

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78345; File No. SR-NYSEArca-2016-96)

July 15, 2016

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to Amend NYSE Arca Equities Rule 8.700 and to List and Trade Shares of the Managed Emerging Markets Trust Under Proposed Amended NYSE Arca Equities Rule 8.700

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on July 1, 2016, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 amend NYSE Arca Equities Rule 8.700 to permit the use of swaps on equity indices, fixed income indices, commodity indices, commodities or interest rates, and to list and trade shares of the Managed Emerging Markets Trust under proposed amended NYSE Arca Equities Rule 8.700. The proposed rule 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.

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

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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.

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

NYSE Arca Equities Rule 8.700 permits the trading of Managed Trust Securities either by listing or pursuant to unlisted trading privileges (“UTP”).<sup>4</sup> The Exchange proposes to amend NYSE Arca Equities Rule 8.700 to permit the use of swaps on equity indices, fixed income indices, commodity indices, commodities or interest rates. In addition, the Exchange proposes to list and trade the shares (the “Shares”) of the Managed Emerging Markets Trust (the “Trust”) under proposed amended NYSE Arca Equities Rule 8.700.

Proposed Amendments to NYSE Arca Equities Rule 8.700

The Exchange proposes to amend NYSE Arca Equities Rule 8.700(c)(1) to permit the use of swaps on equity indices, fixed income indices, commodity indices, commodities or interest rates. Permitting the use of such swaps would provide additional flexibility to an issuer of

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<sup>4</sup> Managed Trust Security means a security that is registered under the Securities Act of 1933 (15 U.S.C. 77a), as amended (the “Securities Act”), is issued by a trust that (1) is a commodity pool as defined in the Commodity Exchange Act (7 U.S.C. 1) (the “CEA”), and that is managed by a commodity pool operator registered with the Commodity Futures Trading Commission (the “CFTC”), and (2) holds long and/or short positions in exchange-traded futures contracts and/or certain currency forward contracts selected by the trust’s advisor consistent with the trust’s investment objectives, which will only include, exchange-traded futures contracts involving commodities, currencies, stock indices, fixed income indices, interest rates and sovereign, private and mortgage or asset backed debt instruments, and/or forward contracts on specified currencies, each as disclosed in the trust’s prospectus; and (ii) [sic] is issued and redeemed continuously in specified aggregate amounts at the next applicable net asset value. See NYSE Arca Equities Rule 8.700(c)(1).

Managed Trust Securities seeking to achieve a trust's investment objective. For example, because the markets for certain futures contracts may be unavailable or cost prohibitive as compared to derivative instruments, suitable derivative transactions may be an efficient alternative for an issuer of Managed Trust Securities to obtain the desired asset exposure. Additionally, swaps would allow parties to replicate desired returns while eliminating the costs associated with acquiring or holding the underlying asset. As such, the increased flexibility afforded by the ability of an issuer of Managed Trust Securities to use derivatives may enhance investor returns by facilitating the ability to more economically seek its investment objective, thereby reducing the costs incurred by such issuer.

The Exchange notes that swaps are currently permitted investments for issues of Trust Issued Receipts under Commentary .02 to NYSE Arca Equities Rule 8.200. In addition, the Commission has previously permitted investments in swaps for issues of Managed Fund Shares under NYSE Arca Equities Rule 8.600.<sup>5</sup>

#### Managed Emerging Markets Trust

The Trust is a Delaware statutory trust that will issue Shares representing fractional undivided beneficial interests in the Trust.<sup>6</sup> According to the Registration Statement, the Trust will not be an investment company registered under the Investment Company Act of 1940 (15

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<sup>5</sup> See, e.g., Securities Exchange Act Release No. 71938 (April 14, 2014), 79 FR 21981 (April 18, 2014) (SR-NYSEArca-2013-144) (order approving proposed rule change permit listing and trading of shares of the ETSpreads HY Long Credit Fund, the ETSpreads HY Short Credit Fund, the ETSpreads IG Long Credit Fund, and the ETSpreads IG Short Credit Fund under NYSE Arca Equities Rule 8.600).

<sup>6</sup> See Pre-Effective Amendment No. 5, dated [sic] See Pre-Effective Amendment No. 5, dated August 18, 2015, to the Trust's Registration Statement on Form S-1 (File No. 333-182772) (the "Registration Statement") under the Securities Act. The descriptions of the Trust and the Shares contained herein are based, in part, on the Registration Statement.

U.S.C. 80a-1), as amended (the “1940 Act”), and will not be required to register under the 1940 Act.

The Trust is a commodity pool as defined in the CEA and the regulations of the CFTC. The Trust will be operated by Artivest Advisors LLC, a Delaware limited liability company (the “Sponsor”), that is also the Trust’s adviser (the “Adviser”) and will be registered under the CEA as a commodity pool operator. The sole member of the Sponsor is Artivest Holdings, Inc., a Delaware corporation. The Adviser is the commodity trading advisor of the Trust and will at all times be either registered as a commodity trading advisor or properly exempt from such registration under the CEA. The Adviser is not a broker-dealer and is not affiliated with a broker-dealer. In the event (a) the Adviser or any sub-adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the Trust’s portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.<sup>7</sup>

The Bank of New York Mellon, a New York banking corporation, is the trustee of the Trust (the “Trustee”). Wilmington Trust, National Association, a national banking association, is the Delaware trustee of the Trust.

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<sup>7</sup> The activities of the Trust will be limited to (1) issuing Baskets (as described below) in exchange for cash, (2) paying out of Trust assets any Trust expenses and liabilities not assumed by the Sponsor, (3) delivering proceeds consisting of cash in exchange for Baskets surrendered for redemption, (4) depositing any required margin in the form of cash or other eligible assets with domestic futures commission merchants, foreign futures brokers or other financial intermediaries or dealers, and (5) investing its cash, at the direction of the Adviser, in a portfolio of futures contracts, forward contracts and swaps.

The Bank of New York Mellon also is the administrator of the Trust (the “Trust Administrator”), the custodian of the Trust (the “Custodian”), the processing agent of the Trust (the “Processing Agent”), and the settlement agent of the Trust (the “Settlement Agent”). The Trust has engaged Foreside Fund Services, LLC to act as a distributor on its behalf.

The Exchange notes that the Commission has previously approved the listing and trading of another issue of Managed Trust Securities on the Exchange.<sup>8</sup>

#### Managed Emerging Markets Trust

According to the Registration Statement, the Trust will pursue long-term total returns by seeking to provide both (1) a long-only exposure to one or more emerging markets equity indices (the “index exposure”) and (2) “alpha” returns that are additive to, and are not correlated with, the index exposure (measured over rolling 5-year periods), while seeking to control overall downside risk and volatility. Total return refers to the combined income and capital appreciation generated by a portfolio.

