SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change To Permit the Listing and Trading of Managed Portfolio Shares; and To List and Trade Shares of the Following Under Proposed Rule 14.11(k): ClearBridge Appreciation ETF; ClearBridge Large Cap ETF; ClearBridge MidCap Growth ETF; ClearBridge Select ETF; and ClearBridge All Cap Value ETF


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), and Rule 19b–4 thereunder, notice is hereby given that on June 1, 2017, Bats BZX Exchange, Inc. (the "Exchange" or "BZX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is proposing to adopt new Rule 14.11(k) to permit the listing and trading of Managed Portfolio Shares, which are shares of actively managed exchange-traded funds for which the portfolio is disclosed in accordance with standard mutual fund disclosure rules. In addition, the Exchange proposes to list and trade shares of the following under proposed Rule 14.11(k): ClearBridge Appreciation ETF; ClearBridge Large Cap ETF; ClearBridge MidCap Growth ETF; ClearBridge Select ETF; and ClearBridge All Cap Value ETF.

The text of the proposed rule change is available at the Exchange’s Web site at www.bats.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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add new Rule 14.11(k) for the purpose of permitting the listing and trading, or trading pursuant to unlisted trading privileges ("UTP"), of Managed Portfolio Shares, which are securities issued by an actively managed open-end investment management company. In addition, the Exchange proposes to list and trade shares ("Shares") of the following under proposed Rule 14.11(k): ClearBridge Appreciation ETF; ClearBridge Large Cap ETF; ClearBridge MidCap Growth ETF; ClearBridge Select ETF; and ClearBridge All Cap Value ETF.

2. Business Purpose

Proposed Rule 14.11(k)(1) provides that the Exchange will consider for trading, whether by listing or pursuant to UTP, Managed Portfolio Shares that meet the criteria of Rule 14.11(k).

Proposed Rule 14.11(k)(2) provides that Rule 14.11(k) is applicable only to Managed Portfolio Shares and that, except to the extent inconsistent with Rule 14.11(k), or unless the context otherwise requires, the rules and procedures of the Exchange’s Board of Directors shall be applicable to the trading on the Exchange of such securities. Proposed Rule 14.11(k)(2) provides further that Managed Portfolio Shares are included within the definition of “security” or “securities” as such terms are used in the Rules of the Exchange.

Proposed Rule 14.11(k)(2)(A) provides that the Exchange will file separate proposals under Section 19(b) of the Act before the listing and trading of Managed Portfolio Shares. All statements or representations contained in such rule filing regarding (a) the description of the portfolio or reference asset, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange listing rules specified in such rule filing will constitute continued listing requirements. An issuer of such securities must notify the Exchange of any failure to comply with such continued listing requirements.

Proposed Rule 14.11(k)(2)(B) provides that transactions in Managed Portfolio Shares will occur only during Regular Trading Hours.

Proposed Rule 14.11(k)(2)(C) provides that the Exchange will implement written surveillance procedures for Managed Portfolio Shares.

Proposed Rule 14.11(k)(2)(D) provides that Authorized Participants (as defined in the Investment Company’s Form N–1A filed with the SEC) redeeming Managed Portfolio Shares will sign an agreement with an agent ("Trusted Agent") to establish a confidential account for the benefit of such Authorized Participant that will receive all consideration from the issuer in a redemption. A Trusted Agent may not disclose the consideration received in a redemption except as required by law or as provided in the Investment Company’s Form N–1A, as applicable.

Proposed Rule 14.11(k)(2)(E) provides that, if the investment adviser to the

3 A Managed Portfolio Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a–1) ("1940 Act") organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Index Fund Shares, listed and traded on the Exchange under Rule 14.11(c) ("Index ETFs"), seeks to provide investment results that correspond generally to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

4 As defined in Rule 1.5(w), the term “Regular Trading Hours” means the time between 9:30 a.m. and 4:00 p.m. Eastern Time.
Investment Company issuing Managed Portfolio Shares is affiliated with a broker-dealer, or if any Authorized Agent is registered as a broker-dealer or is affiliated with a broker-dealer, such investment adviser or Trusted Agent will erect and maintain a “fire wall” between the investment adviser or Trusted Agent and (i) personnel of the broker-dealer or broker-dealer affiliate, as applicable, or (ii) the Authorized Participant or non-Authorized Participant market maker, as applicable, with respect to access to information concerning the composition and/or changes to such Investment Company portfolio. Personnel who make decisions on the Investment Company’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company portfolio.

Proposed Rule 14.11(k)(3)(A) defines the term “Managed Portfolio Share” as a security that (a) is issued by a registered investment company (“Investment Company”) organized as an open-end management investment company or similar entity, that invests in a portfolio of securities selected by the Investment Company’s investment adviser consistent with the Investment Company’s investment objectives and policies; and (b) when aggregated in a number of shares equal to a Redemption Unit or multiples thereof, may be redeemed at the request of an Authorized Participant (as defined in the Investment Company’s Form N–1A filed with the SEC), which Authorized Participant will be paid, through its own separate confidential account established for its benefit, a portfolio of securities and/or cash with a value equal to the next determined net asset value (“NAV”).

Proposed Rule 14.11(k)(3)(B) defines the term “Verified Intraday Indicative Value (“VIIV”) as the estimated indicative value of a Managed Portfolio Share based on all of the issuer’s holdings as of the close of business on the prior business day, priced and disseminated in at least one second during Regular Trading Hours. Proposed Rule 14.11(k)(3)(C) defines the term “Redemption Unit” as a specified number of Managed Portfolio Shares.

Proposed Rule 14.11(k)(3)(D) defines the term “Reporting Authority” in respect of a particular series of Managed Portfolio Shares as a reporting service designated by the issuer as the official source for calculating and reporting information relating to such series, including, but not limited to, the VIIV, NAV, or other information relating to the issuance, redemption or trading of Managed Portfolio Shares. A series of Managed Portfolio Shares may have more than one Reporting Authority, each having different functions.

Proposed Rule 14.11(k)(4) sets forth initial and continued listing criteria applicable to Managed Portfolio Shares. Proposed Rule 14.11(k)(4)(A)(i) provides that, for each series of Managed Portfolio Shares, the Exchange will establish a minimum number of Managed Portfolio Shares required to be outstanding at the time of commencement of trading on the Exchange. In addition, proposed Rule 14.11(k)(4)(A)(ii) provides that the Exchange will obtain a representation from the issuer of each series of Managed Portfolio Shares that the NAV per share for the series will be calculated daily, and that the NAV will be made available to all market participants at the same time.\(^5\)

Proposed Rule 14.11(k)(4)(B) provides that each series of Managed Portfolio Shares will be listed and traded subject to application of the following continued listing criteria. Proposed Rule 14.11(k)(4)(B)(i) provides that the VIIV of Managed Portfolio Shares will be widely disseminated by one or more major market data vendors at least every second during Regular Trading Hours. Proposed Rule 14.11(k)(4)(B)(ii) provides that the Exchange will maintain surveillance procedures for securities listed under Rule 14.11(k) and will consider the suspension of trading in, and will commence delisting proceedings under Rule 14.12 of, a series of Managed Portfolio Shares under any of the following circumstances: (a) If, following the initial twelve-month period after commencement of trading on the Exchange of a series of Managed Portfolio Shares, there are fewer than 50 beneficial holders of the series of Managed Portfolio Shares; (b) If the value of the VIIV is no longer calculated or made available to all market participants at the same time; (c) If the Investment Company issuing the Managed Portfolio Shares has failed to file any filings required by the

\(^5\)Proposed Rule 14.11(k)(4)(A) provides that if the Exchange becomes aware that the net asset value with respect to a series of Managed Portfolio Shares is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the net asset value is available to all market participants.
with respect to a series of Managed Portfolio Shares is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the NAV is available to all market participants.

