

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87866; File No. SR-NYSEArca-2019-95)

December 30, 2019

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to Adopt NYSE Arca Rule 8.602-E to Permit the Listing and Trading of Actively Managed Solution Shares and to List and Trade Shares of the Natixis ETF Under Proposed NYSE Arca Rule 8.602-E

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on December 23, 2019, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt new NYSE Arca Rule 8.602-E to permit it to list and trade Actively Managed Solution Shares, which are shares of actively managed exchange-traded funds for which the portfolio is disclosed in accordance with standard mutual fund disclosure rules. In addition, the Exchange proposes to list and trade shares of the following under proposed NYSE Arca Rule 8.602-E: Natixis ETF. The proposed change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add new NYSE Arca Rule 8.602-E for the purpose of permitting the listing and trading, or trading pursuant to unlisted trading privileges (“UTP”), of Actively Managed Solution Shares, which are securities issued by an actively managed open-end investment management company. The Exchange also proposes to list and trade shares (“Shares”) of the following under proposed NYSE Arca Rule 8.602-E: Natixis ETF (the “Fund”).

Proposed Listing Rules

Proposed Rule 8.602-E (a) provides that the Exchange will consider for trading, whether by listing or pursuant to UTP, Actively Managed Solution Shares that meet the criteria of Rule 8.602-E.

Proposed Rule 8.602-E (b) provides that Rule 8.602-E is applicable only to Actively Managed Solution Shares and that, except to the extent inconsistent with Rule 8.602-E, or unless the context otherwise requires, the rules and procedures of the Exchange’s Board of Directors shall be applicable to the trading on the Exchange of such securities. Proposed Rule 8.602-E (b)

provides further that Actively Managed Solution Shares are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange.

Proposed Rule 8.602-E(c)(1) defines the term "Actively Managed Solution Shares" as a security that (a) represents an interest in a registered investment company ("Investment Company") organized as an open-end management investment company that invests in a portfolio of securities selected by the Investment Company's investment adviser consistent with the Investment Company's investment objectives and policies; (b) is issued in a specified aggregate minimum number of shares equal to a Creation Unit, or multiples thereof, in return for a designated portfolio of securities (and/or an amount of cash) with a value equal to the next determined net asset value; and (c) when aggregated in the same specified aggregate number of shares, or multiples thereof, may be redeemed at the request of an Authorized Participant (as defined in the applicable Investment Company prospectus), which Authorized Participant will be paid a portfolio of securities and/or cash with a value equal to the next determined net asset value ("NAV").

Proposed Rule 8.602-E(c)(2) defines the term "Actual Portfolio" as the aggregation of securities held by a series of Actively Managed Solution Shares, which aggregation is periodically disclosed in accordance with requirements applicable to open-end management investment companies registered under the Investment Company Act of 1940 ("1940 Act").

Proposed Rule 8.602-E(c)(3) defines the term "Proxy Portfolio" as a basket of cash and securities that differs from the Actual Portfolio of a series of Actively Managed Solution Shares and that is intended to closely track the daily performance of the Actual Portfolio on any trading day. The Proxy Portfolio will be disseminated each business day on the website for each series of Actively Managed Solution Shares.

Proposed Rule 8.602-E(c)(4) defines the term “Creation Unit” as a specified minimum number of Actively Managed Solution Shares issued by an Investment Company at the request of an Authorized Participant in return for a designated portfolio of securities (and/or an amount of cash) specified each day and a specified minimum number of Actively Managed Solution Shares that may be redeemed to an Investment Company at the request of an Authorized Participant in return for a portfolio of securities and/or cash, consistent with the Investment Company’s investment objectives and policies.

Proposed Rule 8.602-E(c)(5) defines the term "Reporting Authority" in respect of a particular series of Actively Managed Solution Shares means the Exchange, the exchange that lists a particular series of Actively Managed Solution Shares (if the Exchange is trading such series pursuant to unlisted trading privileges), an institution, or a reporting service designated by the issuer of a series of Actively Managed Solution Shares as the official source for calculating and reporting information relating to such series, including the net asset value, or other information relating to the issuance, redemption or trading of Actively Managed Solution Shares. A series of Actively Managed Solution Shares may have more than one Reporting Authority, each having different functions.

Proposed Rule 8.602-E(c)(6) defines the term "normal market conditions" as including, but not limited to, the absence of trading halts in the applicable financial markets generally; operational issues (e.g., systems failure) causing dissemination of inaccurate market information; or force majeure type events such as natural or manmade disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

Proposed Rule 8.602-E (d) sets forth initial and continued listing criteria applicable to Actively Managed Solution Shares. Proposed Rule 8.602-E(d)(1)(A) provides that, for each

series of Actively Managed Solution Shares, the Exchange will establish a minimum number of Actively Managed Solution Shares required to be outstanding at the time of commencement of trading on the Exchange. In addition, proposed Rule 8.602-E(d)(1)(B) provides that the Exchange will obtain a representation from the issuer of each series of Actively Managed Solution Shares that the NAV per share for the series will be calculated daily and that the NAV will be made available to all market participants at the same time.<sup>4</sup> Proposed Rule 8.602-E(d)(1)(C) provides that all Actively Managed Solution Shares shall have a stated investment objective, which shall be adhered to under normal market conditions.

Proposed Rule 8.602-E(d)(2) provides that each series of Actively Managed Solution Shares will be listed and traded subject to application of the following continued listing criteria:

Proposed Rule 8.602-E(d)(2)(A) provides that the Exchange will consider the suspension of trading in, and will commence delisting proceedings under Rule 5.5-E(m) of, a series of Actively Managed Solution Shares under any of the following circumstances:

- (i) if any of the continued listing requirements set forth in Rule 8.602-E are not continuously maintained;
- (ii) if any of the statements or representations regarding (a) the description of the portfolio, (b) limitations on portfolio holdings, or (c) the applicability of

Exchange listing rules, specified in the Exchange's rule filing pursuant to Section

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<sup>4</sup> NYSE Arca Rule 7.18-E(d)(2) ("Halts of Derivative Securities Products Listed on the NYSE Arca Marketplace") provides that, with respect to Derivative Securities Products listed on the NYSE Arca Marketplace for which a net asset value is disseminated, if the Exchange becomes aware that the net asset value is not being disseminated to all market participants at the same time, it will halt trading in the affected Derivative Securities Product on the NYSE Arca Marketplace until such time as the net asset value is available to all market participants.

19(b) of the Securities Exchange Act of 1934 to permit the listing and trading of a series of Actively Managed Solution Shares, is not continuously maintained; or  
(iii) if such other event shall occur or condition exists which, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

Proposed Rule 8.602-E(d)(2)(B) provides that, upon notification to the Exchange by the issuer of a series of Actively Managed Solution Shares that the NAV with respect to such series is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the NAV is available to all market participants. The Exchange may also halt trading at the request of the investment adviser to a series of Actively Managed Solution Shares upon notification to the Exchange by the issuer of such series that the securities representing 10% or more of the Actual Portfolio for such series do not have readily available market quotations, and during times of unusual market volatility where a significant portion of such series' Actual Portfolio are subject to a trading halt or have a last trade price that the investment adviser deems unreliable, if the investment adviser determines that it is in the best interest of such series.

