This document is scheduled to be published in the
Federal Register on 08/01/2014 and available online at
http://federalregister.gov/a/2014-18114, and on **FDsys.gov**

SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-72679; File No. SR-NYSEArca-2014-71]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Proposing to List and Trade Shares of Treesdale Rising Rates ETF under NYSE Arca Equities Rule 8.600

July 28, 2014

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the "Act")[2] and Rule 19b-4 thereunder,[3] notice is hereby given that, on July 14, 2014, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to proposes to list and trade the following under NYSE Arca Equities Rule 8.600 ("Managed Fund Shares"): Treesdale Rising Rates ETF. The text of the proposed rule change is available on the Exchange's website at www.nyse.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places

---

1 15 U.S.C.78s(b)(1).

2 15 U.S.C. 78a.

3 17 CFR 240.19b-4.

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to list and trade shares ("Shares") of the following under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares[4]: Treesdale Rising Rates ETF ("Fund").[5] The Shares will be offered by AdvisorShares Trust (the "Trust"), a statutory trust organized under the laws of the State of Delaware and registered with the Securities and Exchange Commission (the "Commission") as an open-end management investment company.[6] The investment adviser to the Fund is AdvisorShares Investments, LLC

---

4 A Managed Fund 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 Investment Company Units, listed and traded on the Exchange under NYSE Arca Equities Rule 5.2(j)(3), 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.

5 The Commission has approved listing and trading on the Exchange of a number of actively managed funds under Rule 8.600. See, e.g., Securities Exchange Act Release Nos. 69591 (May 16, 2013), 78 FR 30372 (May 22, 2013) (SR-NYSEArca-2013-33) (order approving Exchange listing and trading of International Bear ETF); 69061 (March 7, 2013), 78 FR 15990 (March 13, 2013) (SR-NYSEArca-2013-01) (order approving Exchange listing and trading of Newfleet Multi-Sector Income ETF); and 67277 (June 27, 2012), 77 FR 39554 (July 3, 2012) (SR-NYSEArca-2012-39) (order approving Exchange listing and trading of the Global Alpha & Beta ETF).

6 The Trust is registered under the 1940 Act. On September 4, 2013, the Trust filed with the Commission an amendment to its registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) and under the 1940 Act relating to the Fund (File Nos. 333-157876 and 811-22110) ("Registration Statement"). The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order granting certain exemptive

(the "Adviser"). The sub-adviser to the Fund is Treesdale Partners, LLC ("Sub-Adviser"), which will provide day-to-day portfolio management of the Fund. Foreside Fund Services, LLC (the "Distributor") is the principal underwriter and distributor of the Fund's Shares. The Bank of New York Mellon (the "Administrator") serves as the administrator, custodian, transfer agent and fund accounting agent for the Fund.

Commentary .06 to Rule 8.600 provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect a "fire wall" between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio. In addition, Commentary .06 further requires that personnel who make decisions on the open-end fund'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.[7] Commentary .06 to Rule 8.600 is similar to Commentary .03(a)(i) and (iii) to

---

relief to the Trust under the 1940 Act. See Investment Company Act Release No. 29291 (May 28, 2010) (File No. 812-13677) ("Exemptive Order").

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

NYSE Arca Equities Rule 5.2(j)(3); however, Commentary .06 in connection with the establishment of a "fire wall" between the investment adviser and the broker-dealer reflects the applicable open-end fund's portfolio, not an underlying benchmark index, as is the case with index-based funds. Neither the Adviser nor the Sub-Adviser is a broker-dealer or is affiliated with a broker-dealer. In the event (a) the Adviser or Sub-Adviser becomes, or becomes newly affiliated with, a broker-dealer, or (b) any new adviser or sub-adviser is, or becomes affiliated with, a broker-dealer, it will implement a fire wall with respect to its relevant personnel or broker-dealer affiliate, as applicable, 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.

Description of the Fund

According to the Registration Statement, the Fund will seek to generate current income while providing protection for investors against loss of principal in a rising interest rate environment.

According to the Registration Statement, the Fund will be actively managed and thus will not seek to replicate the performance of a specified passive index of securities. Instead, it will use an active investment strategy to seek to meet its investment objectives. The Sub-Adviser, subject to the oversight of the Adviser and the Board of Trustees, will have discretion on a daily basis to manage the Fund's portfolio in accordance with the Fund's investment objectives and investment policies.

According to the Registration Statement, the Fund will seek to achieve its investment objectives by investing, under normal circumstances,[8] at least 80% of its net assets in positions in

---

8 The term "under normal circumstances" includes, but is not limited to, the absence of

agency interest-only collateralized mortgage obligations ("CMOs"), interest-only swaps ("IOS") that reference interest only cash flows from agency mortgage-backed securities ("MBS") pools with certain coupons and specified origination periods ("Agency MBS IOS"), interest rate swaps, U.S. Treasury obligations, including U.S. Treasury zero-coupon bonds, and U.S. Treasury futures.[9] Under normal circumstances, the Sub-Adviser will seek to generate enhanced returns in an environment of rising interest rates by investing in agency interest-only CMOs and Agency MBS IOS to maintain a negative portfolio duration with a generally positive current yield. Under normal circumstances, the Fund will utilize the U.S. Treasury obligations, U.S. Treasury futures and interest rate swaps, which are liquid interest rate products, to manage duration risks. Aside from Treasury futures, which will be exchange traded,[10] all the Fund's principal investments will be U.S. dollar-denominated and traded over the counter ("OTC").

According to the Adviser, the mortgage-backed securities market, which includes interest-only CMOs, is the largest sector of the U.S. fixed income markets. It is diverse, with both highly liquid instruments as well as less liquid products. The primary focus of the Fund will be on the Agency MBS IOS sector, where liquidity is provided by multiple market makers that

---

adverse market, economic, political or other conditions, including extreme volatility or trading halts in the equity markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

9 According to the Registration Statement, CMOs are debt obligations of a legal entity that are collateralized by mortgages and divided into classes. Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security at a specified future time and at a specified price. The Fund will only use futures contracts that have U.S. Treasury securities and interest rate swaps as their underlying reference assets.

