



DIVISION OF  
TRADING AND MARKETS

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

December 21, 2017

Michael W. Mundt  
Stradley Ronon Stevens & Young, LLP  
1250 Connecticut Avenue, N.W., Suite 500  
Washington, DC 20036-2652

Re: Request for Exemptive, Interpretive or No-Action Relief regarding Rules 15c1-5 and 15c1-6 promulgated under the Securities Exchange Act of 1934 for Hartford Funds NextShares Trust

Dear Mr. Mundt:

In your letter dated December 21, 2017, Stradley Ronon Stevens & Young, LLP requested, on behalf of Hartford Funds NextShares Trust (the "Trust"), exemptive, interpretive or no-action relief from Rules 15c1-5 and 15c1-6 of the Securities and Exchange Act of 1934 (the "Exchange Act") in connection with the creation and redemption of shares of the Initial NextShares Funds, as well as in Shares of any future NextShares Fund that is a series of the Trust or of another registered open-end management investment company advised by Hartford Funds Management Company, LLC or any other investment adviser controlling, controlled by, or under common control with the Hartford Funds Management Company, LLC. This letter responds to your request. We have enclosed a photocopy of your letter. Each defined term in this letter has the same meaning as defined in your letter, unless we note otherwise.

In your letter, you represented that each NextShares Fund will issue and redeem Shares in Creation Units. Subject to certain exceptions described in your letter, Creation Units of each NextShares Fund will be purchased by making a deposit of the instruments specified by the ETMF for making a purchase ("Deposit Instruments"), and shareholders redeeming Creation Units will receive a transfer of instruments specified by the NextShares Fund for meeting a redemption ("Redemption Instruments"). On any given business day, the names and quantities of the instruments that constitute the Deposit Instruments and the names and quantities of the instruments that constitute the Redemption Instruments are expected to be identical and are referred to herein as the "Basket." Deposit Instruments and Redemption Instruments may include cash, securities and/or other transferable investment assets. To the extent there is a difference between the net asset value ("NAV") of a Creation Unit and the aggregate market

value of the Basket exchanged for the Creation Unit, the party conveying the lower value will pay to the other an amount in cash equal to that difference (the “Balancing Amount”).

To preserve the confidentiality of each NextShares Fund’s trading activities, each Trust anticipates that the Basket will normally not be a pro rata slice of the positions in the ETMF portfolio (“Portfolio Positions”). Rather, instruments being acquired by the registered investment adviser managing the NextShares Fund portfolio will generally be excluded from the Basket until their purchase is completed, and instruments being sold may not be removed from the Basket until the sale program is completed. Further, when deemed by the Adviser to be in the best interest of a NextShares Fund and its shareholders, other Portfolio Positions may be excluded from the Basket. Whenever Portfolio Positions are excluded from the Basket, the Basket may include proportionately more cash than is in the portfolio, with such additional cash substituting for the excluded Portfolio Positions.

You note that a NextShares Fund may permit an Authorized Participant to deposit or receive, as applicable, cash in lieu of some or all of the Basket instruments, solely because: (a) such instruments are, in the case of the purchase of a Creation Unit, not available in sufficient quantity; (b) such instruments are not eligible for trading by the Authorized Participant or the investor on whose behalf the Authorized Participant is acting; or (c) a holder of Shares of a NextShares Fund investing in foreign instruments would be subject to unfavorable income tax treatment if the holder received redemption proceeds in kind. No other Basket substitutions will be permitted.

You state that each NextShares Fund that normally issues and redeems Creation Units in kind may require purchases and redemptions to be made entirely on a cash basis. In such an instance, the NextShares Fund will announce, before the open of trading on a given business day, that all purchases, all redemptions or all purchases and redemptions on that day will be made entirely in cash. A NextShares Fund may also determine, upon receiving a purchase or redemption order from an Authorized Participant, to require the purchase or redemption, as applicable, to be made entirely in cash.

You also note that each business day, before the open of trading on the listing Exchange, the Adviser will cause the Basket, including the names and quantities of the securities and other instruments in the Basket and the estimated Balancing Amount, for that day to be disseminated through the National Securities Clearing Corporation, a clearing agency registered with the Commission and affiliated with the Depository Trust Company. The published Basket will apply until a new Basket is announced, and there will be no intra-day changes to the Basket except to correct errors in the published Basket. The Adviser will also make available on a daily basis information about the previous day’s Balancing Amount.

