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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2013 - * 036
Amendment No. (req. for Amendments *) 2

Filing by NASDAQ Stock Market

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☐	☑	☐	☑	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) ☐ Section 806(e)(2) ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

A proposed rule change relating to the listing and trading of shares of the First Trust Senior Loan Fund of First Trust Exchange-Traded Fund IV.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Jonathan Last Name * Cayne
Title * Associate General Counsel
E-mail * jonathan.cayne@nasdaqomx.com
Telephone * (301) 978-8493 Fax (301) 978-8472

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 03/06/2013

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

Edward S Knight,

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),[1] and Rule 19b-4 thereunder,[2] The NASDAQ Stock Market LLC ("Nasdaq" or the "Exchange") is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to list and trade the shares of the First Trust Senior Loan Fund (the "Fund") of First Trust Exchange-Traded Fund IV (the "Trust") under Nasdaq Rule 5735 ("Managed Fund Shares").[3] The shares of the Fund are collectively referred to herein as the "Shares."

(b) and (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on January 23, 2013. No other action by the Exchange will be necessary with respect to the rule change.

Questions regarding this rule filing may be directed to Jonathan F. Cayne,

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1 15 U.S.C. § 78s(b)(1).

2 17 CFR 240.19b-4.

3 The Commission approved Nasdaq Rule 5735 in Securities Exchange Act Release No. 57962 (June 13, 2008), 73 FR 35175 (June 20, 2008) (SR-NASDAQ-2008-039). The Fund would not be the first actively-managed fund listed on the Exchange; see Securities Exchange Act Release No. 66175 (February 29, 2012), 77 FR 13379 (March 6, 2012) (SR-NASDAQ-2012-004) (order approving listing and trading of WisdomTree Emerging Markets Corporate Bond Fund). Additionally, the Commission has previously approved the listing and trading of a number of actively managed WisdomTree funds on NYSE Arca, Inc. pursuant to Rule 8.600 of that exchange. *See*, *e.g.*, Securities Exchange Act Release No. 64643 (June 10, 2011), 76 FR 35062 (June 15, 2011) (SR-NYSE Arca-2011-21) (order approving listing and trading of WisdomTree Global Real Return Fund). The Exchange believes the proposed rule change raises no significant issues not previously addressed in those prior Commission orders.

Associate General Counsel, The NASDAQ OMX Group at (301) 978-8493 (telephone) or (301) 978-8472 (fax).

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

a. Purpose

The Exchange proposes to list and trade the Shares of the Fund under Nasdaq Rule 5735, which governs the listing and trading of Managed Fund Shares[4] on the Exchange. The Fund will be an actively managed exchange-traded fund ("ETF"). The Shares will be offered by the Trust, which was established as a Massachusetts business trust on September 15, 2010. The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N-1A ("Registration Statement") with the Commission.[5] The Fund is a series of the Trust.

Description of the Shares and the Fund

First Trust Advisors L.P. is the investment adviser ("Adviser") to the Fund. First Trust Portfolios L.P. (the "Distributor") is the principal underwriter and distributor of the

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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)(the "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 Nasdaq Rule 5705, 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 See Post-Effective Amendment No. 15 to Registration Statement on Form N-1A for the Trust, dated December 14, 2012 (File Nos. 333-174332 and 811-22559). The descriptions of the Fund and the Shares contained herein are based, in part, on information in the Registration Statement.

Fund's Shares.[6] The Bank of New York Mellon Corporation ("BNY") will act as the administrator, accounting agent, custodian and transfer agent to the Fund.[7]

Paragraph (g) of Rule 5735 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.[8] In addition, paragraph (g) further

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6 The Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act (the "Exemptive Order"). See Investment Company Act Release No. 30029 (April 10, 2012) (File No. 812-13795). In compliance with Nasdaq Rule 5735(b)(5), which applies to Managed Fund Shares based on a fixed income portfolio (including without limitation exchange-traded notes and senior loans) or a portfolio invested in a combination of equity securities and fixed income securities, the Trust's application for exemptive relief under the 1940 Act states that the Fund will comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933 (15 U.S.C. § 77a).

7 The investment banking and custodial services departments at BNY are segregated and independent departments. BNY will not exercise any investment discretion with respect to the Fund.

8 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 its 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)

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, non-public information regarding the open-end fund's portfolio. Rule 5735(g) is similar to Nasdaq Rule 5705(b)(5)(A)(i); however, paragraph (g) 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. The Adviser is affiliated with the Distributor, a broker-dealer. The Adviser has implemented a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. In the event (a) the Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio. The Fund does not currently intend to use a sub-advisor.

<u>First Trust Senior Loan Fund</u>

<u>Principal Investments</u>

The Fund's primary investment objective is to provide high current income. The Fund's secondary investment objective is the preservation of capital.

According to the Registration Statement, in pursuing its investment objective, the

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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.

Fund, under normal market conditions,[9] will seek to outperform a primary and secondary loan index (as described below), by investing at least 80% of its net assets (plus any borrowings for investment purposes) in "Senior Loans," which are described further below in "Description of Senior Loans and the Senior Loan Market." The S&P/LSTA U.S. Leveraged Loan 100 Index (the "Primary Index") is comprised of the 100 largest Senior Loans, as measured by the borrowed amounts outstanding. The Markit iBoxx USD Leveraged Loan Index (the "Secondary Index") selects the 100 most liquid Senior Loans in the market. In addition to size, liquidity is also measured, in part, based on the number of market makers who trade a specific Senior Loan and the number and size of transactions in the context of the prevailing bid/offer spread. Markit utilizes proprietary models for the Secondary Index composition and updates to the Secondary Index. The Fund will not seek to track either the Primary or Secondary Index, but rather will seek to outperform those indices. It is anticipated that the Fund, in accordance with its principal investment strategy, will invest approximately 50% to 75% of its net assets in Senior Loans that are eligible for inclusion in and meet the liquidity thresholds of the Primary and/or the Secondary Indices. Each of the Fund's Senior Loan investments is expected to

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9 The term "under normal market conditions" as used herein includes, but is not limited to, the absence of adverse market, economic, political or other conditions, including extreme volatility or trading halts in the fixed income 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. In periods of extreme market disturbance, the Fund may take temporary defensive positions, by overweighting its portfolio in cash/cash-like instruments; however, to the extent possible, the Adviser would continue to seek to achieve the Fund's investment objective. Specifically, the Fund would continue to invest in Senior Loans (as defined herein). In response to prolonged periods of constrained or difficult market conditions the Adviser will likely focus on investing in the largest and most liquid loans available in the market.

have no less than $250 million USD par outstanding.

The Adviser considers Senior Loans to be first lien senior secured floating rate bank loans. A Senior Loan is an advance or commitment of funds made by one or more banks or similar financial institutions to one or more corporations, partnerships or other business entities and typically pays interest at a floating or adjusting rate that is determined periodically at a designated premium above a base lending rate, most commonly the London-Interbank Offered Rate ("LIBOR"). A Senior Loan is considered senior to all other unsecured claims against the borrower, senior to or *pari passu* with all other secured claims, meaning that in the event of a bankruptcy the Senior Loan, together with other first lien claims, is entitled to be the first to be repaid out of proceeds of the assets securing the loans, before other existing unsecured claims or interests receive repayment. However, in bankruptcy proceedings, there may be other claims, such as taxes or additional advances which take precedence.[10]

The Fund will invest in Senior Loans that are made predominantly to businesses operating in North America, but may also invest in Senior Loans made to businesses operating outside of North America. The Fund may invest in Senior Loans directly, either from the borrower as part of a primary issuance or in the secondary market through assignments of portions of Senior Loans from third parties, or participations in Senior Loans, which are contractual relationships with an existing lender in a loan facility

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10 Senior Loans consist generally of obligations of companies and other entities (collectively, "borrowers") incurred for the purpose of reorganizing the assets and liabilities of a borrower; acquiring another company; taking over control of a company (leveraged buyout); temporary refinancing; or financing internal growth or other general business purposes. Senior Loans are often obligations of borrowers who have incurred a significant percentage of debt compared to equity issued and thus are highly leveraged.

whereby the Fund purchases the right to receive principal and interest payments on a loan but the existing lender remains the record holder of the loan. Under normal market conditions, the Fund expects to maintain an average interest rate duration of less than 90 days.

In selecting securities for the Fund, the Adviser will seek to construct a portfolio of loans that it believes is less volatile than the general loan market. In addition, when making investments, the Adviser will seek to maintain appropriate liquidity and price transparency for the Fund. On an on-going basis, the Adviser will add or remove those individual loans that it believes will cause the Fund to outperform or underperform, respectively, either the Primary or Secondary Index. The Fund will include borrowers that the Adviser believes have strong credit metrics, based on its evaluation of cash flows, collateral coverage and management teams. The key considerations of portfolio construction include liquidity, diversification and relative value.

When identifying prospective investment opportunities in Senior Loans, the Adviser currently intends to invest primarily in Senior Loans that are below investment grade quality and will rely on fundamental credit analysis in an effort to attempt to minimize the loss of the Fund's capital and to select assets that provide attractive relative value.[11] The Adviser expects to invest in Senior Loans or other debt of companies possessing the attributes described below, which it believes will help generate higher risk

11 The Fund will primarily invest in securities (including Senior Loans) which typically will be rated below investment grade. Securities rated below investment grade, commonly referred to as "junk" or "high yield" securities, include securities that are rated Ba1/BB+/BB+ or below by Moody's Investors Service, Inc. ("Moody's"), Fitch Inc., or Standard & Poor's, Inc. ("S&P"), respectively, and may involve greater risks than securities in higher rating categories.

adjusted total returns.[12] The Adviser does not intend to purchase Senior Loans that are in default. However, the Fund may hold a Senior Loan that has defaulted subsequent to its purchase by the Fund.

The Adviser intends to invest in Senior Loans or other debt of companies that it believes have developed strong positions within their respective markets and exhibit the potential to maintain sufficient cash flows and profitability to service their obligations in a range of economic environments. The Adviser will seek to invest in Senior Loans or other debt of companies that it believes possess advantages in scale, scope, customer loyalty, product pricing, or product quality versus their competitors, thereby minimizing business risk and protecting profitability.

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12 The loan market, as represented by the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index, experienced significant growth in terms of number and aggregate volume of loans outstanding since the inception of the index in 1997. In 1997, the total amount of loans in the market aggregated less than $10 billion. By April of 2000, it had grown to over $100 billion, and by July of 2007 the market had grown to over $500 billion. The size of the market peaked in November of 2008 at $594 billion. During this period, the demand for loans and the number of investors participating in the loan market also increased significantly. Since 2008, the aggregate size of the market has contracted, characterized by limited new loan issuance and payoffs of outstanding loans. From the peak in 2008 through July 2010, the overall size of the loan market contracted by approximately 15%. The number of market participants also decreased during that period. Although the number of new loans being issued in the market since 2010 is increasing, there can be no assurance that the size of the loan market, and the number of participants, will return to earlier levels. An increase in demand for Senior Loans may benefit the Fund by providing increased liquidity for such loans and higher sales prices, but it may also adversely affect the rate of interest payable on such loans acquired by the Fund and the rights provided to the Fund under the terms of the applicable loan agreement, and may increase the price of loans that the Fund wishes to purchase in the secondary market. A decrease in the demand for Senior Loans may adversely affect the price of loans in the Fund, which could cause the Fund's net asset value ("NAV") to decline.

The Adviser will seek to invest in Senior Loans or other debt of established companies it believes have demonstrated a record of profitability and cash flows over several economic cycles. The Adviser does not intend to invest in Senior Loans or other debt of primarily start-up companies, companies in turnaround situations or companies with speculative business plans.

The Adviser intends to focus on investments in which the Senior Loans or other debt of a target company has an experienced management team with an established track record of success. The Adviser will typically require companies to have in place proper incentives to align management's goals with the Fund's goals.

The Adviser will seek to invest in a well-diversified portfolio of Senior Loans or other debt among borrowers and industries, thereby potentially reducing the risk of a downturn in any one company or industry having a disproportionate impact on the value of the Fund's holdings. Loans, and the collateral securing them, are typically monitored by agents for the lenders, which may be the originating bank or banks.[13]

Historically, the amount of public information available about a specific Senior Loan has been less extensive than if the loan were registered or exchange-traded. As noted above, the loans in which the Fund will invest will, in most instances, be Senior

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13 The Fund may be reliant on the creditworthiness of the agent bank and other intermediate participants in a Senior Loan, in addition to the borrower, since rights that may exist under the loan against the borrower if the borrower defaults are typically asserted by or through the agent bank or intermediate participant. Agents are typically large commercial banks, although for Senior Loans that are not broadly syndicated they can also include thrift institutions, insurance companies or finance companies (or their affiliates). Such companies may be especially susceptible to the effects of changes in interest rates resulting from changes in U.S. or foreign fiscal or monetary policies, governmental regulations affecting capital raising activities or other economic or market fluctuations. It is the expectation that the Fund will only invest in broadly syndicated loans.

Loans, which are secured and senior to other indebtedness of the borrower. Each Senior Loan will generally be secured by collateral such as accounts receivable, inventory, equipment, real estate, intangible assets such as trademarks, copyrights and patents, and securities of subsidiaries or affiliates. The value of the collateral generally will be determined by reference to financial statements of the borrower, by an independent appraisal, by obtaining the market value of such collateral, in the case of cash or securities if readily ascertainable, or by other customary valuation techniques considered appropriate by the Adviser. The value of collateral may decline after the Fund's investment, and collateral may be difficult to sell in the event of default. Consequently, the Fund may not receive all the payments to which it is entitled. By virtue of their senior position and collateral, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as employee salaries, employee pensions, and taxes). This means Senior Loans are generally repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders. To the extent that the Fund invests in unsecured loans, if the borrower defaults on such loan, there is no specific collateral on which the lender can foreclose. If the borrower defaults on a subordinated loan, the collateral may not be sufficient to cover both the senior and subordinated loans.

There is no organized exchange on which loans are traded and reliable market quotations may not be readily available. A majority of the Fund's assets are likely to be invested in loans that are less liquid than securities traded on national exchanges. Loans with reduced liquidity involve greater risk than securities with more liquid markets.

Available market quotations for such loans may vary over time, and if the credit quality of a loan unexpectedly declines, secondary trading of that loan may decline for a period of time. During periods of infrequent trading, valuing a loan can be more difficult and buying and selling a loan at an acceptable price can be more difficult and delayed. In the event that the Fund voluntarily or involuntarily liquidates Fund assets during periods of infrequent trading, it may not receive full value for those assets. Therefore, elements of judgment may play a greater role in valuation of loans. To the extent that a secondary market exists for certain loans, the market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

Senior Loans will usually require, in addition to scheduled payments of interest and principal, the prepayment of the Senior Loan from free cash flow. The degree to which borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the borrower and competitive conditions among loan investors, among others. As such, prepayments cannot be predicted with accuracy. Recent market conditions, including falling default rates among others, have led to increased prepayment frequency and loan renegotiations. These renegotiations are often on terms more favorable to borrowers. Upon a prepayment, either in part or in full, the actual outstanding debt on which the Fund derives interest income will be reduced. However, the Fund may receive a prepayment penalty fee assessed against the prepaying borrower.

Other Investments

According to the Registration Statement, in addition to the principal investments described above, the Fund may invest in other investments, as described below. The Fund may invest in (1) fixed-rate or floating-rate income-producing securities (including

U.S. government debt securities, investment grade and below-investment grade corporate debt securities), (2) preferred securities and (3) securities of other investment companies registered under the 1940 Act.[14]

The Fund will not invest in floating rate loans of companies whose financial condition is troubled or uncertain and that have defaulted on current debt obligations, as measured at the time of investment. Although many of the Fund's investments will consist of securities rated between the categories of BB and B as rated by S&P, the Fund reserves the right to invest in debt securities, including Senior Loans, of any credit quality, maturity and duration.