10 The futures in which the Fund may invest will trade on markets that are members of the Intermarket Surveillance Group ("ISG") or that have entered into a comprehensive surveillance agreement with the Exchange.

actively make two-sided markets. Additionally, Markit publishes daily closing prices based on dealer marks. Pricing in this market is transparent and provided by major market makers. The Agency MBS IOS are analogous to interest-only CMOs in swap form with differences in the composition of underlying MBS collateral. IOS are total rate of return swaps.

According to the Registration Statement, the Agency MBS IOS and agency interest-only CMOs in which the Fund will invest are intended to provide significant negative duration exposure and will generally benefit from rising interest rates.[11] The overall duration of the Fund's portfolio will generally range from -5 to -15 years. Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates. The longer a security's duration, the more sensitive it will be to changes in interest rates. A portfolio with negative duration generally incurs a loss when interest rates and yields fall. To counter the impact of such potential losses, the Fund's negative duration may be partly offset with long positions in U.S. Treasury obligations, interest rate swaps and other positive duration products.

According to the Registration Statement, in determining the Fund's investment allocations, the Sub-Adviser will perform both top-down and security specific analysis. The overall negative duration target and allocation to specific subsectors of the mortgage interest-only market will be based on high-level macro and relative value analysis across fixed income markets. Using these targets, allocations to individual positions will be made based on detailed value analysis. Liquid U.S. Treasury obligations and interest rate swaps will be used to adjust the portfolio to certain negative duration targets. While such U.S. Treasury and interest rate swap

---

11 According to the Adviser, negative duration reflects price sensitivity to interest rate changes that is the inverse of how standard bond instruments behave. Specifically, negative duration instruments generally appreciate in price as interest rates rise.

hedges may be rebalanced daily, the portfolio of Agency MBS IOS and agency interest-only CMOs will be less frequently rebalanced.

According to the Registration Statement, agency CMOs, including agency interest-only CMOs, are typically collateralized by portfolios of mortgage pass-through securities guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or Federal National Mortgage Association ("Fannie Mae"), and the income payments on such securities.[12] CMOs, including agency interest-only CMOs, are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments.

The agency interest-only CMOs that the Fund may invest in include agency stripped mortgage-backed securities ("SMBS").[13] According to the Registration Statement, as CMOs

---

12 According to the Registration Statement, Ginnie Mae, a wholly owned United States Government corporation, is one of the principal governmental guarantor [sic] of mortgage-related securities, such as agency CMOs. Ginnie Mae is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment of principal and interest on securities issued by institutions approved by Ginnie Mae and backed by pools of mortgages insured by the Federal Housing Administration (the "FHA"), or guaranteed by the Department of Veterans Affairs (the "VA"). Government-related guarantors (i.e., not backed by the full faith and credit of the United States Government) include the government-sponsored corporations Fannie Mae and Freddie Mac. Pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae, but are not backed by the full faith and credit of the United States Government.

13 According to the Registration Statement SMBS are derivative multi-class mortgage securities. SMBSs may be issued by agencies or instrumentalities of the U.S. government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing. SMBSs are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets.

have evolved, some classes of CMO bonds have become more common. For example, the Fund may invest in agency interest-only parallel-pay and planned amortization class ("PAC") CMOs and agency interest-only multi-class pass through certificates.[14] Any CMO or multi-class pass through structure that includes PAC securities must also have support tranches—known as support bonds, companion bonds or non-PAC bonds—which lend or absorb principal cash flows to allow the PAC securities to maintain their stated maturities and final distribution dates within a range of actual prepayment experience. Consistent with the Fund's investment objectives and policies, the Sub-Adviser may invest in various tranches of agency interest-only CMO bonds, including support bonds.

According to the Registration Statement, the Fund may enter into interest rate swaps. The Fund may utilize swap agreements in an attempt to gain exposure to the securities in a market without actually purchasing those securities, or to hedge a position. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a day to more than one-year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested in a "basket" of securities representing a particular index.

According to the Registration Statement, the Fund's obligations under a swap agreement will be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid

---

[14] According to the Registration Statement, parallel-pay CMOs and multi-class pass-through certificates are structured to provide payments of principal on each payment date to more than one class. PACs generally require payments of a specified amount of principal on each payment date. PACs are parallel-pay CMOs with the required principal amount on such securities having the highest priority after interest has been paid to all classes.

net amounts owed to a swap counterparty will be covered by segregating assets determined to be liquid. The Fund will not enter into any swap agreement unless the Adviser believes that the other party to the transaction is creditworthy.[15]

According to the Registration Statement, the Fund may enter into swap agreements to invest in a market without owning or taking physical custody of the underlying securities in circumstances in which direct investment is restricted for legal reasons or is otherwise impracticable.

According to the Registration Statement, the Fund intends to invest in U.S. Treasury securities and U.S. Treasury futures. U.S. Treasury securities are backed by the full faith and credit of the U.S. Treasury and differ only in their interest rates, maturities, and times of issuance. The Fund may invest in U.S. Treasury zero-coupon bonds. These securities are U.S. Treasury bonds which have been stripped of their unmatured interest coupons, the coupons themselves, and receipts or certificates representing interests in such stripped debt obligations and coupons. Interest is not paid in cash during the term of these securities, but is accrued and paid at maturity.

Other Investments

While the Fund's principal investments, under normal circumstances,[16] will be as described above, the Fund may invest the balance of its assets in the investments described below.

---

[15] The Fund will seek, where possible, to use counterparties, as applicable, whose financial status is such that the risk of default is reduced. The Adviser's Execution Committee will evaluate the creditworthiness of counterparties on an ongoing basis. In addition to information provided by credit agencies, the Adviser's analysts will evaluate each approved counterparty using various methods of analysis, including the counterparty's liquidity in the event of default, the broker-dealer's reputation, the Adviser's past experience with the broker-dealer, the Financial Industry Regulatory Authority's ("FINRA") BrokerCheck and disciplinary history and its share of market participation.

