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Actively Managed Exchange-Traded Products at Age Seven

The first actively managed exchange-traded product (ETP) was launched in March 2008. Seven years after initial introduction, first-generation active ETPs have total net assets of $19.46 billion. This represents less than 0.2% of the combined assets of actively managed mutual funds and active ETPs. The slow development of active ETPs primarily reflects the reluctance of fund sponsors to offer their leading active strategies in a format that requires daily disclosure of fund holdings. The pending launch of NextShares™ exchange-traded managed funds opens a new chapter in the development of active ETPs. Unlike first-generation active ETPs, NextShares are not required to disclose their daily holdings and can therefore maintain the confidentiality of fund trading information. Operating as NextShares, active ETPs can for the first time realize their full potential as alternatives to traditional mutual funds with built-in performance and tax advantages and the convenience of exchange trading.

Introduction

March 25, 2008 marked a notable event in the history of the U.S. fund industry, the launch of the first *actively-managed* exchange-traded product (ETP).[1] This followed by 15 years the introduction of the initial *index-based* exchange-traded fund (ETF) in January 1993. Although the first actively managed ETP — the Bear Stearns Current Yield Fund (YYY) — survived only a few months before being shuttered, its launch established a new era in active fund investing that continues to evolve. This paper provides an overview of the history of active ETPs, an assessment of current offerings and a view of their future.

The first active ETPs

Setting in motion the launch of the first generation of active ETPs was the decision by the U.S. Securities and Exchange Commission (SEC) to grant four investment advisers relief from certain provisions of the Investment Company Act of 1940, as amended (Investment Company Act), to permit them to offer actively managed exchange-traded funds (AETFs). On February 27, 2008, the SEC issued exemptive orders to each of Bear Stearns Asset Management, PowerShares Capital Management, Barclays Global Fund Advisors and the WisdomTree Trust granting the first AETF relief.[2]

A condition of these and all subsequent AETF exemptive orders has been that the applicants represent that, prior to the opening of exchange trading in fund shares each business day, the fund will disclose on a free public website the identities and quantities of the portfolio securities and other assets held by the fund as of the close of the preceding business day.[3] The SEC has deemed it necessary for AETFs to disclose their current daily holdings so that market makers have sufficient information to perform their arbitrage function effectively.[4]

The launch by Bear Stearns of the first AETF in March 2008 was followed in rapid succession by PowerShares's introduction the next month of three equity and one short-term income AETF and WisdomTree's launch of eight currency and short-term income AETFs in May and June 2008. Alas, only four of the 13 original AETFs introduced in the first half of 2008 survive today. And these four surviving funds — WisdomTree's Chinese Yuan Strategy Fund (CYB), Australia & New Zealand Debt Fund (AUNZ), Brazilian Real Strategy Fund (BZF) and

Indian Rupee Strategy Fund (ICN) — all continue to struggle to attract investor interest. **Exhibit 1** lists the initial AETFs brought to market in the first half of 2008.

Enter PIMCO

After a year and a half of moderate launch activity dominated by specialty ETF managers, the AETF market attracted its first major fund sponsor when PIMCO introduced two AETFs in November 2009. The first of these funds, the PIMCO Enhanced Short Maturity Active Exchange-Traded Fund (MINT), an ultrashort bond fund, has grown to become the largest AETF, with $3.66 billion in current managed assets.[5]

MINT's success had two important effects on the development of the AETF market — precipitating the introduction of a group of similar "near cash" funds by other AETF sponsors and fostering the development of a broader family of PIMCO-sponsored income AETFs. Today, MINT and its seven progeny in the ultrashort bond category together manage $5.86 billion in net assets, accounting for 30% of total AETF managed assets and 7.2% of the combined net assets of actively managed ultrashort bond mutual funds and ETFs. **Exhibit 2** shows the historical asset growth of ultrashort bond AETFs and lists the eight currently offered funds in the category.

Following the launch of its first AETFs in November 2009, PIMCO has expanded its lineup of AETFs to include a total of eight income funds with current net assets of $6.85 billion. PIMCO is today the largest manager of AETFs, with a 35% market share.