The Commission also notes the composite nature of the Shares as representing interests in a wide range of securities, which securities are generally reflected in a creation or redemption Basket. You note that each NextShares Fund will adopt fundamental policies consistent with the 1940 Act and be classified as “diversified” or “non-diversified” under the 1940 Act. Additionally, you represent that each NextShares Fund intends to maintain the required level of diversification, and otherwise conduct its operations, so as to meet the regulated investment

company diversification requirements of the Internal Revenue Code of 1986, as amended. Furthermore, you request relief on behalf of NextShares Funds that will hold twenty or more Portfolio Positions, with no one Portfolio Position constituting 25% or more of the total value of the NextShares Fund.

**Response:**

Primarily because of the composite nature of ETMF shares and the relatively small proportionate share of any Portfolio Position in a NextShares Fund share, the Staff will not recommend enforcement action to the Commission under Rule 15c1-5 if a broker-dealer executes creation or redemption transactions in shares of ETMFs without disclosing any control relationship with an issuer of a Portfolio Position. Moreover, the Staff will not recommend that the Commission take enforcement action under Rule 15c1-6 if a broker-dealer executes creation or redemption transactions in shares of ETMFs without disclosing its participation or interest in a primary or secondary distribution of a Portfolio Position.

You note in your letter that that the no-action relief you are seeking with respect to Rules 15c1-5 and 15c1-6 is necessary for transactions in creation and redemption transactions. You have not requested, and we are not issuing, similar relief for secondary market transactions.

The foregoing no-action positions taken under Rules 15c1-5, and 15c1-6 under the Exchange Act are based solely on your representations and the facts presented to the Division, and are strictly limited to the application of those to transactions involving the shares of the NextShares Funds under the circumstances described above and in your letter. Any different facts or representations may require a different response. We express no view with respect to other questions the proposed activities may raise, including the applicability of any other federal or state laws or the applicability of self-regulatory organization rules. This position is subject to modification or revocation in the future.

In addition, your attention is directed to the anti-fraud and anti-manipulation provisions of the Exchange Act, including Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal securities laws must rest with the participants in the various transactions.

Sincerely,



Heather Seidel  
Chief Counsel



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December 21, 2017

Heather Seidel  
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Division of Trading and Markets  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Re: Request for Exemptive, Interpretive or No-Action Relief from Rules 15c1-5 and 15c1-6 under the Securities Exchange Act of 1934 for Hartford Funds NextShares Trust.

Dear Ms. Seidel:

We are writing on behalf of Hartford Funds NextShares Trust (the "Trust"), a Delaware statutory trust registered as an open-end management investment company under the Investment Company Act of 1940 ("1940 Act"), Hartford Funds Management Company, LLC ("Hartford"), an investment adviser registered under the Investment Advisers Act of 1940, and all other registered investment advisers controlling, controlled by, or under common control with Hartford (each, an "Adviser"). The Trust currently intends to introduce an initial series named the Hartford Global Impact NextShares Fund ("Initial NextShares Fund") that would operate as an exchange-traded managed fund, as described below. The Trust and Hartford hereby request that the relief described below apply with respect to creation and redemption transactions in Shares (as defined below) of the Initial NextShares Fund, as well as in Shares of any future exchange-



traded managed fund that is a series of the Trust or of another registered open-end management investment company advised by an Adviser (each, a “NextShares Fund”).<sup>1</sup>

The Trust requests that the staff (“Staff”) of the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) not recommend enforcement action to the Commission under Rule 15c1-5 under the Securities Exchange Act of 1934 (the “Exchange Act”) if a broker-dealer executes creation or redemption transactions in shares of NextShares Funds (“Shares”) without disclosing any control relationship with an issuer of a Portfolio Position (as defined below). Moreover, the Trust requests that the Staff not recommend enforcement action to the Commission under Rule 15c1-6 under the Exchange Act if a broker-dealer executes creation or redemption transactions in Shares without disclosing its participation or interest in a primary or secondary distribution of a Portfolio Position. The requested relief is similar to relief previously granted by the Staff.<sup>2</sup>

#### **I. Operations of the NextShares Funds**

Each NextShares Fund will continuously issue and redeem Shares in specified aggregations of Shares (each aggregation, a “Creation Unit”) at net asset value (“NAV”). Each NextShares Fund has filed or will file a registration statement on Form N-1A and its Shares will be listed on a national securities exchange or national securities association (“Exchange”).<sup>3</sup> Each NextShares Fund will be overseen by a board of trustees (the “Board”) which will maintain the composition requirements of Section 10 of the 1940 Act. Each NextShares Fund will adopt

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<sup>1</sup> The requested relief is necessary in connection with creation and redemption transactions that involve Portfolio Positions, as described herein, but would not be necessary for secondary market transactions in Shares.

