

## ACTIVESHARES FAQ's

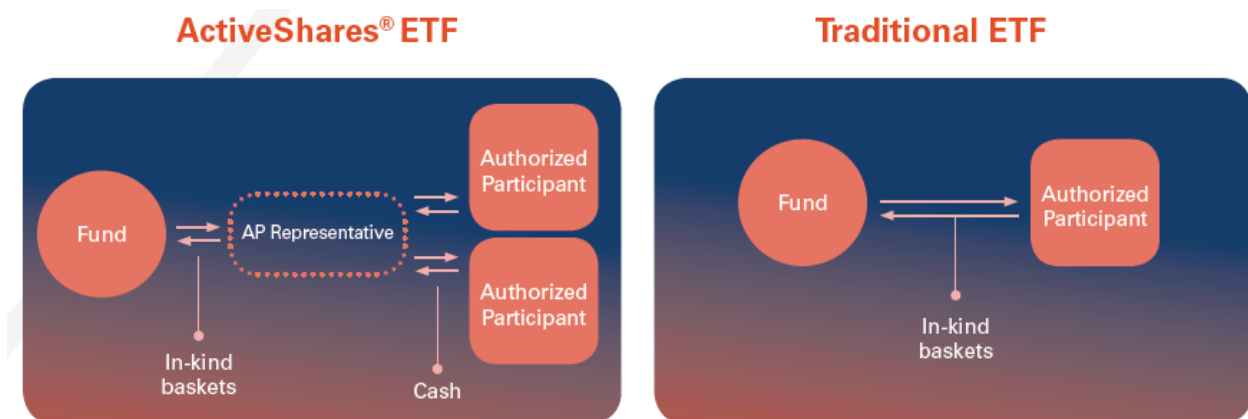
---

---

***The Authorized Participant Representative (APR) is a new role within the ETF ecosystem and unique to ActiveShares. What are the operational details of this role and how does it fit within the creation/redemption process?***

To keep portfolio holdings confidential on a daily basis and to mitigate front-running and free-riding risk, ActiveShares® will use AP Representatives (APRs). APRs will have restricted access to portfolio holdings and use a confidential account, owned by the Authorized Participant (AP), to buy and sell securities on behalf of APs for purposes of creations and redemptions. The APR acts solely as an agent on behalf of the AP and cannot act as principal to the account.

Creations and redemptions are done on a pro-rata basis in-kind through the AP's Confidential Account, ensuring that the identity of portfolio securities is protected, and the asset manager's proprietary investment strategies remain confidential.



***ActiveShares ETFs will be subject to trade halts. Why? What are the details?***

To further ensure pricing accuracy and to safeguard against pricing discrepancies, ActiveShares ETFs will initiate trade halts in the unlikely event that certain conditions are met. These conditions include a 10% limit on underlying securities that halt trading and when the difference between the two VIIV calculations is greater than 25bps in a 60 second time interval. A halt on trading may also be initiated by the fund manager in instances where they encounter a potential issue with the VIIV calculation.

## ***What is the process for launching an ActiveShares ETF? Does it differ from other ETFs? How?***

Generally, the process for launching an ActiveShares ETF is very similar to launching other ETFs. However, there are some differences that are unique to ActiveShares. In addition to filing for ActiveShares ETF exemptive relief, issuers will also be required to include new disclosures and website information and comply with some additional board oversight requirements. Precidian Investments is dedicated to helping guide licensees through this process.

## ***Is ActiveShares best described as a non-transparent or semi-transparent ETF structure?***

Similar to a mutual fund, ActiveShares ETFs are required to reveal their holdings on a quarterly basis at a minimum. Given this requirement, ActiveShares ETFs are best described as being semi-transparent. However, with ActiveShares, managers have the option to reveal holdings more frequently than quarterly if they so choose.

## ***What types of securities can an ActiveShares ETF hold?***

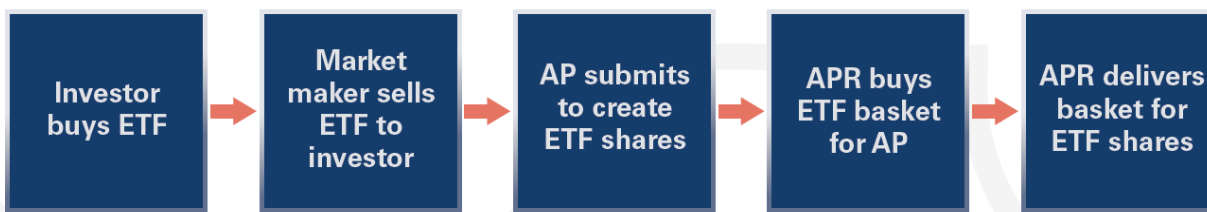
The universe of securities allowed initially are U.S.-listed securities, including small, mid, and large cap stocks, ETFs, ADRs, REITs, Treasuries and U.S.-listed futures.

The usage of these security types helps ensure that there will be, under most circumstances, adequate real time information to provide for an accurate VIIIV calculation.

## ***Describe the day-to-day operational workflow differences of an ActiveShares ETF vs other ETFs?***

Operational differences can be mostly attributed to the role of the AP Representative (APR) in an ActiveShare ETF and how they interact with the fund. Each Authorized Participant (AP) will establish and maintain a Confidential Account with an APR, for the benefit of the AP, in order to engage in in-kind creation and redemption activity.