According to the Registration Statement, the assets of the Trust (the “Portfolio”) will consist of positions in futures contracts on emerging market equity indices, foreign currency forward contracts, swaps providing exposure to such futures contracts and forward contracts, and cash and other financial instruments which may be used, as needed, to secure the Trust’s trading obligations with respect to those trading positions. The Adviser will pursue the Trust’s investment objective by utilizing a discretionary portfolio construction approach that is designed to provide (i) the index exposure, and (ii) exposure to an “alpha” portfolio with returns likely to be independent of, and uncorrelated to, the index exposure.

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<sup>8</sup> See Securities Exchange Act Release No. 60064 (June 8, 2009), 74 FR 28315 (June 15, 2009) (SR-NYSEArca-2009-30) (order approving the adoption of listing standards for Managed Trust Securities and the listing and trading of shares of the iShares<sup>®</sup> Diversified Alternatives Trust).

The Adviser will seek to provide the index exposure by holding long emerging markets equity index futures positions. The Adviser will seek to provide alpha exposure by actively trading and investing a portfolio primarily composed of futures contracts and forward contracts using its discretion to make investment choices based on fundamental analysis of various macroeconomic factors.

The Trust may hold cash necessary to cover its ordinary and extraordinary expenses.

#### Alpha Strategy

According to the Registration Statement, the alpha strategy will seek to provide returns that are independent of, and uncorrelated to, the index exposure, by trading and investing primarily in futures contracts and forward contracts relating to emerging markets. The Adviser will pursue a strategy based on fundamental analysis and will make investment decisions based on its view of the fundamental value of various financial instruments relative to market prices and expectations. In certain limited circumstances, the Trust may invest in exchange-traded swaps, swaps accepted for central clearing (“cleared swaps”) and swaps which are not accepted for central clearing (“uncleared swaps”), as described below. The Trust will only invest in cleared swaps if an investment in exchange-traded swaps is unavailable, and the Trust will only invest in uncleared swaps if an investment in cleared swaps is unavailable. No more than 20% of the Portfolio may be invested, on both an initial and an ongoing basis, in over-the-counter (“OTC”) swaps.

To construct the alpha portfolio, the Adviser will apply both quantitative and qualitative analysis to market and economic data to generate investment ideas, to trade and invest on a discretionary basis, and to manage portfolio risk.

The Adviser's investment process will reflect its belief that macroeconomic factors drive investment returns over the medium and long term. These macroeconomic factors include fundamental economic and fundamental market factors. Examples of fundamental economic factors include monetary and fiscal policy, growth conditions, inflation, and the quality and stability of governmental and civic institutions. Examples of fundamental market factors include matters such as valuation and pricing metrics, interest rates, momentum, liquidity, and ease of capital formation.

The Adviser will form conclusions regarding future economic conditions and future financial instruments pricing based on its review and analysis of macroeconomic factors. The Adviser's investment process will be driven by its understanding of the underlying relationships between asset class pricing and macroeconomic forces. The Adviser will evaluate markets based on both the current state of various macroeconomic factors (i.e., current conditions) as well as anticipated changes to those conditions, and will seek to understand what expectations regarding those changes are embedded in current market pricing. From time to time, the Adviser will form thematic, macroeconomic-based "alpha views" regarding its desired exposures to investment themes.

The Adviser will utilize both quantitative and qualitative analysis in its investment process. With respect to quantitative analysis, the Adviser will apply a range of mathematical and statistical techniques to historical and real-time market and economic data that relates to the various macroeconomic factors, as part of an ongoing research process. The Adviser will analyze this historical data in an effort to identify how changes to current conditions and expectations about future conditions will affect the prices of various financial instruments. The quantitative analysis used by the Adviser will particularly focus on the volatility and correlation

characteristics of financial instruments, as the Adviser will seek to build a diversified portfolio in the alpha strategy. The Adviser will seek to develop predictive models based on its quantitative analysis to generate and evaluate investment ideas. However, the Trust will trade purely on a discretionary basis and the Adviser will engage in a qualitative analysis of any investment ideas generated utilizing quantitative analysis.

The Adviser also will utilize qualitative analysis which relies on the investment experience and views of its principals, as well as internally-developed frameworks for evaluating and generating investment ideas. The Adviser's qualitative analysis will focus on research relating to the subjective conditions of macroeconomic factors in emerging markets, the perception and expectations of market participants, and the risk characteristics of investment ideas.

#### Emerging Markets

According to the Registration Statement, emerging markets are generally considered to be nations with social or business activity in the process of rapid growth and industrialization, typically characterized by increasingly liquid and broad capital markets, strengthening civil institutions, improving governance, strengthening infrastructure and increasing quality of life for citizens. Emerging markets are also often marked by increasingly educated and competitive labor forces and rapid growth in industrialization, combined with relatively lower consumption per capita than in more developed economies. These countries are often engaged in a transition from an underdeveloped economy into a well-capitalized, developed economy similar to those of the advanced industrialized countries like the United States, Japan or much of Western Europe.

The Adviser will look at a variety of factors to determine whether a country is an “emerging market.” Currently, the Adviser views countries as “emerging markets” if they are



considered to be developing, emerging or frontier by sources such as MSCI, the International Monetary Fund, the World Bank, the International Finance Corporation, the United Nations, The Economist magazine, Standard & Poor's and Dow Jones, or if they are countries with a stock market capitalization of less than 5% of the MSCI World Index.

Emerging market countries typically are located in the following regions: Asia-Pacific; Eastern Europe; the Middle East; Central and South America; and Africa.

Within these regions, the Trust will likely invest in financial instruments relating to countries such as: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, [Greece](#), Hong Kong, Hungary, India, Indonesia, Israel, Jordan, Kenya, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Peru, Philippines, Poland, Qatar, Russia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, [United Arab Emirates](#), Ukraine and Vietnam.

This list will change from time to time based on market developments. The percentage of Trust assets invested in a specific region or country will change from time to time. The Trust will not be subject to any limitations on the percentage of its assets that may be exposed to a single region or country.

#### Portfolio Construction

According to the Registration Statement, to construct the Portfolio, the Adviser expects to devote a portion of the Trust proceeds to establishing the emerging markets index exposure (generally expected to be maintained at a level equal to 100% of the Trust's net assets) and substantially all of the remainder to seek the alpha exposure (generally not to exceed a level equal to 300% of the Trust's net assets). The portion of Trust assets required to maintain these exposures will fluctuate from time to time, in particular as the margin requirements to maintain the Trust's futures contract positions fluctuate.