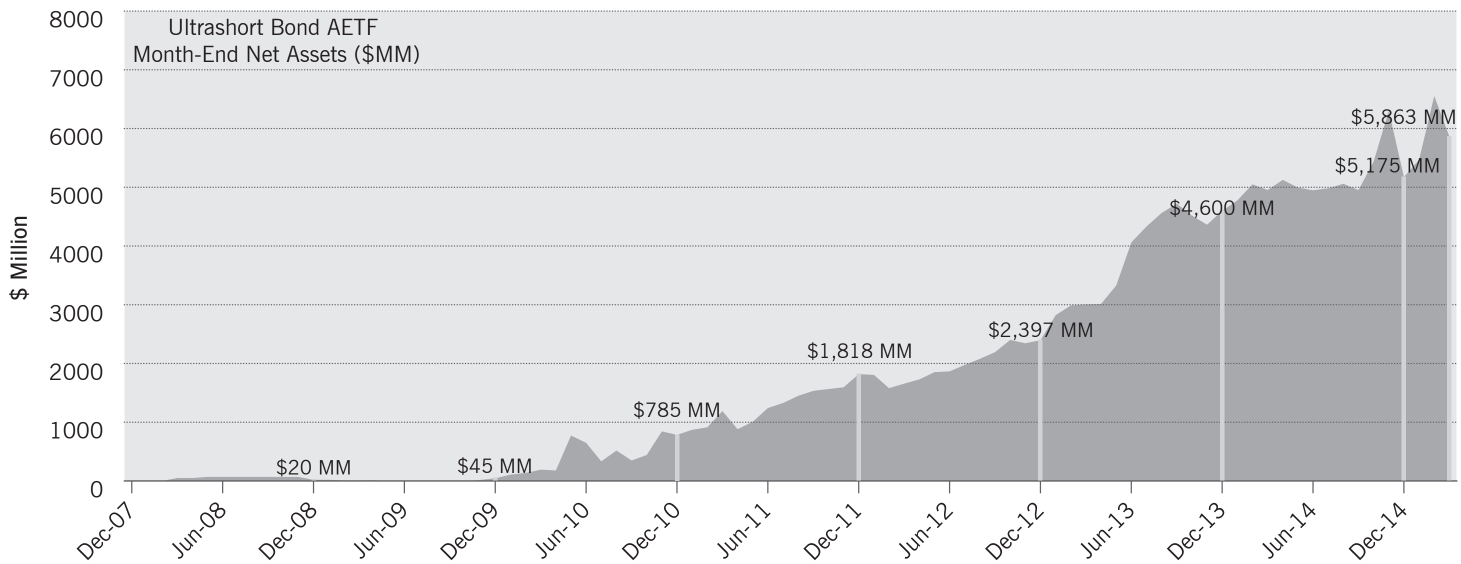
By far the loudest AETF launch to date was the February 2012 introduction of the PIMCO Total Return Active Exchange-Traded Fund (BOND). Managed initially by famed fixed income guru Bill Gross, BOND was billed as a near-clone of the PIMCO Total Return Fund, the largest mutual fund at the time of BOND's launch. Riding the coattails of its legendary manager, BOND attracted considerable media attention and quickly grew to multi-billion dollar status. Following Mr. Gross's abrupt departure from PIMCO in September 2014, BOND experienced investor outflows in conjunction with its mutual fund sibling. With net assets of $2.59 billion, BOND remains the second largest AETF. **Exhibit 3** shows the development of BOND's net assets since its launch in 2012.

Exhibit 1 The first actively-managed exchange-traded funds.

Fund	Category	Inception Date	Peak Month-End Net Assets ($MM)	Liquidation Date	Net Assets 3/31/15 ($MM)
Bear Stearns Current Yield Fund (YYY)	Ultrashort Bond	3/25/08	$50 MM	12/4/08	-
PowerShares Active Alpha Multi-Cap Fund (PQZ)	Mid-Cap Growth	4/11/08	9	10/6/11	-
PowerShares Active AlphaQ Fund (PQY)	Large Growth	4/11/08	35	10/6/11	-
PowerShares Active Low Duration Fund (PLK)	Short Government	4/11/08	11	3/7/13	-
PowerShares Active Mega Cap Fund (PMA)	Large Blend	4/11/08	10	3/7/13	-
WisdomTree Brazilian Real Strategy Fund (BZF)	Single Currency	5/14/08	543	-	$17 MM
WisdomTree Chinese Yuan Strategy Fund (CYB)	Single Currency	5/14/08	806	-	112
WisdomTree Euro Debt Fund (EU)	World Bond	5/14/08	21	2/18/15	-
WisdomTree Indian Rupee Strategy Fund (ICN)	Single Currency	5/14/08	35	-	13
WisdomTree U.S. Short-Term Govt Income Fund (USY)	Short Government	5/20/08	20	3/29/10	-
WisdomTree Dreyfus Japanese Yen Fund (JYF)	Single Currency	5/21/08	23	12/10/12	-
WisdomTree Australia & New Zealand Debt Fund (AUNZ)	World Bond	6/25/08	80	-	77
WisdomTree Dreyfus South African Rand Fund (SZR)	Single Currency	6/25/08	13	12/10/12	-

Source: Morningstar, Inc., Lipper and fund sponsors. At launch, BZF was the WisdomTree Dreyfus Brazilian Real Fund, CYB was the WisdomTree Dreyfus Chinese Yuan Fund, EU was the WisdomTree Dreyfus Euro Fund, ICN was the WisdomTree Dreyfus Indian Rupee Fund, USY was the WisdomTree U.S. Current Income Fund and AUNZ was the WisdomTree Dreyfus New Zealand Dollar Fund (ticker BNZ).