<sup>2</sup> Letter from Heather Seidel to Eaton Vance Management regarding Eaton Vance NextShares Trust and Eaton Vance NextShares Trust II, dated Feb. 26, 2016 (“Letter”).

<sup>3</sup> The Commission has approved Nasdaq Rule 5745 governing the listing and trading of Shares. *See* Exchange Act Release No. 73562 (Nov. 7, 2014).

fundamental policies consistent with the 1940 Act and be classified as “diversified” or “non-diversified” under the 1940 Act. Each NextShares Fund intends to maintain the required level of diversification, and otherwise conduct its operations, so as to meet the regulated investment company (“RIC”) diversification requirements of the Internal Revenue Code of 1986, as amended (the “Code”).<sup>4</sup> Each NextShares Fund will be actively managed by an Adviser, an investment adviser registered under the Investment Advisers Act of 1940. The Adviser may enter into subadvisory agreements with other investment advisers to act as subadvisers to NextShares Funds (each, a “Subadviser”).

The trading price of Shares will be directly linked to the NextShares Fund’s end-of-day NAV. In connection with this “NAV-Based Trading,” all bids, offers and execution prices will be expressed as a market-determined premium or discount (*e.g.*, +\$0.01, -\$0.02) to that day’s

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<sup>4</sup> Section 851(b)(3) of the Internal Revenue Code, of 1986, 26 U.S.C. 851(b)(3), as amended, states in relevant part that a corporation is a regulated investment company only if:

at the close of each quarter of the taxable year-

(A) at least 50 percent of the value of its total assets is represented by-

- (i) cash and cash items (including receivables), Government securities and securities of other regulated investment companies, and
- (ii) other securities for purposes of this calculation limited, except and to the extent provided in subsection (e) [Investment companies furnishing capital to development corporations], in respect of any one issuer to an amount not greater in value than 5 percent of the value of the total assets of the taxpayer and to not more than 10 percent of the outstanding voting securities of such issuer, and

(B) not more than 25 percent of the value of its total assets is invested in-

- (i) the securities (other than Government securities or the securities of other regulated investment companies) of any one issuer,
- (ii) the securities (other than the securities of other regulated investment companies) of two or more issuers which the taxpayer controls and which are determined, under regulations prescribed by the Secretary, to be engaged in the same or similar trades or businesses or related trades or businesses, or
- (iii) the securities of one or more qualified publicly traded partnerships....

NAV.<sup>5</sup> For each trade, the premium or discount to NAV (which may be zero) is locked in at trade execution and the final transaction price (*i.e.*, NAV plus or minus the market-determined premium/discount to NAV) is determined at the end of the day when the NextShares Fund's NAV is computed. Because all transaction prices are based on an end-of-day NAV, NextShares Funds will not need to disclose portfolio holdings on a daily basis in order to maintain a close relationship between Share trading prices and NAV.

### **The Initial NextShares Fund and its Investment Objectives**

The Trust intends to offer the following Initial NextShares Fund.<sup>6</sup>

#### Hartford Global Impact NextShares Fund

The investment objective of the Initial NextShares Fund is to seek long-term capital appreciation. The Initial NextShares Fund seeks to achieve its objective by investing all of its assets in shares of the Global Impact Master Portfolio ("Master Portfolio," and references to the Initial NextShares Fund include, where applicable, the Master Portfolio), which has the same investment objective and strategy as the Initial NextShares Fund. The Initial NextShares Fund invests in equity securities of issuers located throughout the world, including non-dollar securities and securities of emerging market issuers. The Initial NextShares Fund's Subadviser specifically seeks to invest the Initial NextShares Fund's assets in companies that focus their operations in areas that the Subadviser believes are likely to address major social and environmental challenges including, but not limited to, hunger, health, clean water and sanitation, affordable housing, education and training, financial inclusion, narrowing the digital

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<sup>5</sup> Market data feeds underlying quotation and transaction systems may report bids, offers and execution prices in NAV-Based Trading with reference to a numeric base value (*e.g.*, 100), depending upon system parameters.