The Fund may invest in corporate debt securities issued by U.S. and non-U.S. companies of all kinds, including those with small, mid and large capitalizations. Corporate debt securities are issued by businesses to finance their operations. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities, with the primary difference being their maturities and secured or unsecured status. Commercial paper has the shortest term and is usually unsecured. Corporate debt may be rated investment grade[15] or below investment grade and may carry fixed or floating rates of interest.

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14 The equity securities in which the Fund may invest will be limited to securities that trade in markets that are members of the Intermarket Surveillance Group ("ISG"), which includes all U.S. national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange.

15 According to the Adviser, "investment grade" means securities rated in the Baa/BBB categories or above by one or more Nationally Recognized Statistical Rating Organizations ("NRSROs"). If a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the lowest rating category received from an NRSRO. Rating categories may include sub-categories or gradations indicating relative standing.

The Fund may invest in debt securities issued by non-U.S. companies that are traded over-the-counter or listed on an exchange. Non-U.S. debt securities in which the Fund may invest include debt securities issued or guaranteed by companies organized under the laws of countries other than the United States, debt securities issued or guaranteed by foreign, national, provincial, state, municipal or other governments with taxing authority or by their agencies or instrumentalities and debt obligations of supranational governmental entities such as the World Bank or European Union. These debt securities may be U.S. dollar-denominated or non-U.S. dollar-denominated. Non-U.S. debt securities also include U.S. dollar-denominated debt obligations, such as "Yankee Dollar" obligations, of foreign issuers and of supranational government entities. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign corporations, banks and governments. Foreign debt securities also may be traded on foreign securities exchanges or in over-the-counter capital markets.

The Fund may invest in U.S. government securities. U.S. government securities include U.S. Treasury obligations and securities issued or guaranteed by various agencies of the U.S. government, or by various instrumentalities which have been established or sponsored by the U.S. government. U.S. Treasury obligations are backed by the "full faith and credit" of the U.S. government. Securities issued or guaranteed by federal agencies and U.S. government-sponsored instrumentalities may or may not be backed by the full faith and credit of the U.S. government.

The Fund may invest in short-term debt securities (as described herein), money market funds and other cash equivalents, or it may hold cash. The percentage of the Fund invested in such holdings may vary and depends on several factors, including market conditions.

Short-term debt securities are defined to include, without limitation, the following: (1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (2) certificates of deposit issued against funds deposited in a bank or savings and loan association; (3) bankers' acceptances, which are short-term credit instruments used to finance commercial transactions; (4) repurchase agreements,[16] which involve purchases of debt securities; (5) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; and (6) commercial paper, which is short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations.

Under normal market conditions, up to 10% of the net assets of the Fund may be denominated in currencies other than the U.S. dollar. The Fund intends to hedge its non-U.S. dollar holdings. The Fund's currency exchange transactions will be conducted

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16 The Fund may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from its excess cash balances and its securities lending cash collateral. A repurchase agreement is an agreement under which the Fund acquires a financial instrument (e.g., a security issued by the U.S. government or an agency thereof, a banker's acceptance or a certificate of deposit) from a seller, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. In addition, the Fund may enter into reverse repurchase agreements, which involve the sale of securities with an agreement to repurchase the securities at an agreed upon price, date and interest payment and have the characteristics of borrowing. According to the Registration Statement, the Fund intends to enter into repurchase and reverse repurchase agreements only with financial institutions and dealers believed by the Adviser to present minimal credit risks in accordance with criteria approved by the Board. The Adviser will review and monitor the creditworthiness of such institutions. The Adviser will monitor the value of the collateral at the time the action is entered into and at all times during the term of the agreement.

on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market. The cost of the Fund's currency exchange transactions will generally be the difference between the bid and offer spot rate of the currency being purchased or sold. In order to protect against uncertainty in the level of future currency exchange rates, the Fund is authorized to enter into various currency exchange transactions.

As noted above, the Fund may invest in securities of other 1940 Act registered open-end or closed-end investment companies, including ETFs,[17] in the amounts that are permitted by the 1940 Act and the applicable Exemptive Order from the Commission granted to the Trust, on behalf of the Fund, but not to exceed 20% of the Fund's net assets. To the extent that an investment company invests primarily in a specified asset class held by the Fund, such an investment in the investment company will be deemed to be an investment in the underlying asset class for purposes of the Fund's investment limitations. In addition, the Fund may invest a portion of its assets in exchange-traded pooled investment vehicles (other than investment companies) that invest primarily in securities of the types in which the Fund may invest directly.

The Fund may receive equity, warrants, corporate bonds and other such securities as a result of the restructuring of the debt of an issuer, or a reorganization of a senior loan

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[17] As described in the Registration Statement, an ETF is an investment company registered under the 1940 Act that holds a portfolio of securities generally designed to track the performance of a securities index, including industry, sector, country and region indexes. Such ETFs all will be listed and traded in the U.S. on registered exchanges. The Fund may invest in the securities of ETFs in excess of the limits imposed under the 1940 Act pursuant to the Exemptive Order. The ETFs in which the Fund may invest include Index Fund Shares and Portfolio Depositary Receipts (as described in NASDAQ Rule 5705); and Managed Fund Shares (as described in Nasdaq Rule 5735). While the Fund may invest in inverse ETFs, the Fund will not invest in leveraged or inverse leveraged (*e.g.*, 2X or 3X) ETFs.

or bond, or acquired together with a high yield bond or senior loan(s) of an issuer. Such investments will be subject to the Fund's investment objectives, restrictions and strategies as described herein.

Subject to limitations, the Fund may invest in secured loans that are not first lien loans or loans that are unsecured. These loans have the same characteristics as Senior Loans except that such loans are not first in priority of repayment and/or may not be secured by collateral. Accordingly, the risks associated with these loans are higher than the risks for loans with first priority over the collateral. Because these loans are lower in priority and/or unsecured, they are subject to the additional risk that the cash flow of the borrower may be insufficient to meet scheduled payments after giving effect to the secured obligations of the borrower or in the case of a default, recoveries may be lower for unsecured loans than for secured loans.[18]

The Fund will not invest 25% or more of the value of its total assets in securities of issuers in any one industry.[19]

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities, junior subordinated loans and unsecured loans deemed illiquid by the Adviser. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of

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18 Secured loans that are not first lien and loans that are unsecured generally have greater price volatility than Senior Loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in these loans, which would create greater credit risk exposure for the holders of such loans. Secured loans that are not first lien and loans that are unsecured share the same risks as other below investment grade instruments.

19 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).

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 securities. Illiquid securities 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.[20]

Except for investments in ETFs that may hold non-US issues, the Fund will not otherwise invest in non-US equity issues.

The Fund will not invest in options contracts, futures contracts or swap agreements.

In certain situations or market conditions, the Fund may temporarily depart from its normal investment policies and strategies provided that the alternative is consistent with the Fund's investment objective and is in the best interest of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in times of extreme market stress.[21] The Fund may borrow money from a bank as permitted by the

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20 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 1933 Act).

21 See *supra* note 9.

1940 Act or other governing statute, by applicable rules thereunder, or by Commission or other regulatory agency with authority over the Fund, but only for temporary or emergency purposes. The use of temporary investments is not a part of a principal investment strategy of the Fund.

The Fund will be classified as a "non-diversified" investment company under the 1940 Act.[22]

The Fund intends to qualify for and to elect treatment as a separate regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code.[23]

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

Criteria to Be Applied to the Fund

While the Fund, which would be listed pursuant to the criteria applicable to actively managed funds under Nasdaq Rule 5735, is not eligible for listing under Nasdaq Rule 5705(b) applicable to listing and trading of Index Fund Shares based on a securities index, the Adviser represents that, under normal market conditions, the Fund would generally satisfy the generic fixed income initial listing requirements in Nasdaq Rule 5705(b)(4) on a continuous basis measured at the time of purchase, as described below.[24]

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22 The diversification standard is set forth in Section 5(b)(1) of the 1940 Act (15 U.S.C. 80a-5).

23 26 U.S.C. 851.

24 Nasdaq Rule 5705(b)(4) sets forth generic listing criteria applicable to listing under Rule 19b-4(e) under the Exchange Act of Index Fund Shares ("IF Shares" or "Index Fund Shares") based on an index or portfolio of "Fixed Income Securities," which are debt securities that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof. Nasdaq Rule 5705(b)(4)(A) is as follows:

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(i), as noted in the Registration Statement, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in Senior Loans. The Adviser expects that substantially all of the Fund’s assets will be invested in Fixed Income Securities or cash/cash-like instruments. With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(ii), the Adviser expects that substantially all, but at least 75% of the Fund’s portfolio will be invested in loans that have an aggregate outstanding exposure of greater than $100 million. With respect to the requirement of Nasdaq Rule

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(A) Eligibility Criteria for Index Components. Upon the initial listing of a series of Index Fund Shares pursuant to Rule 19b-4(e) under the Act, each component of an index or portfolio underlying a series of Index Fund Shares shall meet the following criteria:

(i) The index or portfolio must consist of Fixed Income Securities;
(ii) Components that in aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of $100 million or more;
(iii) A component may be a convertible security, however, once the convertible security component converts to the underlying equity security, the component is removed from the index or portfolio;
(iv) No component fixed-income security (excluding Treasury Securities) will represent more than 30% of the weight of the index or portfolio, and the five most heavily weighted component fixed-income securities do not in the aggregate account for more than 65% of the weight of the index or portfolio;
(v) An underlying index or portfolio (excluding exempted securities) must include a minimum of 13 non-affiliated issuers; and
(vi) Component securities that in aggregate account for at least 90% of the weight of the index or portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of $700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least $1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

5705(b)(4)(A)(iii), the Adviser represents that the Fund will not typically invest in convertible securities; however, should the Fund make such investments, the Adviser would direct the Fund to divest any converted equity security as soon as practicable.

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(iv), the Adviser represents that the Fund will not concentrate its investments in excess of 30% in any one security (excluding Treasury Securities), and will not invest more than 65% of its assets in five or fewer securities (excluding Treasury Securities).

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(v), the Adviser represents that the Fund will invest in Senior Loans issued to at least 13 non-affiliated borrowers.

With respect to the requirements of Nasdaq Rule 5705(b)(4)(A)(vi), the Adviser represents that the Fund may make investments on a continuous basis in compliance with such requirement at the time of purchase; however, the market for Senior Loans differs in several material respects from the market of other fixed income securities (*e.g.*, bonds). A significant percentage of the Senior Loan market would not meet the criteria set forth in Nasdaq Rule 5705(b)(4)(A)(vi), but would be readily tradable in the secondary market. For the 12 month period ending August 12, 2012, 53.4% of the borrowers of primary Senior Loans (also known as leveraged loans) had total indebtedness of $1 billion or less and Senior Loans outstanding of $250 million or more. (Source: S&P). In order to add to the Fund's diversification and to expand the Fund's investment universe, the Fund may invest in Senior Loans borrowed by entities that would not meet the criteria set forth in Nasdaq Rule 5705(b)(4)(A)(vi) above provided the borrower has at least $250 million outstanding in Senior Loans. The Senior Loans borrowed by such entities would be well known to participants in the Senior Loan markets, would typically attract multiple market makers, and would share liquidity and transparency characteristics of senior secured debt borrowed by entities meeting the criteria in the generic listing criteria of Nasdaq Rule 5705(b)(4)(A).

Description of Senior Loans and the Senior Loan Market

The Adviser represents that Senior Loans represent debt obligations of sub-investment grade corporate borrowers, similar to high yield bonds; however, Senior Loans are different from traditional high yield bonds in several important respects. First, Senior Loans are typically senior to other obligations of the borrower and secured by the assets of the borrower. Senior Loans rank at the top of a borrower's capital structure in terms of priority of payment, ahead of any subordinated debt (high yield) or the borrower's common equity. These loans are also secured, as the holders of these loans have a lien on most if not all of the corporate borrower's plant, property, equipment, receivables, cash balances, licenses, trademarks, etc. Furthermore, the corporate borrower of Senior Loans executes a credit agreement that typically restricts what it can do (debt incurrence, asset dispositions, etc.) without the lenders' approval, and, in addition, often requires the borrower to meet certain ongoing financial covenants (EBITDA, leverage tests, etc.). Finally, Senior Loans are floating rate obligations which typically pay a fixed spread over 3 month LIBOR.

Institutional investors access the market today primarily through commingled funds or separately managed accounts. Individual investors have gained exposure to Senior Loans primarily through registered open-end or closed-end mutual funds and business development companies or occasionally through limited partnerships.

The performance of a Senior Loans portfolio is driven by credit selection. Investing in Senior Loans involves detailed credit analysis and sound investment judgment culminating in the timely payout of interest and ultimate return of principal. Loans are generally prepayable at any time, typically without penalty. Loans are typically purchased at close to 100 ("par") and are also typically repaid at 100; the return to the investor comes from the quarterly interest coupons and the return of principal. Underperformance comes from making investment misjudgments whereby the corporate borrower fails to repay the loan at maturity or otherwise defaults on the obligation.[25]

The Adviser represents that the Senior Loan market, in terms of total outstanding loans by dollar volume is approximately equal in size to the high yield corporate bond market in the U.S. - between $1.2 trillion and $1.5 trillion. The market for Senior Loans is almost exclusively comprised of non-investment grade corporate borrowers. The Loan Syndication and Trading Association ("LSTA"), a trade group sponsored by both underwriters of and institutional investors in senior bank loans, has been tracking trading volumes and bid-offer spreads for the asset class since 2007. For the month ended June 30, 2012 – a representative period – $30 billion of Senior Loans changed hands representing 1,109 individual transactions. (Source: LSTA.) Average quarterly Senior Loan trading volume exceeded $100 billion during 2011. Quarterly trading volumes fell modestly to $98 billion in the second calendar quarter of 2012.[26]

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25 Additional capital features inherent to Senior Loans include the following: such loans are subject to mandatory and discretionary prepayments and can be prepaid in full, often without penalty, for a variety of reasons; companies may opt to refinance an existing loan at a lower spread or repay the loan with a high yield bond issuance; required excess cash flow sweeps; covenants requiring loan prepayment from proceeds of asset sales; and quarterly amortization.

26 As of October 2012, 195 open-ended loan funds and open-ended bond funds were invested in the Senior Loan market as a primary or secondary asset class. (Source: Morningstar.) As of October 2012, there were approximately $65 billion of assets under management in 39 open-ended loan funds and approximately $252 billion of assets under management in 158 open-ended high yield bond funds. Eighty-six of the 158 open-ended high yield bond funds made an allocation to

The Fund, as noted above, will primarily invest in the more liquid and higher rated segment of the Senior Loan market. The average credit rating of the Senior Loans that the Fund typically will hold will be rated between the categories of BB and B as rated by S&P. The most actively traded loans will generally have a tranche size outstanding (or total float of the issue) in excess of $250 million. The borrowers of these broadly syndicated bank loans will typically be followed by many "buy-side" and "sell-side" credit analysts who will in turn rely on the borrower to provide transparent financial information concerning its business performance and operating results. The Adviser represents that such borrowers typically provide significant financial transparency to the market through the delivery of financial statements on at least a quarterly basis as required by the executed credit agreements. Additionally, bid and offers in the Senior Loans are available throughout the trading day on larger Senior Loans issues with multiple dealer quotes available.