Proposed Rule 14.11(k)(4)(B)(iv) provides that, upon termination of an Investment Company, the Exchange requires that Managed Portfolio Shares issued in connection with such entity be removed from listing on the Exchange.

Proposed Rule 14.11(k)(4)(B)(v) provides that voting rights shall be as set forth in the applicable Investment Company prospectus.

Proposed Rule 14.11(k)(4)(B)(vi), which relates to limitation of Exchange liability, provides that neither the Exchange, the Reporting Authority, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current portfolio value; the VIIV; the current value of the portfolio of securities required to be deposited to the open-end management investment company in connection with issuance of Managed Portfolio Shares; the amount of any dividend equivalent payment or cash distribution to holders of Managed Portfolio Shares; NAV; or other information relating to the purchase, redemption, or trading of Managed Portfolio Shares, resulting from any negligent act or omission by the Exchange, the Reporting Authority or any agent of the Exchange, or any act, condition, or cause beyond the reasonable control of the Exchange, its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission, or delay in the reports of transactions in one or more underlying securities.

Key Features of Managed Portfolio Shares

While funds issuing Managed Portfolio Shares will be actively-managed and, to that extent, will be similar to Managed Fund Shares, Managed Portfolio Shares differ from Managed Fund Shares in the following important respects. First, in contrast to Managed Fund Shares, which are actively-managed funds listed and traded under Rule 14.11(i)6 and for which a “Disclosed Portfolio” is required to be disseminated at least once daily,7 the portfolio for an issue of Managed Portfolio Shares will be disclosed quarterly in accordance with normal disclosure requirements otherwise applicable to open-end investment companies registered under the 1940 Act.8 Second, in connection with the redemption of shares in “Redemption Unit” size (as described below), the delivery of any portfolio securities in kind will generally be effected through a “Confidential Account” (as described below) for the benefit of the redeeming “Authorized Participant” (as described below in “Creation and Redemption of Shares”) without disclosing the identity of such securities to the Authorized Participant.

For each series of Managed Portfolio Shares, an estimated value—the VIIV—that reflects an estimated intraday value of a fund’s portfolio will be disseminated.

With respect to the Funds, the VIIV will be based upon all of a Fund’s holdings as of the close of the prior business day and will be widely disseminated by one or more major market data vendors at least every second during Regular Trading Hours. The dissemination of the VIIV will allow investors to determine the estimated intra-day value of the underlying portfolio of a series of Managed Portfolio Shares and will provide a close estimate of that value throughout the trading day. The VIIV should not be viewed as a “real-time” update of the NAV per Share of each Fund because the VIIV may not be calculated in the same manner as the NAV, which will be computed once a day, generally at the end of the business day. Unlike the VIIV, which will be based on consolidated midpoint of the bid ask spread, the NAV per Share will be based on the closing price on the primary market for each portfolio security. If there is no closing price for a particular portfolio security, such as when it is the subject of a trading halt, a Fund will use fair value pricing. That fair value pricing will be carried over to the next day’s VIIV until the first trade in that stock is reported unless the “Adviser” (defined below) deems a particular portfolio security to be illiquid and/or the available ongoing pricing information unlikely to be reliable. In such case, that fact will be immediately disclosed on each Fund’s Web site, including the identity and weighting of that security in a Fund’s portfolio, and the impact of that security on VIIV calculation, including the fair value price for that security being used for the calculation of that day’s VIIV.

The Exchange, after consulting with various Lead Market Makers that trade exchange-traded funds (“ETFs”) on the Exchange, believes that market makers will be able to make efficient and liquid markets priced near the VIIV as long as a VIIV is disseminated at least every second, market makers have knowledge of a Fund’s means of achieving its investment objective, and market makers are permitted to engage in “Bona Fide Arbitrage,” as described below. The Exchange believes that market makers will employ Bona Fide Arbitrage in addition to risk-management techniques such as “statistical arbitrage,” which is currently used throughout the financial services industry, to make efficient markets in exchange-traded products.9 This ability should permit market makers to make

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7BZX Rule 14.11(i)(3)(B) defines the term “Disclosed Portfolio” as the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company’s calculation of net asset value at the end of the business day. Rule 14.11(i)(4)(B)(ii)(a) requires that the Disclosed Portfolio will be disseminated at least once daily and will be made available to all market participants at the same time.

8A mutual fund is required to file with the Commission its complete portfolio schedules for the second and fourth fiscal quarters on Form N–CSR under the 1940 Act. On the 35th day of the business day following the end of the business day, Rule 14.11(i)(4)(B)(ii)(a) requires that the Fund provide, to the extent practicable, a list of all of the Fund’s holdings as of the close of the prior business day, including the identity and dollar amount of each security. If at any time the Fund is in the process of determining its net asset value, the Fund is not required to file its complete portfolio schedule for that day. The requirements of Rule 14.11(i)(4)(B)(ii)(a) do not apply to funds which are actively-managed funds listed and traded under Rule 14.11(i)6 and for which a “Disclosed Portfolio” is required to be disseminated at least once daily,7 the portfolio for an issue of Managed Portfolio Shares will be disclosed quarterly in accordance with normal disclosure requirements otherwise applicable to open-end investment companies registered under the 1940 Act.8 Second, in connection with the redemption of shares in “Redemption Unit” size (as described below). The delivery of any portfolio securities in kind will generally be effected through a “Confidential Account” (as described below) for the benefit of the redeeming “Authorized Participant” (as described below in “Creation and Redemption of Shares”) without disclosing the identity of such securities to the Authorized Participant.