<sup>6</sup> Each NextShares Fund will operate pursuant to an exemptive order issued by the Commission under the 1940 Act. *See* Investment Company Act Rel. No. 31607 (May 19, 2015).

divide, alternative energy, resource stewardship and resource efficiency. The Initial NextShares Fund may invest in companies of any market capitalization, including small capitalization securities, located anywhere in the world, although the Initial NextShares Fund will not normally invest more than 33% of its assets in issuers that conduct their principal business activities in emerging markets or whose securities are traded principally on exchanges in emerging markets.

The Initial NextShares Fund may also invest in depositary receipts or other securities that are convertible into securities of foreign issuers and could, at times, hold a portion of its assets in cash. Under normal circumstances, at least 40% (and normally not less than 30%) of the Initial NextShares Fund's net assets will be invested in or exposed to foreign securities or derivative instruments with exposure to foreign securities of at least three different countries outside the United States.<sup>7</sup>

The Initial NextShares Fund will operate as a "feeder fund," which means it will invest all of its assets in another investment company (the Master Portfolio). The Master Portfolio is a series of the Hartford Funds Master Trust, a Delaware statutory trust. The Adviser and the Subadviser are also the Adviser and Subadviser, respectively, of the Master Portfolio. The Initial NextShares Fund has the same investment objective and limitations as the Master Portfolio in which it invests. The Initial NextShares Fund does not buy investment securities directly. The Master Portfolio, on the other hand, invests directly in portfolio securities. Use of the master/feeder structure enables the Initial NextShares Fund to pool its assets with other investors

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<sup>7</sup> Investments are deemed to be "foreign" if: (a) an issuer's domicile or location of headquarters is in a foreign country; (b) an issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in a foreign country or has at least 50% of its assets situated in a foreign country; (c) the principal trading market for a security is located in a foreign country; or (d) it is a foreign currency. The Initial NextShares Fund's investments in derivative securities, exchange-traded funds, and exchange-traded notes will be considered to be "foreign" if the underlying assets represented by the investment are determined to be foreign using the foregoing criteria.

in the Master Portfolio, if any, which may result in efficiencies in portfolio management and administration that could lower Initial NextShares Fund costs and enhance shareholder returns.

### **Sales and Redemptions of Creation Units**

Each NextShares Fund will issue and redeem Shares in Creation Units through a broker-dealer registered under the Exchange Act (the “Distributor”) acting on an agency basis and serving as each NextShares Fund’s “principal underwriter” as defined in Section 2(a)(29) of the 1940 Act.<sup>8</sup> Subject to certain exceptions described below, Creation Units of a NextShares Fund will be purchased by making a deposit of the instruments specified by the NextShares Fund for making a purchase (“Deposit Instruments”), and shareholders redeeming Creation Units will receive a transfer of instruments specified by the NextShares Fund for meeting a redemption (“Redemption Instruments”).<sup>9</sup> On any given business day, the names and quantities of the instruments that constitute the Deposit Instruments and the names and quantities of the instruments that constitute the Redemption Instruments are expected to be identical and are referred to herein as the “Basket.” Deposit Instruments and Redemption Instruments may include cash, securities and/or other transferable investment assets. To the extent there is a difference between the NAV of a Creation Unit and the aggregate market value of the Basket exchanged for the Creation Unit, the party conveying the lower value will pay to the other an amount in cash equal to that difference (the “Balancing Amount”).

To preserve the confidentiality of a NextShares Fund’s trading activities, the Basket will normally not be a *pro rata* slice of the positions in the NextShares Fund portfolio (“Portfolio

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<sup>8</sup> The number of Shares constituting a Creation Unit will be set by the Adviser. A Creation Unit generally will consist of a specified number of Shares between 5,000 and 50,000 Shares. Creation Unit size should support secondary market trading efficiency by facilitating tighter market maker inventory management.

<sup>9</sup> Creation Units of Shares will be redeemable at the next determined NAV of each NextShares Fund on each business day in accordance with the 1940 Act.



Positions”). Rather, instruments being acquired by the Adviser for the NextShares Fund portfolio will generally be excluded from the Basket until their purchase is completed, and instruments being sold may not be removed from the Basket until the sale program is completed. Further, when deemed by the Adviser to be in the best interest of a NextShares Fund and its shareholders, other Portfolio Positions may be excluded from the Basket. Whenever Portfolio Positions are excluded from the Basket, the Basket may include proportionately more cash than is in the portfolio, with such additional cash substituting for the excluded Portfolio Positions. Each NextShares Fund will hold twenty or more Portfolio Positions, with no one Portfolio Position constituting 25% or more of the total value of the NextShares Fund.