According to the Registration Statement, the Fund may invest in other mortgage-related securities in addition to the agency interest-only CMOs described above. Such mortgage-related securities are securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. More specifically, the Fund may hold MBS, mortgage dollar rolls,[17] CMO residuals,[18] and equity or debt securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts, and special purpose entities of the foregoing. In addition to the agency interest-only CMOs described above, the MBS that the Fund will invest in are

---

16 See note 8, supra. According to the Registration Statement, in the absence of normal circumstances the Fund may invest 100% of its total assets, without limitation, in debt securities and money market instruments, either directly or through exchange traded funds ("ETFs"). Debt securities and money market instruments include shares of other mutual funds, commercial paper, U.S. government securities, repurchase agreements and bonds that are rated BBB or higher. The Fund may be invested in this manner for extended periods, depending on the Sub-Adviser's assessment of market conditions. While the Fund is in a defensive position, the opportunity to achieve its investment objectives will be limited. Furthermore, to the extent that the Fund invests in money market mutual funds the Fund would bear its pro rata portion of each such money market fund's advisory fees and operational expenses.

17 Dollar rolls are a type of repurchase transaction in the mortgage pass-through securities market in which the buy side trade counterparty of a "to be announced" ("TBA") trade agrees to sell off the same TBA trade in the current month and to buy back the same trade in a future month at a lower price, constituting a forward contract.

18 According to the Registration Statement, CMO residuals are mortgage securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans. The cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses and any management fee of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Transactions in CMO residuals will generally be completed only after careful review of the characteristics of the securities in question.

other agency CMOs, non-agency CMOs (including non-agency SMBS) and Adjustable Rate Mortgage Backed Securities ("ARMBS").

According to the Registration Statement, such mortgage-related securities include privately issued mortgage-related securities, where issuers create pass-through pools of conventional residential mortgage loans.[19] Timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities or private insurers. The Fund may buy mortgage-related securities without insurance or guarantees if, through an examination of the loan experience and practices of the originators/servicers and poolers, the Sub-Adviser determines that the securities meet the Trust's investment quality standards. Privately issued mortgage-related securities are not traded on an exchange. The Fund may purchase privately issued mortgage-related securities that are originated, packaged and serviced by third party entities.

According to the Registration Statement, the Fund may invest in asset-backed securities ("ABSs"), which are bonds backed by pools of loans or other receivables. ABSs are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. ABSs are issued through special purpose vehicles that are bankruptcy remote from the issuer of the collateral. According to the Registration Statement, the Fund may invest in each of collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs"), other

---

[19] According to the Registration Statement, in determining whether and how much to invest in privately issued mortgage-related securities, and how to allocate those assets, the Sub-Adviser will consider a number of factors. These include, but are not limited to: (1) the nature of the borrowers (e.g., residential vs. commercial); (2) the collateral loan type (e.g., for residential: First Lien – Jumbo/Prime, First Lien – Alt-A, First Lien – Subprime, First Lien – Pay-Option or Second Lien; for commercial: Conduit, Large Loan or Single Asset / Single Borrower); and (3) in the case of residential loans, whether they are fixed rate or adjustable mortgages.

collateralized debt obligations (“CDOs”) and other similarly structured securities. CBOs, CLOs and other CDOs are types of ABS. A CBO is a trust which is often backed by a diversified pool of high risk, below investment grade fixed income securities. The collateral can be from many different types of fixed income securities such as high yield debt, residential privately issued mortgage-related securities, commercial privately issued mortgage-related securities, trust preferred securities and emerging market debt. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. Other CDOs are trusts backed by other types of assets representing obligations of various parties. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus, are not registered under the securities laws.

According to the Adviser, the Fund will limit investments in ABS and MBS that are issued or guaranteed by non-government entities to 15% of the Fund's net assets.

According to the Registration Statement, in addition to interest–only swaps and interest rate swaps, which are primary investments, the Fund may enter into other types of swap agreements. The swap agreements will have MBS as reference assets, including CMOs.

According to the Registration Statement, the Fund may invest directly and indirectly in foreign currencies. The Fund may conduct foreign currency transactions on a spot (i.e., cash) or forward basis (i.e., by entering into forward contracts to purchase or sell foreign currencies). Forward contracts are generally traded in an interbank market directly between currency traders (usually large commercial banks) and their customers. At the discretion of the Adviser, the Fund may, but is not obligated to, enter into forward currency exchange contracts for hedging purposes to help reduce the risks and volatility caused by changes in foreign currency exchange rates, or to gain exposure to certain currencies in an effort to achieve the Fund's investment objective.

According to the Registration Statement, the Fund may invest in equity securities. The Fund may invest in common stock, preferred stock, warrants, convertible securities, master limited partnerships ("MLPs") and rights. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged (by the holder or by the issuer) into shares of the underlying common stock (or cash or securities of equivalent value) at a stated exchange ratio. A convertible security may also be called for redemption or conversion by the issuer after a particular date and under certain circumstances (including a specified price) established upon issue. MLPs are limited partnerships in which the ownership units are publicly traded.

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

According to the Registration Statement, the Fund may invest in exchange-traded notes ("ETNs").[20] It is expected that the ETN issuer's credit rating will be investment grade at the time of investment.

According to the Registration Statement, in addition to the U.S. Treasury debt securities described above, the Fund intends to invest in other fixed income securities. The fixed income

---

[20] ETNs are securities listed and traded on the Exchange under NYSE Arca Equities Rule 5.2(j)(6) ("Index-Linked Securities"). ETNs are senior, unsecured unsubordinated debt securities issued by an underwriting bank that are designed to provide returns that are linked to a particular benchmark less investor fees. ETNs have a maturity date and, generally, are backed only by the creditworthiness of the issuer.

securities the Fund may invest in are variable and floating rate instruments; bank obligations, including certificates of deposit, bankers' acceptances, and fixed time deposits; commercial paper; U.S. government securities other than U.S. Treasuries[21]; municipal securities; repurchase agreements; reverse repurchase agreements; corporate debt securities; convertible securities; and MBS. Some debt securities, such as zero coupon bonds, do not make regular interest payments but are issued at a discount to their principal or maturity value. Except as discussed herein, the Fund may invest in investment-grade debt securities, non-investment-grade debt securities, and unrated debt securities.[22] The Fund may invest assets in obligations of foreign banks which meet the conditions set forth herein.