The Adviser represents that the underwriters, or agent banks, which distribute, syndicate and trade Senior Loans are among the largest global financial institutions, including JPMorgan, Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, Wells Fargo, Deutsche Bank, Barclays, Credit Suisse and others. It is common for multiple firms to act as underwriters and market makers for a specific Senior Loan issue. For example, two underwriters may co-underwrite and fund a Senior Loan that has a $1 billion institutional tranche. One of the underwriters acting as syndication agent for the financing, will then draft an offering memorandum (similar to a prospectus for an initial public offering of equity securities), distribute it to potential investors, schedule

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Senior Loans, and, among high yield bond funds that had an allocation to Senior Loans, such allocation was 4.99% on average. (Source: Morningstar Direct) management meetings with the largest loan investors and arrange a bank meeting that includes management presentations along with a question and answer session. The investor audience attends in person as well as via telephone with both live and recorded conference call options. After a two week syndication process where investors can complete their due diligence work with access to company management and underwriter bankers to answer credit questions, investors' commitments are collected by the underwriter. The underwriter will typically allocate the loan to 80-120 investors within the following week, with the largest position representing 3-5% of the tranche size in a successful syndication. The underwriters will both make executable two sided markets in the loan with eighth to a quarter point bid/ask spreads on sizes in the $2 million to $20 million range, depending on the issue. Other banks also have Senior Loan trading desks that make secondary bid/ask markets in the loans after they are allocated. Senior Loan investors can also obtain information on Senior Loans and their borrowers from numerous public sources, including Bloomberg, FactSet, public financial statement filings (Forms 10-K and 10-Q), and sell side research analysts.

The Adviser represents that the segment of the Senior Loan market that the Fund will focus on is highly liquid. Senior Loans of $250 million or more in issuance are typically quite liquid and will have multiple market makers and typically 75 or more institutional holders. The standard bid/offer spreads for such loans are ¼ to ½ point, although the largest firms can transact on a 1/8th point market across dealers for Senior Loans of $250 million or more outstanding.[27]

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[27] The Exchange notes that the PowerShares Senior Loan Portfolio (Symbol: BKLN), is an index-based ETF listed on NYSE Arca since March 5, 2011 under NYSE Arca Equities Rule 5.2(j)(3). The underlying index for BKLN is the S&P/LSTA U.S. Leveraged Loan 100 Index, the Fund's Primary Index. As of November 20, 2012, BKLN had assets under management of approximately $1.28

The Adviser represents that, while Senior Loans are not reported through TRACE,[28] there is significant transparency with dealers updating investors on trades and trading activity throughout the day. Dealers update their "trading runs" of Senior Loans throughout the day and distribute these via electronic messaging to the institutional investor community. The Adviser represents further that, upon commencement of trading in the Fund, the Adviser would ensure that all "Authorized Participants" (as described below) for the Fund were added to these intraday market maker Senior Loan "trading runs."

Description of the S&P/LSTA U.S. Leveraged Loan 100 Index[29]

The Primary Index is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. The Primary Index consists of 100 loan facilities drawn from a larger benchmark- the S&P/LSTA Leveraged Loan Index ("LLI"), which covers more than 900 facilities and, as of June 30, 2011, had a market value of more than US$ 490 billion. As of June 30, 2011, the Primary Index had a total market value of US$ 183.4 billion.

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billion. Since inception, BKLN's average daily trading volume has been 545,065 shares, with an average premium/discount to NAV of 0.43%.

28 TRACE (Trade Reporting and Compliance Engine), is a vehicle developed by the Financial Industry Regulatory Authority ("FINRA") that facilitates the mandatory over-the-counter secondary market transactions in eligible fixed income securities.

29 The description herein of the Primary Index is based on information in "S&P LSTA U.S. Leveraged Loan 100 Index Methodology, August 2011" ("Primary Index Description"). S&P is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index.

The Primary Index is designed to reflect the largest facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads and interest payments.

The Primary Index is rules based, although the S&P/LSTA U.S. Leveraged Loan 100 Index Committee (the "Index Committee," described below) reserves the right to exercise discretion when necessary.

The Primary Index is rebalanced semi-annually to avoid excessive turnover, but reviewed weekly to reflect pay-downs and ensure that the Primary Index portfolio maintains 100 loan facilities. The constituents of the Primary Index (the "Index Loans") are drawn from a universe of syndicated leveraged loans representing over 90% of the leveraged loan market.

All syndicated leveraged loans covered by the LLI universe are eligible for inclusion in the Primary Index. Term loans from syndicated credits must meet the following criteria at issuance in order to be eligible for inclusion in the LLI:

- Senior secured
- Minimum initial term of one year
- Minimum initial spread of LIBOR + 125 basis points
- US dollar denominated

All Primary Index loans must have a publicly assigned CUSIP.

According to the Primary Index Description, the Primary Index is designed to include the largest loan facilities from the LLI universe. Par outstanding is a key criterion for loan selection. Loan facilities are included if they are among the largest first lien facilities from the Primary Index in terms of par amount outstanding. There is no minimum size requirement on individual facilities in the Primary Index, but the LLI universe minimum is US$ 50 million. Only the 100 largest first lien facilities from the LLI that meet all eligibility requirements are considered for inclusion. The Primary Index covers all borrowers regardless of origin; however, all facilities must be denominated in U.S. dollars.

A Primary Index addition is generally made only if a vacancy is created by a Primary Index deletion. Primary Index additions are reviewed on a weekly basis and are made according to par outstanding and overall liquidity. Liquidity is determined by the par outstanding and number of market bids available. Facilities are retired when they are no longer priced by "LSTA/LPC Mark-to-Market Pricing" or when the facility is repaid.[30]

Each loan facility's total return is calculated by aggregating the interest return, reflecting the return due to interest paid and accrued interest, and price return, reflecting the gains or losses due to changes in end-of-day prices and principal prepayments.

The Primary Index is maintained in accordance with the following rules:

- The Primary Index is reviewed each week to ensure that it includes 100 Index Loans.

- A complete review and rebalancing of all Primary Index constituents is completed on a semi-annual basis coinciding with the last weekly rebalance in June and in December.

- Eligible loan facilities approved by the Primary Index Committee are added to the Primary Index during the semi-annual rebalancing. Eligible loan facilities are added to the Primary Index at the weekly review only if other facilities are repaid or otherwise drop out of the Primary Index, in order to maintain 100 Index Loans.

- Any loan facility that fails to meet any of the eligibility criteria or that has a term to maturity less than or equal to 12 months plus 1 calendar day, as of the weekly rebalancing date, will not be included in the Primary Index.

- Par amounts of Primary Index loans will be adjusted on the weekly

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30 LSTA/LPC Mark-to-Market Pricing is used to price each loan in the index. LSTA/LPC Mark-to-Market Pricing is based on bid/ask quotes gathered from dealers and is not based upon derived pricing models. The Primary Index uses the average bid for its market value calculation.

rebalancing date to reflect any changes that have occurred since the previous rebalancing date, due, for example, to partial pre-payments and pay-downs.[31]

- Constituent facilities are capped at 2% of the Primary Index and drawn-down at the weekly rebalancing. When a loan facility exceeds the 2% cap, the weight is reduced to 1.90% and the proceeds are invested in the other Primary Index components on a relative-weight basis.

The Primary Index is normally reviewed and rebalanced on a weekly basis to maintain 100 constituents. The Primary Index Committee (as described below), nevertheless, reserves the right to make adjustments to the Primary Index at any time that it believes appropriate.

Weekly Primary Index rebalancing maintenance (additions, deletions, pay-downs, and other changes to the Primary Index) is based on data as of Friday (or the last business day of the week in the case of holidays) and is announced the following Wednesday (or Tuesday in the case of a holiday) for implementation on the following Friday. Publicly available information, up to and including each Wednesday’s close, is considered in each weekly rebalancing.

Primary Index changes published in the announcement generally are not subject to revision and will become effective on the date listed in the announcement.

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31 The Adviser represents that loan prepayments in 2011 were 40% of the LLI and LTM September 30, 2012 are 28% (Source: LCD Quarterly Review, Third Quarter 2012). As a result of prepayments, the weighted average life of a loan is typically 2-3 years versus average maturity of 5-7 years. Existing investors in the Senior Loan may decline to participate in a loan refinancing that occurs at a lower spread in which case the loan would be repaid.

The Primary Index Committee

The Primary Index Committee maintains the Primary Index.[32] The Primary Index Committee is comprised of employees of S&P. The Primary Index Committee is chaired by the Managing Director and Primary Index Committee Chairman at S&P.

Meetings are held annually and, from time to time, as needed. It is the sole responsibility of the Primary Index Committee to decide on all matters relating to methodology, maintenance, constituent selection and index procedures. The Primary Index Committee makes decisions based on all available information and Primary Index Committee discussions are kept confidential to avoid any unnecessary impact on market trading.

Markit iBoxx USD Liquid Leveraged Loan Index[33]

According to the Secondary Index Description, the Markit iBoxx USD Liquid Leveraged Loan Index is a subset of the benchmark Markit iBoxx USD Leveraged Loan Index (USD LLI). The Secondary Index limits the number of constituent loans by selecting larger and more liquid loans from the wider USD LLI index universe as determined by the Liquidity Ranking Procedure, described below. The procedure utilizes daily liquidity scores from the Markit Loan Pricing Service, which is a broader measure

32 The Primary Index Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index.

33 The description herein of the Secondary Index is based on “Markit iBoxx USD Liquid Leveraged Loan Index—Index Guide,” September 2011 (“Secondary Index Description”).

of liquidity, summarizing the performance of each loan across several liquidity metrics, such as number of quotes, or bid-offer sizes.[34]

The selection process for the Secondary Index will be used on the index inception date and at every monthly rebalancing ("Secondary Index Selection Date"). The selection process will involve the identification of the eligible universe using the eligibility criteria set out below. If the size of the eligible universe is greater than the target number of loans, the Liquidity Ranking Procedure will be used to determine the final index constituents. Once the index members are selected, they are automatically carried forward to the following month's selection, unless they no longer satisfy the eligibility criteria or enter a prolonged period of relative illiquidity. The Secondary Index eligibility criteria and the liquidity ranking procedure are described in further detail below.

The following six selection criteria are used to derive the eligible universe from the MarkitWSO USD- denominated loan universe: loan type; minimum size; liquidity/depth of market; spread; credit rating; and minimum time to maturity.[35]

Only USD-denominated loans are eligible for the Secondary Index.

Eligible loan types are fully funded term loans (fixed and floating rate) and defaulted loans. Ineligible loan types are 364-day facility; delayed term loans; deposit-funded tranche; letters of credit; mezzanine; PIK Toggle; PIK; pre-funded acquisition; revolving credit; strips; synthetic lease; and unfunded loans.

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34 Markit is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

35 MarkitWSO is a corporate loan data base that Markit maintains using information provided by agent banks on each constituent Senior Loan in its data base of approximately 4,300 Senior Loans.

A minimum facility size of $500 million USD nominal is required to be eligible for the Secondary Index. A constituent is removed at the next rebalancing if its nominal outstanding falls below $500 million USD.

According to the Secondary Index Description, liquidity and depth of the market can be measured by the number of prices available for a particular loan and the length of time prices have been provided by the minimum required number of price contributors. The liquidity check is based on the 3-month period prior to the rebalancing cut-off date (liquidity test period). Only loans with a minimum liquidity/depth of 2 for at least 50% of trading days of the liquidity test period are eligible. Loans issued less than 3 months prior to the rebalancing cut-off date require a minimum liquidity/depth of 3 for at least 50% of trading days in the period from the issue date to the rebalancing cut-off date.

Only sub-investment grade loans are eligible for the Secondary Index. Each rated loan is assigned a composite index rating based on the ratings from Moody's and S&P's. If more than one agency publishes a rating for a loan, the average of the ratings determines the composite rating. The average rating is calculated as the numerical average of the ratings provided. To calculate the average, each rating assigned an integer number as follows: AAA/Aaa is assigned a 1, AA+/Aa1 a 2 etc. The resulting average is rounded to the nearest integer with .5 rounded up. Loans designated as "Not Rated" by both Moody's and S&P must have a minimum current spread of 125 basis points over LIBOR to be eligible for the Secondary Index. Loans designated as "Not Rated" are not assigned an index rating. Defaulted loans are eligible for the Secondary Index provided they meet all other criteria.[36]

36 While the Secondary Index can include defaulting Senior Loans, the Adviser does not intend to invest in such loans.

The initial time to maturity is measured from the loan's issue date to its maturity date. A minimum initial time to maturity of one year is required for potential constituents. The minimum time to maturity threshold reduces the Secondary Index turnover and transaction costs associated with short-dated loans. Existing constituents with time to maturities of less than 1 year remain in the Secondary Index until maturity provided they meet all other eligibility criteria.

In order to determine the final Secondary Index constituents, the loans in the eligible universe are ranked according to their liquidity scores, as provided by the Markit Loan Pricing Service. Each loan in the MarkitWSO database[37] is assigned a daily score based on the loan's performance on the following liquidity metrics:

- Sources Quote: The number of dealers sending out runs.
- Frequency of Quotes: total number of dealer runs.
- Number of Sources with Size: The number of dealer runs with associated size.
- Bid-offer spreads: The average bid-offer spread in dealer runs.
- Average quote size: The average size parsed from quotes.
- Movers Count: The end of day composite contributions which have moved on that day.

Each loan carries a score ranging from 1 to 5 in ascending order of liquidity, depending on the daily values for the above components. A loan with a score of 1 will have the best performance in each of the categories above. In the liquidity ranking procedure described below, average liquidity scores are calculated for each loan, over a calendar one or three month period immediately preceding each rebalancing date.

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[37] See *supra* note 35.

On the Secondary Index inception day, the target number of loans will be 100. Loans will be removed from the Secondary Index if they are no longer present in the current eligible universe or are not ranked within the first 125 places in terms of 3 month average liquidity score. On every subsequent rebalancing, the number of new loans to be selected will be equal to the number of loans which will be removed from the Secondary Index.

According to the Secondary Index Description, the parameters used in the selection process, including the target number of loans and the eligibility criteria, are subject to an annual review process to ensure that the Secondary Index continues to reflect the underlying loans market. The results of the analysis are submitted to the oversight committee for the Markit iBoxx USD Leveraged Loan Indices ("Oversight Committee").[38] The review will consist of a qualitative and quantitative assessment of any developments in the loans market in terms of market size, depth and overall liquidity conditions of the market together with a recommendation whether current index rules should be modified. Factors that will be considered in the assessment will include: size of the market; new issuance patterns and trends; outstanding number of loans and borrowers; and liquidity conditions.

All Markit iBoxx USD Leveraged Loan Indices are calculated at the end of each business day and re-balanced at the end of each month.

The Markit iBoxx USD Leveraged Loans Indices are calculated on the basis of end-of-day prices provided by Markit Loan Pricing services on each recommended Securities Industry and Financial Markets Association ("SIFMA") U.S. trading day.

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[38] The Oversight Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

On each pricing day, end-of-day bid, mid and ask price quotes for the applicable loans are received from Markit Loan Pricing. Prices for all loans are taken at 4:15 p.m. Eastern time ("E.T."). Secondary Index data is published and distributed on the next day by 8:00 a.m. E.T. and is available on the Markit index website, http://indices.markit.com, and through Bloomberg and Reuters.

Markit will provide bid, mid and ask prices for all eligible loans at the end of each index calculation day. Reference loan data will be provided by Markit, which represents up-to-date reference and transactional information on over 1,000 leveraged loans.