9Statistical arbitrage enables a trader to construct an accurate proxy for another instrument, allowing it to hedge the other instrument or buy or sell the instrument when it is cheap or expensive in relation to the proxy. Statistical analysis permits traders to discover correlations based purely on trading data without regard to other fundamental drivers. These correlations are a function of differentials, over time, between one instrument or group of instruments and one or more other instruments. Once the nature of these price deviations have been quantified, a universe of securities is searched in an effort to, in the case of a hedging strategy, minimize the differential. Once a suitable hedging proxy has been identified, a trader can minimize portfolio risk by executing the hedging basket. The trader then can monitor the performance of this hedge throughout the trade period making correction where warranted.
efficient markets in an issue of Managed Portfolio Shares without precise knowledge of a Fund’s underlying portfolio. 10

To enable market makers to engage in Bona Fide Arbitrage, on each “Business Day” (as defined below), before commencement of trading in Shares on the Exchange, the Funds will provide to a “Trusted Agent” (as described below) of each Authorized Participant or “Non-Authorized Participant Market Maker” 11 the identities and quantities of portfolio securities that will form the basis for a Fund’s calculation of NAV per Share at the end of the Business Day, as well as the names and quantities of the instruments comprising a “Creation Basket” and the estimated “Balancing Amount” (if any) (as described below), for that day. This information will permit Authorized Participants to purchase “Creation Units” through an in-kind transaction with a Fund, as described below.

In addition, Authorized Participants will instruct the Trusted Agent to buy or sell portfolio securities during the day and thereby engage in Bona Fide Arbitrage throughout the trading day. For example, if an Authorized Participant believes that Shares of a Fund are trading at a price that is higher than the value of its underlying portfolio based on the VII, the Authorized Participant may sell Shares short and instruct the Trusted Agent to buy portfolio securities for its Confidential Account. When the market price of a Fund’s Shares falls in line with the value of the portfolio, the Authorized Participant can then close out its positions in both the Shares and the portfolio securities. The Authorized Participant’s purchase of the portfolio securities into its Confidential Account, combined with the sale of Shares, may also create downward pressure on the price of Shares and/or upward pressure on the price of the portfolio securities, bringing the market price of Shares and the value of a Fund’s portfolio securities closer together. Similarly, an Authorized Participant could buy Shares and instruct the Trusted Agent to sell the underlying portfolio securities from its Confidential Account in an attempt to profit when a Fund’s Shares are trading at a discount to its portfolio. The Authorized Participant’s purchase of a Fund’s Shares in the secondary market, combined with the sale of the portfolio securities from its Confidential Account, may also create upward pressure on the price of Shares and/or downward pressure on the price of portfolio securities, driving the market price of Shares and the value of a Fund’s portfolio securities closer together. The Adviser represents that it understands that, other than the confidential nature of the account, this process is identical to how many Authorized Participants currently arbitrage existing traditional ETFs.

Because other market participants can also engage in arbitrage activity without using the creation or redemption processes described above, the Confidential Account structure will be made available to any Non-Authorized Participant Market Maker that is willing to establish a Confidential Account. In that case, if a market participant believes that a Fund’s asset value relative to its underlying assets, the market participant may sell short Shares and instruct its Trusted Agent to buy portfolio securities in its Confidential Account, wait for the trading prices to move toward parity, and then close out the positions in both the Shares and the portfolio securities to realize a profit from the relative movement of their trading prices. Similarly, a market participant could buy Shares and instruct the Trusted Agent to sell the underlying portfolio securities in an attempt to profit when a Fund’s Shares are trading at a discount to a Fund’s underlying or reference assets. Any investor that is willing to transact through a broker-dealer that has established a Confidential Account with a Trusted Agent will have the same opportunity to engage in arbitrage activity. As discussed above, the trading of a Fund’s Shares and the Fund’s portfolio securities may bring the prices of a Fund’s Shares and its portfolio assets closer together through market pressure. This type of Arbitrage is referred to herein as “Bona Fide Arbitrage.”

The Exchange understands that traders use statistical analysis to derive correlations between different sets of instruments to identify opportunities to buy or sell one set of instruments when it is mispriced relative to the others. For Managed Portfolio Shares, market makers, in addition to employing Bona Fide Arbitrage, may use the knowledge of a Fund’s underlying assets to develop its investment objective, as described in the applicable Fund registration statement, to construct a hedging proxy for a Fund to manage a market maker’s quoting risk in connection with trading Fund Shares. Market makers can then conduct statistical arbitrage between their hedging proxy (for example, the Russell 1000 Index) and Shares of a Fund, buying and selling one against the other over the course of the trading day. They will evaluate how their proxy performed in comparison to the price of a Fund’s Shares, and use that analysis as well as knowledge of risk metrics, such as volatility and turnover, to enhance their proxy calculation to make it a more efficient hedge.

Market makers not intending to utilize Bona Fide Arbitrage have indicated to the Exchange that there will be sufficient data to run a statistical analysis which will lead to spreads being tightened substantially around the VII. This is similar to certain other existing exchange traded products (for example, ETFs that invest in foreign securities that do not trade during U.S. trading hours), in which spreads may be generally wider in the early days of trading and then narrow as market makers gain more confidence in their real-time hedges.

Description of the Funds and the Trust

The Shares of each Fund will be issued by Precidian ETF Trust II (“Trust”), a statutory trust organized under the laws of the State of Delaware and registered with the Commission as an open-end management investment company. The investment adviser to the Trust will be Precidian Funds LLC (the “Adviser”), the Sub-Adviser to each of the Funds will be ClearBridge Investments, LLC (the “Sub-Adviser” or “ClearBridge”) Legg Mason Investor Services, LLC (the “Distributor”) will serve as the distributor of each of the Fund’s Shares. All statements and representations made in this filing regarding (a) the description of the portfolio or reference asset, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange listing rules shall constitute continued listing requirements for listing the Shares on the Exchange.

As noted above, proposed Rule 14.11(k)(2)(E) provides that, if the

10 Authorized Participants and other broker-dealers that enter into their own separate Confidential Accounts shall have enough information to determine whether they are able to comply with applicable regulatory requirements. For example, for purposes of net capital requirements, the maximum Securities Haircut applicable to the securities in a Creation Basket, as determined under Rule 15c6-1, will be disclosed daily on each Fund’s Web site.

11 A Non-Authorized Participant Market Maker is a market participant that makes a market in Shares, but is not an Authorized Participant.

12 The Trust will be registered under the 1940 Act. On April 4, 2017, the Trust filed a registration statement on Form N–1A relating to the Funds (File No. 811–23246) (the “Registration Statement”). The Shares will not be listed on the Exchange until an order (“Exemptive Order”) under the 1940 Act has been issued by the Commission with respect to the Exemptive Application. Investments made by the Funds will comply with the conditions set forth in the Exemptive Order. The description of the operation of the Trust and the Funds herein is based, in part, on the Registration Statement.
investment adviser to the Investment Company issuing Managed Portfolio Shares is affiliated with a broker-dealer, or if any Trustee Agent is registered as a broker-dealer or is affiliated with a broker-dealer, such investment adviser or Trustee Agent will erect and maintain a “fire wall” between the investment adviser or Trustee Agent and (i) personnel of the broker-dealer or broker-dealer affiliate, as applicable, or (ii) the Authorized Participant or non-Authorized Participant market maker, as applicable, with respect to access to information concerning the composition and/or changes to such Investment Company portfolio. Personnel who make decisions on the Investment Company’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company portfolio. In addition, proposed Rule 14.11(k)(2)(E) further requires that personnel who make decisions on the Investment Company’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the open-end fund’s portfolio. Proposed Rule 14.11(k)(2)(E) is nearly identical to Rule 14.11(i)(7), related to Managed Fund Shares, and similar to Rule 14.11(c)(5)(A)(i), related to Index Fund Shares, except that proposed Rule 14.11(k)(2)(E) relates to the establishment of a “fire wall” between the investment adviser and the broker-dealer as applicable to an Investment Company portfolio, not an underlying benchmark index, as is the case with index-based funds. The Adviser is not registered as a broker-dealer or affiliated with a broker-dealer. The Sub-Adviser is not registered as a broker-dealer, but is affiliated with a broker-dealer and has implemented a “fire wall” with respect to such broker-dealer regarding access to information concerning the composition and/or changes to a Fund’s portfolio. In the event (a) the Adviser or Sub-Adviser becomes registered as a broker-dealer or becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