Proposed Rule 8.602-E(d)(2)(C) provides that, upon termination of an Investment Company, the Exchange requires that Actively Managed Solution Shares issued in connection with such entity be removed from Exchange listing.

Proposed Rule 8.602-E(d)(2)(D) provides that voting rights shall be as set forth in the applicable Investment Company prospectus.

Proposed Rule 8.602-E(e), which relates to limitation of Exchange liability, provides that neither the Exchange, the Reporting Authority, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in

calculating or disseminating any current portfolio value; the current value of the portfolio of securities required to be deposited to the Investment Company in connection with issuance of Actively Managed Solution Shares; the amount of any dividend equivalent payment or cash distribution to holders of Actively Managed Solution Shares; net asset value; or other information relating to the purchase, redemption, or trading of Actively Managed Solution Shares, resulting from any negligent act or omission by the Exchange, the Reporting Authority or any agent of the Exchange, or any act, condition, or cause beyond the reasonable control of the Exchange, its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission, or delay in the reports of transactions in one or more underlying securities.

Proposed Commentary .01 to NYSE Arca Rule 8.602-E provides that the Exchange will file separate proposals under Section 19(b) of the Securities Exchange Act of 1934 before the listing and trading of Actively Managed Solution Shares. All statements or representations contained in such rule filing regarding (a) the description of the portfolio, (b) limitations on portfolio holdings, or (c) the applicability of Exchange listing rules specified in such rule filing will constitute continued listing requirements. An issuer of such securities must notify the Exchange of any failure to comply with such continued listing requirements.

Proposed Commentary .02 to NYSE Arca Rule 8.602-E provides that the Exchange will implement and maintain written surveillance procedures for Actively Managed Solution Shares.

Proposed Commentary .03 to NYSE Arca Rule 8.602-E provides that, if the investment adviser to the Investment Company issuing Actively Managed Solution Shares is registered as a broker-dealer or is affiliated with a broker-dealer such investment adviser will erect and maintain

a "fire wall" between the investment adviser and personnel of the broker-dealer or broker-dealer affiliate, as applicable, with respect to access to information concerning the composition of and/or changes to such Investment Company's Actual Portfolio or the applicable Proxy Portfolio. Personnel who make decisions on the Investment Company's Actual Portfolio or the applicable Proxy Portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company Actual Portfolio or Proxy Portfolio.<sup>5</sup>

#### Key Features of Actively Managed Solution Shares

While funds issuing Actively Managed Solution Shares will be actively-managed and, to that extent, will be similar to Managed Fund Shares, Actively Managed Solution Shares differ from Managed Fund Shares in the following important respects. First, in contrast to Managed Fund Shares, which are actively-managed funds listed and traded under NYSE Arca Rule 8.600-

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<sup>5</sup> The Exchange will propose applicable NYSE Arca listing fees for Actively Managed Solution Shares in the NYSE Arca Equities Schedule of Fees and Charges via a separate proposed rule change.



E<sup>6</sup> and for which a “Disclosed Portfolio” is required to be disseminated at least once daily,<sup>7</sup> the portfolio for an issue of Actively Managed Solution Shares will be disclosed at least quarterly in accordance with normal disclosure requirements otherwise applicable to open-end management investment companies registered under the 1940 Act.<sup>8</sup> The composition of the portfolio of an issue of Actively Managed Solution Shares would not be available at commencement of Exchange listing and trading. Second, Actively Managed Solution Shares would not publish their full portfolio contents daily. Instead, Actively Managed Solution Shares would utilize a

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<sup>6</sup> The Commission has previously approved listing and trading on the Exchange of a number of issues of Managed Fund Shares under NYSE Arca Rule 8.600-E. See, e.g., Securities Exchange Act Release Nos. 57801 (May 8, 2008), 73 FR 27878 (May 14, 2008) (SR-NYSEArca-2008-31) (order approving Exchange listing and trading of twelve actively-managed funds of the WisdomTree Trust); 60460 (August 7, 2009), 74 FR 41468 (August 17, 2009) (SR-NYSEArca-2009-55) (order approving listing of Dent Tactical ETF); 63076 (October 12, 2010), 75 FR 63874 (October 18, 2010) (SR-NYSEArca-2010-79) (order approving Exchange listing and trading of Cambria Global Tactical ETF); 63802 (January 31, 2011), 76 FR 6503 (February 4, 2011) (SR-NYSEArca-2010-118) (order approving Exchange listing and trading of the SiM Dynamic Allocation Diversified Income ETF and SiM Dynamic Allocation Growth Income ETF). The Commission also has approved a proposed rule change relating to generic listing standards for Managed Fund Shares. Securities Exchange Act Release No. 78397 (July 22, 2016), 81 FR 49320 (July 27, 2016) (SR-NYSEArca-2015-110) (amending NYSE Arca Equities Rule 8.600 to adopt generic listing standards for Managed Fund Shares).

<sup>7</sup> NYSE Arca Rule 8.600-E(c)(2) defines the term “Disclosed Portfolio” as the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company's calculation of net asset value at the end of the business day. NYSE Arca Rule 8.600-E(d)(2)(B)(i) requires that the Disclosed Portfolio will be disseminated at least once daily and will be made available to all market participants at the same time.

<sup>8</sup> A mutual fund is required to file with the Commission its complete portfolio schedules for the second and fourth fiscal quarters on Form N-CSR under the 1940 Act, and is required to file its complete portfolio schedules each month on Form N-PORT under the 1940 Act, within 60 days of the end of each month. Information reported on Form N-PORT for the third month of the Fund's fiscal quarter will be made publicly available 60 days after the end of the Fund's fiscal quarter. These forms are available to the public on the Commission's website at [www.sec.gov](http://www.sec.gov).

proxy portfolio methodology, as described below (the “NYSE Proxy Portfolio Methodology”) that would allow market participants to assess the intraday value and associated risk of a fund’s then-current portfolio (the “Actual Portfolio”) and thereby facilitate the purchase and sale of shares by investors in the secondary market at prices that do not vary materially from their NAV.<sup>9</sup> The NYSE Proxy Portfolio Methodology would utilize creation of a proxy portfolio (“Proxy Portfolio”) for hedging and arbitrage purposes.<sup>10</sup> Daily disclosure of Proxy Portfolio contents, Proxy Overlap and related metrics, as described below (the “Proxy Portfolio Disclosures”), would permit effective hedging of risks associated with arbitrage and market making activities concerning a series of Actively Managed Solution Shares, permitting market making in Actively Managed Solution Shares with reasonable bid/ask spreads. In essence, the Proxy Portfolio Disclosures should permit market making in fund shares that keeps bid/ask spreads narrow and the secondary market prices of fund shares at or close to NAV.