The Shares

The Fund will issue and redeem Shares only in Creation Units at the NAV next determined after receipt of an order on a continuous basis every day except weekends and specified holidays. The NAV of the Fund will be determined once each business day, normally as of the close of trading of the New York Stock Exchange ("NYSE"), generally, 4:00 p.m. E.T. Creation Unit sizes will be 50,000 Shares per Creation Unit. The Trust will issue and sell Shares of the Fund only in Creation Units on a continuous basis through the Distributor, without a sales load (but subject to transaction fees), at their NAV per Share next determined after receipt of an order, on any business day, in proper form pursuant to the terms of the Authorized Participant agreement (as referred to below).

The consideration for purchase of a Creation Unit of the Fund generally will consist of either (i) the in-kind deposit of a designated portfolio of securities (primarily Senior Loans) (the "Deposit Securities") per each Creation Unit and the Cash Component (defined below), computed as described below or (ii) the cash value of the Deposit Securities ("Deposit Cash") and the "Cash Component," computed as described below.

The primary method of creation and redemption transactions will be in cash. In-kind creation and redemption transactions will be available only if requested by an Authorized Participant and approved by the Trust.

When accepting purchases of Creation Units for cash, the Fund may incur additional costs associated with the acquisition of Deposit Securities that would otherwise be provided by an in-kind purchaser. Together, the Deposit Securities or Deposit Cash, as applicable, 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" will be an amount equal to the difference between the NAV of the Shares (per Creation Unit) and the market value of the Deposit Securities or Deposit Cash, as applicable. If the Cash Component is a positive number (*i.e.*, the NAV per Creation Unit exceeds the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component will be such positive amount. If the Cash Component is a negative number *(i.e.*, the NAV per Creation Unit is less than the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component will be such negative amount and the creator will be entitled to receive cash in an amount equal to the Cash Component. The Cash Component will serve the function of compensating for any differences between the NAV per Creation Unit and the market value of the Deposit Securities or Deposit Cash, as applicable.

According to the Registration Statement, to be eligible to place orders with respect to creations and redemptions of Creation Units, an entity must be (i) a "Participating Party," *i.e.*, a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation ("NSCC"); or (ii) a Depository Trust Company ("DTC") participant. In addition, each Participating Party or DTC Participant (each, an “Authorized Participant”) must execute an agreement that has been agreed to by the Principal Underwriter and the Transfer Agent, and that has been accepted by the Trust, with respect to purchases and redemptions of Creation Units.

The Custodian, through the NSCC, will make available on each business day, immediately prior to the opening of business on the Exchange’s Regular Market Session (currently 9:30 a.m., E.T), the list of the names and the required number of shares of each Deposit Security or the required amount of Deposit Cash, as applicable, to be included in the current Fund Deposit (based on information at the end of the previous business day) for the Fund. Such Fund Deposit is subject to any applicable adjustments as described below, in order to effect purchases of Creation Units of the Fund until such time as the next-announced composition of the Deposit Securities or the required amount of Deposit Cash, as applicable, is made available.

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 Transfer Agent and only on a business day.

With respect to the Fund, the Custodian, through the NSCC, will make available immediately prior to the opening of business on the Exchange (9:30 a.m. E.T.) on each business day, the list of the names and share quantities of the Fund’s portfolio securities (“Fund Securities”) or the required amount of Deposit Cash that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day. Fund Securities received on redemption may not be identical to Deposit Securities.

Redemption proceeds for a Creation Unit will be paid either in-kind or in cash or a combination thereof, as determined by the Trust. With respect to in-kind redemptions of the Fund, redemption proceeds for a Creation Unit will consist of Fund Securities as announced by the Custodian 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 (the "Cash Redemption Amount"), less a fixed redemption transaction fee and any applicable additional variable charge as set forth in the Registration Statement. In the event that the Fund Securities have a value greater than the NAV of the Shares, a compensating cash payment equal to the differential will be required to be made by or through an Authorized Participant by the redeeming shareholder. Notwithstanding the foregoing, at the Trust's discretion, an Authorized Participant may receive the corresponding cash value of the securities in lieu of the in-kind securities value representing one or more Fund Securities.

The creation/redemption order cut-off time for the Fund is expected to be 4:00 p.m. E.T. for purchases of Shares. On days when the Exchange closes earlier than normal, the Fund may require orders for Creation Units to be placed earlier in the day.

Net Asset Value

The NAV per Share for the Fund will be computed by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding, rounded to the nearest cent. Expenses and fees, including the management fees, are accrued daily and taken into account for purposes of determining NAV.[39] The NAV of the Fund will be calculated by the Custodian and

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39 Markit will be the primary price source for Senior Loans in calculating the Fund's NAV. To the extent "Other Investments" are held, International Data Corporation ("IDC") will be the primary price source for such investments.

determined at the close of the regular trading session on the NYSE (ordinarily 4:00 p.m., E.T.) on each day that such exchange is open, provided that fixed-income assets (and, accordingly, the Fund's NAV) may be valued as of the announced closing time for trading in fixed-income instruments on any day that SIFMA (or the applicable exchange or market on which the Fund's investments are traded) announces an early closing time. Creation/redemption order cut-off times may also be earlier on such days.

In calculating the Fund's NAV per Share, investments will generally be valued by using market valuations. A market valuation generally means a valuation (i) obtained from an exchange, a pricing service, or a major market maker (or dealer) or (ii) based on a price quotation or other equivalent indication of value supplied by an exchange, a pricing service, or a major market maker (or dealer). The Adviser may use various pricing services, or discontinue the use of any pricing service, as approved by the Trust's Board from time to time. A price obtained from a pricing service based on such pricing service's valuation matrix may be considered a market valuation. Any assets or liabilities denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

In the event that current market valuations are not readily available or such valuations do not reflect current market value, the Trust's procedures require the Adviser's Pricing Committee to determine a security's fair value if a market price is not readily available.[40] In determining such value the Adviser's Pricing Committee may

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40 The Valuation Committee of the Trust's Board of Trustees is responsible for the oversight of the pricing procedures of the Fund and the valuation of the Fund's portfolio. The Valuation Committee has delegated day-to-day pricing responsibilities to the Adviser's Pricing Committee, which is composed of officers of the Adviser. The Pricing Committee is responsible for the valuation and revaluation of any portfolio investments for which market quotations or prices are not readily available. The Fund has implemented procedures designed

consider, among other things, (i) price comparisons among multiple sources, (ii) a review of corporate actions and news events, and (iii) a review of relevant financial indicators (*e.g.*, movement in interest rates, market indices, and prices from the Fund's index providers). In these cases, the Fund's NAV may reflect certain portfolio securities' fair values rather than their market prices. Fair value pricing involves subjective judgments and it is possible that the fair value determination for a security is materially different than the value that could be realized upon the sale of the security.

Availability of Information

The Distributor's website (www.ftportfolios.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 website will include additional quantitative information updated on a daily basis, including, for the Fund: (1) the prior business day's reported NAV, mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"),[41] 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 Regular Market Session[42] on the

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to prevent the use and dissemination of material, non-public information regarding valuation and revaluation of any portfolio investments.

41 The Bid/Ask Price of the Fund will be determined using the midpoint 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.

42 See Nasdaq Rule 4120(b)(4) (describing the three trading sessions on the Exchange: (1) Pre-Market Session from 7 a.m. to 9:30 a.m. E.T.; (2) Regular Market Session from 9:30 a.m. to 4 p.m. or 4:15 p.m. E.T.; and (3) Post-Market Session from 4 p.m. or 4:15 p.m. to 8 p.m. E.T.).

Exchange, the Fund will disclose on the Distributor's website the identities and quantities of the portfolio of securities and other assets (the "Disclosed Portfolio") (as defined in Nasdaq Rule 5735(c)(2)) held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day.[43] On a daily basis, the Disclosed Portfolio will include each portfolio security, including Senior Loans, and other financial instruments of the Fund with the following information on the Fund's website: ticker symbol (if applicable), name of security and financial instrument, number of shares (if applicable) and dollar value of securities (including Senior Loans) and financial instruments held in the Fund, and percentage weighting of the security and financial instrument in the Fund. The website information will be publicly available at no charge.

In addition, for the Fund, an estimated value, defined in Rule 5735(c)(3) as the "Intraday Indicative Value," that reflects an estimated intraday value of the Fund's portfolio, will be disseminated. Moreover, the Intraday Indicative Value, available on the NASDAQ OMX Information LLC proprietary index data service, will be based upon the current value for the components of the Disclosed Portfolio and will be updated and widely disseminated by one or more major market data vendors and broadly displayed at least every 15 seconds during the Regular Market Session. In addition, during hours when the markets for local debt in the Fund's portfolio are closed, the Intraday Indicative Value will be updated at least every 15 seconds during the Regular Market Session to

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43 Under accounting procedures to be 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"). Notwithstanding the foregoing, portfolio trades that are executed prior to the opening of the Exchange on any business day may be booked and reflected in NAV on such business day. 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.

reflect currency exchange fluctuations. The Intraday Indicative Value will be based on quotes and closing prices from the securities' local market and may not reflect events that occur subsequent to the local market's close. Premiums and discounts between the Intraday Indicative Value and the market price may occur. This should not be viewed as a "real-time" update of the NAV per Share of the Fund, which is calculated only once a day.

The dissemination of the Intraday 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 to provide a close estimate of that value throughout the trading day.

Intra-day, executable price quotations of the Senior Loans, fixed income securities and other assets held by the Fund will be available from major broker-dealer firms or on the exchange on which they are traded, if applicable. Intra-day price information is available through subscription services, such as Bloomberg, Markit and Thomson Reuters, which can be accessed by Authorized Participants and other investors.

In addition, a basket composition file, which includes the security names, amount and share quantities, as applicable, required to be delivered in exchange for the Fund's Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of Nasdaq via NSCC. The basket represents one Creation Unit of the Fund.

The Primary Index description and Secondary Index description are publicly available. Primary and Secondary Index information, including values, components, and weightings, is updated and provided daily on a subscription basis by S&P and Markit.

Complete methodologies for the Primary and Secondary Index are made available on the websites of S&P and Markit, respectively.

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 are 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 will be available via Nasdaq proprietary quote and trade services.

Additional information regarding the Trust and the Shares, including investment strategies, risks, creation and redemption procedures, fees, Fund 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.

Initial and Continued Listing

The Shares will be subject to Rule 5735, which sets forth the initial and continued listing criteria applicable to Managed Fund Shares. The Exchange represents that, for initial and/or continued listing, the Fund must be in compliance with Rule 10A-3[44] under the Act. A minimum of 100,000 Shares will be outstanding at the commencement of

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44 See 17 CFR 240.10A-3.

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 will be made available to all market participants at the same time.

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. Nasdaq will halt trading in the Shares under the conditions specified in Nasdaq Rules 4120 and 4121; for example, the Shares of the Fund will be halted if the “circuit breaker” parameters in Nasdaq Rule 4120(a)(11) are reached. Trading 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 also will be subject to Rule 5735(d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted.

Trading Rules

Nasdaq deems the Shares to be equity securities, thus rendering trading in the Shares subject to Nasdaq’s existing rules governing the trading of equity securities. Nasdaq will allow trading in the Shares from 7:00 a.m. until 8:00 p.m. E.T. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in Nasdaq Rule 5735(b)(3), the minimum price variation for quoting and entry of orders in Managed Fund Shares traded on the Exchange is $0.01.

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.[45] The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations. FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares with other markets that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.[46]

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

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45 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.

46 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 Circular

Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) Nasdaq Rule 2310, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in the Shares to customers; (3) how information regarding the Intraday Indicative Value is disseminated; (4) the risks involved in trading the Shares during the Pre-Market and Post-Market Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (5) the requirement that members 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 Information Circular will advise members, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Fund. Members purchasing Shares from the Fund for resale to investors will deliver a prospectus to such investors. The Information Circular will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

Additionally, the Information Circular will reference that the Fund is subject to various fees and expenses described in the Registration Statement. The Information Circular will also disclose the trading hours of the Shares of the Fund and the applicable NAV calculation time for the Shares. The Information Circular will disclose that information about the Shares of the Fund will be publicly available on the Distributor's website.

b. Statutory Basis

Nasdaq believes that the proposal is consistent with Section 6(b) of the Act[47] in general and Section 6(b)(5) of the Act[48] in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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 Nasdaq Rule 5735. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The equity securities in which the Fund may invest will be limited to securities that trade in markets that are members of the ISG, which includes all U.S. national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange. 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. In pursuing its investment objective, the Fund seeks to outperform the Primary and Secondary Indices by normally investing at least 80% of its net assets (plus any borrowings for investment purposes) in Senior Loans. It is anticipated that the Fund,

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[47] 15 U.S.C. § 78f.

[48] 15 U.S.C. § 78f(b)(5).

in accordance with its principal investment strategy, will invest 50% to 75% of its net assets in Senior Loans that are eligible for inclusion and meet the liquidity thresholds of the Primary and/or the Secondary Indices. Each of the Fund's Senior Loan investments will have no less than $250 million USD par outstanding. The Fund will not invest 25% or more of the value of its total assets in securities of borrowers in any one industry.[49] The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities, junior subordinated loans and unsecured loans deemed illiquid by the Adviser. The Fund may also invest in (1) fixed-rate or floating-rate income-producing securities (including, without limitation, U.S. government debt securities, investment grade and below-investment grade corporate debt securities), (2) preferred securities, and (3) securities of other investment companies registered under the 1940 Act.[50] The Adviser 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 the Fund's portfolio. In addition, paragraph (g) of Nasdaq Rule 5735 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, non-public information regarding the open-end fund's portfolio. The Fund's investments will be consistent with the Fund's investment objectives and will not be used to enhance

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[49] See *supra* note 19.

[50] The equity securities in which the Fund may invest will be limited to securities that trade in markets that are members of the ISG, which includes all U.S. national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange.

leverage. The Fund will not invest in options contracts, futures contracts or swap agreements. The Adviser represents that, under normal market conditions, the Fund would generally satisfy the generic fixed income listing requirements in Nasdaq Rule 5705(b)(4) on a continuous basis measured at the time of purchase, as described above. Except for Underlying ETFs that may hold non-US issues, the Fund will not otherwise invest in non-US equity issues. The Primary Index Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index. The Oversight Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

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. S&P and Markit are not broker-dealers or affiliated with a broker-dealer and each has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index and Secondary Index, respectively.

The Intraday Indicative Value, available on the NASDAQ OMX Information LLC proprietary index data service will be widely disseminated by one or more major market data vendors and broadly displayed at least every 15 seconds during the Regular Market Session. On each business day, before commencement of trading in Shares in the

Regular Market Session on the Exchange, the Fund will disclose on the Distributor's website the Disclosed Portfolio that will form the basis for the Fund's calculation of NAV at the end of the business day. 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, and quotation and last sale information for the Shares will be available via Nasdaq proprietary quote and trade services. Intra-day, executable price quotations of the Senior Loans, fixed-income securities and other assets held by the Fund will be available from major broker-dealer firms or on the exchange on which they are traded, if applicable. Intra-day price information is available through subscription services, such as Bloomberg, Markit and Thomson Reuters, which can be accessed by Authorized Participants and other investors.

The Distributor's website for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information. Trading in Shares of the Fund will be halted if the circuit breaker parameters in Nasdaq Rule 4120(a)(11) have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, and trading in the Shares will be subject to Nasdaq Rule 5735(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 Intraday 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 Intraday Interactive Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

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

4. 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 that the proposed rule change will facilitate the listing and trading of an additional type of actively-managed exchange-traded fund that will enhance competition among market participants, to the benefit of investors and the marketplace.

