security and other financial instrument of the Fund the following information: ticker symbol (if applicable); name and, when available, the individual identifier (CUSIP) of the security and financial instrument; number of shares (if applicable) and dollar value of securities and financial instruments held in the portfolio; and percentage weighting of the security and financial instrument in the portfolio. The website information will be publicly available at no charge.

<sup>30</sup> According to the Exchange, price information on listed securities, including ETFs, ETNs, exchange-traded pooled vehicles, ADRs, equity-related financial instruments and other exchange-traded products, REITs, and mortgage-related securities, will be taken from the exchange where the security is primarily traded. Other portfolio securities and assets for which market quotations are not readily available or determined to not represent the current fair value will be valued based on fair value as determined in good faith in accordance with procedures adopted by the Trust's Board of Trustees and in accordance with the 1940 Act. For assets such as options, futures, and swaps, in general, Bloomberg will be the primary source for pricing, and Reuters will be the secondary source. Spot currency transactions and non-exchange-traded derivatives, including forwards, swaps, and certain options will normally be valued on the basis of quotes obtained from brokers and dealers or pricing services using data reflecting the earlier closing of the principal markets for those assets. The Exchange states that prices obtained from independent pricing services use information provided by market makers or estimates of market

Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. The website for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.

The Commission further believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in

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values obtained from yield data relating to investments or securities with similar characteristics. Exchange-traded options will be valued at market closing prices. Futures and options on futures will be valued at the settlement price determined by the applicable exchange. Unsponsored ADRs will be valued on the basis of the market closing price on the exchange where the stock of the foreign issuer that underlies the ADR is listed. Domestic and foreign fixed-income securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund will generally value these portfolio securities by relying on independent pricing services. The Fund's pricing services will use valuation models or matrix pricing to determine current value. The Exchange states that, in general, pricing services use information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in these characteristics as rating, interest rate, maturity date, option-adjusted spread models, prepayment projections, interest rate spreads, and yield curves. A matrix price is an estimated price or value for a fixed-income security. Matrix pricing is considered a form of fair-value pricing.

the Shares inadvisable,<sup>31</sup> and trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth additional circumstances under which Shares of the Fund may be halted. The Exchange states that it has a general policy prohibiting the distribution of material, non-public information by its employees. Consistent with NYSE Arca Equities Rule 8.600(d)(2)(B)(ii), the Reporting Authority must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material, non-public information regarding the actual components of the Funds' portfolios. In addition, the Exchange states that neither the Adviser nor Sub-Adviser is registered as a broker-dealer or is affiliated with a broker-dealer.<sup>32</sup> The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by the Financial Industry Regulatory Authority ("FINRA") on behalf of the Exchange, which are designed to detect violations of Exchange rules and

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<sup>31</sup> These reasons may include: (1) the extent to which trading is not occurring in the securities or the financial instruments composing the Disclosed Portfolio of a Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund.

<sup>32</sup> See supra note 5 and accompanying text. The Exchange states that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("Advisers Act"). As a result, the Adviser, the Sub-Adviser, and their related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless the investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

applicable federal securities laws.<sup>33</sup> The Exchange further represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. Moreover, prior to the commencement of trading, the Exchange states that it will inform its Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares.

The Exchange represents that the Shares are deemed to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. In support of this proposal, the Exchange has made representations, including the following:

- (1) The Shares will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600.
- (2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (3) FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, underlying exchange-traded equity securities (including, without limitation, ETFs, ETNs, exchange-traded pooled vehicles, ADRs, equity-related financial instruments and other exchange-traded products, REITs, and mortgage-related securities), futures, options on futures, and exchange-traded options with other markets and other entities that are members of the ISG, and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in the Shares,

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<sup>33</sup> The Exchange states that FINRA surveils trading on the Exchange pursuant to a regulatory services agreement and that the Exchange is responsible for FINRA's performance under this regulatory services agreement.



underlying exchange-traded equity securities, futures, options on futures, and exchange-traded options from these markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares, underlying exchange-traded equity securities (including, without limitation, ETFs, ETNs, exchange-traded pooled vehicles, ADRs, equity-related financial instruments and other exchange-traded products, REITs, and mortgage-related securities), futures, options on futures, and exchange-traded options from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed-income securities held by the Fund reported to FINRA's Trade Reporting and Compliance Engine ("TRACE").

- (4) At least 90% of the Fund's investments in equity securities (including Equity Financial Instruments) will be in securities that trade in markets that are members of the ISG or are parties to a comprehensive surveillance sharing agreement with the Exchange. With respect to its mortgage-related securities holdings that are equity securities, the Fund will invest only in securities that trade in markets that are members of the ISG or are parties to a comprehensive surveillance sharing agreement with the Exchange.
- (5) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (1) the procedures for purchases and redemptions of

Shares in creation unit aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its Equity Trading Permit Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated; (4) how information regarding the Portfolio Indicative Value is disseminated; (5) the requirement that Equity Trading Permit Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

- (6) For initial and continued listing, the Funds must be in compliance with Rule 10A-3 under the Act,<sup>34</sup> as provided by NYSE Arca Equities Rule 5.3.
- (7) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser or Sub-Adviser in accordance with Commission guidance, CMO residuals, and demand instruments with a demand notice exceeding seven days.
- (8) The Fund will utilize cleared swaps, if available, to the extent practicable and will not enter into any swap agreement unless the Adviser believes that the other party to the transaction is creditworthy. Swaps utilized by the Fund will be backed by collateral of the Fund's assets, as required. The Sub-Adviser will evaluate the creditworthiness of counterparties on an ongoing basis.

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<sup>34</sup> See 17 CFR 240.10A-3.

- (9) The Fund will effect repurchase transactions only with large, well-capitalized and well-established financial institutions whose condition will be continually monitored by the Sub-Adviser. In addition, the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement.
- (10) The Fund may invest up to 10% of its net assets in privately issued non-GSE mortgage-related securities (including commercial mortgage-backed securities, CMOs, and ARMBS).
- (11) The Fund's fixed-income investment portfolio will meet certain listing criteria for index-based, fixed-income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.<sup>35</sup>
- (12) The Fund's investments will be consistent with that Fund's investment objective and will not be used to enhance leverage. In addition, the Fund will not invest in leveraged or inverse leveraged (e.g., 2X, -2X, 3X, or -3X) ETFs.
- (13) A minimum of 100,000 Shares of the Fund will be outstanding at the commencement of trading on the Exchange.

This approval order is based on all of the Exchange's representations, including those set forth above and in the Notice, and the Exchange's description of the Funds.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>36</sup> and the rules and regulations thereunder applicable to a national securities exchange.

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<sup>35</sup> See supra note 9 and accompanying text.

<sup>36</sup> 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>37</sup> that the proposed rule change (SR-NYSEArca-2013-121), be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>37</sup> 15 U.S.C. 78s(b)(2).

<sup>38</sup> 17 CFR 200.30-3(a)(12).