The Exchange, after consulting with various Lead Market Makers that trade exchange-traded funds (“ETFs”) on the Exchange, believes that market makers will be able to make efficient and liquid markets priced near the NAV in light of the daily Proxy Portfolio Disclosures, and market makers employ market making techniques such as “statistical arbitrage,” including correlation hedging, beta hedging, and dispersion trading, which is currently used throughout the financial services industry, to make efficient markets in exchange-traded

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<sup>9</sup> The NYSE Proxy Portfolio Methodology is owned by the NYSE Group, Inc. and licensed for use by the Fund. NYSE Group, Inc. is not affiliated with the Fund, Adviser or Distributor.

<sup>10</sup> With respect to the Fund, the Fund will have in place policies and procedures regarding the construction and composition of its Proxy Portfolio. Such policies and procedures will be covered by the Fund’s compliance program and other requirements under Rule 38a-1 under the 1940 Act.

products.<sup>11</sup> This ability should permit market makers to make efficient markets in an issue of Actively Managed Solution Shares without precise knowledge of a fund's underlying portfolio.

The Exchange understands that traders use statistical analysis to derive correlations between different sets of instruments to identify opportunities to buy or sell one set of instruments when it is mispriced relative to the others. For Actively Managed Solution Shares, market makers may use the knowledge of a fund's means of achieving its investment objective, as described in the applicable fund registration statement, together with the Proxy Portfolio Disclosures to manage a market maker's quoting risk in connection with trading Fund Shares. Market makers can then conduct statistical arbitrage between Proxy Portfolio and shares of a fund, buying and selling one against the other over the course of the trading day. They will evaluate how the Proxy Portfolio performed in comparison to the price of a fund's shares, and use that analysis as well as knowledge of risk metrics, such as volatility and turnover, to provide a more efficient hedge.

Market makers have indicated to the Exchange that there will be sufficient data to run a statistical analysis which will lead to spreads being tightened substantially around NAV of a

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<sup>11</sup> Statistical arbitrage enables a trader to construct an accurate proxy for another instrument, allowing it to hedge the other instrument or buy or sell the instrument when it is cheap or expensive in relation to the proxy. Statistical analysis permits traders to discover correlations based purely on trading data without regard to other fundamental drivers. These correlations are a function of differentials, over time, between one instrument or group of instruments and one or more other instruments. Once the nature of these price deviations have been quantified, a universe of securities is searched in an effort to, in the case of a hedging strategy, minimize the differential. Once a suitable hedging proxy has been identified, a trader can minimize portfolio risk by executing the hedging basket. The trader then can monitor the performance of this hedge throughout the trade period making correction where warranted. In the case of correlation hedging, the analysis seeks to find a proxy that matches the pricing behavior of a fund. In the case of beta hedging, the analysis seeks to determine the relationship between the price movement over time of a fund and that of another stock.

fund's shares. This is similar to certain other existing exchange traded products (for example, ETFs that invest in foreign securities that do not trade during U. S. trading hours), in which spreads may be generally wider in the early days of trading and then narrow as market makers gain more confidence in their real-time hedges.

#### Description of the Fund and the Trust

The Fund will be a series of Natixis ETF Trust II ("Trust"), which will be registered with the Commission as an open-end management investment company.<sup>12</sup>

Natixis Advisors, L.P. ("Adviser") will be the investment adviser to the Fund. ALPS Distributors, Inc. will act as the distributor and principal underwriter ("Distributor") for the Fund.

Proposed Commentary .03 to NYSE Arca Rule 8.602-E provides that, if the investment adviser to the Investment Company issuing Actively Managed Solution Shares is registered as a broker-dealer or is affiliated with a broker-dealer such investment adviser will erect and maintain a "fire wall" between the investment adviser and personnel of the broker-dealer or broker-dealer affiliate, as applicable, with respect to access to information concerning the composition and/or

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<sup>12</sup> The Trust is registered under the 1940 Act. On December 12, 2019, the Trust filed a registration statement on Form N-1A under the Securities Act of 1933 (the "1933 Act") (15 U.S.C. 77a), and under the 1940 Act relating to the Fund (File Nos. 333-235466 and 811-23500) (the "Registration Statement"). The Trust and NYSE Group, Inc. filed a Seventh Amended and Restated Application for an Order under Section 6(c) of the 1940 Act for exemptions from various provisions of the 1940 Act and rules thereunder (File No. 812-14870), dated October 21, 2019 ("Application"). On November 14, 2019, the Commission issued a notice regarding the Application. Investment Company Release No. 33684 (File No. 812-14870). On December 10, 2019, the Commission issued an order ("Exemptive Order") under the 1940 Act granting the exemptions requested in the Application (Investment Company Act Release No. 33711 (December 10, 2019)). Investments made by the Fund will comply with the conditions set forth in the Application and the Exemptive Order. The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement and the Application.

changes to such Investment Company's Actual Portfolio or the applicable Proxy Portfolio. Personnel who make decisions on the Investment Company's Actual Portfolio or the applicable Proxy Portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company Actual Portfolio or Proxy Portfolio. Proposed Commentary .03 is similar to Commentary .03(a)(i) and (iii) to NYSE Arca Rule 5.2-E(j)(3); however, Commentary .03, in connection with the establishment of a "fire wall" between the investment adviser and the broker-dealer, reflects the applicable open-end fund's portfolio, not an underlying benchmark index, as is the case with index-based funds.<sup>13</sup> The Adviser is not registered as a broker-dealer but is affiliated with a broker-dealer. The Adviser has implemented and will maintain a "fire wall" with respect to such broker-dealer affiliate regarding access to information concerning the composition of and/or changes to the Fund's portfolio.

In the event (a) the Adviser or any sub-adviser becomes registered as a broker-dealer or becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a

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<sup>13</sup> An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the "Advisers Act"). As a result, the Adviser and its related personnel will be 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 such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violations, 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.

registered broker-dealer, or becomes affiliated with a broker-dealer, it will implement and maintain a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

#### Actively Managed Solution Shares

According to the Application, the Adviser believes Actively Managed Solution Shares would allow for efficient trading of Shares through an effective Fund portfolio transparency substitute and publication of related informative metrics, while still shielding the identity of the full Fund portfolio contents to protect the Fund's performance-seeking strategies. Even though the Fund would not publish its full portfolio contents daily, the Adviser believes that the NYSE Proxy Portfolio Methodology would allow market participants to assess the intraday value and associated risk of the Fund's then-current portfolio (the "Actual Portfolio"). As a result, the Adviser believes that investors would be able to purchase and sell Shares in the secondary market at prices that are close to their NAV. An important part of the NYSE Proxy Portfolio Methodology would be the creation of the Proxy Portfolio. As noted above, daily disclosure of the Proxy Portfolio Disclosures would also allow the Fund to permit effective arbitrage, including hedging of investors' positions in Shares.