According to the Registration Statement, the Fund may seek to invest in corporate debt securities representative of one or more high yield bond or credit derivative indices, which may change from time to time. Selection will generally be dependent on independent credit analysis or fundamental analysis performed by the Sub-Adviser.

---

[21] According to the Registration Statement, some obligations issued or guaranteed by U.S. government agencies and instrumentalities, including, for example, Ginnie Mae pass-through certificates, are supported by the full faith and credit of the U.S. Treasury. Other obligations issued by or guaranteed by federal agencies, such as those securities issued by Fannie Mae, are supported by the discretionary authority of the U.S. government to purchase certain obligations of the federal agency, while other obligations issued by or guaranteed by federal agencies, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury.

[22] According to the Registration Statement, non-investment-grade securities, also referred to as "high yield securities" or "junk bonds," are debt securities that are rated lower than the four highest rating categories by a nationally recognized statistical rating organization (for example, lower than Baa3 by Moody's Investors Service, Inc. ("Moody's") or lower than BBB- by Standard and Poor's Ratings Services ("S&P")) or are determined to be of comparable quality by the Fund's Sub-Adviser. The creditworthiness of the issuer, as well as any financial institution or other party responsible for payments on the security, will be analyzed by the Sub-Adviser to determine whether to purchase unrated bonds.

According to the Registration Statement, the Fund may enter into repurchase agreements with financial institutions, which may be deemed to be loans. The Fund will effect repurchase transactions only with large, well-capitalized and well-established financial institutions whose condition will be continually monitored by the Sub-Adviser.

According to the Registration Statement, the Fund may enter into reverse repurchase agreements. Reverse repurchase agreements involve sales by the Fund of portfolio assets concurrently with an agreement by the Fund to repurchase the same assets at a later date at a fixed price.

According to the Registration Statement, the Fund will only invest in commercial paper rated A-1 or A-2 by S&P or Prime-1 or Prime-2 by Moody's.

According to the Registration Statement, the Fund may invest in inflation-indexed bonds, which are fixed income securities whose principal value is periodically adjusted according to the rate of inflation.

According to the Registration Statement, the Fund may invest in securities that are indirectly linked to the performance of foreign issuers, specifically: American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs"), European Depositary Receipts ("EDRs"), International Depository Receipts ("IDRs"), "ordinary shares," "New York shares" issued and traded in the U.S.[23] and exchange traded products ("ETPs").

---

23 ADRs are U.S. dollar denominated receipts typically issued by U.S. banks and trust companies that evidence ownership of underlying securities issued by a foreign issuer. The underlying securities may not necessarily be denominated in the same currency as the securities into which they may be converted. Generally, ADRs are designed for use in domestic securities markets and are traded on exchanges or OTC in the U.S. GDRs, EDRs, and IDRs are similar to ADRs in that they are certificates evidencing ownership of shares of a foreign issuer; however, GDRs, EDRs, and IDRs may be issued in bearer form and denominated in other currencies, and are generally designed for use in specific or multiple securities markets outside the U.S. EDRs, for example, are designed for use in

According to the Registration Statement, the Fund may invest in the securities of other investment companies to the extent that such an investment would be consistent with the requirements of Section 12(d)(1) of the 1940 Act, or any rule, regulation or order of the SEC or interpretation thereof. Consistent with such restrictions, the Fund may invest in several different types of investment companies from time to time, including mutual funds, ETFs, closed-end funds, and business development companies ("BDCs"), when the Adviser or the Sub-Adviser believes such an investment is in the best interests of the Fund and its shareholders. Closed-end funds are pooled investment vehicles that are registered under the 1940 Act and whose shares are listed and traded on U.S. national securities exchanges. A BDC is a less common type of closed-end investment company that more closely resembles an operating company than a typical investment company. Investment companies may include index-based investments, such as ETFs that hold substantially all of their assets in securities representing a specific index.

According to the Registration Statement, in addition to the U.S. Treasury Futures, Agency MBS IOS and interest rate swaps discussed above, the Fund intends to invest in other derivatives. The derivatives in which the Fund may invest are other futures contracts, forward contracts,[24] options, options on futures, other swaps, hybrid instruments and structured notes. The Fund typically will use derivatives as a substitute for taking a position directly in the

---

European securities markets while GDRs are designed for use throughout the world. Ordinary shares are shares of foreign issuers that are traded abroad and on a U.S. exchange. New York shares are shares that a foreign issuer has allocated for trading in the U.S. ADRs, ordinary shares, and New York shares all may be purchased with and sold for U.S. dollars. With the exception of ADRs traded OTC, which will comprise no more than 10% of the Fund's net assets, all equity securities, including, without limitation, exchange-traded ADRs, GDRs, EDRs, IDRs, New York shares and ordinary shares, that the Fund may invest in will trade on markets that are members of the ISG or that have entered into a comprehensive surveillance agreement with the Exchange.