According to the Registration Statement, futures contracts and forward contracts have an inherent degree of leverage due to the relatively small amounts of capital required to be deposited as margin for such financial instrument positions (generally 2% to 5% of the value of the contract). The Trust may at times trade with a significant degree of leverage, and the Trust's use of leverage can be expected to vary from time to time. The Adviser will seek to limit the notional exposure of the overall Portfolio to no more than 400% of the Trust's net assets. Notwithstanding the foregoing limitation on the Trust's use of leverage, the Adviser will seek to mitigate leveraging risk if the notional exposure of the overall Portfolio is approaching the leverage limitation.

In addition, the Trust will include appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of the Trust, including the Trust's use of derivatives, may give rise to leverage, causing the Trust to be more volatile than if it had not been leveraged. Because the markets for certain securities, or the securities themselves, may be unavailable or cost prohibitive as compared to derivative instruments, suitable derivative transactions may be an efficient alternative for the Trust to obtain the desired asset exposure. To mitigate leveraging risk, the Adviser will segregate or " earmark " liquid assets or otherwise cover the transactions that may give rise to such risk.

#### Index Exposure Portfolio Construction

According to the Registration Statement, the Trust will seek to maintain constant exposure to one or more emerging markets equity indices by holding long positions in emerging markets index futures contracts.<sup>9</sup> Generally, the Adviser will seek to maintain an emerging

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<sup>9</sup> An index futures contract is a bilateral agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to a specified dollar amount multiplied by the difference between the index value at the close of trading of the contract and the

markets index exposure to equal 100% of the Trust's net assets, although this may vary from time to time depending on market conditions. The Adviser expects the volatility for the Trust's index portfolio to track the volatility of major emerging markets indices (based on historical volatility, 20% to 25%).

The MSCI Emerging Markets Index is the initial emerging market equity index that the Trust will invest in (by holding long MSCI Emerging Markets Index futures contracts as the index itself is not investable) to achieve its index exposure. The Adviser may in the future invest in additional or different emerging markets index futures contracts.

The MSCI Emerging Markets Index is intended to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index with a base date of December 31, 1987 and an initial value of 100. The MSCI Emerging Markets Index is calculated daily in U.S. dollars and published in real time every 60 seconds during market trading hours. The MSCI Emerging Markets Index spans large, mid and small cap securities and currently consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand, and Turkey. As of [July 31, 2015](#), the five largest country weights were China ([23.93%](#)), South Korea ([14.18%](#)), Taiwan ([12.48%](#)), India ([8.37%](#)), and South Africa ([8.00%](#)), and the five largest sector weights were Financials ([29.49%](#)), Information Technology ([17.49%](#)), [Consumer Discretionary \(9.03%\)](#), Consumer Staples ([8.54%](#)), and Energy ([8.09%](#)). The MSCI

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price at which the futures contract is originally struck. No physical delivery of the securities comprising the index will be made; rather, the contract will be settled in cash at the termination of the contract. The settlement will be equal to the difference between the contract price and the actual level of the stock index at the expiration of the contract. The Trust expects to settle contracts prior to their expiration date.

Emerging Markets Index is part of the MSCI Regional Equity Indices series and is an MSCI Global Investable Market Index, which is a family within the MSCI International Equity Indices.

ICE Futures U.S. has been licensed to create futures contracts on the MSCI Emerging Markets Index, and the Adviser expects to obtain its emerging markets index exposure by holding long positions in these futures contracts.<sup>10</sup>

Because the Trust's index exposure will be provided by futures contracts which have dated expirations, the Trust will need to periodically rebalance or "roll" its exposures by selling near-dated futures contracts and buying longer-dated futures contracts to replace them. The Adviser will rebalance the Trust's exposures on a discretionary, rather than systematic basis, and will seek to roll its index futures positions in a way that minimizes the Trust's transaction costs. The Adviser also will seek to avoid rolling futures contracts extremely close to expiry, and generally will refrain from holding contracts through to expiration and settlement, as described in more detail under "Rebalancing" below.

#### Alpha Portfolio Construction

According to the Registration Statement, the Adviser will construct a portfolio of instruments for the Trust to hold by determining the optimal way to express its alpha views in light of pragmatic considerations associated with trading in financial instruments. The Adviser will assess trading and investment risks in selecting both which alpha views to express and in constructing an optimal portfolio accordingly. The Adviser will seek to minimize both transaction costs and exogenous trading risks such as liquidity or counterparty risks while maximizing the clarity of expression of the Adviser's alpha views. Some of the criteria included

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<sup>10</sup> ICE Futures U.S. is a member of the Intermarket Surveillance Group ("ISG").

in this analysis for each instrument or market will be: liquidity or trading volume, margin requirements, commission rates, bid-ask spreads and futures contracts curve shape.

With respect to the alpha portfolio, the Adviser will take directional positions where it believes prices will move favorably over the medium- to long-term (i.e., over the next three months or more) as a result of the anticipated gap between its perceptions and the market. Because the alpha portfolio will seek to capture price movements resulting from certain changes in markets resulting from changing expectations about certain market fundamentals, the alpha strategy will be directional and an investment in Shares should not be considered market-neutral. The Adviser does not expect, however, that the alpha portfolio will over time favor any particular market with either a long bias or a short bias.

The alpha portfolio primarily will be composed of futures contracts on emerging market equity indices and foreign currency forward contracts, as described in more detail below. The Trust may invest in futures contracts and forward contracts of varying duration, from shorter-term contracts of one to three months to longer-term contracts of up to three years or more. The Trust will not use any particular index or benchmark to construct the alpha portfolio. Except as otherwise described herein, there will be no limitations on the commodity interests that the Trust may trade to seek its alpha exposure.

According to the Registration Statement, the Adviser anticipates that as the Trust grows larger, it may also, in certain limited circumstances, invest in exchange-traded swaps, cleared swaps and uncleared swaps. These limited circumstances include the following:

- When futures contracts are not available or market conditions do not permit investing in futures contracts (for example, a particular futures contract may not exist or may trade only on an exchange that has not yet been approved by the Trust); and

- When there are position limits, price limits or accountability limits on futures contracts.  
Therefore, swaps would only be used by the Trust as a substitute for futures contracts in the limited circumstances described above when the Adviser has determined that it is necessary to use swaps in order for the Trust to remain consistent with the Trust's investment objective.  
Further, the Adviser expects that the Trust's use of swaps, if any, will be of a de minimis nature.