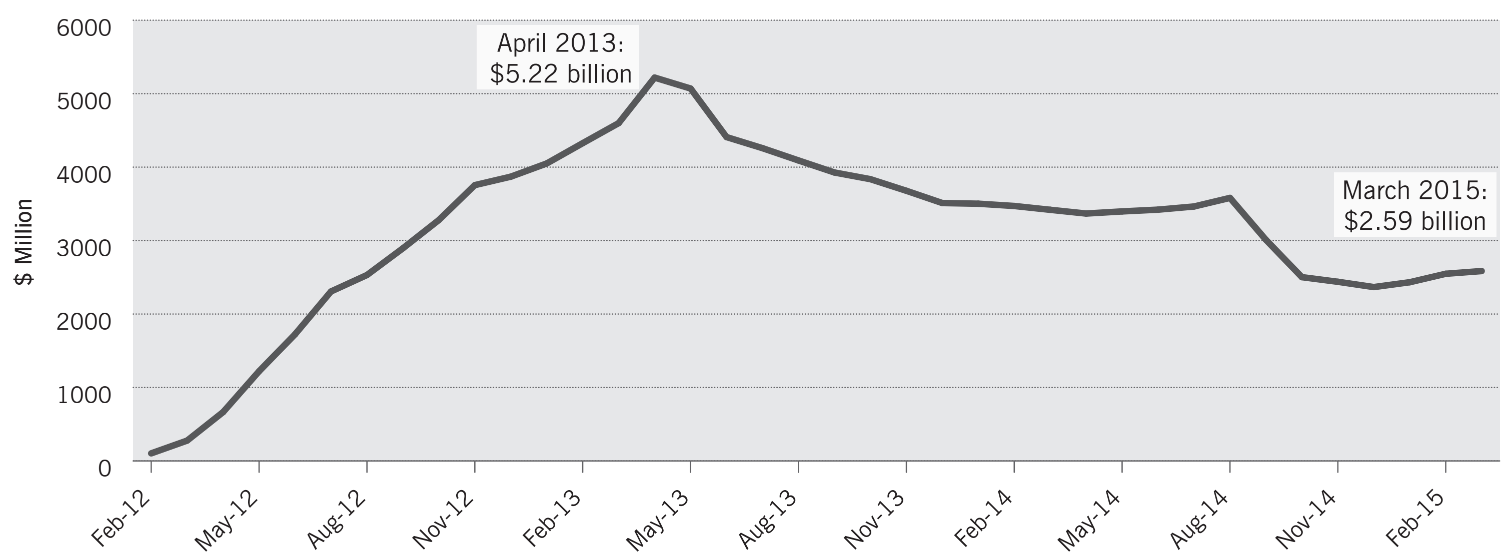
Exhibit 2 Actively managed ultrashort bond exchange-traded funds.



Fund	Inception Date	Peak Month-End Net Assets ($MM)	Net Assets 3/31/15 ($MM)
PIMCO Enhanced Short Maturity Active ETF (MINT)	11/16/09	$4,192 MM	$3,664 MM
First Trust Enhanced Short Maturity ETF (FTSM)	8/5/14	1,597	964
iShares Short Maturity Bond ETF (NEAR)	9/25/13	634	634
Guggenheim Enhanced Short Duration ETF (GSY)	6/1/11	717	436
FlexShares Ready Access Variable Income Fund (RAVI)	10/9/12	102	102
AdvisorShares Sage Core Reserves ETF (HOLD)	1/14/14	37	35
SPDR® SSGA Ultra Short Term Bond ETF (ULT)	10/9/13	18	16
iShares Liquidity Income ETF (ICSH)	12/11/13	28	13
Bear Stearns Current Yield Fund (YYY)	3/10/08	50	-
WisdomTree U.S. Current Income Fund (USY)	5/20/08	20	-

Source: Morningstar, Inc. and fund sponsors. Prior to June 1, 2011, the Guggenheim Enhanced Short Duration ETF was an index-based ETF.

Exhibit 3 PIMCO Total Return Active Exchange-Traded Fund (BOND) month-end net assets.