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

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advanced Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Completed notice of proposed rule change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASDAQ-2013-036)

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change and Amendment No. 2 thereto Relating to the Listing and Trading of the Shares of the First Trust Senior Loan Fund of First Trust Exchange-Traded Fund IV

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on February 21, 2013, The NASDAQ Stock Market LLC ("Nasdaq" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which filing was amended and replaced in its entirety by Amendment No. 2 on March 6, 2013, which Items have been prepared by Nasdaq.[3] 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

Nasdaq proposes to list and trade the shares of the First Trust Senior Loan Fund (the "Fund") of First Trust Exchange-Traded Fund IV (the "Trust") under Nasdaq Rule 5735 ("Managed Fund Shares").[4] The shares of the Fund are collectively referred to

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

2 17 CFR 240.19b-4.

3 Amendment No. 1 was filed on March 4, 2013 and withdrawn on March 5, 2013 to make a correction to a footnote.

4 The Commission approved Nasdaq Rule 5735 in Securities Exchange Act Release No. 57962 (June 13, 2008), 73 FR 35175 (June 20, 2008) (SR-NASDAQ-2008-039). The Fund would not be the first actively-managed fund listed on the Exchange; see Securities Exchange Act Release No. 66175

herein as the "Shares."

The text of the proposed rule change is available at http://nasdaq.cchwallstreet.com/, at Nasdaq's principal office, 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, Nasdaq included statements concerning the purpose of, and basis for, the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Nasdaq has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects 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 list and trade the Shares of the Fund under Nasdaq Rule 5735, which governs the listing and trading of Managed Fund Shares[5] on the

(February 29, 2012), 77 FR 13379 (March 6, 2012) (SR-NASDAQ-2012-004) (order approving listing and trading of WisdomTree Emerging Markets Corporate Bond Fund). Additionally, the Commission has previously approved the listing and trading of a number of actively managed WisdomTree funds on NYSE Arca, Inc. pursuant to Rule 8.600 of that exchange. *See*, *e.g.*, Securities Exchange Act Release No. 64643 (June 10, 2011), 76 FR 35062 (June 15, 2011) (SR-NYSE Arca-2011-21) (order approving listing and trading of WisdomTree Global Real Return Fund). The Exchange believes the proposed rule change raises no significant issues not previously addressed in those prior Commission orders.

5 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)(the "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 Nasdaq Rule 5705, seeks to provide investment results that

Exchange. The Fund will be an actively managed exchange-traded fund ("ETF"). The Shares will be offered by the Trust, which was established as a Massachusetts business trust on September 15, 2010. The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N-1A ("Registration Statement") with the Commission.[6] The Fund is a series of the Trust.

Description of the Shares and the Fund

First Trust Advisors L.P. is the investment adviser ("Adviser") to the Fund. First Trust Portfolios L.P. (the "Distributor") is the principal underwriter and distributor of the Fund's Shares.[7] The Bank of New York Mellon Corporation ("BNY") will act as the administrator, accounting agent, custodian and transfer agent to the Fund.[8]

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correspond generally to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

6 See Post-Effective Amendment No. 15 to Registration Statement on Form N-1A for the Trust, dated December 14, 2012 (File Nos. 333-174332 and 811-22559). The descriptions of the Fund and the Shares contained herein are based, in part, on information in the Registration Statement.

7 The Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act (the "Exemptive Order"). See Investment Company Act Release No. 30029 (April 10, 2012) (File No. 812-13795). In compliance with Nasdaq Rule 5735(b)(5), which applies to Managed Fund Shares based on a fixed income portfolio (including without limitation exchange-traded notes and senior loans) or a portfolio invested in a combination of equity securities and fixed income securities, the Trust's application for exemptive relief under the 1940 Act states that the Fund will comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933 (15 U.S.C. § 77a).

8 The investment banking and custodial services departments at BNY are segregated and independent departments. BNY will not exercise any investment discretion with respect to the Fund.

Paragraph (g) of Rule 5735 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.[9] In addition, paragraph (g) 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, non-public information regarding the open-end fund's portfolio. Rule 5735(g) is similar to Nasdaq Rule 5705(b)(5)(A)(i); however, paragraph (g) 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. The Adviser is affiliated with the Distributor, a broker-dealer. The Adviser has implemented a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to

9 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 its 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.

the portfolio. In the event (a) the Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio. The Fund does not currently intend to use a sub-advisor.

First Trust Senior Loan Fund

Principal Investments

The Fund's primary investment objective is to provide high current income. The Fund's secondary investment objective is the preservation of capital.

According to the Registration Statement, in pursuing its investment objective, the Fund, under normal market conditions,[10] will seek to outperform a primary and secondary loan index (as described below), by investing at least 80% of its net assets (plus any borrowings for investment purposes) in "Senior Loans," which are described further below in "Description of Senior Loans and the Senior Loan Market." The S&P/LSTA

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10 The term "under normal market conditions" as used herein includes, but is not limited to, the absence of adverse market, economic, political or other conditions, including extreme volatility or trading halts in the fixed income 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. In periods of extreme market disturbance, the Fund may take temporary defensive positions, by overweighting its portfolio in cash/cash-like instruments; however, to the extent possible, the Adviser would continue to seek to achieve the Fund's investment objective. Specifically, the Fund would continue to invest in Senior Loans (as defined herein). In response to prolonged periods of constrained or difficult market conditions the Adviser will likely focus on investing in the largest and most liquid loans available in the market.

U.S. Leveraged Loan 100 Index (the "Primary Index") is comprised of the 100 largest Senior Loans, as measured by the borrowed amounts outstanding. The Markit iBoxx USD Leveraged Loan Index (the "Secondary Index") selects the 100 most liquid Senior Loans in the market. In addition to size, liquidity is also measured, in part, based on the number of market makers who trade a specific Senior Loan and the number and size of transactions in the context of the prevailing bid/offer spread. Markit utilizes proprietary models for the Secondary Index composition and updates to the Secondary Index. The Fund will not seek to track either the Primary or Secondary Index, but rather will seek to outperform those indices. It is anticipated that the Fund, in accordance with its principal investment strategy, will invest approximately 50% to 75% of its net assets in Senior Loans that are eligible for inclusion in and meet the liquidity thresholds of the Primary and/or the Secondary Indices. Each of the Fund's Senior Loan investments is expected to have no less than $250 million USD par outstanding.

The Adviser considers Senior Loans to be first lien senior secured floating rate bank loans. A Senior Loan is an advance or commitment of funds made by one or more banks or similar financial institutions to one or more corporations, partnerships or other business entities and typically pays interest at a floating or adjusting rate that is determined periodically at a designated premium above a base lending rate, most commonly the London-Interbank Offered Rate ("LIBOR"). A Senior Loan is considered senior to all other unsecured claims against the borrower, senior to or *pari passu* with all other secured claims, meaning that in the event of a bankruptcy the Senior Loan, together with other first lien claims, is entitled to be the first to be repaid out of proceeds of the assets securing the loans, before other existing unsecured claims or interests receive repayment. However, in bankruptcy proceedings, there may be other claims, such as taxes or additional advances which take precedence.[11]

The Fund will invest in Senior Loans that are made predominantly to businesses operating in North America, but may also invest in Senior Loans made to businesses operating outside of North America. The Fund may invest in Senior Loans directly, either from the borrower as part of a primary issuance or in the secondary market through assignments of portions of Senior Loans from third parties, or participations in Senior Loans, which are contractual relationships with an existing lender in a loan facility whereby the Fund purchases the right to receive principal and interest payments on a loan but the existing lender remains the record holder of the loan. Under normal market conditions, the Fund expects to maintain an average interest rate duration of less than 90 days.

In selecting securities for the Fund, the Adviser will seek to construct a portfolio of loans that it believes is less volatile than the general loan market. In addition, when making investments, the Adviser will seek to maintain appropriate liquidity and price transparency for the Fund. On an on-going basis, the Adviser will add or remove those individual loans that it believes will cause the Fund to outperform or underperform, respectively, either the Primary or Secondary Index. The Fund will include borrowers that the Adviser believes have strong credit metrics, based on its evaluation of cash flows,

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11 Senior Loans consist generally of obligations of companies and other entities (collectively, "borrowers") incurred for the purpose of reorganizing the assets and liabilities of a borrower; acquiring another company; taking over control of a company (leveraged buyout); temporary refinancing; or financing internal growth or other general business purposes. Senior Loans are often obligations of borrowers who have incurred a significant percentage of debt compared to equity issued and thus are highly leveraged.

collateral coverage and management teams. The key considerations of portfolio construction include liquidity, diversification and relative value.

When identifying prospective investment opportunities in Senior Loans, the Adviser currently intends to invest primarily in Senior Loans that are below investment grade quality and will rely on fundamental credit analysis in an effort to attempt to minimize the loss of the Fund's capital and to select assets that provide attractive relative value.[12] The Adviser expects to invest in Senior Loans or other debt of companies possessing the attributes described below, which it believes will help generate higher risk adjusted total returns.[13] The Adviser does not intend to purchase Senior Loans that are in

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12 The Fund will primarily invest in securities (including Senior Loans) which typically will be rated below investment grade. Securities rated below investment grade, commonly referred to as "junk" or "high yield" securities, include securities that are rated Ba1/BB+/BB+ or below by Moody's Investors Service, Inc. ("Moody's"), Fitch Inc., or Standard & Poor's, Inc. ("S&P"), respectively, and may involve greater risks than securities in higher rating categories.

13 The loan market, as represented by the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index, experienced significant growth in terms of number and aggregate volume of loans outstanding since the inception of the index in 1997. In 1997, the total amount of loans in the market aggregated less than $10 billion. By April of 2000, it had grown to over $100 billion, and by July of 2007 the market had grown to over $500 billion. The size of the market peaked in November of 2008 at $594 billion. During this period, the demand for loans and the number of investors participating in the loan market also increased significantly. Since 2008, the aggregate size of the market has contracted, characterized by limited new loan issuance and payoffs of outstanding loans. From the peak in 2008 through July 2010, the overall size of the loan market contracted by approximately 15%. The number of market participants also decreased during that period. Although the number of new loans being issued in the market since 2010 is increasing, there can be no assurance that the size of the loan market, and the number of participants, will return to earlier levels. An increase in demand for Senior Loans may benefit the Fund by providing increased liquidity for such loans and higher sales prices, but it may also adversely affect the rate of interest payable on such loans acquired by the Fund and the rights provided to the Fund under the terms of the applicable loan agreement, and may increase the price of loans that the Fund wishes to purchase in the secondary market. A decrease in the demand for Senior Loans may adversely affect the

default. However, the Fund may hold a Senior Loan that has defaulted subsequent to its purchase by the Fund.

The Adviser intends to invest in Senior Loans or other debt of companies that it believes have developed strong positions within their respective markets and exhibit the potential to maintain sufficient cash flows and profitability to service their obligations in a range of economic environments. The Adviser will seek to invest in Senior Loans or other debt of companies that it believes possess advantages in scale, scope, customer loyalty, product pricing, or product quality versus their competitors, thereby minimizing business risk and protecting profitability.

The Adviser will seek to invest in Senior Loans or other debt of established companies it believes have demonstrated a record of profitability and cash flows over several economic cycles. The Adviser does not intend to invest in Senior Loans or other debt of primarily start-up companies, companies in turnaround situations or companies with speculative business plans.

The Adviser intends to focus on investments in which the Senior Loans or other debt of a target company has an experienced management team with an established track record of success. The Adviser will typically require companies to have in place proper incentives to align management's goals with the Fund's goals.

The Adviser will seek to invest in a well-diversified portfolio of Senior Loans or other debt among borrowers and industries, thereby potentially reducing the risk of a downturn in any one company or industry having a disproportionate impact on the value

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price of loans in the Fund, which could cause the Fund's net asset value ("NAV") to decline.

of the Fund's holdings. Loans, and the collateral securing them, are typically monitored by agents for the lenders, which may be the originating bank or banks.[14]

Historically, the amount of public information available about a specific Senior Loan has been less extensive than if the loan were registered or exchange-traded. As noted above, the loans in which the Fund will invest will, in most instances, be Senior Loans, which are secured and senior to other indebtedness of the borrower. Each Senior Loan will generally be secured by collateral such as accounts receivable, inventory, equipment, real estate, intangible assets such as trademarks, copyrights and patents, and securities of subsidiaries or affiliates. The value of the collateral generally will be determined by reference to financial statements of the borrower, by an independent appraisal, by obtaining the market value of such collateral, in the case of cash or securities if readily ascertainable, or by other customary valuation techniques considered appropriate by the Adviser. The value of collateral may decline after the Fund's investment, and collateral may be difficult to sell in the event of default. Consequently, the Fund may not receive all the payments to which it is entitled. By virtue of their senior position and collateral, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower

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14 The Fund may be reliant on the creditworthiness of the agent bank and other intermediate participants in a Senior Loan, in addition to the borrower, since rights that may exist under the loan against the borrower if the borrower defaults are typically asserted by or through the agent bank or intermediate participant. Agents are typically large commercial banks, although for Senior Loans that are not broadly syndicated they can also include thrift institutions, insurance companies or finance companies (or their affiliates). Such companies may be especially susceptible to the effects of changes in interest rates resulting from changes in U.S. or foreign fiscal or monetary policies, governmental regulations affecting capital raising activities or other economic or market fluctuations. It is the expectation that the Fund will only invest in broadly syndicated loans.

becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as employee salaries, employee pensions, and taxes). This means Senior Loans are generally repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders. To the extent that the Fund invests in unsecured loans, if the borrower defaults on such loan, there is no specific collateral on which the lender can foreclose. If the borrower defaults on a subordinated loan, the collateral may not be sufficient to cover both the senior and subordinated loans.

There is no organized exchange on which loans are traded and reliable market quotations may not be readily available. A majority of the Fund's assets are likely to be invested in loans that are less liquid than securities traded on national exchanges. Loans with reduced liquidity involve greater risk than securities with more liquid markets. Available market quotations for such loans may vary over time, and if the credit quality of a loan unexpectedly declines, secondary trading of that loan may decline for a period of time. During periods of infrequent trading, valuing a loan can be more difficult and buying and selling a loan at an acceptable price can be more difficult and delayed. In the event that the Fund voluntarily or involuntarily liquidates Fund assets during periods of infrequent trading, it may not receive full value for those assets. Therefore, elements of judgment may play a greater role in valuation of loans. To the extent that a secondary market exists for certain loans, the market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

Senior Loans will usually require, in addition to scheduled payments of interest and principal, the prepayment of the Senior Loan from free cash flow. The degree to which borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the borrower and competitive conditions among loan investors, among others. As such, prepayments cannot be predicted with accuracy. Recent market conditions, including falling default rates among others, have led to increased prepayment frequency and loan renegotiations. These renegotiations are often on terms more favorable to borrowers. Upon a prepayment, either in part or in full, the actual outstanding debt on which the Fund derives interest income will be reduced. However, the Fund may receive a prepayment penalty fee assessed against the prepaying borrower.

Other Investments

According to the Registration Statement, in addition to the principal investments described above, the Fund may invest in other investments, as described below. The Fund may invest in (1) fixed-rate or floating-rate income-producing securities (including U.S. government debt securities, investment grade and below-investment grade corporate debt securities), (2) preferred securities and (3) securities of other investment companies registered under the 1940 Act.[15]

The Fund will not invest in floating rate loans of companies whose financial condition is troubled or uncertain and that have defaulted on current debt obligations, as measured at the time of investment. Although many of the Fund's investments will consist of securities rated between the categories of BB and B as rated by S&P, the Fund

[15] The equity securities in which the Fund may invest will be limited to securities that trade in markets that are members of the Intermarket Surveillance Group ("ISG"), which includes all U.S. national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange.

reserves the right to invest in debt securities, including Senior Loans, of any credit quality, maturity and duration.