The portfolio for each Fund will consist primarily of long and/or short positions in U.S. exchange-listed securities and shares issued by other U.S. exchange-listed ETFs. All exchange-listed equity securities in which the Funds will invest will be listed and traded on U.S. national securities exchanges.

Description of the Funds

ClearBridge Appreciation ETF

The ClearBridge Appreciation ETF will seek to provide long-term appreciation of shareholders’ capital. The Fund will seek to achieve its investment objective by investing primarily in U.S. exchange-listed equity securities. The Fund will typically invest in medium and large capitalization companies, but may also invest in small capitalization companies.

ClearBridge Large Cap ETF

The ClearBridge Large Cap ETF will seek long-term capital appreciation. The Fund will seek to achieve its investment objective by taking long and possibly short positions in equity securities or groups of equities that the portfolio managers believe will provide long term capital appreciation. The Fund normally invests at least 80% of its net assets (plus borrowings for investment purposes) in stocks included in the Russell 1000 Index and ETFs that primarily invest in stocks in the Russell 1000 Index. The Fund purchases securities that the Sub-Adviser believes are undervalued, and sells short securities that it believes are overvalued.

ClearBridge Mid Cap Growth ETF

The ClearBridge Mid Cap Growth ETF will seek long-term growth of capital. The Fund will seek to achieve its investment objective by investing primarily in U.S. exchange-listed, publicly traded equity and equity-related securities of U.S. companies or other instruments with similar economic characteristics. The fund may invest in securities of issuers of any market capitalization.

ClearBridge Select ETF

The ClearBridge Select ETF will seek to provide long-term growth of capital. The Fund will seek to achieve its investment objective by investing primarily in U.S. exchange-listed, publicly traded equity and equity-related securities of U.S. companies or other instruments with similar economic characteristics. The fund may invest in securities of issuers of any market capitalization.

ClearBridge All Cap Value ETF

The ClearBridge All Cap Value ETF will seek long-term capital growth with current income as a secondary consideration. The Fund will seek to achieve its investment objective by investing primarily in common stocks and common stock equivalents, such as preferred stocks and securities convertible into common stocks, of companies the Sub-Adviser believes are undervalued in the marketplace. The Fund may invest up to 25% of its net assets in equity securities of foreign issuers through U.S. exchange-listed depositary receipts.

Other Investments

While each Fund, under normal market conditions, will invest primarily in U.S. exchange-listed securities, as described above, each Fund may invest its remaining assets in other securities and financial instruments, as described below.

According to the Registration Statement, each Fund may enter into repurchase agreements. It will be the policy of the Trust to enter into repurchase agreements only with recognized securities dealers, banks and Fixed Income Clearing Corporation, a securities clearing agency registered with the Commission.

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

14 For purposes of describing the holdings of the Funds, ETFs include Portfolio Depository Receipts (as described in Rule 14.11(b)); Index Fund Shares (as described in Rule 14.11(c)); and Managed Fund Shares (as described in Rule 14.11(i)). The ETFs in which a Fund will invest all will be listed and traded on national securities exchanges. While the Funds may invest in inverse ETFs, the Funds will not invest in leveraged (e.g., 2x, +2x, 3x or +3x) ETFs.
Each Fund may invest up to 5% of its total assets in warrants, rights and options. Each Fund may invest a portion of its assets in cash or cash equivalents. Each Fund may invest in the securities of other investment companies (including money market funds) to the extent allowed by law.

Investment Restrictions

Each Fund may invest up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), consistent with Commission guidance. Each Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of a Fund’s net assets are invested in illiquid assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

According to the Registration Statement, each Fund will seek to qualify for treatment as a Regulated Investment Company (“RIC”) under the Internal Revenue Code. The Funds will not invest in securities listed on non-U.S. exchanges. The Shares of each Fund will conform to the initial and continued listing criteria under proposed Rule 14.11(k). The Funds will not invest in futures, forwards or swaps.

Each Fund’s investments will be consistent with its investment objective and will not be used to enhance leverage. While a Fund may invest in inverse ETFs, a Fund will not invest in leveraged (e.g., 2X, -2X, 3X or -3X) ETFs.

Creations and Redemptions of Shares

In connection with the creation and redemption of Creation Units (defined below), the delivery or receipt of any portfolio securities in-kind will be required to be effected through a separate confidential brokerage account (i.e., a Confidential Account) with a Trusted Agent, which will be a bank or broker-dealer such as JP Morgan Chase, State Street Bank and Trust, or Bank of New York Mellon, for the benefit of an Authorized Participant. An Authorized Participant will generally be a Depository Trust Company (“DTC”) Participant that has executed a “Participant Agreement” with the Distributor with respect to the creation and redemption of Creation Units and formed a Confidential Account for its benefit in accordance with the terms of the Participant Agreement. For purposes of creations or redemptions, all transactions will be effected through the respective Authorized Participant’s Confidential Account, for the benefit of the Authorized Participant without disclosing the identity of such securities to the Authorized Participant.

Each Trusted Agent will be given, before the commencement of trading each Business Day (defined below), both the holdings of a Fund and their relative weightings for that day. This information will permit an Authorized Participant, or other market participant that has established a Confidential Account with a Trusted Agent, to instruct the Trusted Agent to buy and sell positions in the portfolio securities to permit Bona Fide Arbitrage, as defined above.

Shares of each Fund will be issued in Creation Units of 25,000 or more Shares. The Funds will offer and sell Creation Units through the Distributor on a continuous basis at the NAV per Share next determined after receipt of an order in proper form. The NAV per Share of each Fund will be determined as of the close of regular trading on the New York Stock Exchange (“NYSE”) on each day that the NYSE is open. A “Business Day” is defined as any day that the Trust is open for business. The Funds will sell and redeem Creation Units only on Business Days. Applicants anticipate that the initial price of a Share will range from $20 to $30, and that the price of a Creation Unit will initially range from $1,000,000 to $5,000,000.