A NextShares Fund may permit an Authorized Participant (as defined below) to deposit or receive, as applicable, cash in lieu of some or all of the Basket instruments, solely because: (a) such instruments are, in the case of the purchase of a Creation Unit, not available in sufficient quantity; (b) such instruments are not eligible for trading by the Authorized Participant or the investor on whose behalf the Authorized Participant is acting; or (c) a holder of Shares of a NextShares Fund investing in foreign instruments would be subject to unfavorable income tax treatment if the holder received redemption proceeds in kind. No other Basket substitutions will be permitted.

In addition, a NextShares Fund that normally issues and redeems Creation Units in kind may require purchases and redemptions to be made entirely on a cash basis. In such an instance, the NextShares Fund will announce, before the open of trading on a given business day, that all purchases, all redemptions or all purchases and redemptions on that day will be made entirely in cash. A NextShares Fund may also determine, upon receiving a purchase or redemption order

from an Authorized Participant, to require the purchase or redemption, as applicable, to be made entirely in cash.

Each business day, before the open of trading on the listing Exchange, the Adviser will cause the Basket, including the names and quantities of the securities and other instruments in the Basket and the estimated Balancing Amount, for that day to be disseminated through the National Securities Clearing Corporation (“NSCC”), a clearing agency registered with the Commission and affiliated with the Depository Trust Company (“DTC”). The published Basket will apply until a new Basket is announced, and there will be no intra-day changes to the Basket except to correct errors in the published Basket. The Adviser will also make available on a daily basis information about the previous day’s Balancing Amount.

#### **Authorized Participants**

All orders to purchase or redeem Creation Units must be placed with the Distributor by or through an “Authorized Participant,” which is either: (a) a “participating party” (*i.e.*, a broker or other participant in the Continuous Net Settlement (“CNS”) System of the NSCC) or (b) a DTC participant (“DTC Participant”), which in any case has executed an agreement with the Distributor (“Participant Agreement”). An investor does not have to be an Authorized Participant to transact in Creation Units, but must place an order through and make appropriate arrangements with an Authorized Participant.

#### **Transaction Fees**

All persons purchasing or redeeming Creation Units are expected to incur a Transaction Fee to cover the estimated cost to the NextShares Fund of processing the transaction, including the costs of clearance and settlement charged to it by NSCC or DTC, and the estimated trading costs incurred in converting the Basket to the desired portfolio composition. Transaction Fees

will be borne only by purchasers and redeemers of Creation Units and will be limited to amounts that have been authorized by the Board and determined by the Adviser to be appropriate to defray the expenses that the NextShares Fund incurs when an investor purchases or redeems Creation Units.<sup>10</sup> The purpose of Transaction Fees is to protect a NextShares Fund's existing shareholders from the dilutive costs associated with the purchase and redemption of Creation Units. Transaction Fees will differ among NextShares Funds and may vary over time for a NextShares Fund, depending on the estimated trading costs related to a particular NextShares Fund's Portfolio Positions and Basket, processing costs and other considerations. Transaction Fees may include fixed amounts per creation or redemption event, amounts varying with the number of Creation Units purchased or redeemed, and amounts varying based on the time an order is placed. NextShares Funds that permit the substitution of cash for Basket instruments may impose higher Transactions Fees on the substituted cash amount. In addition, investors purchasing or redeeming Creation Units that clear through DTC may pay a higher Transaction Fee than on purchases or redemptions that clear through NSCC because DTC may charge NextShares Funds more than NSCC in connection with Creation Unit transactions. The Transaction Fees applicable to purchases and redemptions from each NextShares Fund on a given business day will be disseminated through NSCC prior to the open of market trading on that day and also will be made available to the public each day on a free website.<sup>11</sup>

Sales charges (or loads) will not be imposed by any NextShares Fund on purchases or redemptions of Creation Units or secondary market transactions in Shares. Investors purchasing

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<sup>10</sup> In all cases, the Transaction Fees will be limited in accordance with the requirements of the Commission applicable to open-end management investment companies offering redeemable securities.

<sup>11</sup> The free website will be [www.eatonvance.com](http://www.eatonvance.com) or [www.nextshares.com](http://www.nextshares.com).

or selling Shares in the secondary market may incur customary brokerage commissions, fees and expenses.