[24] Specifically, in addition to the forward currency exchange contracts discussed above, the Fund may invest in mortgage dollar rolls, which constitute forward contracts.

underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as currency risk. Not more than 10% of the net assets of the Fund in the aggregate shall consist of options whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

According to the Registration Statement, the Fund will only enter into futures contracts that are traded on a national futures exchange regulated by the Commodities Futures Trading Commission ("CFTC") and whose principal market is a member of ISG or is a market with which the Exchange has a comprehensive surveillance sharing agreement.[25] The Fund will only use futures contracts that have U.S. Treasury securities and interest rate swaps as their underlying reference assets. The Fund may use futures contracts and options on futures for bona fide hedging; attempting to offset changes in the value of securities held or expected to be acquired or be disposed of; attempting to gain exposure to a particular market, index or instrument; or other risk management purposes. An option on a futures contract gives the

---

25 To the extent the Fund invests in futures, options on futures or other instruments subject to regulation by the CFTC, it will do so in reliance on and in compliance with CFTC regulations in effect from time to time and in accordance with the Fund's policies. The Trust, on behalf of certain of its series, has filed a notice of eligibility for exclusion from the definition of the term "commodity pool operator" in accordance with CFTC Regulation 4.5. Therefore, neither the Trust nor the Fund is deemed to be a "commodity pool" or "commodity pool operator" with respect to the Fund under the Commodity Exchange Act ("CEA"), and they are not subject to registration or regulation as such under the CEA. In addition, as of the date of this filing, the Adviser is not deemed to be a "commodity pool operator" or "commodity trading adviser" with respect to the advisory services it provides to the Fund. The CFTC recently adopted amendments to CFTC Regulation 4.5 and has proposed additional regulatory requirements that may affect the extent to which the Fund invests in instruments that are subject to regulation by the CFTC and impose additional regulatory obligations on the Fund and the Adviser. The Fund reserves the right to engage in transactions involving futures, options thereon and swaps to the extent allowed by CFTC regulations in effect from time to time and in accordance with the Fund's policies.

purchaser the right, in exchange for a premium, to assume a position in a futures contract at a specified exercise price during the term of the option.

According to the Registration Statement, the Fund may write (sell) and purchase put and call options on indices and enter into related closing transactions. According to the Registration Statement, the Fund may trade put and call options on securities, securities indices and currencies, as the Sub-Adviser determines is appropriate in seeking the Fund's investment objective, and except as restricted by the Fund's investment limitations. The Fund may purchase put and call options on securities to protect against a decline in the market value of the securities in its portfolio or to anticipate an increase in the market value of securities that the Fund may seek to purchase in the future. The Fund may write covered call options on securities as a means of increasing the yield on its assets and as a means of providing limited protection against decreases in its market value. The Fund may purchase and write options on an exchange or OTC.

According to the Registration Statement, the Fund may invest in hybrid instruments. A hybrid instrument is a type of potentially high-risk derivative that combines a traditional stock, bond, or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some security, commodity, currency or securities index or another interest rate or some other economic factor (each a "benchmark"). The interest rate or (unlike most fixed income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark.

According to the Registration Statement, certain hybrid instruments may provide exposure to the commodities markets. These are derivative securities with one or more commodity-linked components that have payment features similar to commodity futures contracts, commodity options, or similar instruments. Commodity-linked hybrid instruments may be either equity or debt securities, and are considered hybrid instruments because they have both security and commodity-like characteristics. A portion of the value of these instruments may be derived from the value of a commodity, futures contract, index or other economic variable. The Fund will only invest in commodity-linked hybrid instruments that qualify, under applicable rules of the CFTC, for an exemption from the provisions of the CEA.

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

According to the Registration Statement, the Fund, from time to time, in the ordinary course of business, may purchase securities on a when-issued, delayed-delivery or forward commitment basis (i.e., delivery and payment can take place between a month and 120 days after the date of the transaction). The Fund will not purchase securities on a when-issued, delayed-delivery or forward commitment basis if, as a result, more than 15% of the Fund's net assets would be so invested.

Investment Restrictions

According to the Registration Statement, the Fund may not purchase or sell commodities or commodity contracts unless acquired as a result of ownership of securities or other instruments issued by persons that purchase or sell commodities or commodities contracts; but this shall not prevent the Fund from purchasing, selling and entering into futures contracts, options on financial futures contracts, warrants, swaps, forward contracts, foreign currency spot and forward contracts or other derivative instruments that are not related to physical commodities. The Fund will only use futures contracts that have U.S. Treasury securities and interest rate swaps as their underlying assets.

According to the Registration Statement, the Fund may not, with respect to 75% of its total assets, purchase securities of any issuer (except securities issued or guaranteed by the U.S. government, its agencies or instrumentalities or shares of investment companies) if, as a result, more than 5% of its total assets would be invested in the securities of such issuer; or acquire more than 10% of the outstanding voting securities of any one issuer.[26]

According to the Registration Statement, the Fund may not invest 25% or more of its total assets in the securities of one or more issuers conducting their principal business activities in the same industry or group of industries. This limitation does not apply to investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or shares of investment companies. The Fund will not invest 25% or more of its total assets in any investment company that so concentrates.[27]

According to the Registration Statement, the Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including securities deemed illiquid by the Adviser consistent with Commission guidance. The Fund will

---

26 The diversification standard is set forth in Section 5(b)(1) of the 1940 Act. According to the Registration Statement, in the case of privately issued mortgage-related securities, the Fund takes the position that mortgage-related securities do not represent interests in any particular "industry" or group of industries. Therefore, the Fund may invest more or less than 25% of its total assets in privately issued mortgage- related securities.

27 See Form N-1A, Item 9. The Commission has taken the position that a fund is concentrated if it invests more than 25% of the value of its total assets in any one industry. See, e.g., Investment Company Act Release No. 9011 (October 30, 1975), 40 FR 54241 (November 21, 1975).

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 the Fund's net assets are held 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.[28]

According to the Registration Statement, the Fund will seek to qualify for treatment as a Regulated Investment Company under the Internal Revenue Code.[29]

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

According to the Registration Statement, while the Fund does not anticipate doing so, the Fund may borrow money for investment purposes. The Fund may also borrow money to facilitate management of the Fund's portfolio by enabling the Fund to meet redemption requests when the liquidation of portfolio instruments would be inconvenient or disadvantageous. Such

---

[28] The Commission has stated that long-standing Commission guidelines have required open-end funds to hold no more than 15% of their net assets in illiquid securities and other illiquid assets. See Investment Company Act Release No. 28193 (March 11, 2008), 73 FR 14618 (March 18, 2008), footnote 34. See also, Investment Company Act Release No. 5847 (October 21, 1969), 35 FR 19989 (December 31, 1970) (Statement Regarding "Restricted Securities"); Investment Company Act Release No. 18612 (March 12, 1992), 57 FR 9828 (March 20, 1992) (Revisions of Guidelines to Form N-1A). A fund's portfolio security is illiquid if it cannot be disposed of in the ordinary course of business within seven days at approximately the value ascribed to it by the fund. See Investment Company Act Release No. 14983 (March 12, 1986), 51 FR 9773 (March 21, 1986) (adopting amendments to Rule 2a-7 under the 1940 Act); Investment Company Act Release No. 17452 (April 23, 1990), 55 FR 17933 (April 30, 1990) (adopting Rule 144A under the Securities Act.