In order to keep costs low and permit each Fund to be as fully invested as possible, Shares will be purchased and redeemed in Creation Units and generally on an in-kind basis. Accordingly, except where the purchase or redemption will include cash under the circumstances described in the Registration Statement, purchasers will be required to purchase Creation Units by making an in-kind deposit of specified instruments ("Deposit Instruments"), and shareholders redeeming their Shares will receive an in-kind transfer of specified instruments ("Redemption Instruments"). 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 will be identical, and these instruments may be referred to, in the case of either a purchase or a redemption, as the "Creation Basket."
As noted above, each Authorized Participant will be required to establish a Confidential Account with a Trusted Agent and transact with each Fund through that Confidential Account. The Adviser represents that the Funds do not currently anticipate the need to sell or redeem Creation Units entirely on a cash basis. 23 Consistent with the provisions of Section 22(e) of the 1940 Act and Rule 22e–2 thereunder, the right to redeem will not be suspended, nor payment upon redemption delayed, except for:

(1) Any period during which the NYSE is closed other than customary weekend
and holiday closings, (2) any period during which trading on the NYSE is restricted, (3) any period during which an emergency exists as a result of which disposal by a Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for a Fund to determine its NAV, and (4) for such other periods as the Commission may by order permit for the protection of shareholders.

Redemptions will occur primarily in-kind, although redemption payments may also be made partly or wholly in cash. The Participant Agreement signed by each Authorized Participant will require establishment of a Confidential Account to receive distributions of securities in-kind upon redemption. Each Authorized Participant will be required to open a Confidential Account with a Trusted Agent in order to facilitate orderly processing of redemptions. While a Fund will generally distribute securities in-kind, the Adviser may determine from time to time that it is not in a Fund’s best interests to distribute securities in-kind, but rather to sell securities and/or distribute cash. For example, the Adviser may distribute cash to facilitate orderly portfolio management in connection with rebalancing or transitioning a portfolio in line with its investment objective, or if there is substantially more creation than redemption activity during the period immediately preceding a redemption request, or as necessary or appropriate in accordance with applicable laws and regulations. In this manner, a Fund can use in-kind redemptions to reduce the unrealized capital gains that may, at times, exist in a Fund by distributing low cost lots of each security that a Fund needs to dispose of to maintain its desired portfolio exposures. Shareholders of a Fund would benefit from the in-kind redemptions through the reduction of the unrealized capital gains in a Fund that would otherwise have to be realized and, eventually, distributed to shareholders.

The redemption basket will consist of the same securities for all Authorized Participants on any given day subject to the Adviser’s ability to make minor adjustments to redemptions in situations where the proceeds of the redemption may not match those of the funding. The Adviser may also make minor adjustments to the pro rata portion of portfolio securities selected for distribution to each redeeming Authorized Participant on such Business Day.

The Trust will accept a Redemption Order in proper form. A Redemption Order is subject to acceptance by the Trust and must be preceded or accompanied by an irrevocable commitment to deliver the requisite number of Shares. At the time of settlement, an Authorized Participant will initiate a delivery of the Shares versus subsequent payment against the proceeds, if any, of the sale of portfolio securities distributed to the applicable Confidential Account plus or minus any cash balancing amounts, and less the expenses of liquidation.

Net Asset Value

The NAV per Share of a Fund will be computed by dividing the value of the net assets of a Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares of a Fund outstanding, rounded to the nearest cent. Expenses and fees, including, without limitation, the management, administration and distribution fees, will be accrued daily and taken into account for purposes of determining NAV. Interest and investment income on the Trust’s assets accrue daily and will be included in the Fund’s total assets. The NAV per Share for a Fund will be calculated by a Fund’s administrator (“Administrator”) and determined as of the close of the regular trading session on the NYSE (ordinarily 4:00 p.m., E.T.) on each day that the NYSE is open.

Shares of exchange-listed equity securities and exchange listed options will be valued at market value, which will generally be determined using the last reported official closing or last trading price on the exchange or market on which the securities are primarily traded at the time of valuation. Repurchase agreements will be valued based on price quotations or other equivalent indications of value provided by a third-party pricing service. Money market funds will be valued based on price quotations or other equivalent indications of value provided by a third-party pricing service. Cash equivalents

26 It is anticipated that any portion of a Fund’s NAV attributable to appreciated short positions will be paid in cash, as securities sold short are not susceptible to in-kind settlement. The value of other positions not susceptible to in-kind settlement may also be paid in cash.

27 The terms of each Confidential Account will be set forth as an exhibit to the applicable Participant Agreement, which will be signed by each Authorized Participant. The terms of the Confidential Account will provide that the trust be formed under applicable state laws; the Custodian may act as Trustee of the Confidential Account; and the Trustee will be paid by the Authorized Participant a fee negotiated directly between the Authorized Participants and the Custodian.

28 Under applicable provisions of the Internal Revenue Code, the Authorized Participant is expected to be deemed a “substantial owner” of the Confidential Account because it receives distributions from the Confidential Account. As a result, all income, gain or loss realized by the Confidential Account will be directly attributed to the Authorized Participant.

29 If the NAV of the Shares redeemed differs from the value of the securities delivered to the Confidential Account, the Fund will pay a cash balancing amount to compensate for the difference between the value of the securities delivered and the NAV.

30 An Authorized Participant will issue execution instructions to the Custodian. The Custodian is responsible for all associated profit or losses. Like a traditional ETF, the Authorized Participant has the ability to sell the basket securities at any point during normal trading hours.
will generally be valued on the basis of independent pricing services or quotes obtained from brokers and dealers. Options not listed on an exchange, rights and warrants will be valued based on price quotations or other equivalent indications of value provided by a third-party pricing service.

When last sale prices and market quotations are not readily available, are deemed unreliable or do not reflect material events occurring between the close of local markets and the time of valuation, investments will be valued using fair value pricing as determined in good faith by the Adviser under procedures established by and under the general supervision and responsibility of the Trust’s Board of Trustees. Investments that may be valued using fair value pricing include, but are not limited to: (1) Securities that are not actively traded; (2) securities of an issuer that becomes bankrupt or enters into a restructuring; and (3) securities whose trading has been halted or suspended.

The frequency with which each Fund’s investments will be valued using fair value pricing will primarily be a function of the types of securities and other assets in which the respective Fund will invest pursuant to its investment objective, strategies and limitations. If the Funds invest in open-end management investment companies registered under the 1940 Act (other than ETFs), they may rely on the NAVs of those companies to value the shares they hold of them.

Valuing the Funds’ investments using fair value pricing involves the consideration of a number of subjective factors and thus the prices for those investments may differ from current market valuations. Accordingly, fair value pricing could result in a difference between the prices used to calculate NAV and the prices used to determine a Fund’s VIIV, which could result in the market prices for Shares deviating from NAV. In cases where the fair value price of the security is materially different from the pricing data provided by the independent pricing sources and the Adviser determined that the ongoing pricing information is not likely to be reliable, the fair value will be used for calculation of the VIIV, and a Fund’s Custodian will be instructed to disclose the identity and weight of the fair valued securities, as well as the fair value price being used for the security.