To the extent that the Trust invests in swaps, it would first make use of exchange-traded swaps if such swaps are available with respect to futures contracts on emerging market equity indices or foreign currency forward contracts. If an investment in exchange-traded swaps is unavailable, then the Trust would invest in cleared swaps that clear through derivatives clearing organizations that satisfy the Trust's criteria if such swaps are available with respect to futures on emerging market equity indices or foreign currency forward contracts. If an investment in cleared swaps is unavailable, then the Trust would invest in other swaps, including uncleared swaps in the OTC market.<sup>11</sup> However, no more than 20% of the Portfolio may be invested, on both an initial and an ongoing basis, in OTC swaps.

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<sup>11</sup> According to the Registration Statement, swap transactions generally involve contracts between two parties to exchange a stream of payments computed by reference to a notional amount and the price of the asset that is the subject of the swap. Swap contracts are principally traded off-exchange, although certain swap contracts are also being traded in electronic trading facilities and cleared through clearing organizations. Swaps are usually entered into on a net basis, that is, the two payment streams are netted out in a cash settlement on the payment date or dates specified in the agreement, with the parties receiving or paying, as the case may be, only the net amount of the two payments. Swaps do not generally involve the delivery of underlying assets or principal. Accordingly, the risk of loss with respect to swaps is generally limited to the net amount of payments that the party is contractually obligated to make. In some swap transactions one or both parties may require collateral deposits from the counterparty to support that counterparty's obligation under the swap agreement. If the counterparty to such a swap defaults, the risk of loss consists of the net amount of payments that the party is contractually entitled to receive less any collateral deposits it is holding. Some swap transactions are cleared through central counterparties. These transactions, known as cleared swaps, involve two counterparties first agreeing to the terms of a swap

The Adviser generally will seek to maintain an annualized volatility ranging from 15% to 20% for the Trust's alpha portfolio.

#### Alpha Futures Contracts

According to the Registration Statement, the Adviser expects that 75% to 90% of the Portfolio's alpha exposure will be obtained via futures contracts, which can vary from time to time in the sole discretion of the Adviser. The Trust expects to take long or short positions in a wide variety of commodity futures contracts and financial futures contracts, as discussed in more detail below. The Trust expects to trade in commodity futures contracts, including metals, agriculturals, energies, and softs. The Trust expects to trade in a wide variety of financial futures contracts, including interest rates, currencies and currency indices, U.S. and non-U.S. equity indices and government bond futures contracts. With respect to futures contracts on emerging market equity indices, the alpha portfolio may be exposed to stock index futures contracts and other indices composed of corporate equities issued in local markets.

If the Trust purchases or sells a listed commodity or currency futures contract, it will agree to purchase or sell, respectively, the specified commodity or currency at a specified future date. The price at which the purchase and sale takes place will be fixed when the Trust enters the contract. Margin deposits will be posted as performance bonds with the Trust's clearing broker and then ultimately with the exchange clearing corporation who ultimately serves as the counterparty for the listed contract (thus limiting counterparty credit risk to the exchange itself).

#### Alpha Forward Contracts

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transaction, then submitting the transaction to a clearing house that acts as the central counterparty. Once accepted by the clearing house, the original swap transaction is novated and the central counterparty becomes the counterparty to a trade with each of the original parties based upon the trade terms determined in the original transaction. In this manner each individual swap counterparty reduces its risk of loss due to counterparty nonperformance because the clearing house acts as the counterparty to each transaction.

The Trust may enter into forward contracts, which will be limited solely to foreign currency forward contracts,<sup>12</sup> which the Adviser expects may comprise 10% to 25% of the Portfolio's alpha exposure (although this will fluctuate from time to time in the discretion of the Adviser). In particular, the Trust may trade foreign currency forward contracts (a) to gain exposure to currencies that are not easily or efficiently traded in futures contracts or (b) if the Adviser believes that a relevant forward has more favorable terms than an available futures contract, such as more favorable liquidity. The Adviser also does not currently expect to engage in any transactions that would be considered "retail forex" transactions for purposes of the CEA. The Trust will only enter into foreign currency forward contracts related to foreign currencies that have significant foreign exchange turnover and are included in the Bank for International Settlements Triennial Central Bank Survey, September 2013 ("BIS Survey"). Specifically, the Trust may enter into foreign currency forward contracts that provide exposure to such currencies, selected from the top 40 currencies (as measured by percentage share of average daily turnover for the applicable month and year) included in the BIS Survey.

The Trust may enter into deliverable forward contracts, in which there is physical delivery of a specified amount of currency equivalent to the market value of the contract. Alternatively, the Trust may invest in non-deliverable forward contracts where there is no physical delivery of the currency at the maturity of the contract. Instead, one party will agree to make periodic payments to its counterparty based on the change in market value or level of a specified currency. In return, the counterparty will make periodic payments to the first party

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<sup>12</sup> A forward currency contract is a privately negotiated contract to purchase or sell a specific currency at a future date (usually less than one year) at a price set at the time of the contract. The Trust may enter into forward currency contracts to "lock in" the exchange rate between the currency it will deliver and the currency it will receive for the duration of the contract. Forward currency contracts are traded over-the-counter and not on exchanges.



based on the return of a different specified currency. Generally, these non-deliverable forward contracts will be entered into on a net basis, whereby the Trust will receive or pay only the net amount of the two payments, representing the excess, if any, of the Trust's obligations over its entitlements with respect to each non-deliverable forward contract. These net amounts will be accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess will be maintained in an account at the Trust's custodian. The risk of loss with respect to non-deliverable forward contracts generally will be limited to the net amount of payments that the Trust is contractually obligated to make or receive.

The Trust's forward contracts will be collateralized to the extent required by the relevant counterparties. The counterparties to the Trust's forward contracts are expected to be brokers, dealers and other financial institutions. The Adviser will seek to diversify the Trust's counterparty exposure, but may from time to time have concentrated exposure to one or more counterparties. However, the Adviser represents that it will not concentrate risks with a single counterparty and will establish policies and procedures to manage counterparty concentration and monitor counterparty creditworthiness. The policies and procedures to monitor counterparty creditworthiness will consider the credit rating of the counterparty and any past experience with the counterparty.

#### Rebalancing

According to the Registration Statement, the Adviser will rebalance the Portfolio on a discretionary basis, as described in more detail below.