[29] 26 U.S.C. 851.

borrowing is not for investment purposes, will be repaid by the Fund promptly and will be consistent with the requirements of the 1940 Act and the rules thereunder.

According to the Registration Statement, the Fund may lend portfolio securities to brokers, dealers and other financial organizations that meet capital and other credit requirements or other criteria established by the Fund's Board of Trustees. These loans, if and when made, may not exceed 33 1/3% of the total asset value of the Fund (including the loan collateral). The Fund will not lend portfolio securities to the Adviser, Sub-Adviser, or their affiliates, unless it has applied for and received specific authority to do so from the Commission. Loans of portfolio securities will be fully collateralized by cash, letters of credit or U.S. government securities, and the collateral will be maintained in an amount equal to at least 100% of the current market value of the loaned securities by marking to market daily.

Net Asset Value

According to the Registration Statement, the Fund will calculate its NAV by: (i) taking the current market value of its total assets; (ii) subtracting any liabilities; and (iii) dividing that amount by the total number of Shares owned by shareholders. The Fund will calculate NAV once each business day as of the regularly scheduled close of trading on the Exchange (normally, 4:00 p.m., Eastern Time).

In calculating NAV, the Fund's securities holdings will be valued based on their last readily available market price.

Futures contracts, exchange-traded options, and options on futures, will be valued at the closing settlement price determined by the applicable exchange. Other exchange-traded securities, including equity securities (including ETPs such as exchange-traded ADRs, GDRs, EDRs, IDRs, ordinary shares, New York shares, ETNs, and ETFs), and exchange-traded REITs, 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 security is primarily traded at the time of valuation or, if no sale has occurred, at the last quoted bid price on the primary market or exchange on which they are traded. If market prices are unavailable or the Fund believes that they are unreliable, or when the value of a security has been materially affected by events occurring after the relevant market closes, the Fund will price those securities at fair value as determined in good faith using methods approved by the Trust's Board of Trustees.

ADRs traded OTC will be valued on the basis of the market closing price on the exchange where the stock of the foreign issuer that underlies the ADR is listed. Investment company securities (other than ETFs), including mutual funds, closed end funds, and BDCs, will be valued at net asset value.

Non-exchange-traded derivatives, including forward contracts, swaps, options traded OTC, options on futures traded OTC, hybrid instruments and structured notes, will normally be valued on the basis of quotes obtained from brokers and dealers or pricing services using data reflecting the earlier closing of the principal markets for those assets. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics.

Fixed income securities, including CMOs (including agency interest-only CMOs), CMO residuals, mortgage dollar rolls, U.S. Treasury securities, other obligations issued or guaranteed by U.S. government agencies and instrumentalities, bonds, bank obligations, ABS, MBS, shares of other mutual funds, commercial paper, repurchase agreements, reverse repurchase agreements, corporate debt securities, municipal securities, convertible securities, certificates of deposits and bankers' acceptances generally trade in the OTC market rather than on a securities exchange. The Fund will generally value these portfolio assets by relying on independent pricing services.

The Fund’s pricing services will use valuation models or matrix pricing to determine current value. In general, pricing services use information with respect to comparable bond and note transactions, quotations from bond dealers or by reference to other assets that are considered comparable in such characteristics as rating, interest rate, maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves. Matrix price is an estimated price or value for a fixed-income security. Matrix pricing is considered a form of fair value pricing. The Fund’s debt securities will generally be valued at bid prices. In certain cases, some of the Fund’s debt securities may be valued at the mean between the last available bid and ask prices.

Foreign exchange rates will be priced using 4:00 p.m. (Eastern Time) mean prices from major market data vendors.

Creation and Redemption of Shares

According to the Registration Statement, the Fund will issue and redeem Shares on a continuous basis at NAV in aggregated lots which shall initially be of 25,000 Shares (each, a “Creation Unit”).

All orders to create or redeem Creation Units must be received by the Distributor no later than 3:00 p.m., Eastern Time in order for the creation or redemption of Creation Units to be effected based on the NAV of Shares of the Fund as next determined on such date.

The Trust reserves the right to offer an “all cash” option for creations and redemptions of Creation Units for the Fund.[30]

The consideration for purchase of a Creation Unit of each Fund generally will consist of an in-kind deposit of a designated portfolio of securities – the “Deposit Securities” – per each

[30] The Adviser represents that, to the extent the Trust effects the creation of Shares in cash, such transactions will be effected in the same manner for all authorized participants.

Creation Unit constituting a substantial replication, or a representation, of the securities included in the Fund's portfolio and an amount of cash – the "Cash Component." Together, the Deposit Securities and the Cash Component will constitute the "Fund Deposit," which represents the minimum initial and subsequent investment amount for a Creation Unit of the Fund. The Cash Component is an amount equal to the difference between the NAV of the Shares of the Fund (per Creation Unit) and the market value of the Deposit Securities.

In addition, the Trust reserves the right to permit or require the substitution of an amount of cash – i.e., a "cash in lieu" amount – to be added to the Cash Component to replace any Deposit Security which may not be available in sufficient quantity for delivery or which may not be eligible for transfer through the clearing process, or which may not be eligible for trading by an authorized participant or the investor for which it is acting.