For example, each day, the custodian will transmit the composition of the Fund's Creation Basket to each APR. The APR will be restricted from disclosing the Creation Basket. The Confidential Account will enable APs to transact in the underlying securities of the Creation Basket through their APR, enabling them to engage in in-kind creation or redemption activity.



**Describe the differences in functionality of the creation redemption process for ActiveShares (ie cash vs in-kind, pro-rata, smaller creation unit size etc.). What are the potential advantages and disadvantages?**

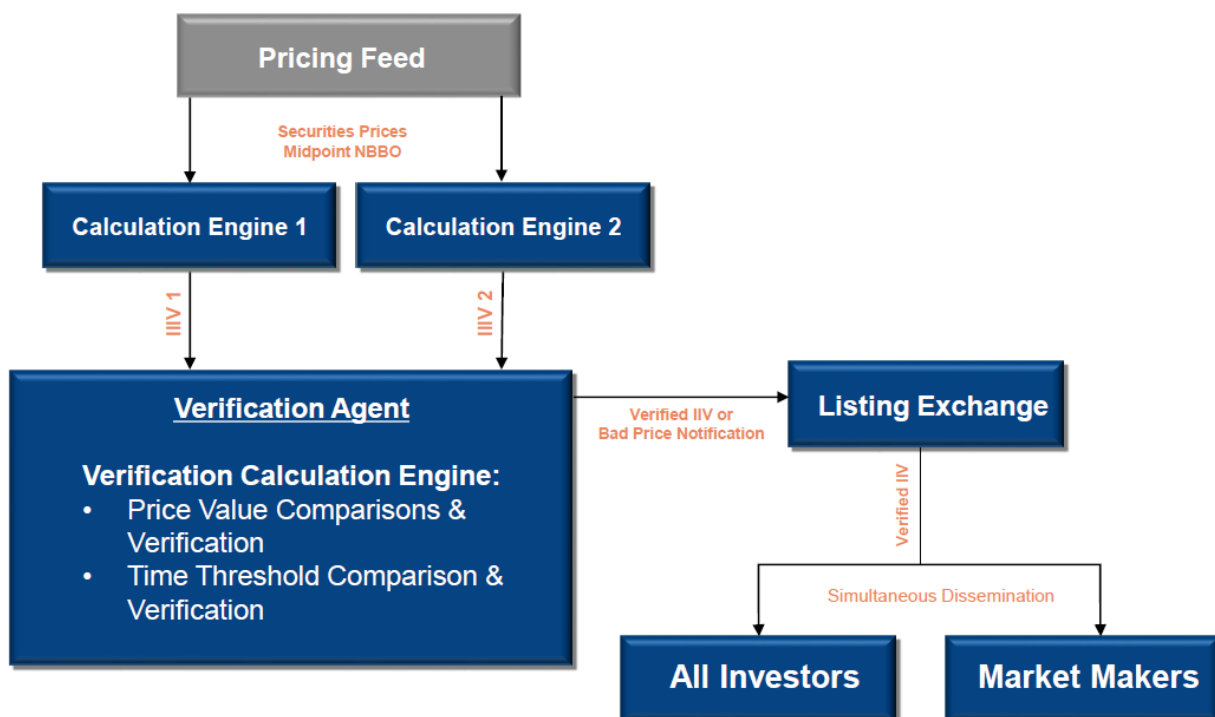
ActiveShares ETFs will have an in-kind creation and redemption methodology. This will help allow the fund manager to reduce cash drag relative to a mutual fund that typically holds cash to meet investor redemptions. Managers will also have the ability to usher low-cost embedded shares out of the fund through the redemption process, making the vehicle relatively tax-efficient.

A typical creation unit size for a traditional ETF is generally 50 or 100 thousand shares. ActiveShares ETFs will have the ability to create and redeem shares on units of 5 thousand shares or more. The ability to enter and exit the fund with fewer shares may result in lower frictional trading costs with the added potential for increased liquidity and tighter fund premiums and discounts.

**The VIIV is new to the ETF ecosystem and unique to ActiveShares. How does it differ from the traditional ETF IIV? How is it calculated? What are best practices for monitoring the VIIV?**

To enable market makers to efficiently make markets and price intraday, ActiveShares will provide a portfolio value called a Verified Intraday Indicative Value (VIIV). Unlike other ETFs – which price their trading basket every 15 seconds through an intraday indicative value (IIV) – ActiveShares® will provide a per second VIIV to the market. Both investors and market makers will be the beneficiaries of enhanced intraday pricing.

## VIIV Calculation



## VIIV vs IIV Comparison

	VIIV	IIV	Benefit of VIIV
<b>Pricing Calculation</b>	Bid/Ask Midpoint	Last Price	Continuity with published prices Avoids stale pricing that can be associated with using last price
<b>Calculation Timing</b>	Every 1 second	Every 15 seconds	Provides ETF value in real time May be particularly effective in volatile markets
<b>Time Zone Influence</b>	Underlying securities trade in US time zone	Underlying securities may trade outside of US time zone	Continuity of trading between underlying securities and ETF, improving accuracy
<b>Exchange Publishing</b>	Broad Dissemination	Broad Dissemination	Similar to IIV
<b>Availability</b>	All	All	Investors - provides a real time portfolio value and increases reliability in measuring execution costs Market Makers – enhances ability to price efficiently and helps circumvent the need for "fair valuation" pricing adjustments