### Rebalancing of the Alpha Portfolio

According to the Registration Statement, the Adviser will determine whether to maintain particular exposures, close out positions, or resize positions, in its discretion and in accordance with its investment strategy and analysis of market conditions. The Adviser will seek to make any such adjustments to the Portfolio in a manner that minimizes transaction costs and Portfolio exposure to variations in price that do not reflect the Adviser's intended investment exposure. To do so, the Adviser will analyze transaction costs, liquidity and margin concerns, and financial instrument pricing. The Adviser does not expect, under normal market conditions, to settle any futures contracts.

### Rebalancing of the Index Portfolio

According to the Registration Statement, with respect to the index exposure, the Adviser will seek to invest in longer-dated contracts to maintain constant exposure and minimize transaction costs. The Adviser will "roll" (i.e., regularly purchase and subsequently sell) its contract positions throughout the year. As a particular futures contract nears its expiration date (or earlier), the Adviser will roll the position into a new contract. The Adviser will actively manage the implementation of this roll process. As a result, the roll dates, terms and contract prices selected by the Adviser may vary based upon factors such as contract liquidity and duration, pricing and market risk. This active management of the roll process is intended to minimize the Trust's exposure to costs associated with market or trading inefficiencies.

### Costs Associated with Rebalancing

According to the Registration Statement, if futures contracts are trading at a lower or higher price than their expected spot price, and it is time for the Trust to roll its exposure by reinvesting the proceeds of a maturing contract in a new contract, the Trust may do so at higher

or lower futures contracts prices, or it may determine not to reinvest such proceeds. When longer-dated contracts are priced lower than nearer-dated contracts and spot prices, the market is in “backwardation,” and positive roll yield may be generated when higher priced nearer-dated contracts are sold to buy and hold lower priced longer-dated contracts. When the opposite is true and longer-dated contracts are priced higher than nearer-dated contracts and spot prices, the market is in “contango,” and negative roll yields may result from the sale of lower priced nearer-dated contracts to buy and hold higher priced longer-dated contracts. If the Trust invests at a higher price than the spot price, the Trust will bear the associated “roll cost” or negative roll yield in addition to the brokerage transaction costs, such as commissions and clearing charges, to effect such roll transactions. To the extent that the Adviser determines to rebalance more frequently, the Portfolio will incur more substantial transaction charges and possible roll costs, depending on market conditions.

#### Risk Management

The Adviser will determine the Trust’s asset allocation which seeks to achieve a target excess return at a targeted risk level, as described in more detail below.

The Adviser will have the discretion to adjust the index exposure above or below 100%, and may do so from time to time based on market conditions. The Adviser also may determine to allocate Portfolio assets to additional or different emerging market indices. The Adviser does not generally expect to hedge the index exposure.

The Adviser will construct the alpha portfolio using a “risk budget” whereby the desired alpha views are framed as desired quantities of risk units. The portfolio construction process then will translate these desired risk unit quantities into specific financial instruments for the Trust to hold. The Portfolio will be assessed on at least a weekly basis to determine whether

market movements have caused the Trust's actual risk exposures to drift from its desired risk exposures. If there is a sizeable drift that exceeds thresholds where it is efficient for the Adviser to rebalance the alpha portfolio (taking into account transaction costs and other trading frictions) then the Adviser will rebalance the alpha portfolio to move closer to the desired risk budget. However, if there is a drift that exceeds thresholds but it is not efficient for the Adviser to rebalance the alpha portfolio, then the Adviser may choose not to rebalance the alpha portfolio. Once purchased, instruments held by the Trust may from time to time be subject to stop-losses or other contingent trading orders in an attempt to hedge certain risks, including event or liquidity risks.

#### Description of the Shares and Principal Trust Investments

According to the Registration Statement, and as noted above, in pursuit of the Trust's investment objective, the Trust will primarily trade and invest in futures on emerging market equity indices and foreign currency forward contracts. For more information regarding the types of futures contracts and forward contracts that the Trust will invest in, see "Portfolio Construction" above.

The Trust expects to trade futures contracts on U.S. exchanges and non-U.S. exchanges. The U.S. exchanges on which the Trust may trade futures contracts include ICE Futures U.S. and other exchanges that are members of the ISG.<sup>13</sup> In addition, the Trust may hold futures traded on the Kansas City Board of Trade ("KBT"). The non-U.S. exchanges on which the Trust may trade futures contracts include, but are not limited to, the following: the London Metal Exchange

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<sup>13</sup> See "Surveillance," infra.

(“LME”), ASX Limited, Dubai Mercantile Exchange Limited, Euronext Amsterdam NV, and Osaka Securities Exchange Co., Ltd.<sup>14</sup>

#### Other Trust Investments

The Trust’s Portfolio may contain cash which may be used, as needed, to secure the Trust’s trading obligations with respect to its trading positions. Although the Trust’s investment objective is not primarily to hold significant amounts of cash, cash may comprise a significant portion of the net asset value (“NAV”) of the Trust.

In order to collateralize futures contracts and forward contracts, the Trust may invest in U.S. government debt instruments, which are U.S. Treasury bills, notes and bonds of varying maturities that are backed by the full faith and credit of the United States government, or other short-term securities (in each case that are eligible as margin deposits under the rules of the Exchange), which may include money market instruments (“Short-Term Securities”). Although the Trust’s investment objective is not primarily to trade and invest in Short-Term Securities, Short-Term Securities may comprise a significant portion of the NAV of the Trust.<sup>15</sup>

#### Issuance and Redemption of the Shares

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<sup>14</sup> The Exchange has entered into a comprehensive surveillance agreement with KBT and LME relating to applicable futures contracts. ASX Limited is regulated by the Australian Securities and Investments Commission, which is a member of ISG. Japan Exchange Regulation (“JPX-R”), an affiliate of the Osaka Securities Exchange that conducts self-regulatory functions on behalf of the Osaka Securities Exchange, is a member of the Intermarket Surveillance Group and information relating to transactions in futures contracts traded on the Osaka Securities Exchange is available through JPX-R. See “Surveillance,” *infra*.

<sup>15</sup> “NAV of the Trust” means the total assets of the Trust including all cash and cash equivalents or other debt securities less total liabilities of the Trust, each determined on the basis of United States generally accepted accounting principles, consistently applied under the accrual method of accounting. In particular, NAV of the Trust includes any unrealized profit or loss on open forward contracts and futures contracts, and any other credit or debit accruing to the Trust but unpaid or not received by the Trust. “NAV per Share” means the Trust’s NAV per Share.