The Adviser believes Actively Managed Solution Shares would benefit investors by allowing them to access a greater choice of active portfolio managers in an ETF structure, which provides benefits over traditional mutual funds such as brokerage account transactional efficiencies, lower fund costs, tax efficiencies and intraday liquidity.

## Natixis ETF

According to the Registration Statement, the Fund will invest only in ETFs,<sup>14</sup> exchange-traded notes (“ETNs”),<sup>15</sup> U.S. exchange-traded common stocks, common stocks listed on a foreign exchange that trade on such exchange contemporaneously with the Shares (“foreign common stocks”) in the Exchange’s Core Trading Session (normally 9:30 a.m. and 4:00 p.m., Eastern time (“E.T.”)), U.S. exchange-traded preferred stocks, U.S. exchange-traded American Depositary Receipts (“ADRs”)<sup>16</sup>, U.S. exchange-traded real estate investment trusts, U.S. exchange-traded commodity pools, U.S. exchange-traded metals trusts, U.S. exchange-traded currency trusts and U.S. exchange-traded futures<sup>17</sup> that trade contemporaneously with Fund Shares, as well as cash and cash equivalents (together, the “Permissible Investments”).<sup>18</sup> The Fund will not hold short positions or invest in derivatives other than U.S. exchange-traded futures. The Fund will not borrow for investment purposes.

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<sup>14</sup> For purposes of this filing, “ETFs” are Investment Company Units (as described in NYSE Arca Rule 5.2-E(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Rule 8.100-E); and Managed Fund Shares (as described in NYSE Arca Rule 8.600-E). All ETFs will be listed and traded in the U.S. on a national securities exchange.

<sup>15</sup> ETNs are Index-Linked Securities as described in NYSE Arca Rule 5.2-E(j)(6).

<sup>16</sup> ADRs are issued by a U.S. financial institution (a “depository”) and evidence ownership in a security or pool of securities issued by a foreign issuer that have been deposited with the depository. Each ADR will be registered under the Securities Act on Form F-6.

<sup>17</sup> Exchange-traded futures are U.S. listed futures contracts where the future contract’s reference asset is an asset that the Fund could invest in directly, or in the case of an index future, is based on an index of a type of asset that the Fund could invest in directly, such as an S&P 500 index future. All futures contracts that the Fund may invest in will be traded on a U.S. futures exchange.

<sup>18</sup> For purposes of this filing, cash equivalents are short-term U.S. Treasury securities, government money market funds, and repurchase agreements.

Under normal market conditions<sup>19</sup>, the Fund will primarily invest in common stocks of U.S. companies. The Fund generally will invest in securities of larger capitalization companies in any industry.

#### The NYSE Proxy Portfolio Methodology

According to the Application, the goal of the NYSE Proxy Portfolio Methodology is to permit a fund's Proxy Portfolio, during all market conditions, to track closely the daily performance of a fund's Actual Portfolio and minimize intra-day misalignment between the performance of the Proxy Portfolio and the performance of the Actual Portfolio. The Proxy Portfolio is designed to reflect the economic exposures and the risk characteristics of the Actual Portfolio on any given trading day. The Adviser and the Exchange believe that the Proxy Portfolio Disclosures will enable arbitrageurs and market participants to use the component securities and their weightings in the Proxy Portfolio to calculate intraday values that approximate the value of the securities in the Actual Portfolio and, based thereon, assess whether the market price of the Shares is higher or lower than the approximate contemporaneous value of the Actual Portfolio and engage in arbitrage and hedging activities. These activities will help ensure that fund market prices remain close to a fund's NAV per Share. In addition, the Proxy Portfolio Disclosures generated by the NYSE Proxy Portfolio Methodology will allow for effective hedging activities by market makers, which will facilitate narrow bid/ask spreads for shares.

#### The Proxy Portfolio

According to the Application, the Proxy Portfolio is designed to recreate the daily performance of the Actual Portfolio. This is achieved by performing a "Factor Model" analysis

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<sup>19</sup> The term "normal market conditions" is defined in proposed Rule 8.602-E(c)(6).



of the Actual Portfolio. The Factor Model is comprised of three sets of factors or analytical metrics: market-based factors, fundamental factors, and industry/sector factors.

The Fund, utilizing the NYSE Proxy Portfolio Methodology, will have a universe of securities (the “Model Universe”) that will be used to generate the Fund’s Proxy Portfolio. The Model Universe will be comprised of securities that the Fund can purchase and will be a financial index or stated portfolio of securities from which Fund investments will be selected. For example, the Model Universes could be the S&P 500 Index, the Russell 1000 Index or the 3,000 largest U.S.-listed equity securities.

The results of the Factor Model analysis of the Fund’s Actual Portfolio are then applied to the Fund’s Model Universe. The daily rebalanced Proxy Portfolio is then generated as a result of this Model Universe analysis with the Proxy Portfolio being a small sub-set of the Model Universe.<sup>20</sup> Consequently, the Factor Model is applied to both the Actual Portfolio and the Model Universe to construct the Fund’s Proxy Portfolio that performs in a manner substantially identical to the performance of its Actual Portfolio. The Proxy Portfolio will only include Permissible Investments.

The Adviser believes that the mere inclusion of components in the Proxy Portfolio that are not part of the Actual Portfolio will not have a noticeable impact on the values of such components. As with the Actual Portfolio, the assets that may be included in the Proxy Portfolio are expected to be extremely liquid and it is highly unlikely that either their inclusion in the Proxy Portfolio or the Creation Basket (as defined below)<sup>21</sup> would cause a change in the prices of those securities,

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<sup>20</sup> As a part of the Proxy Portfolio generation process, a restricted list is maintained to ensure that if one class of an issuer’s securities is excluded from (or included in) the Proxy Portfolio, other classes of securities of the same issuer are excluded from the Proxy Portfolio.

<sup>21</sup> As discussed below, the Creation Basket will include the same names and quantities as

even during times of market volatility. The NYSE Proxy Portfolio Methodology seeks to provide a mechanism whereby market participants can assess the intraday value of the Actual Portfolio and, therefore, by design seeks to exclude components from being included in the Proxy Portfolio whose values may change solely by virtue of being included in the Proxy Portfolio or Creation Basket.

According to the Application, most traditional ETFs are required to provide full daily portfolio holding disclosure. As discussed below, the Adviser believes that the “Proxy Portfolio” (as described below) would be acceptable to market participants as a substitute for full daily portfolio transparency. In particular, the Adviser believes that the “Proxy Portfolio Disclosures” (as described below) resulting daily from the NYSE Proxy Portfolio Methodology will provide sufficient information to (1) allow for effective hedging by market participants that will have the effect of keeping Share bid/ask spreads within a narrow range that will foster liquid Share markets, and (2) support arbitrage activities by Authorized Participants and other arbitrageurs that will have the effect of keeping Fund Share trading prices at or close to NAV per Share. The Adviser expects this to be the case because, among other matters, the component securities included in the daily Proxy Portfolio and their weightings can be used by market participants to value and hedge the Actual Portfolio.