Availability of Information

The Funds’ Web site (www.precidianfunds.com), which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for each Fund that may be downloaded. The Funds’ Web site will include additional quantitative information updated on a daily basis, including, for each Fund, (1) daily trading volume, the prior Business Day’s reported closing price, NAV and midpoint of the bid/ask spread at the time of calculation of such NAV (the “Bid/Ask Price”),31 and a calculation of the premium and discount of the Bid/Ask Price against the NAV, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. The Web site and information will be publicly available at no charge.

As noted above, a mutual fund is required to file with the Commission its complete portfolio schedules for the second and fourth fiscal quarters on Form N–CSR under the 1940 Act, and is required to file its complete portfolio schedules for the first and third fiscal quarters on Form N–Q under the 1940 Act, within 60 days of the end of the quarter. Form N–Q requires funds to file the same schedules of investments that are required in annual and semi-annual reports to shareholders. The Trust’s SAI and each Fund’s shareholder reports will be available free upon request from the Trust. These documents and forms may be viewed on-screen or downloaded from the Commission’s Web site at www.sec.gov.

Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer screens and other electronic services. Information regarding the previous day’s closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Updated price information for U.S. exchange-listed equity securities is available through major market data vendors or securities exchanges trading such securities. The intraday, closing and settlement prices of money market funds, repurchase agreements, reverse repurchase agreements and cash equivalents will be readily available from published or other public sources, or major market data vendors such as Bloomberg and Thomson Reuters. The NAV of any investment company security investment will be readily available on the Web site of the relevant investment company and from major market data vendors. Quotation and last sale information for the Shares will be available via the Consolidated Tape Association (“CTA”) high-speed line. In addition, the VIIV, as defined in proposed Rule 4.11(k)(3)(B) and as described further below, will be widely disseminated by one or more major market data vendors at least every second during Regular Trading Hours.

Dissemination of the Verified Intraday Indicative Value

The VIIV, which is approximate value of each Fund’s investments on a per Share basis, will be disseminated at least every second during Regular Trading Hours. The VIIV should not be viewed as a “real-time” update of NAV because the VIIV may not be calculated in the same manner as NAV, which is computed once per day.

The Exchange will disseminate the VIIV for each Fund in at least one-second intervals during Regular Trading Hours, through the facilities of the CTA. The VIIV is essentially an intraday NAV calculation at least every second during Regular Trading Hours. Each Fund will adopt procedures governing the calculation of the VIIV and will bear responsibility for the accuracy of its calculation. Pursuant to those procedures, the VIIV will include all accrued income and expenses of a Fund and will assure that any extraordinary expenses booked during the day that would be taken into account in calculating a Fund’s NAV for that day are also taken into account in calculating the VIIV. For purposes of the VIIV, securities held by a Fund will be valued throughout the day based on the mid-point between the disseminated current national best bid and offer. The Adviser represents that, by utilizing the mid-point pricing for purposes of VIIV calculation, stale prices are eliminated and more accurate representation of the real time value of the underlying securities is provided to the market. Specifically, quotations based on the mid-point of bid/ask spreads more accurately reflect current market sentiment by providing real time information on where market participants are willing to buy or sell securities at that point in time. Using quotations rather than last sale information addresses concerns regarding the staleness of pricing information of less actively traded securities. Because quotations are updated more frequently than last sale information especially for inactive securities, the VIIV will be based on more current and accurate information.

31 The Bid/Ask Price of a Fund will be determined using the mid-point of the highest bid and the lowest offer on the Exchange as of the time of calculation of a Fund’s NAV. The records relating to Bid/Ask Prices will be retained by each Fund and its service providers.

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The use of quotations will also dampen the impact of any momentary spikes in the price of a portfolio security. Each Fund will utilize two independent pricing sources to provide two independent sources of pricing information. Each Fund will also utilize a “Pricing Verification Agent” and establish a computer-based protocol that will permit the Pricing Verification Agent to continuously compare the two data streams from the independent pricing agents sources on a real time basis. A single VIIV will be disseminated publicly for each Fund; however, the Pricing Verification Agent will continuously compare the public VIIV against a non-public alternative intra-day indicative value to which the Pricing Verification Agent has access. If it becomes apparent that there is a material discrepancy between the two data streams, the Exchange will be notified and have the ability to halt trading in a Fund until the discrepancy is resolved. Each Fund’s Board will review the procedures used to calculate the VIIV against its accuracy on a regular basis, but not less than annually. The specific methodology for calculating the VIIV will be disclosed on each Fund’s Web site.

Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Funds. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, including whether unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares also will be subject to proposed Rule 14.11(k)(4)(B)(iii), which sets forth circumstances under which Shares of the Funds may be halted.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange’s existing rules governing the trading of equity securities. Shares will trade on the Exchange only during Regular Trading Hours as provided in proposed Rule 14.11(k)(2)(B). As provided in BZX Rule 11.11(a), the minimum price variation for quoting and entry of orders in securities traded on the Exchange is $0.01, with the exception of securities that are priced less than $1.00, for which the minimum price variation for order entry is $0.0001.

The Shares will conform to the initial and continued listing criteria under Rule 14.11(k). The Exchange represents that, for initial and/or continued listing, each Fund will be in compliance with Rule 10A–3 under the Act. A minimum of 100,000 Shares of each Fund will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares of each Fund that the NAV per Share of each Fund will be calculated daily and will be made available to all market participants at the same time.

Surveillance

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Managed Portfolio Shares. The issuer has represented to the Exchange that it will comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, underlying stocks, ETFs, and exchange-listed options with other markets and other entities that are members of the Intermarket Surveillance Group (“ISG”), and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares, underlying stocks, ETFs, and exchange-listed options from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

The Funds’ Adviser will make available daily to FINRA and the Exchange the portfolio holdings of each Fund in order to facilitate the performance of the surveillances referred to above. In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

Information Circular

Prior to the commencement of trading, the Exchange will inform its members in an Information Circular (“Circular”) of the special characteristics and risks associated with trading the Shares. Specifically, the Circular will discuss the following: (1) The procedures for purchases and redemptions of Shares; (2) BZX Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (3) how information regarding the VIIV is disseminated; (4) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (5) trading information.