According to the Registration Statement, the Trust intends to issue and redeem Shares on a continuous basis only in one or more blocks of 100,000 Shares (“Baskets”). Baskets will be issued and redeemed only in exchange for consideration in cash equal to the “Basket Amount”<sup>16</sup> announced by the Trust on the first “Business Day”<sup>17</sup> after the purchase or redemption order is received by the Trust. Baskets may be created and redeemed only by “Authorized Participants”. Only institutions that enter into an agreement with the Trust to become Authorized Participants may purchase or redeem Baskets.

#### Creation of Baskets

On any “Eligible Business Day”,<sup>18</sup> an Authorized Participant may place a purchase order with the Processing Agent to create one or more Baskets. Purchase orders must be placed by 1:15 p.m. (E.T.) or the close of regular trading on the New York Stock Exchange, whichever is earlier (“Purchase Order Cutoff Time”). Purchase orders received after the Purchase Order Cutoff Time on an Eligible Business Day, or on a day that is not an Eligible Business Day will be treated as received on the next following Eligible Business Day. The day on which the Processing Agent receives a valid purchase order is referred to as the purchase order date. By

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<sup>16</sup> “Basket Amount” means, as of any date, an amount equal to the product of the NAV per Share on such date and the number of Shares constituting a Basket on such date.

<sup>17</sup> “Business Day” means any day other than (a) a Saturday or Sunday; (b) a day on which the Exchange is closed for regular trading; (c) a day on which any of he [sic] Adviser, the Processing Agent, the Settlement Agent, the Trust Administrator, the Sponsor or the Trustee is authorized or required by law or regulation to remain closed; or (d) a day on which the Federal Reserve wire transfer system is closed for cash wire transfers.

<sup>18</sup> “Eligible Business Day” means any Business Day other than a Business Day which immediately precedes two or more days on which there is no scheduled exchange trading session for one or more of the futures contracts purchased or sold, or that may be purchased or sold, by the Trust on such day.

placing a purchase order, an Authorized Participant agrees to deposit cash with the Trust, as described below.

#### Determination of the Creation Deposit Amount

The total deposit required to create each Basket (“Creation Deposit Amount”) will be the amount of cash that is in the same proportion to the NAV of the Trust (net of estimated accrued but unpaid fees, expenses and other liabilities) on the purchase order date as the number of Shares to be created under the purchase order is in proportion to the total number of Shares outstanding on the purchase order date.

#### Delivery of the Creation Deposit Amount

An Authorized Participant who places a purchase order will be responsible for transferring to the Settlement Agent the required amount of cash by 6:00 p.m. (E.T.) on the next Business Day following the purchase order date or by the end of such later Business Day, not to exceed three Business Days after the purchase order date, as agreed to between the Authorized Participant and the Settlement Agent when the purchase order is placed (the “Purchase Settlement Date”), and give notice of such deposit to the Settlement Agent via facsimile or electronic mail message. Upon receipt of the Creation Deposit Amount, the Settlement Agent will direct the Depository Trust Company (“DTC”) to credit the number of Baskets ordered to the Authorized Participant’s DTC account on the Purchase Settlement Date. If the Settlement Agent does not receive the Creation Deposit Amount on a timely basis, the purchase order will be automatically cancelled.

#### Rejection of Purchase Orders

The Sponsor will have the absolute right to reject any purchase order, including, without limitation, (1) purchase orders that the Processing Agent determines are not in proper form, (2)

purchase orders that the Sponsor determines would have adverse tax or other consequences to the Trust, (3) purchase orders the acceptance of which would, in the opinion of counsel to the Sponsor, result in a violation of law, (4) purchase orders in respect of which the Settlement Agent has not received the corresponding Creation Deposit Amount by 6:00 p.m. (E.T.) on the Purchase Settlement Date, or (5) during any period in which circumstances make transactions in, or settlement or delivery of, Shares or components of the Portfolio impossible or impractical. The Sponsor may suspend the creation of Baskets, or postpone the issuance date, for as long as it considers necessary for any reason. None of the Sponsor, the Processing Agent, the Settlement Agent or the Trustee, the Trust or any of their agents are liable to any person for such suspension or postponement.

#### Redemption of Baskets

The procedures by which an Authorized Participant can redeem one or more Baskets mirror the procedures for the creation of Baskets. On any Eligible Business Day, an Authorized Participant may place an order with the Processing Agent to redeem one or more Baskets. Redemption orders must be placed by 1:15 p.m. (E.T.) or the close of regular trading on the New York Stock Exchange, whichever is earlier (“Redemption Order Cutoff Time”). Redemption orders received after the Redemption Order Cutoff Time on an Eligible Business Day, or on a day that is not an Eligible Business Day will be treated as received on the next following Eligible Business Day. A redemption order so received will be effective on the date it is received in satisfactory form by the Processing Agent. The day on which the Processing Agent receives a valid redemption order is referred to as the redemption order date.

#### Determination of the Redemption Deposit Amount



The Redemption Deposit Amount from the Trust will consist of a transfer to the redeeming Authorized Participant of an amount of cash that is in the same proportion to the NAV of the Trust (net of estimated accrued but unpaid fees, expenses and other liabilities) on the redemption order date as the number of Shares to be redeemed under the redemption order is in proportion to the total number of Shares outstanding on the redemption order date.

#### Delivery of the Redemption Deposit Amount

The redemption distribution due from the Trust will be delivered to the Authorized Participant on the Redemption Settlement Date if the Trust's DTC account has been credited with the Baskets to be redeemed. If the Trust's DTC account has not been credited with all of the Baskets to be redeemed by 6:00 p.m. (E.T.) of such date, the redemption distribution will be delivered to the extent of whole Baskets received.

#### Computation of the Trust's NAV

According to the Registration Statement, on each Business Day, as soon as practicable after the close of regular trading of the Shares on the Exchange (normally 4:00 p.m. E.T.), the Sponsor will determine the NAV of the Trust, the NAV per Share and the Basket Amount as of that date.

On each day on which the Sponsor must determine the NAV of the Trust, the NAV per Share and the Basket Amount, the Trust Administrator will value all assets in the Portfolio and communicate that valuation to the Sponsor for use by the Sponsor in the determination of the Trust's NAV. The Sponsor will subtract the Trust's accrued fees (other than fees computed by reference to the value of the Trust or its assets), accrued expenses and other liabilities on that day from the value of the Trust's assets as of the time of calculation on that Business Day. The result is the Trust's "Adjusted Net Asset Value." Fees computed by reference to the value of the Trust

or its assets (including the Sponsor's Fee<sup>19</sup>) will be calculated on the Adjusted Net Asset Value. The Sponsor will subtract the fees so calculated from the Adjusted Net Asset Value of the Trust to determine the Trust's NAV.