The component securities included in the daily Proxy Portfolio and their weightings will be used by market participants to value and hedge the Actual Portfolio. If creation/redemption activity is necessary, market makers will trade their residual risk at the market close to be in line with the necessary positions provided in the creation/redemption baskets. The Adviser represents that this well-known process is utilized by market makers and does not add additional

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the Fund’s Proxy Portfolio, subject to cash substitutions.

market risk to the arbitrage and creation/redemption process. Thus, the Proxy Portfolio is designed to obtain the benefit of a known pricing process.

As discussed below, the “Tracking Error” between the NAV per Share of the Actual Portfolio and value, on a per Share basis, of the Fund’s Proxy Portfolio would be calculated at the end of the trading day and published before the opening of Fund Share trading on the Exchange’s Core Trading Session the next Business Day to provide additional information to the market making community. Daily Tracking Error publication will allow market participants to provide more efficient markets and therefore narrower bid/ask spreads. The Adviser believes this information, alongside the periodic Fund disclosures and the other Proxy Portfolio Disclosures, will provide the level of detail necessary to foster efficient markets and support effective arbitrage functions.

If the trading of a security held in the Fund’s Actual Portfolio is halted or otherwise does not have readily available market quotations, the Adviser promptly will disclose on the Fund’s website the identity and weighting of such security for so long as such security’s trading is halted or otherwise does not have readily available market quotations and remains in the Actual Portfolio. The Adviser believes that this intraday corrective measure will allow sufficient market information so that market participants can continue to engage in Share arbitrage and hedging transactions effectively.

#### Hedging and Arbitrage Opportunities

According to the Application, the Adviser believes that a reliable fund share hedging vehicle, where Proxy Portfolio performance is closely correlated to the Actual Portfolio performance, will reduce the risk of arbitrage trading and will encourage market making activity that drives Share market trading price closer to NAV per Share of the Fund. The Adviser

believes that market makers for the Shares would determine bid/ask spreads for the Shares based primarily on the market makers' costs to hedge their exposure to the Shares, much in the same way that they determine bid/ask spreads for actively managed and passive ETFs that are already listed and traded in the secondary market. The prices and determination of effective hedging instruments will be influenced by the expected Tracking Error and price differentials between the Proxy Portfolio, which is fully disclosed, and the expected NAV per Share that will be calculated at the end of the trading day.

According to the Application, historically, all active ETFs have sought to facilitate market making activity and arbitrage trading by providing full daily portfolio transparency. The Adviser believes that market making activity and arbitrage trading can be facilitated for the Fund by the information proposed to be provided to the market including: the identity and quantity of the components in the highly correlated Proxy Portfolio, Proxy Overlap, Tracking Error, and the last publicly-disclosed Fund portfolio as well as the identity of the Fund's benchmark index. The Adviser represents that, all other factors being equal, the statistical analysis and case studies of Proxy Portfolio and Actual Portfolio performance correlation indicate that market maker bid/ask spreads for Shares should, on average, be similar to those of active ETFs currently trading on exchanges.

More specifically, because the Proxy Portfolio will be constructed to generate performance that is correlated to the performance of the Actual Portfolio, the Adviser believes that arbitrageurs and market participants will be able to use the component securities and their weightings in the Proxy Portfolio to calculate intraday values that approximate the value of the securities in the Actual Portfolio. As with existing fully transparent active ETFs, arbitrageurs and market makers then would be able to assess whether the market price of the Shares was

higher or lower than the approximate contemporaneous value of the Actual Portfolio securities, and to make arbitrage and hedging decisions using the securities in the Proxy Portfolio.<sup>22</sup>

#### Daily Disclosures

With respect to the Fund, the following information will comprise the “Proxy Portfolio Disclosures” and will be publicly available on the Fund’s website before the commencement of trading in Shares on each Business Day:

- The Proxy Portfolio holdings (including the identity and quantity of investments in the Proxy Portfolio) will be publicly available on the Fund’s website before the commencement of trading in Shares on each Business Day. The Proxy Portfolio will include the following information for each portfolio holding in the Proxy Portfolio: (1) ticker symbol; (2) CUSIP or other identifier; (3) description of holding; (4) quantity of each security or other asset held; and (5) percentage weight of the holding in the Proxy Portfolio.
- The historical “Tracking Error” between the Fund’s last published NAV per share and the value, on a per Share basis, of the Fund’s Proxy Portfolio calculated as of the close of trading on the prior Business Day will be publicly available on the

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<sup>22</sup> According to the Application, the Adviser believes that it is statistically impractical to replicate the Actual Portfolio in a manner that would provide any trading advantage to a market participant over a fund. A fund’s daily disclosures, (e.g., Proxy Portfolio Disclosures and other fund website information and periodic disclosures) are insufficient to permit a third-party to replicate the Fund’s Actual Portfolio because the NYSE Proxy Portfolio Methodology only uses lagged information regarding purchases and sales occurring in the Actual Portfolio. Moreover, the daily publication of the Creation Basket information is insufficient to replicate the Actual Portfolio because it is based on the Proxy Portfolio, the construction of which is discussed above. In using the Proxy Portfolio, the intent is not to mask the entire Actual Portfolio but only the current activity in the Actual Portfolio. None of the Proxy Portfolio Disclosures provide up-to-date, granular or frequent enough information about the Actual Portfolio to permit replication of the Actual Portfolio or Fund investment strategies on a current basis.

Fund's website before the commencement of trading in Shares each Business Day.

- The "Proxy Overlap" will be publicly available on the Fund's website before the commencement of trading in Shares on each Business Day. The Proxy Overlap is the percentage weight overlap between the Proxy Portfolio's holdings compared to the Actual Portfolio's holdings that formed the basis for the Fund's calculation of NAV at the end of the prior Business Day. The Proxy Overlap will be calculated by taking the lesser weight of each asset held in common between the Actual Portfolio and the Proxy Portfolio and adding the totals.

Typical mutual fund-style annual, semi-annual and quarterly disclosures contained in the Fund's Commission filings will also be provided on the Fund's website on a current basis.<sup>23</sup> Thus, the Fund will publish the portfolio contents of its Actual Portfolio on a periodic basis. In addition, the Fund will post on its website its NAV per Share calculated after the close of trading on the prior Business Day.<sup>24</sup>

#### Creations and Redemptions of Shares

According to the Application, the "Creation Basket" (as defined below) will be based on the Proxy Portfolio, which is designed to approximate the value and performance of the Actual Portfolio. All Creation Basket instruments will be valued in the same manner as they are valued for purposes of calculating the Fund's NAV, and such valuation will be made in the same manner regardless of the identity of the purchaser or redeemer. Further, the total consideration

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<sup>23</sup> See note 8, *supra*.