Shares may be redeemed only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Fund through the Administrator and only on a business day. The Trust will not redeem Shares of the Fund in amounts less than Creation Units. Unless cash redemptions are available or specified, the redemption proceeds for a Creation Unit generally will consist of "the Fund Securities" – as announced by the Administrator on the business day of the request for redemption received in proper form – plus cash in an amount equal to the difference between the NAV of the Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities, less a redemption transaction fee. The Administrator, through the National Securities Clearing Corporation ("NSCC"), will make available immediately prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern Time) on each business day, the Fund Securities that will be applicable to redemption requests received in proper form on that day as well as the estimated Cash Component.

According to the Registration Statement, if it is not possible to effect deliveries of the Fund Securities, for example if the investor is not able to accept delivery, the Trust may in its discretion exercise its option to redeem Shares of the Fund in cash, and the redeeming beneficial owner will be required to receive its redemption proceeds in cash. In addition, an investor may request a redemption in cash which the Fund may, in its sole discretion, permit.[31] In either case, the investor will receive a cash payment equal to the NAV of its Shares based on the NAV of Shares of the Fund next determined after the redemption request is received in proper form (minus a redemption transaction fee and additional charge for requested cash redemptions, as described in the Registration Statement). The Fund may also, in its sole discretion, upon request of a shareholder, provide such redeemer a portfolio of securities which differs from the exact composition of the applicable Fund Securities but does not differ in NAV.

Redemptions of Shares for Fund Securities will be subject to compliance with applicable federal and state securities laws and the Fund (whether or not it otherwise permits cash redemptions) reserves the right to redeem Creation Units for cash to the extent that the Fund could not lawfully deliver specific Fund Securities upon redemptions or could not do so without first registering the Fund Securities under such laws. An authorized participant or an investor for which it is acting subject to a legal restriction with respect to a particular stock included in the Fund Securities applicable to the redemption of a Creation Unit may be paid an equivalent amount of cash.

<u>Availability of Information</u>

---

31 The Adviser represents that, to the extent the Trust effects the redemption of Shares in cash, such transactions will be effected in the same manner for all authorized participants.

The Fund's website (www.advisorshares.com), which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for the Fund that may be downloaded. The Fund's website will include additional quantitative information updated on a daily basis, including, for the Fund, (1) daily trading volume, the prior business day's reported closing price, NAV and mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"),[32] 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. On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Fund's website will disclose the Disclosed Portfolio that will form the basis for the Fund's calculation of NAV at the end of the business day.[33]

On a daily basis, the Adviser, on behalf of the Fund, will disclose on the Fund's website the following information regarding each portfolio holding of the Fund, as applicable to the type of holding: ticker symbol , CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, commodity, index, or other asset or instrument underlying the holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts or units); maturity date, if any; coupon rate, if any; effective date, if any; market value

---

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

33 Under accounting procedures followed by the Fund, trades made on the prior business day ("T") will be booked and reflected in NAV on the current business day ("T+1"). Accordingly, the Fund will be able to disclose at the beginning of the business day the portfolio that will form the basis for the NAV calculation at the end of the business day.

of the holding; and the percentage weighting of the holding in the Fund's portfolio. The website information will be publicly available at no charge.

Investors can also obtain the Trust's Statement of Additional Information ("SAI"), the Fund's Shareholder Reports, and its Form N-CSR and Form N-SAR, filed twice a year. The Trust's SAI and Shareholder Reports will be available free upon request from the Trust, and those documents and the Form N-CSR and Form N-SAR may be viewed on-screen or downloaded from the Commission's website 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.

Quotation and last sale information for the Shares and the underlying U.S. exchange-traded equity securities will be available via the Consolidated Tape Association ("CTA") high-speed line, and from the national securities exchange on which they are listed. Quotation and last sale information for exchange-listed options will be available via the Options Price Reporting Authority. Price information regarding the futures contracts, exchange-traded options, options on futures, equity securities (including ETPs such as exchange-listed ADRs, GDRs, EDRs, IDRs, ordinary shares and New York shares as well as ETNs, and ETFs), and exchange-traded REITs, held by the Fund will be available from the U.S. and non-U.S. exchanges trading such assets.

Quotation information from brokers and dealers or pricing services will be available for ADRs traded OTC; investment company securities other than ETFs; non-exchange-traded derivatives, including forward contracts, IOS and other swaps, options traded OTC, options on futures, hybrid instruments and structured notes; fixed income securities, including CMOs (including agency interest-only CMOs), CMO residuals, mortgage dollar rolls, U.S. Treasury securities, other obligations issued or guaranteed by U.S. government agencies and instrumentalities, bonds, bank obligations, ABS, MBS, shares of other mutual funds, commercial paper, repurchase agreements, reverse repurchase agreements, corporate debt securities, municipal securities, convertible securities, certificates of deposit and bankers' acceptances. Pricing information regarding each asset class in which the Fund will invest is generally available through nationally recognized data service providers through subscription agreements. Foreign exchange prices are available from major market data vendors.

In addition, the Portfolio Indicative Value, as defined in NYSE Arca Equities Rule 8.600(c)(3), will be widely disseminated at least every 15 seconds during the Core Trading Session by one or more major market data vendors.[34] The dissemination of the Portfolio Indicative Value, together with the Disclosed Portfolio, will allow investors to determine the value of the underlying portfolio of the Fund on a daily basis and will provide a close estimate of that value throughout the trading day.

Additional information regarding the Trust and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions and taxes is included in the Registration Statement. All terms relating to the Fund that are referred to, but not defined in, this proposed rule change are defined in the Registration Statement.

---

34 Currently, it is the Exchange's understanding that several major market data vendors display and/or make widely available Portfolio Indicative Values taken from CTA or other data feeds.

Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund.[35] Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of the Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of the Fund 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 NYSE Arca Marketplace from 4 a.m. to 8 p.m. Eastern Time in accordance with NYSE Arca Equities Rule 7.34 (Opening, Core, and Late Trading Sessions). The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, Commentary .03, the minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the NYSE Arca Marketplace is $0.01, with the exception of securities that are priced less than $1.00 for which the MPV for order entry is $0.0001.