The Sponsor will determine the NAV per Share by dividing the NAV of the Trust on a given day by the number of Shares outstanding at the time the calculation is made. The Sponsor will then determine the Basket Amount corresponding to that date by multiplying the NAV by the number of Shares in a Basket (i.e., 100,000). The NAV and NAV per Share for each Business Day will be distributed through major market data vendors and published online at [www.artinvestfunds.com](http://www.artinvestfunds.com), or any successor thereto. The Sponsor will update the NAV and NAV per Share as soon as practicable after each subsequent NAV per Share is calculated.

The current market value of an open futures contract, whether traded on a U.S. exchange or a non-U.S. exchange, will be determined by the Trust Administrator based upon the settlement price for such futures contract traded on the applicable exchange on the date with respect to which NAV is being determined; provided that if such futures contract could not be liquidated on such day, due to the operation of daily limits (if applicable) or other rules, procedures or actions of the exchange upon which that position is traded or otherwise, the settlement price on the most recent day on which the position could have been liquidated may be the basis for determining the market value of the position for that day.

The current market value of all Short-Term Securities that have not yet matured will be determined by the Trust Administrator based upon the current market prices for such securities;

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<sup>19</sup> "Sponsor's Fee" means an allocation to be paid by the Trust to the Sponsor monthly in arrears and will accrue daily at an annualized rate equal to a certain percentage of the Adjusted Net Asset Value of the Trust.

provided that if current market prices are not available, then the current market value will be based on the amortized value for such securities.

The current market value of all open forward contracts and swaps will be based upon the prices determined by the Trust Administrator utilizing data from an internationally recognized valuation service for those types of assets.

The Sponsor may in its discretion (and, under extraordinary circumstances, will) value any asset of the Trust pursuant to other principles that it deems fair and equitable so long as those principles are consistent with industry standards and are in compliance with all applicable regulatory requirements. In this context, “extraordinary circumstances” includes, for example, periods during which a valuation price for a forward contract or a settlement price of a futures contract is not available due to 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 or due to a trading disruption in the futures markets or in forward contracts or swaps or a trading or other restriction imposed by an exchange on which the forward contract, futures contract or swap is traded.

#### Availability of Information Regarding the Shares

According to the Registration Statement, the Adviser’s website, which will be publicly accessible at no charge, will contain the following information: (a) the daily NAV of the Trust, the daily NAV per Share, the prior business day’s NAV per Share and the reported daily closing price; (b) the daily composition of the Disclosed Portfolio, as defined in NYSE Arca Equities Rule 8.700(c)(2)<sup>20</sup>; (c) the midpoint of the bid-ask price in relation to the NAV per Share as of

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<sup>20</sup> NYSE Arca Equities Rule 8.700(c)(2) provides that the term "Disclosed Portfolio" means “the identities and quantities of the securities and other assets held by the Trust that will form the basis for the Trust’s calculation of net asset value at the end of the business

the time the NAV per Share is calculated (the “Bid-Ask Price”); (d) the calculation of the premium or discount of such price against such NAV per Share; (e) the bid-ask price of Shares determined using the highest bid and lowest offer as of the time of calculation of the NAV; (f) data in chart form displaying the frequency distribution of discounts and premiums of the Bid-Ask Price against the NAV, within appropriate ranges for each of the four (4) previous calendar quarters; (g) the current prospectus of the Trust, included in the Registration Statement; and (h) other applicable quantitative information.

On a daily basis, the Trust will disclose on its website ([www.artinvestfunds.com](http://www.artinvestfunds.com)) for each futures contract, forward contract, swap or other financial instrument in the Disclosed Portfolio the following information: name, ticker symbol (if applicable), number of shares or dollar value, percentage weighting, the underlying assets (if applicable), and the expiration date (if applicable). The website information will be publicly available at no charge. In addition, price information for the futures contracts, forward contracts, swaps and other financial instruments held by the Trust will be available through major market data vendors and/or the exchange on which they are listed and traded, as applicable.

As noted above, the Trust’s NAV and the NAV per Share will be calculated and disseminated daily.<sup>21</sup> The Exchange will disseminate for the Trust on a daily basis by means of the Consolidated Tape Association (the “CTA”) high-speed line information with respect to the recent NAV per Share, the number of Shares outstanding and the Basket Amount. The

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day”.

<sup>21</sup> The Exchange will obtain a representation from the Trust that the NAV and the NAV per Share will be calculated daily and that the NAV, the NAV per Share and the composition of the Disclosed Portfolio will be made available to all market participants at the same time.

Exchange also will make available on its website daily trading volume, closing prices and the NAV per Share.

Pricing for futures contracts will be available from the relevant exchange on which such futures contracts trade and pricing for forward contracts and swaps will be available from major market data vendors. Price information for Short-Term Securities will be available from major market data vendors.

The Intraday Indicative Value (the “IIV”) will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange’s Core Trading Session (as defined under NYSE Arca Equities Rule 7.34).<sup>22</sup>

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. The previous day’s closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Quotation and last sale information for the Shares will be available via the CTA high-speed line.

The current trading price per Share will be published continuously as trades occur throughout each trading day through CTA, or through major market data vendors.

#### Criteria for Initial and Continued Listing

The Trust will be subject to the criteria in NYSE Arca Equities Rule 8.700 for initial and continued listing of the Shares.

The anticipated minimum number of Shares to be outstanding at the start of trading will be 100,000 Shares. The Exchange believes that this anticipated minimum number of Shares to be outstanding at the start of trading is sufficient to provide adequate market liquidity and to

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<sup>22</sup> Currently, it is the Exchange’s understanding that several major market data vendors widely disseminate IIVs taken from the CTA high-speed line or other data feeds.

further the objectives of the Trust. The Exchange represents that, for the initial and continued listing of the Shares, the Trust must be in compliance with NYSE Arca Equities Rule 5.3 and Rule 10A-3 under the Exchange Act.<sup>23</sup>

#### Trading Rules

Under NYSE Arca Equities Rule 8.700(b), Managed Trust Securities are included within the Exchange's definition of "securities." 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. Commentary .02 to NYSE Arca Equities Rule 8.700 provides that transactions in Managed Trust Securities will occur during the trading hours specified in NYSE Arca Equities Rule 7.34. Therefore, in accordance with NYSE Arca Equities Rule 7.34, the Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. to 8:00 p.m. E.T. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, 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.

#### 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. Trading in the Shares will be halted if the circuit breaker parameters under NYSE Arca Equities Rule 7.12 are reached. Trading may also be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not

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<sup>23</sup> 17 CFR 240.10A-3.

occurring in the underlying futures contracts, forward contracts or swaps, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.700(e)(2)(D), which sets forth circumstances under which trading in the Shares may be halted.