Source: Morningstar, Inc.

AETFs today

The AETF market has continued to develop over the past three years. As of March 31, 2015, the number of AETFs has grown to 127 and net assets in AETFs are at an all-time high of $19.46 billion. **Exhibit 4** shows the year-by-year progression in the number of AETFs, AETF net flows and AETF net assets since 2008. As shown in Exhibit 4, ultrashort bond AETFs have accounted for nearly 40% of AETF net flows since the end of 2012. *Excluding ultrashort bond funds, net flows into AETFs fell significantly in both 2013 and 2014* despite sizable increases in the number of available funds. **Exhibit 5** lists the ten largest AETFs and the top ten sponsors of AETFs among fund companies as of March 31, 2015**.**

While the nearly $20 billion currently invested in AETFs is not an insignificant sum, this pales in comparison to the $11.51 *trillion* now held in actively managed mutual funds.

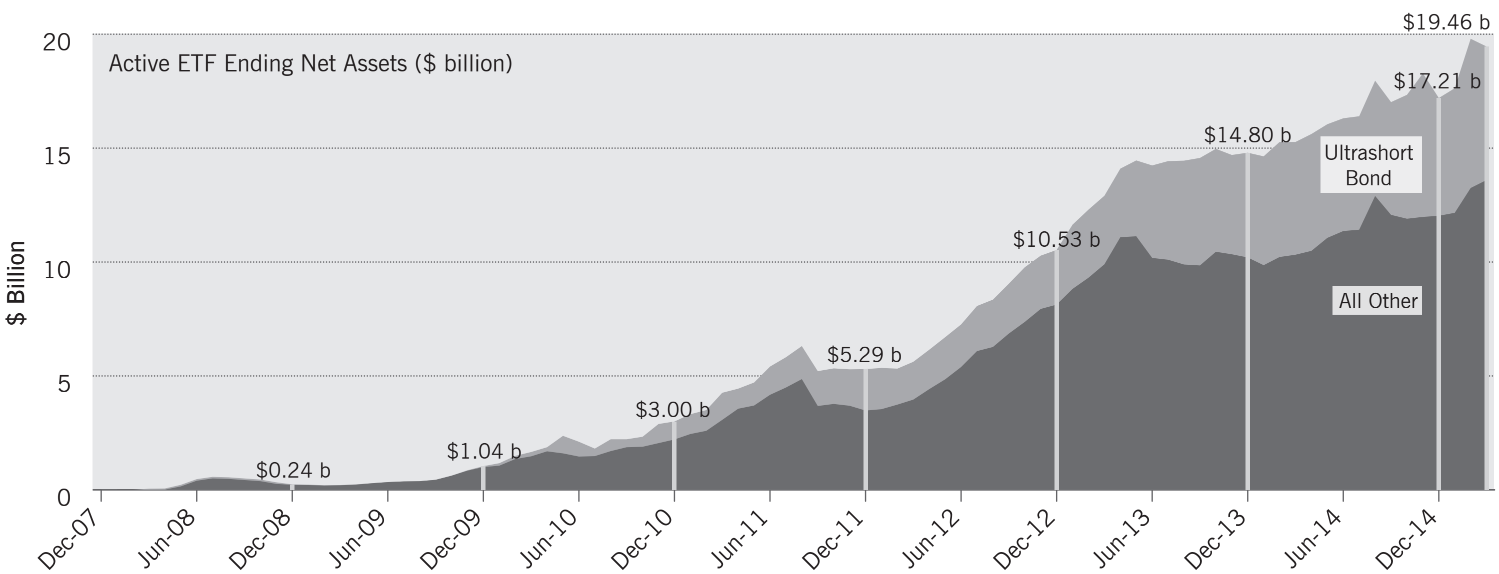
Exhibit 6 shows the current net assets and market shares of AETFs by fund category. As can be seen, AETFs have to date barely made a dent in any major fund category other than ultrashort bonds.

The slow start and limited penetration of active ETFs stand in sharp contrast to the great success achieved by passively managed ETFs since the launch of the first index ETF in 1993. With over $2 trillion now invested in index ETFs, they account for nearly 50% of total investments in index mutual funds and index ETFs.

Impeding the success of active ETFs

The slow uptake of AETFs may seem surprising in light of the tremendous growth of index ETFs and the potential performance and tax advantages of active ETPs over similarly managed active mutual funds.[6] Given this, what accounts for the rather dismal record of AETFs in attracting investor interest over the past seven years?

Exhibit 4 Growth of active ETFs.