<sup>24</sup> The Fund will have in place policies and procedures regarding the construction and composition of its Proxy Portfolio. Such policies and procedures will be covered by the Fund's compliance program and other requirements under Rule 38a-1 under the 1940 Act.

paid for the purchase or redemption of a Creation Unit of Shares will be based on the NAV of the Fund, as calculated in accordance with the policies and procedures set forth in its registration statement.

As with the Proxy Portfolio, the Creation Basket will mask the Fund's Actual Portfolio from full disclosure while at the same time maximize benefits of the ETF structure to shareholders. In particular, the Adviser believes that the ability of the Fund to take deposits and make redemptions in-kind may aid in achieving the Fund's investment objectives by allowing it to be more fully invested, minimizing cash drag, and reducing flow-related trading costs. In-kind transactions may also increase the Fund's tax efficiency and promote efficient secondary market trading in Shares.

According to the Application, the Trust will offer, issue and sell Shares of the Fund to investors only in Creation Units through the Distributor on a continuous basis at the NAV per Share next determined after an order in proper form is received. The NAV of the Fund is expected to be determined as of 4:00 p.m. E.T. on each Business Day. The Trust will sell and redeem Creation Units of the Fund only on a Business Day. Creation Units of the Fund may be purchased and/or redeemed entirely for cash, as permissible under the procedures described below. The Adviser anticipates that the trading price of a Share will range from \$10 to \$100.

In order to keep costs low and permit the Fund to be as fully invested as possible, Shares will be purchased and redeemed in Creation Units and generally on an in-kind basis. Accordingly, except where the purchase or redemption will include cash under the circumstances specified below, purchasers will be required to purchase Creation Units by making an in-kind deposit of specified instruments ("Deposit Instruments"), and shareholders redeeming their Shares will receive an in-kind transfer of specified instruments ("Redemption Instruments").

The names and quantities of the instruments that constitute the Deposit Instruments and the Redemption Instruments for the Fund (collectively, the “Creation Basket”) will be the same as the Fund’s Proxy Portfolio, except to the extent purchases and redemptions are made entirely or in part on a cash basis.

If there is a difference between the NAV attributable to a Creation Unit and the aggregate market value of the Creation Basket exchanged for the Creation Unit, the party conveying instruments with the lower value will also pay to the other an amount in cash equal to that difference (the “Cash Amount”).

The Fund will adopt and implement policies and procedures regarding the composition of its Creation Baskets. The policies and procedures will set forth detailed parameters for the construction and acceptance of baskets in compliance with the terms and conditions of the Exemptive Order and that are in the best interests of the Fund and its shareholders, including the process for any revisions to or deviations from those parameters. The Fund’s basket policies and procedures would be covered by the Fund’s compliance program and other requirements under Rule 38a-1 under the 1940 Act.

While the Fund normally will issue and redeem Shares in kind, the Fund may require purchases and redemptions to be made entirely or in part on a cash basis. In such an instance, the Fund will announce, before the open of trading in the Core Trading Session (normally, 9:30 a.m. to 4:00 p.m., E.T.) on a given Business Day, that all purchases, all redemptions, or all purchases and redemptions on that day will be made wholly or partly in cash. The Fund may also determine, upon receiving a purchase or redemption order from an Authorized Participant, to have the purchase or redemption, as applicable, be made entirely or in part in cash. Each Business Day, before the open of trading on the Exchange, the Fund will cause to be published



through the National Securities Clearing Corporation (“NSCC”) the names and quantities of the instruments comprising the Creation Basket, as well as the estimated Cash Amount (if any), for that day. The published Creation Basket will apply until a new Creation Basket is announced on the following Business Day, and there will be no intra-day changes to the Creation Basket except to correct errors in the published Creation Basket.

All orders to purchase Creation Units must be placed with the Distributor by or through an Authorized Participant, which is either: (1) a “participating party” (i.e., a broker or other participant), in the Continuous Net Settlement (“CNS”) System of the NSCC, a clearing agency registered with the Commission and affiliated with the Depository Trust Company (“DTC”), or (2) a DTC Participant, which in any case has executed a participant agreement with the Distributor and the transfer agent.

#### Timing and Transmission of Purchase Orders

All orders to purchase (or redeem) Creation Units, whether using the NSCC Process or the DTC Process, must be received by the Distributor no later than the NAV calculation time (“NAV Calculation Time”), generally 4:00 p.m. E.T. on the date the order is placed (“Transmittal Date”) in order for the purchaser (or redeemer) to receive the NAV determined on the Transmittal Date. In the case of custom orders, the order must be received by the Distributor sufficiently in advance of the NAV Calculation Time in order to help ensure that the Fund has an opportunity to purchase the missing securities with the cash in lieu amounts or to sell securities to generate the cash in lieu amounts prior to the NAV Calculation Time. On days when the Exchange closes earlier than normal, the Fund may require custom orders to be placed earlier in the day.

## Availability of Information

The Fund's website ([www.im.natixis.com](http://www.im.natixis.com)), which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for the Fund that may be downloaded. The Fund's website will include on a daily basis, per Share for the Fund, (1) daily trading volume, the prior Business Day's NAV and the "Closing Price" or "Bid/Ask Price,"<sup>25</sup> and a calculation of the premium/discount of the Closing Price or Bid/Ask Price against such NAV<sup>26</sup>, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. The website and information will be publicly available at no charge.

The Fund may also provide additional quantitative information on its website. In addition, the Fund will provide any other information on its website regarding premiums/discounts that ETFs registered under the 1940 Act may be required to provide.<sup>27</sup> The

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<sup>25</sup> The Bid/Ask Price of Shares of the Fund will be determined using the highest bid and the lowest offer on the Consolidated Tape as of the time of calculation of the Fund's NAV. The records relating to Bid/Ask Prices will be retained by the Fund or its service providers. The "Bid/Ask Price" is the midpoint of the highest bid and lowest offer based upon the National Best Bid and Offer as of the time of calculation of the Fund's NAV. The "National Best Bid and Offer" is the current national best bid and national best offer as disseminated by the Consolidated Quotation System or UTP Plan Securities Information Processor. The "Closing Price" of Shares is the official closing price of the Shares on the Exchange.

<sup>26</sup> The "premium/discount" refers to the premium or discount to NAV at the end of a trading day and will be calculated based on the last Bid/Ask Price or the Closing Price on a given trading day.

<sup>27</sup> According to the Application, the Fund's website will include any other information regarding premiums and discounts as may be required for other ETFs under Rule 6c-11 under the 1940 Act and will also disclose any information regarding the bid/ask spread for the Fund as may be required for other ETFs under Rule 6c-11 under the 1940 Act.

website also will include the Proxy Portfolio for the Fund, the Proxy Overlap and Tracking Error for the Fund.

The Proxy Portfolio holdings (including the identity and quantity of investments in the Proxy Portfolio) will be publicly available on the Fund's website before the commencement of trading in Shares on each Business Day.