In addition, if the Exchange becomes aware that the NAV, the NAV per Share and/or the Disclosed Portfolio with respect to a series of Managed Trust Securities is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the NAV, the NAV per Share and/or the Disclosed Portfolio is available to all market participants.

#### 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>24</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 applicable federal securities laws.

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.

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<sup>24</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.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares and certain futures contracts with other markets or other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, [sic] may obtain trading information regarding trading in the Shares and certain futures contracts from such markets or entities. In addition, the Exchange may obtain information regarding trading in the Shares and certain futures contracts from markets or other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>25</sup>

Not more than 10% of the net assets of the Fund in the aggregate invested in futures contracts shall consist of futures contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

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

All statements and representations made in this filing regarding (a) the description of the Portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange.

The Trust has represented to the Exchange that it will advise the Exchange of any failure by the Trust to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will monitor for compliance with the continued listing requirements. If the Trust is not in compliance with the applicable listing

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<sup>25</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all components of the Disclosed Portfolio for the Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.



requirements, the Exchange will commence delisting procedures under NYSE Arca Equities Rule 5.5(m).

#### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders (as defined under NYSE Arca Equities Rule 1.1(n)) 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 in Baskets (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(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; (3) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; (4) how information regarding the IIV and the Disclosed Portfolio is disseminated; (5) the risks involved in trading the Shares during the opening and late trading sessions when an updated IIV will not be calculated or publicly disseminated; and (6) trading information.

In addition, the Bulletin will reference that the Trust is subject to various fees and expenses described in the Registration Statement.

The Bulletin also will reference the fact that there is no regulated source of last sale information regarding physical commodities and many of the asset classes that the Trust may hold and that the Commission has no jurisdiction over the trading of certain futures contracts.

The Bulletin also will discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Exchange Act. The Bulletin also will disclose that the NAV and NAV per Share will be calculated after 4:00 p.m. E.T. each trading day.

## 2. Statutory Basis

The basis under the Exchange Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>26</sup> that an exchange have rules that are 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, in general, to protect investors and the public interest.

In permitting the use of specified swaps, the proposed amendment to NYSE Arca Equities Rule 8.700 would provide additional flexibility to an issuer of Managed Trust Securities seeking to achieve a trust's investment objective. For example, because the markets for certain futures contracts may be unavailable or cost prohibitive as compared to derivative instruments, suitable derivative transactions may be an efficient alternative for an issuer of Managed Trust Securities to obtain the desired asset exposure. Additionally, swaps would allow parties to replicate desired returns while eliminating the costs associated with acquiring or holding the underlying asset. As such, the increased flexibility afforded by the ability of an issuer of Managed Trust Securities to use derivatives may enhance investor returns by facilitating the ability to more economically seek its investment objective, thereby reducing the costs incurred by such issuer.

The use of swaps by the Trust is consistent with the protection of investors because swaps would only be used in certain limited circumstances. Swaps would only be used by the Trust when (1) [futures contracts are not available or market conditions do not permit investing in futures contracts \(for example, a particular futures contract may not exist or may trade only on an exchange that has not yet been approved by the issuer\)](#); or (2) there are [position limits, price](#)

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<sup>26</sup> 15 U.S.C. 78f(b)(5).

limits or accountability limits on futures contracts. In addition, an issuer of Managed Trust Securities would invest in exchange-traded swaps before investing in centrally cleared swaps and would invest in centrally cleared swaps before investing in uncleared swaps. The use of exchange-traded swaps and centrally cleared swaps before uncleared swaps would protect investors because exchange-traded swaps and centrally cleared swaps provide more transparency. More importantly, swaps are subject to a strict regulatory framework, including margin requirements (initial and variation) and record keeping requirements. No more than 20% of the Trust's Portfolio may be invested, on both an initial and an ongoing basis, in OTC swaps. Furthermore, the Trust is a regulated entity subject to registration requirements, ongoing compliance requirements and regulatory oversight by the CFTC and the National Futures Association (NFA).

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Equities Rule 8.700. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The Exchange may obtain information via the ISG from other exchanges that are members of the ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. The Trust will only enter into foreign currency forward contracts related to foreign currencies that have significant foreign exchange turnover and are included in the BIS Survey. Specifically, the Trust may enter into foreign currency forward contracts that provide exposure to such currencies, selected from the top 40 currencies (as measured by percentage share of average daily turnover for the applicable month and year)

included in the BIS Survey. The NAV of the Trust, the NAV per Share and the Disclosed Portfolio will be disseminated to all market participants at the same time. The Trust will provide website disclosure of portfolio holdings daily. The IIV per Share (quoted in U.S. dollars) will be widely disseminated at least every 15 seconds during the Exchange's Core Trading Session by major market data vendors. Pricing for futures contracts will be available from the relevant exchange on which such futures contracts trade and pricing for forward contracts and swaps will be available from major market data vendors. Quotation and last-sale information regarding the Shares will be disseminated through the CTA high-speed line.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest given that a large amount of information will be publicly available regarding the Trust and the Shares, thereby promoting market transparency. To the extent that the Trust invests in futures contracts traded on foreign exchanges, not more than 10% of the weight of such futures contracts in the aggregate shall consist of futures contracts whose principal trading market is not a member of the ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. As provided in NYSE Arca Equities Rule 8.700(e)(2)(D), the Exchange may halt trading during the day in which an interruption to the dissemination of the IIV occurs, or the value of the underlying futures contracts occurs. If the interruption to the dissemination of the IIV or the value of the underlying futures contracts persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption. If the Exchange becomes aware that the NAV, the NAV per Share and /or the Disclosed Portfolio with respect to a series of Managed Trust Securities is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the NAV, the NAV per Share

and/or the Disclosed Portfolio is available to all market participants. Trading in Shares of the Trust will be halted if the circuit breaker parameters under 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 the Shares inadvisable. Moreover, prior to the commencement of trading, the Exchange will inform its ETP Holders in the Bulletin of the special characteristics and risks associated with trading the Shares.

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 given that it will facilitate the listing and trading of an additional type of 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 the ISG from other exchanges that are members of the 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 the IIV and 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 Exchange Act. The Exchange notes that the proposed rule change will facilitate the listing and trading of an additional type of actively-managed exchange-traded product that will principally hold futures contracts, swaps and forward contracts, and that will enhance competition among market participants, to the benefit of investors and the marketplace.

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-2016-96 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-2016-96. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2016-96 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>27</sup>

Robert W. Errett  
Deputy Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).