The Fund may invest in corporate debt securities issued by U.S. and non-U.S. companies of all kinds, including those with small, mid and large capitalizations. Corporate debt securities are issued by businesses to finance their operations. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities, with the primary difference being their maturities and secured or unsecured status. Commercial paper has the shortest term and is usually unsecured. Corporate debt may be rated investment grade[16] or below investment grade and may carry fixed or floating rates of interest.

The Fund may invest in debt securities issued by non-U.S. companies that are traded over-the-counter or listed on an exchange. Non-U.S. debt securities in which the Fund may invest include debt securities issued or guaranteed by companies organized under the laws of countries other than the United States, debt securities issued or guaranteed by foreign, national, provincial, state, municipal or other governments with taxing authority or by their agencies or instrumentalities and debt obligations of supranational governmental entities such as the World Bank or European Union. These debt securities may be U.S. dollar-denominated or non-U.S. dollar-denominated. Non-U.S. debt securities also include U.S. dollar-denominated debt obligations, such as "Yankee Dollar" obligations, of foreign issuers and of supranational government entities.

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16 According to the Adviser, "investment grade" means securities rated in the Baa/BBB categories or above by one or more Nationally Recognized Statistical Rating Organizations ("NRSROs"). If a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the lowest rating category received from an NRSRO. Rating categories may include sub-categories or gradations indicating relative standing.

Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign corporations, banks and governments. Foreign debt securities also may be traded on foreign securities exchanges or in over-the-counter capital markets.

The Fund may invest in U.S. government securities. U.S. government securities include U.S. Treasury obligations and securities issued or guaranteed by various agencies of the U.S. government, or by various instrumentalities which have been established or sponsored by the U.S. government. U.S. Treasury obligations are backed by the "full faith and credit" of the U.S. government. Securities issued or guaranteed by federal agencies and U.S. government-sponsored instrumentalities may or may not be backed by the full faith and credit of the U.S. government.

The Fund may invest in short-term debt securities (as described herein), money market funds and other cash equivalents, or it may hold cash. The percentage of the Fund invested in such holdings may vary and depends on several factors, including market conditions.

Short-term debt securities are defined to include, without limitation, the following: (1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (2) certificates of deposit issued against funds deposited in a bank or savings and loan association; (3) bankers' acceptances, which are short-term credit instruments used to finance commercial transactions; (4) repurchase agreements,[17] which involve purchases of debt securities; (5)

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[17] The Fund may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from its excess cash balances and its securities lending cash collateral. A repurchase agreement is an agreement under which the Fund acquires a financial instrument (e.g., a security issued by the U.S. government or an agency thereof, a banker's acceptance or a certificate of

bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; and (6) commercial paper, which is short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations.

Under normal market conditions, up to 10% of the net assets of the Fund may be denominated in currencies other than the U.S. dollar. The Fund intends to hedge its non-U.S. dollar holdings. The Fund's currency exchange transactions will be conducted on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market. The cost of the Fund's currency exchange transactions will generally be the difference between the bid and offer spot rate of the currency being purchased or sold. In order to protect against uncertainty in the level of future currency exchange rates, the Fund is authorized to enter into various currency exchange transactions.

As noted above, the Fund may invest in securities of other 1940 Act registered open-end or closed-end investment companies, including ETFs,[18] in the amounts that are

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deposit) from a seller, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. In addition, the Fund may enter into reverse repurchase agreements, which involve the sale of securities with an agreement to repurchase the securities at an agreed upon price, date and interest payment and have the characteristics of borrowing. According to the Registration Statement, the Fund intends to enter into repurchase and reverse repurchase agreements only with financial institutions and dealers believed by the Adviser to present minimal credit risks in accordance with criteria approved by the Board. The Adviser will review and monitor the creditworthiness of such institutions. The Adviser will monitor the value of the collateral at the time the action is entered into and at all times during the term of the agreement.

18 As described in the Registration Statement, an ETF is an investment company registered under the 1940 Act that holds a portfolio of securities generally designed to track the performance of a securities index, including industry, sector, country and region indexes. Such ETFs all will be listed and traded in the U.S. on registered exchanges. The Fund may invest in the securities of ETFs in excess of the limits imposed under the 1940 Act pursuant to the Exemptive Order. The

permitted by the 1940 Act and the applicable Exemptive Order from the Commission granted to the Trust, on behalf of the Fund, but not to exceed 20% of the Fund's net assets. To the extent that an investment company invests primarily in a specified asset class held by the Fund, such an investment in the investment company will be deemed to be an investment in the underlying asset class for purposes of the Fund's investment limitations. In addition, the Fund may invest a portion of its assets in exchange-traded pooled investment vehicles (other than investment companies) that invest primarily in securities of the types in which the Fund may invest directly.

The Fund may receive equity, warrants, corporate bonds and other such securities as a result of the restructuring of the debt of an issuer, or a reorganization of a senior loan or bond, or acquired together with a high yield bond or senior loan(s) of an issuer. Such investments will be subject to the Fund's investment objectives, restrictions and strategies as described herein.

Subject to limitations, the Fund may invest in secured loans that are not first lien loans or loans that are unsecured. These loans have the same characteristics as Senior Loans except that such loans are not first in priority of repayment and/or may not be secured by collateral. Accordingly, the risks associated with these loans are higher than the risks for loans with first priority over the collateral. Because these loans are lower in priority and/or unsecured, they are subject to the additional risk that the cash flow of the borrower may be insufficient to meet scheduled payments after giving effect to the

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ETFs in which the Fund may invest include Index Fund Shares and Portfolio Depositary Receipts (as described in NASDAQ Rule 5705); and Managed Fund Shares (as described in Nasdaq Rule 5735). While the Fund may invest in inverse ETFs, the Fund will not invest in leveraged or inverse leveraged (*e.g.*, 2X or 3X) ETFs.

secured obligations of the borrower or in the case of a default, recoveries may be lower for unsecured loans than for secured loans.[19]

The Fund will not invest 25% or more of the value of its total assets in securities of issuers in any one industry.[20]

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities, junior subordinated loans and unsecured loans deemed illiquid by the Adviser. The 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 the Fund's net assets are held in illiquid securities. Illiquid securities 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.[21]

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19 Secured loans that are not first lien and loans that are unsecured generally have greater price volatility than Senior Loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in these loans, which would create greater credit risk exposure for the holders of such loans. Secured loans that are not first lien and loans that are unsecured share the same risks as other below investment grade instruments.

20 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).

21 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,

Except for investments in ETFs that may hold non-US issues, the Fund will not otherwise invest in non-US equity issues.

The Fund will not invest in options contracts, futures contracts or swap agreements.

In certain situations or market conditions, the Fund may temporarily depart from its normal investment policies and strategies provided that the alternative is consistent with the Fund's investment objective and is in the best interest of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in times of extreme market stress.[22] The Fund may borrow money from a bank as permitted by the 1940 Act or other governing statute, by applicable rules thereunder, or by Commission or other regulatory agency with authority over the Fund, but only for temporary or emergency purposes. The use of temporary investments is not a part of a principal investment strategy of the Fund.

The Fund will be classified as a "non-diversified" investment company under the 1940 Act.[23]

The Fund intends to qualify for and to elect treatment as a separate regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code.[24]

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 1933 Act).

22 See *supra* note 10.

23 The diversification standard is set forth in Section 5(b)(1) of the 1940 Act (15 U.S.C. 80a-5).

24 26 U.S.C. 851.

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

Criteria to Be Applied to the Fund

While the Fund, which would be listed pursuant to the criteria applicable to actively managed funds under Nasdaq Rule 5735, is not eligible for listing under Nasdaq Rule 5705(b) applicable to listing and trading of Index Fund Shares based on a securities index, the Adviser represents that, under normal market conditions, the Fund would generally satisfy the generic fixed income initial listing requirements in Nasdaq Rule 5705(b)(4) on a continuous basis measured at the time of purchase, as described below.[25]

[25] Nasdaq Rule 5705(b)(4) sets forth generic listing criteria applicable to listing under Rule 19b-4(e) under the Exchange Act of Index Fund Shares ("IF Shares" or "Index Fund Shares") based on an index or portfolio of "Fixed Income Securities," which are debt securities that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof. Nasdaq Rule 5705(b)(4)(A) is as follows:

(A) Eligibility Criteria for Index Components. Upon the initial listing of a series of Index Fund Shares pursuant to Rule 19b-4(e) under the Act, each component of an index or portfolio underlying a series of Index Fund Shares shall meet the following criteria:

(i) The index or portfolio must consist of Fixed Income Securities;

(ii) Components that in aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of $100 million or more;

(iii) A component may be a convertible security, however, once the convertible security component converts to the underlying equity security, the component is removed from the index or portfolio;

(iv) No component fixed-income security (excluding Treasury Securities) will represent more than 30% of the weight of the index or portfolio, and the five most heavily weighted component fixed-

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(i), as noted in the Registration Statement, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in Senior Loans. The Adviser expects that substantially all of the Fund's assets will be invested in Fixed Income Securities or cash/cash-like instruments. With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(ii), the Adviser expects that substantially all, but at least 75% of the Fund's portfolio will be invested in loans that have an aggregate outstanding exposure of greater than $100 million. With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(iii), the Adviser represents that the Fund will not typically invest in convertible securities; however, should the Fund make such investments, the Adviser would direct the Fund to divest any converted equity security as soon as practicable.

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(iv), the Adviser represents that the Fund will not concentrate its investments in excess of 30% in any one security (excluding Treasury Securities), and will not invest more than 65% of its assets in five or fewer securities (excluding Treasury Securities).

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income securities do not in the aggregate account for more than 65% of the weight of the index or portfolio;

(v) An underlying index or portfolio (excluding exempted securities) must include a minimum of 13 non-affiliated issuers; and

(vi) Component securities that in aggregate account for at least 90% of the weight of the index or portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of $700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least $1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

With respect to the requirement of Nasdaq Rule 5705(b)(4)(A)(v), the Adviser represents that the Fund will invest in Senior Loans issued to at least 13 non-affiliated borrowers.

With respect to the requirements of Nasdaq Rule 5705(b)(4)(A)(vi), the Adviser represents that the Fund may make investments on a continuous basis in compliance with such requirement at the time of purchase; however, the market for Senior Loans differs in several material respects from the market of other fixed income securities (*e.g.*, bonds). A significant percentage of the Senior Loan market would not meet the criteria set forth in Nasdaq Rule 5705(b)(4)(A)(vi), but would be readily tradable in the secondary market. For the 12 month period ending August 12, 2012, 53.4% of the borrowers of primary Senior Loans (also known as leveraged loans) had total indebtedness of $1 billion or less and Senior Loans outstanding of $250 million or more. (Source: S&P). In order to add to the Fund's diversification and to expand the Fund's investment universe, the Fund may invest in Senior Loans borrowed by entities that would not meet the criteria set forth in Nasdaq Rule 5705(b)(4)(A)(vi) above provided the borrower has at least $250 million outstanding in Senior Loans. The Senior Loans borrowed by such entities would be well known to participants in the Senior Loan markets, would typically attract multiple market makers, and would share liquidity and transparency characteristics of senior secured debt borrowed by entities meeting the criteria in the generic listing criteria of Nasdaq Rule 5705(b)(4)(A).

<u>Description of Senior Loans and the Senior Loan Market</u>

The Adviser represents that Senior Loans represent debt obligations of sub-investment grade corporate borrowers, similar to high yield bonds; however, Senior Loans are different from traditional high yield bonds in several important respects. First, Senior Loans are typically senior to other obligations of the borrower and secured by the assets of the borrower. Senior Loans rank at the top of a borrower's capital structure in terms of priority of payment, ahead of any subordinated debt (high yield) or the borrower's common equity. These loans are also secured, as the holders of these loans have a lien on most if not all of the corporate borrower's plant, property, equipment, receivables, cash balances, licenses, trademarks, etc. Furthermore, the corporate borrower of Senior Loans executes a credit agreement that typically restricts what it can do (debt incurrence, asset dispositions, etc.) without the lenders' approval, and, in addition, often requires the borrower to meet certain ongoing financial covenants (EBITDA, leverage tests, etc.). Finally, Senior Loans are floating rate obligations which typically pay a fixed spread over 3 month LIBOR.

Institutional investors access the market today primarily through commingled funds or separately managed accounts. Individual investors have gained exposure to Senior Loans primarily through registered open-end or closed-end mutual funds and business development companies or occasionally through limited partnerships.

The performance of a Senior Loans portfolio is driven by credit selection. Investing in Senior Loans involves detailed credit analysis and sound investment judgment culminating in the timely payout of interest and ultimate return of principal. Loans are generally prepayable at any time, typically without penalty. Loans are typically purchased at close to 100 ("par") and are also typically repaid at 100; the return to the investor comes from the quarterly interest coupons and the return of principal.

Underperformance comes from making investment misjudgments whereby the corporate borrower fails to repay the loan at maturity or otherwise defaults on the obligation.[26]

The Adviser represents that the Senior Loan market, in terms of total outstanding loans by dollar volume is approximately equal in size to the high yield corporate bond market in the U.S. - between $1.2 trillion and $1.5 trillion. The market for Senior Loans is almost exclusively comprised of non-investment grade corporate borrowers. The Loan Syndication and Trading Association ("LSTA"), a trade group sponsored by both underwriters of and institutional investors in senior bank loans, has been tracking trading volumes and bid-offer spreads for the asset class since 2007. For the month ended June 30, 2012 – a representative period – $30 billion of Senior Loans changed hands representing 1,109 individual transactions. (Source: LSTA.) Average quarterly Senior Loan trading volume exceeded $100 billion during 2011. Quarterly trading volumes fell modestly to $98 billion in the second calendar quarter of 2012.[27]

The Fund, as noted above, will primarily invest in the more liquid and higher rated segment of the Senior Loan market. The average credit rating of the Senior Loans

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26 Additional capital features inherent to Senior Loans include the following: such loans are subject to mandatory and discretionary prepayments and can be prepaid in full, often without penalty, for a variety of reasons; companies may opt to refinance an existing loan at a lower spread or repay the loan with a high yield bond issuance; required excess cash flow sweeps; covenants requiring loan prepayment from proceeds of asset sales; and quarterly amortization.

27 As of October 2012, 195 open-ended loan funds and open-ended bond funds were invested in the Senior Loan market as a primary or secondary asset class. (Source: Morningstar.) As of October 2012, there were approximately $65 billion of assets under management in 39 open-ended loan funds and approximately $252 billion of assets under management in 158 open-ended high yield bond funds. Eighty-six of the 158 open-ended high yield bond funds made an allocation to Senior Loans, and, among high yield bond funds that had an allocation to Senior Loans, such allocation was 4.99% on average. (Source: Morningstar Direct)

that the Fund typically will hold will be rated between the categories of BB and B as rated by S&P. The most actively traded loans will generally have a tranche size outstanding (or total float of the issue) in excess of $250 million. The borrowers of these broadly syndicated bank loans will typically be followed by many "buy-side" and "sell-side" credit analysts who will in turn rely on the borrower to provide transparent financial information concerning its business performance and operating results. The Adviser represents that such borrowers typically provide significant financial transparency to the market through the delivery of financial statements on at least a quarterly basis as required by the executed credit agreements. Additionally, bid and offers in the Senior Loans are available throughout the trading day on larger Senior Loans issues with multiple dealer quotes available.