	2008	2009	2010	2011	2012	2013	2014	1Q 2015
Net Flows ($ billion)	$0.25 b	$0.72 b	$1.75 b	$2.45 b	$4.83 b	$4.61 b	$2.16 b	$2.06 b
Ultrashort Bond	0.02	0.03	0.74	1.04	0.55	2.17	0.58	0.65
All Other	0.23	0.69	1.01	1.41	4.28	2.44	1.58	1.41
Ending Net Assets ($ billion)	$0.24 b	$1.04 b	$3.00 b	$5.29 b	$10.53 b	$14.80 b	$17.21 b	$19.46 b
Ultrashort Bond	0.02	0.04	0.79	1.82	2.40	4.60	5.17	5.86
All Other	0.22	1.00	2.21	3.48	8.13	10.20	12.03	13.60
Beginning Number of AETFs	0	13	23	31	40	56	72	122
New Funds	14	10	11	11	19	20	57	6
Funds Terminating	-1	0	-3	-2	-3	-4	-7	-1
Ending Number of AETFs	13	23	31	40	56	72	122	127

Source: Morningstar, Inc.

The answer lies primarily in the requirement that AETFs must publicly disclose their full holdings each business day and the impact of this requirement on the product strategies of leading fund sponsors. When an AETF discloses its daily holdings, it communicates to the world the investments it has bought and sold on that day. The ready availability of tools for “scraping” web-based data makes it a simple exercise for interested parties to monitor an AETF’s portfolio positions and trading activity over time. See **Appendix A** for a sample holdings and trading report that could be prepared from an AETF’s daily disclosures.

Because funds often stage their purchases and sales over multiday periods to limit market impact, other market participants can potentially use an AETF’s daily holdings disclosures to learn to anticipate the fund’s future trading and earn short-term profits by buying or selling ahead of the fund. This type of predatory trading, called “front-running,” can increase a fund’s trading costs and harm performance. Any AETF that buys or sells investment positions over multiday periods is potentially vulnerable to front-running. Even those AETFs that limit purchases and sales to single-day transactions can experience higher trading costs and reduced returns if the *threat* of front-running causes the fund to trade sub-optimally by, for example, concentrating its trading into a narrower timeframe than may be desirable.

Daily holdings disclosure also makes AETFs vulnerable to what is known as “free-riding.” Free-riding is the uncompensated use of a manager’s research or portfolio information by other investors. This may consist of replicating a fund’s strategy by holding the same investments, buying and selling positions as trades are disclosed each day by the fund. A replicator can earn returns that essentially match the fund’s performance *before* management fees and other fund expenses. Fund replicators may include both self-directed investors seeking to exploit the expertise of leading investment managers without having to pay for it, as well as competing advisers that offer

Exhibit 5 Ten largest active ETFs and active ETF sponsors as of March 31, 2015.

Largest Active ETFs	Net Assets 3/31/15 ($MM)	Market Share (%)
PIMCO Enhanced Short Maturity Active ETF (MINT)	$3,664 MM	18.8%
PIMCO Total Return Active ETF (BOND)	2,585	13.3%
First Trust North American Energy Infrastructure ETF (EMLP)	1,133	5.8%
First Trust Enhanced Short Maturity ETF (FTSM)	964	5.0%
PowerShares S&P 500® Downside Hedged ETF (PHDG)	691	3.6%
iShares Short Maturity Bond ETF (NEAR)	634	3.3%
SPDR® Blackstone / GSO Senior Loan ETF (SRLN)	632	3.2%
WisdomTree Emerging Markets Local Debt Fund (ELD)	552	2.8%
RiverFront Strategic Income Fund (RIGS)	486	2.5%
Guggenheim Enhanced Short Duration ETF (GSY)	436	2.2%
All Other	7,681	39.5%
Total	$19,459 MM	100.0%

Largest Active ETF Sponsors	Sponsored Funds	Net Assets 3/31/15 ($MM)	Market Share (%)
PIMCO	8	$6,852 MM	35.2%
First Trust	14	3,244	16.7%
WisdomTree	13	1,577	8.1%
iShares	11	1,345	6.9%
State Street Global Advisors	10	1,330	6.8%
AdvisorShares	23	1,326	6.8%
WBI Investments	10	1,206	6.2%
PowerShares	5	776	4.0%
ALPS	1	486	2.5%
Guggenheim Investments	1	436	2.2%
All Other	31	882	4.5%
Total	127	$19,459 MM	100.0%

Source: Morningstar, Inc. Market share is share of AETF net assets.

Exhibit 6 Net assets and market share of active ETFs by Morningstar category as of March 31, 2015.