---

35 See NYSE Arca Equities Rule 7.12, Commentary .04.

The Shares will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600. Consistent with NYSE Arca Equities Rule 8.600(d)(2)(B)(ii), the Adviser will implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of the Fund's portfolio. The Exchange represents that, for initial and/or continued listing, the Fund will be in compliance with Rule 10A-3[36] under the Exchange Act, as provided by NYSE Arca Equities Rule 5.3. A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio as defined in NYSE Arca Equities Rule 8.600(c)(2) will be made available to all market participants at the same time.

Surveillance

The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.[37]

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When

[36] 17 CFR 240.10A-3.

[37] FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.[38]

FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts with other markets and other entities that are members of the ISG and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. As noted above, with the exception of ADRs traded OTC, which will comprise no more than 10% of the Fund's net assets, all equity securities, including, without limitation, exchange-traded ADRs, GDRs, EDRs, IDRs, New York shares and ordinary shares, that the Fund may invest in will trade on markets that are members of ISG or that have entered into a comprehensive surveillance agreement with the Exchange. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Fund reported to FINRA's Trade Reporting and Compliance Engine ("TRACE").

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

---

38 For a list of the current members of ISG, see www.isgportal.org. The Exchange notes that not all components of the Disclosed Portfolio may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin ("Bulletin") of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Unit aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its Equity Trading Permit Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated; (4) how information regarding the Portfolio Indicative Value is disseminated; (5) the requirement that Equity Trading Permit Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

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

2. Statutory Basis

The basis under the Exchange Act for this proposed rule change is the requirement under Section 6(b)(5)[39] that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove

---

[39] 15 U.S.C. 78f(b)(5).

impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Equities Rule 8.600. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts with other markets and other entities that are members of the ISG and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares, exchange-listed equity securities, futures contracts and exchange-listed options contracts from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. As noted above, with the exception of ADRs traded OTC, which will comprise no more than 10% of the Fund's net assets, all equity securities, including, without limitation, exchange-traded ADRs, GDRs, EDRs, IDRs, New York shares and ordinary shares, and Treasury futures that the Fund may invest in will trade on markets that are members of ISG or that have entered into a comprehensive surveillance agreement with the Exchange. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Fund reported to TRACE. Not more than 10% of the net assets of the Fund in the aggregate shall consist of options whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. The Fund will limit investments in ABS and MBS that are issued or guaranteed by non-government entities to 15% of the Fund's net assets. The Fund may not purchase or hold illiquid assets if, in the aggregate, more than 15% of its net assets would be invested in illiquid securities. The Exchange 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. Neither the Adviser nor the Sub-Adviser is a broker-dealer or is affiliated with a broker-dealer. In the event (a) the Adviser becomes newly affiliated with a broker-dealer, (b) the Sub-Adviser becomes newly affiliated with a broker-dealer, or (c) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio. The Fund’s investments will be consistent with the Fund’s investment objective and will not be used to enhance leverage.

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 the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. In addition, a large amount of information is publicly available regarding the Fund and the Shares, thereby promoting market transparency. Quotation and last sale information for the Shares and the underlying U.S. exchange-traded equity securities will be available via the CTA high-speed line, and from the national securities exchange on which they are listed. Quotation and last sale information for exchange-listed options will be available via the Options Price Reporting Authority. Price information regarding the futures contracts, exchange-traded options, options on futures, equity (including ETPs such as ADRs traded OTC, GDRs, EDRs, IDRs, ordinary shares and New York shares as well as ETNs, and ETFs), and exchange-traded REITs, held by the Fund will be available from the U.S. and non-U.S. exchanges trading such assets. Quotation information from brokers and dealers or pricing services will be available for ADRs traded OTC; investment company securities other than ETFs; non-exchange-traded derivatives, including forward contracts, IOS and other swaps, options traded OTC, options on futures, hybrid instruments and structured notes; fixed income securities, including CMOs (including agency interest-only CMOs), CMO residuals, mortgage dollar rolls, U.S. Treasury securities, other obligations issued or guaranteed by U.S. government agencies and instrumentalities, bonds, bank obligations, ABS, MBS, shares of other mutual funds, commercial paper, repurchase agreements, reverse repurchase agreements, corporate debt securities, municipal securities, convertible securities, certificates of deposit and bankers' acceptances. Pricing information regarding each asset class in which the Fund will invest is generally available through nationally recognized data service providers through subscription agreements. Foreign exchange prices are available from major market data vendors. In addition, the Portfolio Indicative Value will be widely disseminated by the Exchange at least every 15 seconds during the Core Trading Session. The Fund's website will include a form of the prospectus for the Fund that may be downloaded, as well as additional quantitative information updated on a daily basis. On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Fund's website will disclose the Disclosed Portfolio that will form the basis for the Fund's calculation of NAV at the end of the business day. On a daily basis, the Adviser, on behalf of the

Fund, will disclose on the Fund's website the following information regarding each portfolio holding of the Fund, as applicable to the type of holding: ticker symbol , CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, commodity, index, or other asset or instrument underlying the holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts or units); maturity date, if any; coupon rate, if any; effective date, if any; market value of the holding; and the percentage weighting of the holding in the Fund's portfolio. Moreover, prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted. In addition, as noted above, investors will have ready access to information regarding the Fund's holdings, the Portfolio Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest 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 Fund's holdings, the Portfolio Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Exchange Act. The Exchange notes that the proposed rule change will facilitate the listing and trading of an additional type of actively-managed exchange-traded product that will enhance competition among market participants, to the benefit of investors and the marketplace.

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

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

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

Within 45 days of the date of publication of this notice in the Federal Register or 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 the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2014-71 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEArca-2014-71. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549 on official business days between 10 a.m. and 3 p.m. Copies of the filing will also be available for inspection and copying at the Exchange's principal office and on its Internet website at www.nyse.com. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2014-71 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[40]

Kevin M. O'Neill,
Deputy Secretary.

BILLING CODE 8011-01p

[FR Doc. 2014-18114 Filed 07/31/2014 at 8:45 am; Publication Date: 08/01/2014]

---

40 17 CFR 200.30-3(a)(12).