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

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act in general and Section 6(b)(5) of the Act in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes that proposed Rule 14.11(k) is designed to prevent fraudulent and manipulative acts and practices in that the proposed rules relating to listing and trading of


34 For a list of the current members of ISG, see www.isgportal.org.


Managed Portfolio Shares provide specific initial and continued listing criteria required to be met by such securities. Proposed Rule 14.11(k)(4) sets forth initial and continued listing criteria applicable to Managed Portfolio Shares. Proposed Rule 14.11(k)(A) provides that, for each series of Managed Portfolio Shares, the Exchange will establish a minimum number of Managed Portfolio Shares required to be outstanding at the time of commencement of trading. In addition, the Exchange will obtain a representation from the issuer of each series of Managed Portfolio Shares that the NAV per share for the series will be calculated daily and that the NAV will be made available to all market participants at the same time. Proposed Rule 14.11(k)(4)(B) provides that each series of Managed Portfolio Shares will be listed and traded subject to application of the specified continued listing criteria, as described above. Proposed Rule 14.11(k)(4)(B)(i) provides that the VIIF for Managed Portfolio Shares will be widely disseminated by one or more major market data vendors at least every second during Regular Trading Hours. Proposed Rule 14.11(k)(4)(B)(ii) provides that, upon notification to the Exchange by the Investment Company or its agent that (i) the prices from the multiple independent pricing sources to be validated by the Investment Company’s pricing verification agent differ by more than 25 basis points for 60 seconds in connection with pricing of the VIIF, or (ii) that the VIIF of a series of Managed Portfolio Shares is not being priced and disseminated in at least one-second intervals, as required, the Exchange shall halt trading in the Managed Portfolio Shares as soon as practicable. Such halt in trading shall continue until the Investment Company or its agent notifies the Exchange that the prices from the independent pricing sources no longer differ by more than 25 basis points for 60 seconds or that the VIIF is being priced and disseminated as required. Proposed Rule 14.11(k)(2)(E) provides that, if the investment adviser to the Investment Company issuing Managed Portfolio Shares is affiliated with a broker-dealer, or if any Authorized Participant is registered as a broker-dealer or is affiliated with a broker-dealer, such investment adviser or Authorized Participant will erect and maintain a “fire wall” between the investment adviser or Authorized Participant and (i) personnel of the broker-dealer or broker-dealer affiliate, as applicable, the Authorized Participant or non-Authorized Participant market maker, as applicable, with respect to access to information concerning the composition and/or changes to such Investment Company portfolio. Personnel who make decisions on the Investment Company’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company portfolio. Personnel who make decisions on the Investment Company’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company portfolio.

With respect to the proposed listing and trading of Shares of the Funds, the Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 14.11(k). Price information for the exchange-listed equity securities held by the Funds will be available through major market data vendors or securities exchanges listing and trading such securities. All exchange-listed equity securities held by the Funds will be listed on U.S. national securities exchanges. The listing and trading of such securities is subject to rules of the exchanges on which they are listed and traded, as approved by the Commission. The Funds will primarily hold U.S. exchange-listed securities or ETFs. Further, the Funds will not invest in futures or swaps. A Fund’s investments will be consistent with its respective investment objective and will not be used to enhance leverage. The Funds will not invest in securities listed on non-U.S. exchanges. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares’ underlying stocks, ETFs, and exchange-listed options with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares, underlying stocks, ETFs, and exchange-listed options from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance agreement. A Trusted Agent will provide information related to creations and redemption of Creation Units to FINRA upon request. The Funds’ Adviser will make available daily to FINRA and the Exchange the portfolio holdings of each Fund in order to facilitate the performance of the surveillances referred to above.

The Exchange, after consulting with various Lead Market Makers that trade exchange-traded funds (“ETFs”) on the Exchange, believes that market makers will be able to make efficient and liquid markets priced near the VIIF as long as a VIIF is disseminated at least every second, market makers have knowledge of a Fund’s means of achieving its investment objective, and market makers are permitted to engage in “Bona Fide Arbitrage,” as described below. The Exchange believes that market makers will employ Bona Fide Arbitrage in addition to risk-management techniques such as “statistical arbitrage,” which is currently used throughout the financial services industry, to make efficient markets in exchange-traded products. This ability should permit market makers to make efficient markets in shares without precise knowledge of a fund’s underlying portfolio.

The Exchange understands that traders, in addition to employing Bona Fide Arbitrage, use statistical analysis to derive correlations between different sets of instruments to identify opportunities to buy or sell one set of instruments when it is mispriced relative to the others. For Managed Portfolio Shares, market makers utilizing statistical arbitrage use the knowledge of a fund’s means of achieving its investment objective, as described in the applicable fund registration statement, to construct a hedging proxy for a fund to manage a market maker’s quoting risk in connection with trading fund shares. Market makers will then conduct statistical arbitrage between their hedging proxy (for example, the Russell 1000 Index) and shares of a fund, buying and selling one against the other over the course of the trading day. Eventually, at the end of each day, they will evaluate how their proxy performed in comparison to the price of a fund’s shares, and use that analysis as well as knowledge of risk metrics, such as volatility and turnover, to enhance their proxy calculation to make it a more efficient hedge.

Market makers not intending to utilize Bona Fide Arbitrage have indicated to the Exchange that there will be sufficient data to run a statistical analysis which will lead to spreads...
being tightened substantially around the VIIV. This is similar to certain other existing exchange traded products (for example, ETFs that invest in foreign securities that do not trade during U.S. trading hours), in which spreads may be generally wider in the early days of trading and then narrow as market makers gain more confidence in their real-time hedges.

The Lead Market Makers also indicated that, as with some other new exchange-traded products, spreads may be generally wider in the early days of trading and would tend to narrow as market makers gain more confidence in the accuracy of their hedges and their ability to adjust these hedges in real-time relative to the published VIIV and gain an understanding of the applicable market risk metrics such as volatility and turnover, and as natural buyers and sellers enter the market. Other relevant factors cited by Lead Market Makers were that a fund’s investment objectives are clearly disclosed in the applicable prospectus, the existence of quarterport positions, the capacity to engage in Bona Fide Arbitrage and the ability to create shares in creation unit size.

The Commission’s concept release regarding “Actively Managed Exchange-Traded Funds” highlighted several issues that could impact the Commission’s willingness to authorize the operation of an actively-managed ETF, including whether effective arbitrage of the ETF shares exists.38 The Concept Release identifies the transparency of a fund’s portfolio and the liquidity of the fund’s securities as central to effective arbitrage. With respect to the Funds, the Funds’ use of U.S. exchange-listed securities and the ability of market makers to engage in Bona Fide Arbitrage provide adequate liquidity as well as the ability to engage in riskless arbitrage. Additionally, certain existing ETFs with portfolios of foreign securities have shown their ability to trade efficiently in the secondary market at approximately their NAV even though they do not provide opportunities for riskless arbitrage transactions during much of the trading day.39 Such ETFs have been shown to have pricing characteristics very similar to ETFs that can be arbitrated in this manner. For example, Index ETFs containing securities that trade during different trading hours than the ETF, such as Index ETFs that hold Asian stocks, have demonstrated efficient pricing characteristics notwithstanding the inability of market professionals to engage in “riskless arbitrage” with respect to the underlying portfolio for most, or even all, of the U.S. trading day when Asian markets are closed. Pricing for shares of such ETFs is efficient because market professionals are still able to hedge their positions with offsetting, correlated positions in derivative instruments during the entire trading day.

The real-time dissemination of a fund’s VIIV and the ability for market makers to engage in riskless arbitrage through the Bona Fide Arbitrage mechanism together with the right of Authorized Participants to create and redeem each day at the NAV will be sufficient for market participants to value and trade shares in a manner that will not lead to significant deviations between the shares’ Bid/Ask Price and NAV.