Morningstar Category	Active ETFs		Active Mutual Funds		Total Active Funds		Active ETF Market Share	
	Funds	Net Assets ($MM)	Funds	Net Assets ($MM)	Funds	Net Assets ($MM)	ETF % of Active Funds	ETF % of Active Fund Assets
Equity	**41**	**$2,908 MM**	**3,792**	**$6,130,002 MM**	**3,833**	**$6,132,910 MM**	**1.1%**	**0.0%**
Large Growth	4	47	453	1,255,969	457	1,256,016	0.9%	0.0%
Large Value	4	90	357	880,345	361	880,435	1.1%	0.0%
Large Blend	5	85	400	754,001	405	754,086	1.2%	0.0%
World Stock	9	795	331	429,237	340	430,032	2.6%	0.2%
Foreign Large Blend	1	17	188	402,282	189	402,299	0.5%	0.0%
Foreign Large Growth	1	16	87	343,671	88	343,687	1.1%	0.0%
Mid-Cap Growth	1	10	221	302,831	222	302,841	0.5%	0.0%
Diversified Emerging Mkts	-	-	231	281,920	231	281,920	0.0%	0.0%
Mid-Cap Value	2	268	118	226,686	120	226,954	1.7%	0.1%
Small Growth	-	-	228	176,842	228	176,842	0.0%	0.0%
Small Blend	1	23	216	157,266	217	157,289	0.5%	0.0%
Foreign Large Value	2	76	98	144,901	100	144,977	2.0%	0.1%
Health	1	8	33	127,857	34	127,865	2.9%	0.0%
Small Value	-	-	126	99,863	126	99,863	0.0%	0.0%
Mid-Cap Blend	3	238	111	98,724	114	98,962	2.6%	0.2%
Real Estate	1	53	71	75,757	72	75,810	1.4%	0.1%
Other Equity	6	1,181	523	371,850	529	373,031	1.1%	0.3%
Fixed Income	**46**	**$13,277**	**1,939**	**$2,980,433**	**1,985**	**$2,993,710**	**2.3%**	**0.4%**
Intermediate-Term Bond	4	2,899	267	759,160	271	762,059	1.5%	0.4%
High Yield Bond	3	524	191	284,494	194	285,018	1.5%	0.2%
Short-Term Bond	4	468	135	261,103	139	261,571	2.9%	0.2%
Multisector Bond	-	-	81	190,149	81	190,149	0.0%	0.0%
World Bond	7	747	95	174,176	102	174,923	6.9%	0.4%
Nontraditional Bond	4	545	118	152,563	122	153,108	3.3%	0.4%
Muni National Interm	3	260	88	149,210	91	149,470	3.3%	0.2%
Muni National Short	2	101	54	114,291	56	114,392	3.6%	0.1%
Bank Loan	3	920	52	112,844	55	113,764	5.5%	0.8%
Intermediate Government	-	-	68	96,705	68	96,705	0.0%	0.0%
Muni National Long	-	-	55	82,437	55	82,437	0.0%	0.0%
Corporate Bond	2	47	51	78,351	53	78,398	3.8%	0.1%
Ultrashort Bond	***8***	***5,863***	***61***	***75,518***	***69***	***81,381***	***11.6%***	***7.2%***
High Yield Muni	-	-	46	74,158	46	74,158	0.0%	0.0%
Inflation-Protected Bond	-	-	50	73,214	50	73,214	0.0%	0.0%
Emerging Markets Bond	4	706	106	64,154	110	64,860	3.6%	1.1%
Other Fixed Income	2	195	421	237,906	423	238,101	0.5%	0.1%
Asset Allocation	**13**	**$998**	**1,346**	**$2,317,866**	**1,359**	**$2,318,864**	**1.0%**	**0.0%**
Moderate Allocation	3	32	254	683,706	257	683,738	1.2%	0.0%
World Allocation	7	826	128	383,754	135	384,580	5.2%	0.2%
Conservative Allocation	-	-	211	319,275	211	319,275	0.0%	0.0%
Aggressive Allocation	1	111	125	130,241	126	130,352	0.8%	0.1%
Target Date 2016-2020	-	-	52	124,302	52	124,302	0.0%	0.0%
Target Date 2026-2030	-	-	52	115,510	52	115,510	0.0%	0.0%
Target Date 2021-2025	-	-	48	106,328	48	106,328	0.0%	0.0%
Tactical Allocation	2	29	99	85,043	101	85,072	2.0%	0.0%
Target Date 2036-2040	-	-	52	81,248	52	81,248	0.0%	0.0%
Target Date 2031-2035	-	-	48	80,682	48	80,682	0.0%	0.0%
Target Date 2011-2015	-	-	42	61,682	42	61,682	0.0%	0.0%
Other Asset Allocation	-	-	235	146,095	235	146,095	0.0%	0.0%
Alternative	**27**	**$2,276**	**475**	**$201,337**	**502**	**$203,613**	**5.4%**	**1.1%**
Long/Short Equity	6	730	147	57,030	153	57,760	3.9%	1.3%
Other Alternative	21	1,546	328	144,307	349	145,853	6.0%	1.1%
Total	**127**	**$19,459 MM**	**7,552**	**$11,629,638 MM**	**7,679**	**$11,649,097 MM**	**1.7%**	**0.2%**