The Adviser represents that the underwriters, or agent banks, which distribute, syndicate and trade Senior Loans are among the largest global financial institutions, including JPMorgan, Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, Wells Fargo, Deutsche Bank, Barclays, Credit Suisse and others. It is common for multiple firms to act as underwriters and market makers for a specific Senior Loan issue. For example, two underwriters may co-underwrite and fund a Senior Loan that has a $1 billion institutional tranche. One of the underwriters acting as syndication agent for the financing, will then draft an offering memorandum (similar to a prospectus for an initial public offering of equity securities), distribute it to potential investors, schedule management meetings with the largest loan investors and arrange a bank meeting that includes management presentations along with a question and answer session. The investor audience attends in person as well as via telephone with both live and recorded conference call options. After a two week syndication process where investors can complete their due diligence work with access to company management and underwriter bankers to answer credit questions, investors' commitments are collected by the underwriter. The underwriter will typically allocate the loan to 80-120 investors within the following week, with the largest position representing 3-5% of the tranche size in a successful syndication. The underwriters will both make executable two sided markets in the loan with eighth to a quarter point bid/ask spreads on sizes in the $2 million to $20 million range, depending on the issue. Other banks also have Senior Loan trading desks that make secondary bid/ask markets in the loans after they are allocated. Senior Loan investors can also obtain information on Senior Loans and their borrowers from numerous public sources, including Bloomberg, FactSet, public financial statement filings (Forms 10-K and 10-Q), and sell side research analysts.

The Adviser represents that the segment of the Senior Loan market that the Fund will focus on is highly liquid. Senior Loans of $250 million or more in issuance are typically quite liquid and will have multiple market makers and typically 75 or more institutional holders. The standard bid/offer spreads for such loans are ¼ to ½ point, although the largest firms can transact on a 1/8th point market across dealers for Senior Loans of $250 million or more outstanding.[28]

The Adviser represents that, while Senior Loans are not reported through

28 The Exchange notes that the PowerShares Senior Loan Portfolio (Symbol: BKLN), is an index-based ETF listed on NYSE Arca since March 5, 2011 under NYSE Arca Equities Rule 5.2(j)(3). The underlying index for BKLN is the S&P/LSTA U.S. Leveraged Loan 100 Index, the Fund's Primary Index. As of November 20, 2012, BKLN had assets under management of approximately $1.28 billion. Since inception, BKLN's average daily trading volume has been 545,065 shares, with an average premium/discount to NAV of 0.43%.

TRACE,[29] there is significant transparency with dealers updating investors on trades and trading activity throughout the day. Dealers update their "trading runs" of Senior Loans throughout the day and distribute these via electronic messaging to the institutional investor community. The Adviser represents further that, upon commencement of trading in the Fund, the Adviser would ensure that all "Authorized Participants" (as described below) for the Fund were added to these intraday market maker Senior Loan "trading runs."

Description of the S&P/LSTA U.S. Leveraged Loan 100 Index[30]

The Primary Index is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. The Primary Index consists of 100 loan facilities drawn from a larger benchmark- the S&P/LSTA Leveraged Loan Index ("LLI"), which covers more than 900 facilities and, as of June 30, 2011, had a market value of more than US$ 490 billion. As of June 30, 2011, the Primary Index had a total market value of US$ 183.4 billion.

The Primary Index is designed to reflect the largest facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads and interest payments.

The Primary Index is rules based, although the S&P/LSTA U.S. Leveraged Loan

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29 TRACE (Trade Reporting and Compliance Engine), is a vehicle developed by the Financial Industry Regulatory Authority ("FINRA") that facilitates the mandatory over-the-counter secondary market transactions in eligible fixed income securities.

30 The description herein of the Primary Index is based on information in "S&P LSTA U.S. Leveraged Loan 100 Index Methodology, August 2011" ("Primary Index Description"). S&P is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index.

100 Index Committee (the "Index Committee," described below) reserves the right to exercise discretion when necessary.

The Primary Index is rebalanced semi-annually to avoid excessive turnover, but reviewed weekly to reflect pay-downs and ensure that the Primary Index portfolio maintains 100 loan facilities. The constituents of the Primary Index (the "Index Loans") are drawn from a universe of syndicated leveraged loans representing over 90% of the leveraged loan market.

All syndicated leveraged loans covered by the LLI universe are eligible for inclusion in the Primary Index. Term loans from syndicated credits must meet the following criteria at issuance in order to be eligible for inclusion in the LLI:

- Senior secured
- Minimum initial term of one year
- Minimum initial spread of LIBOR + 125 basis points
- US dollar denominated

All Primary Index loans must have a publicly assigned CUSIP.

According to the Primary Index Description, the Primary Index is designed to include the largest loan facilities from the LLI universe. Par outstanding is a key criterion for loan selection. Loan facilities are included if they are among the largest first lien facilities from the Primary Index in terms of par amount outstanding. There is no minimum size requirement on individual facilities in the Primary Index, but the LLI universe minimum is US$ 50 million. Only the 100 largest first lien facilities from the LLI that meet all eligibility requirements are considered for inclusion. The Primary Index covers all borrowers regardless of origin; however, all facilities must be denominated in U.S. dollars.

A Primary Index addition is generally made only if a vacancy is created by a Primary Index deletion. Primary Index additions are reviewed on a weekly basis and are made according to par outstanding and overall liquidity. Liquidity is determined by the par outstanding and number of market bids available. Facilities are retired when they are no longer priced by "LSTA/LPC Mark-to-Market Pricing" or when the facility is repaid.[31]

Each loan facility's total return is calculated by aggregating the interest return, reflecting the return due to interest paid and accrued interest, and price return, reflecting the gains or losses due to changes in end-of-day prices and principal prepayments.

The Primary Index is maintained in accordance with the following rules:

- The Primary Index is reviewed each week to ensure that it includes 100 Index Loans.

- A complete review and rebalancing of all Primary Index constituents is completed on a semi-annual basis coinciding with the last weekly rebalance in June and in December.

- Eligible loan facilities approved by the Primary Index Committee are added to the Primary Index during the semi-annual rebalancing. Eligible loan facilities are added to the Primary Index at the weekly review only if other facilities are repaid or otherwise drop out of the Primary Index, in order to maintain 100 Index Loans.

- Any loan facility that fails to meet any of the eligibility criteria or that has a term to maturity less than or equal to 12 months plus 1 calendar day, as of the weekly rebalancing date, will not be included in the Primary Index.

- Par amounts of Primary Index loans will be adjusted on the weekly rebalancing date to reflect any changes that have occurred since the previous rebalancing date, due, for example, to partial pre-payments and pay-downs.[32]

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31 LSTA/LPC Mark-to-Market Pricing is used to price each loan in the index. LSTA/LPC Mark-to-Market Pricing is based on bid/ask quotes gathered from dealers and is not based upon derived pricing models. The Primary Index uses the average bid for its market value calculation.

32 The Adviser represents that loan prepayments in 2011 were 40% of the LLI and LTM September 30, 2012 are 28% (Source: LCD Quarterly Review, Third Quarter 2012). As a result of prepayments, the weighted average life of a loan is typically 2-3 years versus average maturity of 5-7 years. Existing investors in the

- Constituent facilities are capped at 2% of the Primary Index and drawn-down at the weekly rebalancing. When a loan facility exceeds the 2% cap, the weight is reduced to 1.90% and the proceeds are invested in the other Primary Index components on a relative-weight basis.

The Primary Index is normally reviewed and rebalanced on a weekly basis to maintain 100 constituents. The Primary Index Committee (as described below), nevertheless, reserves the right to make adjustments to the Primary Index at any time that it believes appropriate.

Weekly Primary Index rebalancing maintenance (additions, deletions, pay-downs, and other changes to the Primary Index) is based on data as of Friday (or the last business day of the week in the case of holidays) and is announced the following Wednesday (or Tuesday in the case of a holiday) for implementation on the following Friday. Publicly available information, up to and including each Wednesday's close, is considered in each weekly rebalancing.

Primary Index changes published in the announcement generally are not subject to revision and will become effective on the date listed in the announcement.

<u>The Primary Index Committee</u>

The Primary Index Committee maintains the Primary Index.[33] The Primary Index Committee is comprised of employees of S&P. The Primary Index Committee is chaired by the Managing Director and Primary Index Committee Chairman at S&P.

Meetings are held annually and, from time to time, as needed. It is the sole responsibility of the Primary Index Committee to decide on all matters relating to

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Senior Loan may decline to participate in a loan refinancing that occurs at a lower spread in which case the loan would be repaid.

33 The Primary Index Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index.

methodology, maintenance, constituent selection and index procedures. The Primary Index Committee makes decisions based on all available information and Primary Index Committee discussions are kept confidential to avoid any unnecessary impact on market trading.

Markit iBoxx USD Liquid Leveraged Loan Index[34]

According to the Secondary Index Description, the Markit iBoxx USD Liquid Leveraged Loan Index is a subset of the benchmark Markit iBoxx USD Leveraged Loan Index (USD LLI). The Secondary Index limits the number of constituent loans by selecting larger and more liquid loans from the wider USD LLI index universe as determined by the Liquidity Ranking Procedure, described below. The procedure utilizes daily liquidity scores from the Markit Loan Pricing Service, which is a broader measure of liquidity, summarizing the performance of each loan across several liquidity metrics, such as number of quotes, or bid-offer sizes.[35]

The selection process for the Secondary Index will be used on the index inception date and at every monthly rebalancing ("Secondary Index Selection Date"). The selection process will involve the identification of the eligible universe using the eligibility criteria set out below. If the size of the eligible universe is greater than the target number of loans, the Liquidity Ranking Procedure will be used to determine the final index constituents. Once the index members are selected, they are automatically carried forward to the following month's selection, unless they no longer satisfy the

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34 The description herein of the Secondary Index is based on "Markit iBoxx USD Liquid Leveraged Loan Index—Index Guide," September 2011 ("Secondary Index Description").

35 Markit is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

eligibility criteria or enter a prolonged period of relative illiquidity. The Secondary Index eligibility criteria and the liquidity ranking procedure are described in further detail below.

The following six selection criteria are used to derive the eligible universe from the MarkitWSO USD- denominated loan universe: loan type; minimum size; liquidity/depth of market; spread; credit rating; and minimum time to maturity.[36]

Only USD-denominated loans are eligible for the Secondary Index.

Eligible loan types are fully funded term loans (fixed and floating rate) and defaulted loans. Ineligible loan types are 364-day facility; delayed term loans; deposit-funded tranche; letters of credit; mezzanine; PIK Toggle; PIK; pre-funded acquisition; revolving credit; strips; synthetic lease; and unfunded loans.

A minimum facility size of $500 million USD nominal is required to be eligible for the Secondary Index. A constituent is removed at the next rebalancing if its nominal outstanding falls below $500 million USD.

According to the Secondary Index Description, liquidity and depth of the market can be measured by the number of prices available for a particular loan and the length of time prices have been provided by the minimum required number of price contributors. The liquidity check is based on the 3-month period prior to the rebalancing cut-off date (liquidity test period). Only loans with a minimum liquidity/depth of 2 for at least 50% of trading days of the liquidity test period are eligible. Loans issued less than 3 months prior to the rebalancing cut-off date require a minimum liquidity/depth of 3 for at least 50% of trading days in the period from the issue date to the rebalancing cut-off date.

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[36] MarkitWSO is a corporate loan data base that Markit maintains using information provided by agent banks on each constituent Senior Loan in its data base of approximately 4,300 Senior Loans.

Only sub-investment grade loans are eligible for the Secondary Index. Each rated loan is assigned a composite index rating based on the ratings from Moody's and S&P's. If more than one agency publishes a rating for a loan, the average of the ratings determines the composite rating. The average rating is calculated as the numerical average of the ratings provided. To calculate the average, each rating assigned an integer number as follows: AAA/Aaa is assigned a 1, AA+/Aa1 a 2 etc. The resulting average is rounded to the nearest integer with .5 rounded up. Loans designated as "Not Rated" by both Moody's and S&P must have a minimum current spread of 125 basis points over LIBOR to be eligible for the Secondary Index. Loans designated as "Not Rated" are not assigned an index rating. Defaulted loans are eligible for the Secondary Index provided they meet all other criteria.[37]

The initial time to maturity is measured from the loan's issue date to its maturity date. A minimum initial time to maturity of one year is required for potential constituents. The minimum time to maturity threshold reduces the Secondary Index turnover and transaction costs associated with short-dated loans. Existing constituents with time to maturities of less than 1 year remain in the Secondary Index until maturity provided they meet all other eligibility criteria.

In order to determine the final Secondary Index constituents, the loans in the eligible universe are ranked according to their liquidity scores, as provided by the Markit Loan Pricing Service. Each loan in the MarkitWSO database[38] is assigned a daily score based on the loan's performance on the following liquidity metrics:

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37 While the Secondary Index can include defaulting Senior Loans, the Adviser does not intend to invest in such loans.

38 <u>See</u> *supra* note 36.

- Sources Quote: The number of dealers sending out runs.
- Frequency of Quotes: total number of dealer runs.
- Number of Sources with Size: The number of dealer runs with associated size.
- Bid-offer spreads: The average bid-offer spread in dealer runs.
- Average quote size: The average size parsed from quotes.
- Movers Count: The end of day composite contributions which have moved on that day.

Each loan carries a score ranging from 1 to 5 in ascending order of liquidity, depending on the daily values for the above components. A loan with a score of 1 will have the best performance in each of the categories above. In the liquidity ranking procedure described below, average liquidity scores are calculated for each loan, over a calendar one or three month period immediately preceding each rebalancing date.

On the Secondary Index inception day, the target number of loans will be 100. Loans will be removed from the Secondary Index if they are no longer present in the current eligible universe or are not ranked within the first 125 places in terms of 3 month average liquidity score. On every subsequent rebalancing, the number of new loans to be selected will be equal to the number of loans which will be removed from the Secondary Index.

According to the Secondary Index Description, the parameters used in the selection process, including the target number of loans and the eligibility criteria, are subject to an annual review process to ensure that the Secondary Index continues to reflect the underlying loans market. The results of the analysis are submitted to the oversight committee for the Markit iBoxx USD Leveraged Loan Indices ("Oversight

Committee").[39] The review will consist of a qualitative and quantitative assessment of any developments in the loans market in terms of market size, depth and overall liquidity conditions of the market together with a recommendation whether current index rules should be modified. Factors that will be considered in the assessment will include: size of the market; new issuance patterns and trends; outstanding number of loans and borrowers; and liquidity conditions.

All Markit iBoxx USD Leveraged Loan Indices are calculated at the end of each business day and re-balanced at the end of each month.

The Markit iBoxx USD Leveraged Loans Indices are calculated on the basis of end-of-day prices provided by Markit Loan Pricing services on each recommended Securities Industry and Financial Markets Association ("SIFMA") U.S. trading day.

On each pricing day, end-of-day bid, mid and ask price quotes for the applicable loans are received from Markit Loan Pricing. Prices for all loans are taken at 4:15 p.m. Eastern time ("E.T."). Secondary Index data is published and distributed on the next day by 8:00 a.m. E.T. and is available on the Markit index website, http://indices.markit.com, and through Bloomberg and Reuters.

Markit will provide bid, mid and ask prices for all eligible loans at the end of each index calculation day. Reference loan data will be provided by Markit, which represents up-to-date reference and transactional information on over 1,000 leveraged loans.

The Shares

The Fund will issue and redeem Shares only in Creation Units at the NAV next determined after receipt of an order on a continuous basis every day except weekends and

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39 The Oversight Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

specified holidays. The NAV of the Fund will be determined once each business day, normally as of the close of trading of the New York Stock Exchange ("NYSE"), generally, 4:00 p.m. E.T. Creation Unit sizes will be 50,000 Shares per Creation Unit. The Trust will issue and sell Shares of the Fund only in Creation Units on a continuous basis through the Distributor, without a sales load (but subject to transaction fees), at their NAV per Share next determined after receipt of an order, on any business day, in proper form pursuant to the terms of the Authorized Participant agreement (as referred to below).