Investors can also obtain the Fund's statement of additional information ("SAI"), Shareholder Reports, Form N-CSR, N-PORT and Form N-CEN. The prospectus, SAI and Shareholder Reports are available free upon request from the Trust, and those documents and the Form N-CSR, N-PORT, and Form N-CEN may be viewed on-screen or downloaded from the Commission's website.

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. Updated price information for U.S. exchange-listed equity securities is available through major market data vendors or securities exchanges trading such securities. Quotation and last sale information for the Shares, equity securities and ETFs will be available via the Consolidated Tape Association ("CTA") high-speed line. Price information for cash equivalents is available through major market data vendors.

#### Investment Restrictions

The Shares of the Fund will conform to the initial and continued listing criteria under proposed Rule 8.602-E. The Fund's holdings will be limited to and consistent with permissible holdings as described in the Exemptive Application.

## Trading Halts

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>28</sup> Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to NYSE Arca Rule 8.602-E(d)(2)(B), which sets forth circumstances under which Shares of the Fund will be halted.

## Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. Shares will trade on the NYSE Arca Marketplace in all trading sessions in accordance with NYSE Arca Rule 7.34-E(a). As provided in NYSE Arca Rule 7.6-E, the minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the NYSE Arca Marketplace is \$0.01, with the exception of securities that are priced less than \$1.00 for which the MPV for order entry is \$0.0001.

The Shares will conform to the initial and continued listing criteria under NYSE Arca Rule 8.602-E. The Exchange represents that, for initial and continued listing, the Fund will be in compliance with Rule 10A-3 under the Act,<sup>29</sup> as provided by NYSE Arca Rule 5.3-E. The Exchange will obtain a representation from the issuer of the Shares of the Fund that the NAV per

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<sup>28</sup> See NYSE Arca Rule 7.12-E.

<sup>29</sup> See 17 CFR 240.10A-3.

Share of the Fund will be calculated daily and will be made available to all market participants at the same time.

#### Surveillance

The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by the Exchange, as well as cross-market surveillances administered by the Financial Industry Regulatory Authority (“FINRA”) on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.<sup>30</sup> The Exchange 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 federal securities laws applicable to trading on the Exchange.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, exchange-traded equity securities, and futures contracts with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities and financial instruments from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such securities and financial instruments

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<sup>30</sup> FINRA conducts cross-market surveillances on behalf of the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement.

from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>31</sup>

The Adviser will make available daily to FINRA and the Exchange the portfolio holdings of the Fund in order to facilitate the performance of the surveillances referred to above.

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

#### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit (“ETP”) Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares; (2) NYSE Arca Rule 9.2-E(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (4) how information regarding the Proxy Portfolio will be disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Bulletin will reference that the Fund is subject to various fees and expenses described in the Registration Statement. The Bulletin will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. The Bulletin will also disclose that the NAV for the Shares will be calculated after 4:00 p.m., E.T. each trading day.

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<sup>31</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org).

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>32</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>33</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, 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 Exchange believes that proposed Rule 8.602-E is designed to prevent fraudulent and manipulative acts and practices in that the proposed rules relating to listing and trading of Actively Managed Solution Shares provide specific initial and continued listing criteria required to be met by such securities.

Proposed Rule 8.602-E (d) sets forth initial and continued listing criteria applicable to Actively Managed Solution Shares. Proposed Rule 8.602-E(d)(1)(A) provides that, for each series of Actively Managed Solution Shares, the Exchange will establish a minimum number of Actively Managed Solution Shares required to be outstanding at the time of commencement of trading on the Exchange. In addition, proposed Rule 8.602-E(d)(1)(B) provides that the Exchange will obtain a representation from the issuer of each series of Actively Managed Solution Shares that the NAV per share for the series will be calculated daily and that the NAV will be made available to all market participants at the same time. Proposed Rule 8.602-E(d)(2) provides that each series of Actively Managed Solution Shares will be listed and traded subject to application of specified continued listing criteria. Proposed Rule 8.602-E(d)(2)(A) provides

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<sup>32</sup> 15 U.S.C. 78f(b).

<sup>33</sup> 15 U.S.C. 78f(b)(5).

that the Exchange will consider the suspension of trading in, and will commence delisting proceedings under Rule 5.5-E(m) of, a series of Actively Managed Solution Shares under any of the circumstances specified in such rule.

Proposed Rule 8.602-E(d)(2)(B) provides that, upon notification to the Exchange by the issuer of a series of Actively Managed Solution Shares, that the net asset value with respect to a series of Actively Managed Solution Shares is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the net asset value is available to all market participants.

Proposed Commentary .01 to NYSE Arca Rule 8.602-E provides that the Exchange will file separate proposals under Section 19(b) of the Act before the listing and trading of Actively Managed Solution Shares. All statements or representations contained in such rule filing regarding (a) the description of the portfolio, (b) limitations on portfolio holdings, or (c) the applicability of Exchange listing rules specified in such rule filing will constitute continued listing requirements. An issuer of such securities must notify the Exchange of any failure to comply with such continued listing requirements.

Proposed Commentary .02 to NYSE Arca Rule 8.602-E provides that the Exchange will implement and maintain written surveillance procedures for Actively Managed Solution Shares. Proposed Commentary .03 provides that, if the investment adviser to the Investment Company issuing Actively Managed Solution Shares is registered as a broker-dealer or is affiliated with a broker-dealer such investment adviser will erect and maintain a "fire wall" between the investment adviser and personnel of the broker-dealer or broker-dealer affiliate, as applicable, with respect to access to information concerning the composition and/or changes to such Investment Company's Actual Portfolio or the applicable Proxy Portfolio. Personnel who make



decisions on the Investment Company's Actual Portfolio or the applicable Proxy Portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company Actual Portfolio or Proxy Portfolio.

With respect to the proposed listing and trading of Shares of the Fund, the Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Rule 8.602-E. All exchange-listed equity securities held by the Fund will be listed on U.S. national securities exchanges. The listing and trading of such securities is subject to rules of the exchanges on which they are listed and traded, as approved by the Commission. The Fund will primarily hold U.S.-listed equity securities and shares issued by other U.S.-listed ETFs. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, exchange-traded equity securities, and futures with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities and financial instruments from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

The Exchange, after consulting with various Lead Market Makers that trade ETFs on the Exchange, believes that market makers will be able to make efficient and liquid markets priced near the NAV, and that market makers have knowledge of a fund's means of achieving its investment objective even without daily disclosure of a fund's underlying portfolio. The

Exchange believes that market makers will employ risk-management techniques to make efficient markets in exchange traded products.<sup>34</sup> This ability should permit market makers to make efficient markets in shares without knowledge of a fund's underlying portfolio.