Source: Morningstar, Inc. Fixed income classification includes tax-preferred and convertibles. Alternative classification includes commodities.

knockoff versions of successful fund strategies.[7]

Free-riding may also take the form of tracking the portfolio activities of a well-respected asset manager to gain investment insights that free riders can use to better manage their own portfolios. If, for example, a particular manager has a reputation for strong research and sound investment judgment in managing high-yield bond portfolios, many of its competitors in the high-yield market would no doubt be interested in tracking the manager's day-to-day portfolio positions and trading activity, which are the ultimate expression of its investment viewpoint. *A fund sponsor victimized by free-riding in effect subsidizes the research and portfolio management of its competitors and sets up imitators to undercut its fees and take its clients.*

It should come as no surprise that the vast majority of successful fund managers have chosen not to offer their leading strategies as AETFs because of the potential for front-running and free-riding introduced by the required daily holdings disclosures. Of the currently offered AETFs, approximately 90% are new strategies that are not available as mutual funds. Like new active mutual funds, a new AETF is unlikely to attract meaningful investor attention until it has demonstrated a favorable track record. And when AETFs do establish proven records, their commercial success may ultimately be constrained by the required disclosures. While front-running and free-riding may not be significant worries for unproven strategies with limited assets, they can become hugely concerning for any truly active fund strategy that achieves notable performance success or attracts meaningful assets.[8]

AETFs that replicate mutual funds

Although nearly all fund managers have avoided introducing AETF versions of their successful active mutual funds, there are today a handful of AETFs that substantially replicate existing mutual funds of the same sponsor. These are listed and described on **Exhibit 7**.

To qualify for inclusion on Exhibit 7, an AETF and corresponding

Exhibit 7 Active ETFs and mutual funds of the same sponsor with substantially identical investment strategies.

Active ETF / Corresponding Mutual Fund	Net Assets 3/31/15 ($MM)	Inception Date	Correlation of Excess Return	Correlation of Total Return	Holdings Overlap	Mutual Fund Morningstar Rating*	Expense Ratio*
Arrow DWA Tactical ETF (DWAT)	$7 MM	Oct-14	100%	100%	99%	★★★★★	1.52%
Arrow DWA Tactical Institutional Fund	255	May-08					1.62
Calamos Focus Growth ETF (CFGE)	28	Jul-14	98%	100%	95%	★★	0.90
Calamos Focus Growth Fund	66	Dec-03					0.90
Columbia Large Cap Growth ETF (RPX)	7	Oct-09	90%	99%	93%	★★★★★	0.83
Columbia Large Cap Growth Fund	3,389	Dec-90					0.70
Columbia Select Large Cap Growth ETF (RWG)	9	Oct-09	100%	100%	96%	★★★★★	0.83
Columbia Select Large Cap Growth Fund	7,093	Oct-97					0.65
Columbia Select Large Cap Value ETF (GVT)	9	May-09	94%	99%	95%	★★★★	0.78
Columbia Select Large-Cap Value Fund	1,027	Apr-97					0.79
Fidelity Corporate Bond ETF (FCOR)	33	Oct-14	96%	100%	19%	★★★★	0.45
Fidelity Advisor® Corporate Bond Fund	1,212	May-10					0.51
Fidelity Total Bond ETF (FBND)	76	Oct-14	99%	97%	12%	★★★★	0.45
Fidelity Advisor® Total Bond Fund	19,339	Oct-02					0.51
First Trust Preferred Securities & Income ETF (FPE)	165	Feb-13	93%	99%	21%	★★	0.87
First Trust Preferred Securities & Income Fund	164	Jan-11					1.15
First Trust Senior Loan ETF (FTSL)	261	May-13	94%	98%	8%	-	0.85
First Trust Short Duration High Income Fund	162	Nov-12					1.00
PIMCO Diversified Income Active ETF (DI)	47	Jan-14	97%	99%	10%	★★★★	0.85
PIMCO Diversified Income Fund	2,514	Jul-03					0.75
PIMCO Short Term Municipal Bond Active ETF (SMMU)	56	Feb-10	92%	95%	30%	★★	0.35
PIMCO Short-Duration Municipal Income Fund	215	Aug-99					0.33