The consideration for purchase of a Creation Unit of the Fund generally will consist of either (i) the in-kind deposit of a designated portfolio of securities (primarily Senior Loans) (the "Deposit Securities") per each Creation Unit and the Cash Component (defined below), computed as described below or (ii) the cash value of the Deposit Securities ("Deposit Cash") and the "Cash Component," computed as described below. The primary method of creation and redemption transactions will be in cash. In-kind creation and redemption transactions will be available only if requested by an Authorized Participant and approved by the Trust.

When accepting purchases of Creation Units for cash, the Fund may incur additional costs associated with the acquisition of Deposit Securities that would otherwise be provided by an in-kind purchaser. Together, the Deposit Securities or Deposit Cash, as applicable, 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" will be an amount equal to the difference between the NAV of the Shares (per Creation Unit) and the market value of the Deposit Securities or Deposit Cash, as applicable. If the Cash Component is a positive number (*i.e.*, the NAV per Creation Unit exceeds the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component will be such positive amount. If the Cash Component is a negative number *(i.e.*, the NAV per Creation Unit is less than the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component will be such negative amount and the creator will be entitled to receive cash in an amount equal to the Cash Component. The Cash Component will serve the function of compensating for any differences between the NAV per Creation Unit and the market value of the Deposit Securities or Deposit Cash, as applicable.

According to the Registration Statement, to be eligible to place orders with respect to creations and redemptions of Creation Units, an entity must be (i) a "Participating Party," *i.e.*, a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation ("NSCC"); or (ii) a Depository Trust Company ("DTC") participant. In addition, each Participating Party or DTC Participant (each, an "Authorized Participant") must execute an agreement that has been agreed to by the Principal Underwriter and the Transfer Agent, and that has been accepted by the Trust, with respect to purchases and redemptions of Creation Units.

The Custodian, through the NSCC, will make available on each business day, immediately prior to the opening of business on the Exchange's Regular Market Session (currently 9:30 a.m., E.T), the list of the names and the required number of shares of each Deposit Security or the required amount of Deposit Cash, as applicable, to be included in the current Fund Deposit (based on information at the end of the previous business day) for the Fund. Such Fund Deposit is subject to any applicable adjustments as described below, in order to effect purchases of Creation Units of the Fund until such time as the next-announced composition of the Deposit Securities or the required amount of Deposit Cash, as applicable, is made available.

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 Transfer Agent and only on a business day.

With respect to the Fund, the Custodian, through the NSCC, will make available immediately prior to the opening of business on the Exchange (9:30 a.m. E.T.) on each business day, the list of the names and share quantities of the Fund's portfolio securities ("Fund Securities") or the required amount of Deposit Cash that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day. Fund Securities received on redemption may not be identical to Deposit Securities.

Redemption proceeds for a Creation Unit will be paid either in-kind or in cash or a combination thereof, as determined by the Trust. With respect to in-kind redemptions of the Fund, redemption proceeds for a Creation Unit will consist of Fund Securities as announced by the Custodian 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 (the "Cash Redemption Amount"), less a fixed redemption transaction fee and any applicable additional variable charge as set forth in the Registration Statement. In the event that the Fund Securities have a value greater than the NAV of the Shares, a compensating cash payment equal to the differential will be required to be made by or through an Authorized Participant by the redeeming shareholder. Notwithstanding the foregoing, at the Trust's discretion, an Authorized

Participant may receive the corresponding cash value of the securities in lieu of the in-kind securities value representing one or more Fund Securities.

The creation/redemption order cut-off time for the Fund is expected to be 4:00 p.m. E.T. for purchases of Shares. On days when the Exchange closes earlier than normal, the Fund may require orders for Creation Units to be placed earlier in the day.

Net Asset Value

The NAV per Share for the Fund will be computed by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding, rounded to the nearest cent. Expenses and fees, including the management fees, are accrued daily and taken into account for purposes of determining NAV.[40] The NAV of the Fund will be calculated by the Custodian and determined at the close of the regular trading session on the NYSE (ordinarily 4:00 p.m., E.T.) on each day that such exchange is open, provided that fixed-income assets (and, accordingly, the Fund's NAV) may be valued as of the announced closing time for trading in fixed-income instruments on any day that SIFMA (or the applicable exchange or market on which the Fund's investments are traded) announces an early closing time. Creation/redemption order cut-off times may also be earlier on such days.

In calculating the Fund's NAV per Share, investments will generally be valued by using market valuations. A market valuation generally means a valuation (i) obtained from an exchange, a pricing service, or a major market maker (or dealer) or (ii) based on a price quotation or other equivalent indication of value supplied by an exchange, a pricing service, or a major market maker (or dealer). The Adviser may use various

40 Markit will be the primary price source for Senior Loans in calculating the Fund's NAV. To the extent "Other Investments" are held, International Data Corporation ("IDC") will be the primary price source for such investments.

pricing services, or discontinue the use of any pricing service, as approved by the Trust's Board from time to time. A price obtained from a pricing service based on such pricing service's valuation matrix may be considered a market valuation. Any assets or liabilities denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

In the event that current market valuations are not readily available or such valuations do not reflect current market value, the Trust's procedures require the Adviser's Pricing Committee to determine a security's fair value if a market price is not readily available.[41] In determining such value the Adviser's Pricing Committee may consider, among other things, (i) price comparisons among multiple sources, (ii) a review of corporate actions and news events, and (iii) a review of relevant financial indicators (*e.g.*, movement in interest rates, market indices, and prices from the Fund's index providers). In these cases, the Fund's NAV may reflect certain portfolio securities' fair values rather than their market prices. Fair value pricing involves subjective judgments and it is possible that the fair value determination for a security is materially different than the value that could be realized upon the sale of the security.

Availability of Information

The Distributor's website (www.ftportfolios.com), which will be publicly

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41 The Valuation Committee of the Trust's Board of Trustees is responsible for the oversight of the pricing procedures of the Fund and the valuation of the Fund's portfolio. The Valuation Committee has delegated day-to-day pricing responsibilities to the Adviser's Pricing Committee, which is composed of officers of the Adviser. The Pricing Committee is responsible for the valuation and revaluation of any portfolio investments for which market quotations or prices are not readily available. The Fund has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding valuation and revaluation of any portfolio investments.

available prior to the public offering of Shares, will include a form of the prospectus for the Fund that may be downloaded. The website will include additional quantitative information updated on a daily basis, including, for the Fund: (1) the prior business day's reported NAV, mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"),[42] 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 Regular Market Session[43] on the Exchange, the Fund will disclose on the Distributor's website the identities and quantities of the portfolio of securities and other assets (the "Disclosed Portfolio") (as defined in Nasdaq Rule 5735(c)(2)) held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day.[44] On a daily basis, the Disclosed Portfolio will include each portfolio security, including Senior Loans, and other financial instruments of the Fund with the following information on the Fund's website: ticker

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42 The Bid/Ask Price of the Fund will be determined using the midpoint 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.

43 See Nasdaq Rule 4120(b)(4) (describing the three trading sessions on the Exchange: (1) Pre-Market Session from 7 a.m. to 9:30 a.m. E.T.; (2) Regular Market Session from 9:30 a.m. to 4 p.m. or 4:15 p.m. E.T.; and (3) Post-Market Session from 4 p.m. or 4:15 p.m. to 8 p.m. E.T.).

44 Under accounting procedures to be 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"). Notwithstanding the foregoing, portfolio trades that are executed prior to the opening of the Exchange on any business day may be booked and reflected in NAV on such business day. 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.

symbol (if applicable), name of security and financial instrument, number of shares (if applicable) and dollar value of securities (including Senior Loans) and financial instruments held in the Fund, and percentage weighting of the security and financial instrument in the Fund. The website information will be publicly available at no charge.

In addition, for the Fund, an estimated value, defined in Rule 5735(c)(3) as the "Intraday Indicative Value," that reflects an estimated intraday value of the Fund's portfolio, will be disseminated. Moreover, the Intraday Indicative Value, available on the NASDAQ OMX Information LLC proprietary index data service, will be based upon the current value for the components of the Disclosed Portfolio and will be updated and widely disseminated by one or more major market data vendors and broadly displayed at least every 15 seconds during the Regular Market Session. In addition, during hours when the markets for local debt in the Fund's portfolio are closed, the Intraday Indicative Value will be updated at least every 15 seconds during the Regular Market Session to reflect currency exchange fluctuations. The Intraday Indicative Value will be based on quotes and closing prices from the securities' local market and may not reflect events that occur subsequent to the local market's close. Premiums and discounts between the Intraday Indicative Value and the market price may occur. This should not be viewed as a "real-time" update of the NAV per Share of the Fund, which is calculated only once a day.

The dissemination of the Intraday 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 to provide a close estimate of that value throughout the trading day.

Intra-day, executable price quotations of the Senior Loans, fixed income securities and other assets held by the Fund will be available from major broker-dealer firms or on the exchange on which they are traded, if applicable. Intra-day price information is available through subscription services, such as Bloomberg, Markit and Thomson Reuters, which can be accessed by Authorized Participants and other investors.

In addition, a basket composition file, which includes the security names, amount and share quantities, as applicable, required to be delivered in exchange for the Fund's Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of Nasdaq via NSCC. The basket represents one Creation Unit of the Fund.

The Primary Index description and Secondary Index description are publicly available. Primary and Secondary Index information, including values, components, and weightings, is updated and provided daily on a subscription basis by S&P and Markit. Complete methodologies for the Primary and Secondary Index are made available on the websites of S&P and Markit, respectively.

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 are 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 will be available via

Nasdaq proprietary quote and trade services.

Additional information regarding the Trust and the Shares, including investment strategies, risks, creation and redemption procedures, fees, Fund 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.

Initial and Continued Listing

The Shares will be subject to Rule 5735, which sets forth the initial and continued listing criteria applicable to Managed Fund Shares. The Exchange represents that, for initial and/or continued listing, the Fund must be in compliance with Rule 10A-3[45] under the Act. 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 will be made available to all market participants at the same time.

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. Nasdaq will halt trading in the Shares under the conditions specified in Nasdaq Rules 4120 and 4121; for example, the Shares of the Fund will be halted if the “circuit breaker” parameters in Nasdaq Rule 4120(a)(11) are reached. Trading 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

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45 See 17 CFR 240.10A-3.

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 also will be subject to Rule 5735(d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted.

Trading Rules

Nasdaq deems the Shares to be equity securities, thus rendering trading in the Shares subject to Nasdaq's existing rules governing the trading of equity securities. Nasdaq will allow trading in the Shares from 7:00 a.m. until 8:00 p.m. E.T. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in Nasdaq Rule 5735(b)(3), the minimum price variation for quoting and entry of orders in Managed Fund Shares traded on the Exchange is $0.01.

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.[46] The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant

[46] 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.

parties for all relevant trading violations. FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares with other markets that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.[47]

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 of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) Nasdaq Rule 2310, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in the Shares to customers; (3) how information regarding the Intraday Indicative Value is disseminated; (4) the risks involved in trading the Shares during the Pre-Market and Post-Market Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (5) the requirement that members 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 Information Circular will advise members, prior to the commencement of trading, of the prospectus delivery requirements applicable to the

[47] 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.

Fund. Members purchasing Shares from the Fund for resale to investors will deliver a prospectus to such investors. The Information Circular will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

Additionally, the Information Circular will reference that the Fund is subject to various fees and expenses described in the Registration Statement. The Information Circular will also disclose the trading hours of the Shares of the Fund and the applicable NAV calculation time for the Shares. The Information Circular will disclose that information about the Shares of the Fund will be publicly available on the Distributor's website.

2. Statutory Basis

Nasdaq believes that the proposal is consistent with Section 6(b) of the Act[48] in general and Section 6(b)(5) of the Act[49] in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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 Nasdaq Rule 5735. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The equity securities in which the

48 15 U.S.C. § 78f.

49 15 U.S.C. § 78f(b)(5).

Fund may invest will be limited to securities that trade in markets that are members of the ISG, which includes all U.S. national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange. 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. In pursuing its investment objective, the Fund seeks to outperform the Primary and Secondary Indices by normally investing at least 80% of its net assets (plus any borrowings for investment purposes) in Senior Loans. It is anticipated that the Fund, in accordance with its principal investment strategy, will invest 50% to 75% of its net assets in Senior Loans that are eligible for inclusion and meet the liquidity thresholds of the Primary and/or the Secondary Indices. Each of the Fund's Senior Loan investments will have no less than $250 million USD par outstanding. The Fund will not invest 25% or more of the value of its total assets in securities of borrowers in any one industry.[50] The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities, junior subordinated loans and unsecured loans deemed illiquid by the Adviser. The Fund may also invest in (1) fixed-rate or floating-rate income-producing securities (including, without limitation, U.S. government debt securities, investment grade and below-investment grade corporate debt securities), (2) preferred securities, and (3) securities of other investment companies registered under the 1940 Act.[51] The Adviser is

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50 See *supra* note 20.

51 The equity securities in which the Fund may invest will be limited to securities that trade in markets that are members of the ISG, which includes all U.S.

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 the Fund's portfolio. In addition, paragraph (g) of Nasdaq Rule 5735 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, non-public information regarding the open-end fund's portfolio. The Fund's investments will be consistent with the Fund's investment objectives and will not be used to enhance leverage. The Fund will not invest in options contracts, futures contracts or swap agreements. The Adviser represents that, under normal market conditions, the Fund would generally satisfy the generic fixed income listing requirements in Nasdaq Rule 5705(b)(4) on a continuous basis measured at the time of purchase, as described above. Except for Underlying ETFs that may hold non-US issues, the Fund will not otherwise invest in non-US equity issues. The Primary Index Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index. The Oversight Committee has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Secondary Index.

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

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national securities exchanges and certain foreign exchanges, or are parties to a comprehensive surveillance sharing agreement with the Exchange.

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. S&P and Markit are not broker-dealers or affiliated with a broker-dealer and each has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Primary Index and Secondary Index, respectively.

The Intraday Indicative Value, available on the NASDAQ OMX Information LLC proprietary index data service will be widely disseminated by one or more major market data vendors and broadly displayed at least every 15 seconds during the Regular Market Session. On each business day, before commencement of trading in Shares in the Regular Market Session on the Exchange, the Fund will disclose on the Distributor's website the Disclosed Portfolio that will form the basis for the Fund's calculation of NAV at the end of the business day. 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, and quotation and last sale information for the Shares will be available via Nasdaq proprietary quote and trade services. Intra-day, executable price quotations of the Senior Loans, fixed-income securities and other assets held by the Fund will be available from major broker-dealer firms or on the exchange on which they are traded, if applicable. Intra-day price information is available through subscription services, such as Bloomberg, Markit and Thomson Reuters, which can be accessed by Authorized Participants and other investors.

The Distributor's website for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information. Trading in Shares of the Fund will be halted if the circuit breaker parameters in Nasdaq Rule 4120(a)(11) have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, and trading in the Shares will be subject to Nasdaq Rule 5735(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 Intraday 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 Intraday Interactive Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

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

B. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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 that the proposed rule change will facilitate the listing and trading of an additional type of actively-managed exchange-traded fund 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

Written comments were neither solicited nor received.

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 (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (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 e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2013-036 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASDAQ-2013-036. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website http://www.sec.gov/rules/sro.shtml.

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of Nasdaq. 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-NASDAQ-2013-036 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[52]

Kevin M. O'Neill
Deputy Secretary

[52] 17 CFR 200.30-3(a)(12).