The Exchange understands that traders use statistical analysis to derive correlations between different sets of instruments to identify opportunities to buy or sell one set of instruments when it is mispriced relative to the others. For Actively Managed Solution Shares, market makers utilizing statistical arbitrage use the knowledge of a fund's means of achieving its investment objective, as described in the applicable fund registration statement, as well as Proxy Portfolio Disclosures to manage a market maker's quoting risk in connection with trading fund shares. Market makers will then conduct statistical arbitrage between the Proxy Portfolio and shares of a fund, buying and selling one against the other over the course of the trading day. Eventually, at the end of each day, they will evaluate how the Proxy Portfolio performed in comparison to the price of a fund's shares, and use that analysis as well as knowledge of risk metrics, such as volatility and turnover, to provide a more efficient hedge.

The Lead Market Makers also indicated that, as with some other new exchange-traded products, spreads would tend to narrow as market makers gain more confidence in the accuracy of their hedges and their ability to adjust these hedges in real-time and gain an understanding of the applicable market risk metrics such as volatility and turnover, and as natural buyers and sellers enter the market. Other relevant factors cited by Lead Market Makers were that a fund's investment objectives are clearly disclosed in the applicable prospectus, the existence of quarterly portfolio disclosure and the ability to create shares in creation unit size.

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<sup>34</sup> See note 11, supra.

The real-time dissemination of the identity and quantity of Proxy Portfolio component investments, together with the right of Authorized Participants to create and redeem each day at the NAV, will be sufficient for market participants to value and trade shares in a manner that will not lead to significant deviations between the shares' Bid/Ask Price and NAV.

The pricing efficiency with respect to trading a series of Actively Managed Solution Shares will generally rest on the ability of market participants to arbitrage between the shares and a fund's portfolio, in addition to the ability of market participants to assess a fund's underlying value accurately enough throughout the trading day in order to hedge positions in shares effectively. Professional traders can buy shares that they perceive to be trading at a price less than that which will be available at a subsequent time and sell shares they perceive to be trading at a price higher than that which will be available at a subsequent time. It is expected that, as part of their normal day-to-day trading activity, market makers assigned to shares by the Exchange, off-exchange market makers, firms that specialize in electronic trading, hedge funds and other professionals specializing in short-term, non-fundamental trading strategies will assume the risk of being "long" or "short" shares through such trading and will hedge such risk wholly or partly by simultaneously taking positions in correlated assets<sup>35</sup> or by netting the exposure against other, offsetting trading positions – much as such firms do with existing ETFs

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<sup>35</sup> Price correlation trading is used throughout the financial industry. It is used to discover both trading opportunities to be exploited, such as currency pairs and statistical arbitrage, as well as for risk mitigation such as dispersion trading and beta hedging. These correlations are a function of differentials, over time, between one or multiple securities pricing. Once the nature of these price deviations have been quantified, a universe of securities is searched in an effort to, in the case of a hedging strategy, minimize the differential. Once a suitable hedging basket has been identified, a trader can minimize portfolio risk by executing the hedging basket. The trader then can monitor the performance of this hedge throughout the trade period, making corrections where warranted.

and other equities. Disclosure of a fund's investment objective and principal investment strategies in its prospectus and SAI should permit professional investors to engage easily in this type of hedging activity.

The Exchange believes that the Fund, and Actively Managed Solution Shares generally, will provide investors with a greater choice of active portfolio managers and active strategies through which they can manage their assets in an ETF structure. This greater choice of active asset management is expected to be similar to the diversity of active managers and strategies available to mutual fund investors. Unlike mutual fund investors, investors in Actively Managed Solution Shares would also accrue the benefits derived from the ETF structure, such as lower fund costs, tax efficiencies, intraday liquidity, and pricing that reflects current market conditions rather than end-of-day pricing.

The Adviser represents that, unlike ETFs that publish their portfolios on a daily basis, the Fund, as Actively Managed Solution Shares, propose to allow for efficient trading of Shares through an effective Fund portfolio transparency substitute - Proxy Portfolio transparency - and daily publication of Proxy Portfolio Disclosures. The Adviser believes that this approach will provide an important benefit to investors by protecting the Fund from the potential for front-running of portfolio transactions and the potential for free-riding on Fund portfolio strategies, each of which could adversely impact the performance of the Fund.

The Exchange believes that Actively Managed Solution Shares will provide the platform for many more asset managers to launch ETFs, increasing the investment choices for consumers of actively managed funds, which should lead to a greater competitive landscape that can help to reduce the overall costs of active investment management for retail investors. Unlike mutual funds, Actively Managed Solution Shares would be able to use the efficient share settlement

system in place for ETFs today, translating into a lower cost of maintaining shareholder accounts and processing transactions.

The Adviser represents that investors will also benefit because the Fund's operating costs, such as transfer agency costs, are generally lower in ETFs than in mutual funds. The Fund will have access to the identical clearing and settlement procedures now used by U.S. domiciled ETFs, and therefore, should experience many of the operational and cost efficiencies benefitting current ETF investors.

The Adviser represents further that in-kind Share creation/redemption orders will allow the Fund to enjoy overall transaction costs lower than those experienced by mutual funds. The Fund's in-kind Share creation and redemption process will facilitate and enhance active management strategies by generally limiting the portfolio manager's need to transact in a large volume of trades in order to maintain desired investment exposures. In addition, the Adviser represents that the Fund will receive tax efficiency benefits of the ETF structure because of in-kind Share creation and redemption activity.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that the Exchange will obtain a representation from the issuer of a series of Actively Managed Solution Shares that the NAV per Share of the Fund will be calculated daily and that the NAV will be made available to all market participants at the same time. Investors can also obtain the Fund's SAI, shareholder reports, and its Form N-CSR, Form N-PORT and Form N-CEN. The Fund's SAI and shareholder reports will be available free upon request from the Fund, and those documents and the Form N-CSR, Form N-PORT and Form N-CEN may be viewed on-screen or downloaded from the Commission's website. In addition, with respect to the Fund, a large amount of information will be publicly

available regarding the Fund and the Shares, thereby promoting market transparency. Quotation and last sale information for the Shares will be available via the CTA high-speed line. The website for the Fund will include a form of the prospectus for the Fund that may be downloaded, and additional data relating to NAV and other applicable quantitative information, updated on a daily basis. Moreover, prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to NYSE Arca Rule 8.602-E (d)(2)(B), which sets forth circumstances under which Shares of the Fund will be halted. In addition, as noted above, investors will have ready access to the Proxy Portfolio Disclosures and quotation and last sale information for the Shares. The Shares will conform to the initial and continued listing criteria under proposed Rule 8.602-E.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of an additional type of actively-managed exchange-traded product that will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, as noted above, investors will have ready access to information regarding quotation and last sale information for the Shares.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed rule change would permit listing and trading of another type of actively-managed ETF that has characteristics different from existing actively-managed and index ETFs and would introduce additional competition among various ETF products to the benefit of investors.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2019-95 on the subject line.

Paper comments:

- Send paper comments in triplicate to: Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2019-95. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to



make available publicly. All submissions should refer to File Number SR-NYSEArca-2019-95 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>36</sup> 17 CFR 200.30-3(a)(12).