### **Intraday Indicative Values**

Each NextShares Fund will arrange for the continuous calculation by an independent third party and publication through the NASDAQ OMX Global Index Data Service throughout the regular trading session of the listing Exchange (generally 9:30 a.m. to 4:00 p.m. ET) each business day of an intraday indicative value (“IIV”) of each NextShares Fund’s Shares.<sup>12</sup> IIVs will be disseminated by one or more major market data vendors at intervals of not more than 15 minutes during trading on an Exchange.<sup>13</sup> The sole purpose of IIVs in the context of NextShares Fund is to help investors determine the number of Shares to buy or sell if they want to transact in an approximate dollar amount (*i.e.*, if an investor wants to acquire approximately \$5,000 of a NextShares Fund, how many Shares should the investor buy?).<sup>14</sup>

### **Portfolio Holdings Disclosure**

NextShares Funds will not make their full Portfolio Positions available on a daily basis. Instead, NextShares Funds will disclose their holdings only at periodic intervals, and with a lag.

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<sup>12</sup> No NextShares Fund will be involved in, or responsible for, the calculation or dissemination of any such IIV and will make no warranty as to its accuracy.

<sup>13</sup> IIVs for NextShares Funds will not provide pricing signals for market intermediaries or other buyers and sellers of Shares seeking to estimate the difference between the value of the NextShares Fund’s portfolio and the price at which Shares are currently trading. In NAV-Based Trading, the secondary market premium/discount that applies to a NextShares Fund is always fully transparent and does not depend on dissemination of IIVs.

<sup>14</sup> Because IIVs will generally differ from end-of-day NAV, they cannot be used to calculate with precision the dollar value of a prescribed number of Shares to be bought or sold. Especially during periods of volatile market conditions and for transactions executed early in the trading day, buyers and sellers of NextShares Funds face the risk that the value of their purchases and sales may differ materially from intended levels. To seek to ensure that NextShares Fund investors understand the risk that the value of their purchases and sales may differ from intended levels, each NextShares Fund’s registration statement, website, and advertising and marketing materials will include prominent disclosure of this risk. In addition, when a retail NextShares Fund order is submitted electronically, the investor will receive a prompt reminding the investor of the contingent pricing nature of Shares and the other principal distinctions of investing in NextShares Fund, and will be required to acknowledge that he or she has read and understood this information before the order is finalized.

All NextShares Funds will disclose their holdings in full at least once quarterly, with a lag of not more than 60 days, in compliance with the requirements applicable to open-end investment companies. As a matter of practice, many mutual funds provide public disclosure of their holdings more frequently, and on a more timely basis (such as monthly with a 30-day lag). The disclosure practices of NextShares Funds are expected to be similar to those of mutual funds holding similar types of investments.

The mechanism that connects trading prices of Shares to NAV in NAV-Based Trading does not require contemporaneous disclosure of Portfolio Positions to function effectively, as described below. Because disclosing holdings in real-time can facilitate front-running of portfolio trades and enable copycat investors to replicate a fund's portfolio positioning, active managers have to date largely avoided the transparent active exchange-traded fund ("ETF") model. By removing the requirement for portfolio transparency, NextShares Funds have the potential to provide investors with access to a broad range of active strategies.

### **Buying and Selling Shares on the Exchange**

Shares will be purchased and sold in the secondary market at prices based on the next-determined NAV. All bids, offers and execution prices will be expressed as a premium/discount (which may be zero) to the NextShares Fund's next-determined NAV (*e.g.*, NAV-\$0.01, NAV+\$0.01). A NextShares Fund's NAV will be determined each business day, normally as of 4:00 p.m. Eastern Time. Trade executions will be binding at the time orders are matched on the Exchange's facilities, with the transaction prices contingent upon the determination of NAV.

- *Trading Premiums and Discounts.* Bid and offer prices for Shares will be quoted throughout the day relative to NAV. The premium or discount to NAV at which Share prices are quoted and transactions are executed will vary depending on market factors, including the



balance of supply and demand for Shares among investors, transaction fees and other costs in connection with creating and redeeming Creation Units of Shares, the cost and availability of borrowing Shares, competition among market makers, the Share inventory positions and inventory strategies of market makers and other market participants, the profitability requirements and business objectives of market makers, and the volume of Share trading. Reflecting such market factors, prices for Shares in the secondary market may be above, at or below NAV.

- *Transmitting and Processing Orders.* Member firms will utilize existing order types and interfaces to transmit Share bids and offers to the Exchange, which will process Share trades like trades in shares of conventional ETFs and other listed securities. In the systems used to transmit and process transactions in Shares, a NextShares Fund's next-determined NAV will be represented by a proxy price (e.g., 100.00) and a premium/discount of a stated amount to the next-determined NAV to be represented by the same increment/decrement from the proxy price used to denote NAV (e.g., NAV-\$0.01 would be represented as 99.99; NAV+\$0.01 as 100.01). At the start of each trading day, the price will be reset to the proxy price.