The pricing efficiency with respect to trading a series of Managed Portfolio Shares will generally rest on the ability of market participants to arbitrage between the shares and a fund’s portfolio, in addition to the ability of market participants to assess a fund’s underlying value accurately enough throughout the trading day in order to hedge positions in shares effectively.

Professional traders following Bona Fide Arbitrage can buy shares that they perceive to be trading at a price less than that which will be available at a subsequent time, and sell shares they perceive to be trading at a price higher than that which will be available at a subsequent time. It is expected that, as part of their normal day-to-day trading activity, market makers assigned to Shares using instruments correlated with such factors. The Adviser expects that market participants will initially determine the VIIV’s correlation to a major large capitalization equity benchmark with active derivative contracts, such as the Russell 1000 Index, and the degree of sensitivity of the VIIV to changes in that benchmark. For example, using hypothetical numbers for illustrative purposes, market participants should be able to determine quickly that price movements in the Russell 1000 Index will approximately parallel a Fund’s VIIV 95% of the time (an acceptably high correlation) but that the VIIV generally moves approximately half as much as the Russell 1000 Index with each price movement. This information is sufficient for market participants to construct a reasonable hedge—buy or sell an amount of futures, swaps or ETFs that track the Russell 1000 equal to half of the exposure of the fund’s VIIV relative to Shares. Market participants will also continuously compare the intraday performance of their hedge to a Fund’s VIIV. If the intraday performance of the hedge is correlated with the tracked degree, market participants will feel comfortable they are appropriately hedged and can rely on the VIIV as appropriately indicative of a Fund’s performance.
available, and (3) market participants will have a daily opportunity to evaluate whether the VIIV at or near the close of trading is indeed predictive of the actual NAV.

The real-time dissemination of a Fund’s VIIV, the ability for market makers to engage in riskless arbitrage through the Bona Fide Arbitrage mechanism, together with the ability of Authorized Participants to create and redeem each day at the NAV, will be crucial for market participants to value and trade Shares in a manner that will not lead to significant deviations between the Shares’ Bid/Ask Price and NAV.42

In a typical Index ETF, it is standard for Authorized Participants to know what securities must be delivered in a creation or will be received in a redemption. For Managed Portfolio Shares, however, Authorized Participants do not need to know the securities comprising the portfolio of a Fund since creations and redemptions are handled through the Confidential Account mechanism. The Adviser represents that the in-kind creations and redemptions through a Confidential Account will preserve the integrity of the active investment strategy and eliminate the potential for “free riding” or “front-running,” while still providing investors with the advantages of the ETF structure.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that the Exchange will obtain a representation from the issuer of an issue of Managed Portfolio Shares that the NAV per share of a fund will be calculated daily and that the NAV will be made available to all market participants at the same time. Investors can also obtain a fund’s SAI, shareholder reports, and its Form N–CSR, Form N-Q and Form N–SAR. A fund’s SAI and shareholder reports will be available free upon request from the applicable fund, and those documents and the Form N–CSR, Form N-Q and Form N–SAR may be viewed on-screen or downloaded from the Commission’s Web site. In addition, with respect to the Funds, a large amount of information will be publicly available regarding the Funds and the Shares, thereby promoting market transparency. Quotation and last sale information for the Shares will be available via the CTA high-speed line. Information regarding the VIIV will be widely disseminated at least every second throughout Regular Trading Hours by one or more major market data vendors. The Web site for the Funds will include a form of the prospectus for the Funds that may be downloaded, and additional data relating to NAV and other applicable quantitative information, updated on a daily basis.

Moreover, prior to the commencement of trading, the Exchange will inform its members in a Circular of the special characteristics and risks associated with trading the Shares. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18, market conditions, or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to proposed Rule 14.11(k)(4)(B)(iii), which sets forth circumstances under which Shares of the Funds will be halted. In addition, as noted above, investors will have ready access to the VIIV, and quotation and last sale information for the Shares. The Shares will conform to the initial and continued listing criteria under proposed Rule 14.11(k). The Funds will not invest in futures, forwards or swaps. Each Fund’s investments will be consistent with its investment objective and will not be used to enhance leverage. While a Fund may invest in inverse ETFs, a Fund will not invest in leveraged (e.g., 2X, −2X, 3X or −3X) ETFs.

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

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

(B) Self-Regulatory Organization’s Statement on Burden on Competition

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

(C) Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has neither solicited nor received written comments on 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 within such longer period 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 such 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 email to rule-comments@sec.gov. Please include File Number SR–BatsBZX–2017–30 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–BatsBZX–2017–30. This file number should be included on the subject line if email 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 Web site (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 Web site 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–BatsBZX–2017–30 and should be submitted on or before July 10, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.\(^4\)

Eduardo A. Aleman,
Assistant Secretary.

[FR Doc. 2017–12583 Filed 6–16–17; 8:45 am]

BILLING CODE 8011–01–P

SMALL BUSINESS ADMINISTRATION

[Disaster Declaration #15161 and #15162; New York Disaster #NY 000175]

Administrative Declaration of a Disaster for the State of New York

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: This is a notice of an Administrative declaration of a disaster for the State of New York dated 06/12/2017.

Incident: Apartment Complex Fire.

Incident Period: 06/06/2017 to 06/13/2017.

Incident Period: 06/06/2017 to 06/13/2017.

Physical Loan Application Deadline Date: 08/11/2017.

Economic Injury (Eidl) Loan Application Deadline Date: 03/12/2018.

DATES: Effective 06/12/2017.

Physical Loan Application Deadline Date: 08/11/2017.

Economic Injury (Eidl) Loan Application Deadline Date: 03/12/2018.

APPLICATIONS: Submit completed loan applications to: U.S. Small Business Administration, Processing and Disbursement Center, 14925 Kingsport Road, Fort Worth, TX 76155.

The number assigned to this disaster for physical damage is 15161 5 and for economic injury is 15162 0.

The States which received an EIDL Declaration #: New York. (Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

Dated: June 12, 2017.

Linda E. McMahon,
Administrator.

[FR Doc. 2017–12583 Filed 6–16–17; 8:45 am]

BILLING CODE 8025–01–P

SMALL BUSINESS ADMINISTRATION

[Disaster Declaration #15165 and #15166; Indiana Disaster #IN 00060]

Administrative Declaration of a Disaster for the State of Indiana

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: This is a notice of an Administrative declaration of a disaster for the State of Indiana dated 06/12/2017.

Incident: Severe Storms and Flooding.

Incident Period: 05/20/2017 through 05/21/2017.

DATES: Effective 06/12/2017.

Physical Loan Application Deadline Date: 08/11/2017.

Economic Injury (Eidl) Loan Application Deadline Date: 03/12/2018.

APPLICATIONS: Submit completed loan applications to: U.S. Small Business Administration, Processing and Disbursement Center, 14925 Kingsport Road, Fort Worth, TX 76155.

The number assigned to this disaster for physical damage is 15165 B and for economic injury is 15166 0.

The States which received an EIDL Declaration #: Indiana. (Catalog of Federal Domestic Assistance Number 59008)