To avoid potential investor confusion, the listing Exchange will work with member firms and providers of market data services to seek to ensure that representations of intraday bids, offers and execution prices for NextShares Funds that are made available to the investing public follow the "NAV-\$0.01/NAV+\$0.01" (or similar) display format, rather than displaying proxy prices. All NextShares Funds listed on the Exchange will have a unique identifier associated with their ticker symbols, which will indicate that their Shares are traded using NAV-Based Trading. The listing Exchange makes available to member firms and market data services certain proprietary data feeds ("Exchange Data Feeds") that are designed to supplement the

market information disseminated through the consolidated tape (“Consolidated Tape”). The Exchange will use an Exchange Data Feed to disseminate intraday price and quote data for NextShares Funds in real time in the “NAV- $\$0.01$ /NAV+ $\$0.01$ ” (or similar) display format. Member firms could use the Exchange Data Feed to source intraday NextShares Fund prices for presentation to the investing public in the “NAV- $\$0.01$ /NAV+ $\$0.01$ ” (or similar) display format. Alternatively, member firms could source intraday NextShares Fund prices in proxy price format from the Consolidated Tape and use a simple algorithm to convert prices into the “NAV- $\$0.01$ /NAV+ $\$0.01$ ” (or similar) display format.

- *Intraday Reporting of Quotes and Trades.* All bids and offers for Shares and all Share trade executions will be reported intraday in real time by the Exchange to the Consolidated Tape<sup>15</sup> and separately disseminated to member firms and market data services through an Exchange Data Feed. The Exchange will also provide the member firms participating in each Share trade with a contemporaneous notice of trade execution, indicating the number of Shares bought or sold and the executed premium/discount to NAV.<sup>16</sup>

- *Final Trade Pricing, Reporting and Settlement.* All executed Share trades will be recorded and stored intraday by the Exchange to await the calculation of the NextShares Fund’s end-of-day NAV and the determination of final trade pricing. After a NextShares Fund’s NAV is calculated and provided to the Exchange, the Exchange will price each Share trade entered into during the day at the NextShares Fund’s NAV plus/minus the trade’s executed

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<sup>15</sup> Due to systems limitations, the Consolidated Tape will report intraday execution prices and quotes for NextShares Funds using a proxy price format. As noted, the listing Exchange will separately report real-time execution prices and quotes to member firms and providers of market data services in the “NAV- $\$0.01$ /NAV+ $\$0.01$ ” (or similar) display format, and otherwise seek to ensure that representations of intraday bids, offers and execution prices for NextShares Funds that are made available to the investing public follow the same display format.

<sup>16</sup> All orders to buy or sell a Share that are not executed on the day the order is submitted will be automatically cancelled as of the close of trading on such day.

premium/discount. Using the final trade price, each executed Share trade will then be disseminated to member firms and market data services through the Exchange Data Feed used to report Share trades, and confirmed to the member firms participating in the trade to supplement the previously provided information to include final pricing. After the pricing is finalized, the Exchange will deliver the Share trading data to NSCC for clearance and settlement, following the same processes used for the clearance and settlement of trades in conventional ETFs and other exchange-traded securities.

### **Trading Efficiency**

In NAV-Based Trading, a market maker assumes no intraday market risk in connection with its Share inventory positions because all Share transaction prices are based on the next-determined NAV. Whether a NextShares Fund's underlying value goes up or down over the course of a trading day will not affect how much a market maker earns by selling (or buying) Shares in the market at a net premium (discount) to NAV, and then purchasing (redeeming) an offsetting number of Shares at the end of the day in transactions with the NextShares Fund. No intraday market risk means no requirement for intraday hedging, and therefore no associated requirement for portfolio holdings disclosure to maintain a tight relationship between Share trading prices and NAV.

A market maker that purchases (or redeems) a Creation Unit at the end of a trading day to offset its net intraday sales (purchases) of a Creation Unit quantity of Shares will earn profits to the extent that it either sells (buys) Shares at an aggregate premium (discount) to NAV or buys (sells) a Creation Unit-equivalent quantity of Basket instruments at an aggregate discount (premium) to their end-of-day values, and the net amount of Share premium (discount) plus

Basket discount (premium) exceeds the transaction fee that applies to a purchase (redemption) of a Creation Unit.<sup>17</sup>

Different from conventionally traded ETFs, trading in Shares offers market makers a profit opportunity that is not based on the ability to arbitrage differences between share trading prices and underlying portfolio values or requiring the management of intraday market risk.<sup>18</sup> To realize profits from market making in Shares, a market maker holding short (or long) positions in Shares accumulated intraday need only transact with the NextShares Fund to purchase (redeem) a corresponding number of Creation Units of Shares, buy (sell) the equivalent quantities of Basket instruments at market-closing or better prices, and offload any remaining sub-Creation Unit Share inventory through secondary market transactions prior to the close.<sup>19</sup>

Because making markets in Shares will be simple to manage and low risk, competition among market makers seeking to earn reliable, low-risk profits should enable NextShares Funds to routinely trade at tight bid-ask spreads and narrow premiums/discounts to NAV. Further, because the mechanism that underlies efficient trading of Shares does not involve arbitrage or

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<sup>17</sup> The market maker profit equation is simplified for cash creations and redemptions. A market maker who purchases (or redeems) a Creation Unit in cash to offset its net intraday sales (purchases) of a Creation Unit quantity of Shares will earn profits to the extent that it sells (buys) Shares in the secondary market at an aggregate premium (discount) to NAV that exceeds the transaction fee that applies to a cash creation (redemption) of a Creation Unit.

<sup>18</sup> In a typical ETF, intermediaries enter into arbitrage transactions to take advantage of deviations between market price and NAV, and that arbitrage is the mechanism that is understood to keep the market price and the NAV of ETFs aligned.

<sup>19</sup> Market makers in Shares are expected generally to seek to minimize their exposure to price risk by holding little or no overnight Share inventory. By establishing Creation Unit sizes that are somewhat smaller (*i.e.*, in a range of 5,000 to 50,000 Shares) than is customary for ETFs, NextShares Funds will support secondary market trading efficiency by facilitating tighter market maker inventory management because it facilitates closing out positions at the end of each trading day. To the extent that market makers hold small positions in Shares overnight, they are expected to aggregate such holdings with other risk positions and transact at or near the market close to buy or sell offsetting positions in appropriate, broad-based hedging instruments, such as S&P 500 and other index futures and ETFs. Such hedging of overnight inventory risk on a macro basis does not require disclosure of portfolio positions that are not included in the daily Basket.

trading in portfolio positions that are not included in the Basket, the need for daily portfolio holdings disclosure to achieve tight markets in Shares is eliminated.

The mechanisms supporting efficient trading of Shares are equally applicable across different asset classes and investment strategies. A NextShares Fund can hold relatively illiquid assets and still trade with tight bid-offer spreads and narrow premiums/discounts to NAV by creating and redeeming Shares in cash. Unlike for ETFs, portfolio holdings that are not included in a Basket will not influence how tightly the Shares will trade.

## **II. Relief Requested from Rules 15c1-5 and 15c1-6**

Rule 15c1-5 requires a broker or dealer controlled by, controlling, or under common control with, the issuer of a security who induces the purchase or sale by a customer of a security, to disclose the existence of such control before entering into a contract with or for such customer for the purchase or sale of such security. Rule 15c1-6 requires a broker or dealer to send a customer written notification of its participation in the primary or secondary distribution of any security in which it effects any transaction in or for such customer's account or induces the purchase or sale of such security by such customer.

Disclosure by a broker-dealer of a control relationship with the issuer of a portfolio security held by the NextShares Fund, or of a participation in the distribution of one of the Portfolio Positions, would impose an unnecessary and unjustifiable burden on broker-dealers engaging in creation and redemption transactions in Shares for their customers. There is no realistic potential for manipulating one of the Portfolio Positions' market price by means of transactions in Shares. Such a strategy would be both expensive and inefficient. Application of the Rules 15c1-5 and Rule 15c1-6 could adversely affect the attractiveness of the Shares to broker-dealers and thereby affect market liquidity and the utility of the Shares. The Trust,



Heather Seidel  
December 21, 2017  
Page 17

therefore, requests the Staff to grant no-action relief from application of the rules with respect to creations and redemptions of Shares.

**Conclusion**

Based on the foregoing, we respectfully request that the Commission and the Staff grant the requested relief. The form of relief requested is substantially the same as in the Letter. If the Commission or the Staff believes that a different format is appropriate, we would appreciate the opportunity to revise this request for relief accordingly. Should you have any questions please call me at (202) 419-8403.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael W. Mundt", written over a horizontal line.

Michael W. Mundt