Source: Morningstar, Inc. *The Morningstar ratings and expense ratios indicated for listed mutual funds are for the institutional share class as of March 31, 2015. Correlations are based on monthly returns for the 36 months ended March 31, 2015 or since AETF inception if within the past three years. Excess return is measured versus the funds' stated benchmark. Holdings overlap is as of March 31, 2015 or the nearest preceding date at which mutual fund holdings were reported.

active mutual fund must meet the following criteria:

- same investment adviser;
- same portfolio manager (or, if team managed, at least 50% manager overlap);
- same investment objective;
- at least 90% correlation of absolute return and relative return versus benchmark; and
- for equity funds, at least 90% overlap of fund holdings.[9]

For perspective, there are 1,169 actively managed mutual fund with net assets of at least $1 billion that Morningstar rates 4 or 5 stars for at least one class of shares. Of these, sponsors offer replicating AETFs for six funds, or 0.5% of the total. The six replicating AETFs consist of three Columbia-sponsored large-cap U.S. equity funds, two Fidelity core fixed income funds and a PIMCO core fixed income fund. As reflected in Exhibit 7, none of these AETFs has achieved meaningful commercial success to date. It is worth noting that no major sponsor of active mutual funds (including Columbia, Fidelity and PIMCO) has chosen to offer replicating AETF versions of more than a tiny fraction of its mutual funds.[10]

The arrival of NextShares

On December 2, 2014, a new chapter in the history of actively managed ETPs opened when the SEC granted Eaton Vance Management and related parties exemptive relief to permit the offering of NextShares™ exchange-traded managed funds (NextShares). Unlike AETFs, NextShares are not required to publicly disclose their full holdings on a daily basis. Because the mechanism supporting efficient trading of NextShares does not involve arbitrage, NextShares can trade within a consistently narrow range of portfolio value without disclosing the identity of fund holdings not used in creations and redemptions.[11]

NextShares are active ETPs designed to provide meaningfully better performance and enhanced tax efficiency compared with mutual funds having the same strategy and portfolio management. Because they protect the confidentiality of fund trading information, NextShares are broadly compatible with active management in a way that AETFs are not.

NextShares funds can invest in all the same asset classes and strategies as active mutual funds, including equity, income, alternative and multi-asset investments managed in a wide range of active styles. NextShares funds may include both proven mutual fund strategies and new offerings not available as mutual funds. Other benefits of NextShares that are not available for AETFs include trading cost transparency and the ability to control trading costs using limit orders. **Exhibit 8** provides a comparison of NextShares and AETFs.

An important difference between NextShares and AETFs is

Exhibit 8 Comparing NextShares and Active ETFs.

	NextShares	Active ETFs
Investment Approach	Actively Managed	Actively Managed
Exchange Traded	Yes	Yes
Trade Prices Determined	End of Trading Session	At Trade Execution
Fully Compatible with Requirements of Active Management	Yes	No
Protect Against Front-Running and Free-Riding Risks	Yes	No
Provide Transparency of Investor Trading Costs	Yes	No
Require Daily Holdings Disclosure to Trade Efficiently	No	Yes
Enable Investors to Trade at Prices Determined Intraday	No	Yes
Frequency of Full Holdings Disclosure	Monthly or Quarterly	Daily

that the price of all NextShares trades will equal the fund's next end-of-day net asset value per share (NAV), plus or minus a trading cost (premium/discount) determined in the market when the order executes. As an illustration, a NextShares trade executed intraday at NAV +$0.02 will have a final price of $20.02 if the fund's NAV at the end of that day is $20.00. This new trading method, called "NAV-based trading," is the key innovation underlying NextShares. Unlike ETFs, NextShares will not offer investors the opportunity to transact at prices determined intraday. NextShares are designed to be long-term investment vehicles and are not suited for short-term trading.

In granting NextShares exemptive relief, the SEC concluded that use of NAV-based trading provides a reliable basis for ensuring that NextShares will trade with consistently low investor trading costs, while enabling NextShares funds to maintain the confidentiality of their portfolio trading information.

Aspects of the operation of NextShares are subject to issued and pending U.S. patents and other protected intellectual property rights held by Navigate Fund Solutions LLC (Navigate), a wholly owned subsidiary of Eaton Vance Corp. (Eaton Vance). Eaton Vance's business plan for NextShares includes launching a family of Eaton Vance-sponsored NextShares funds (for which initial registration statements have been filed with the SEC) and entering into licensing and services agreements with other fund families to support their introduction of NextShares funds. The timing of the initial launch of NextShares will depend on receipt of required fund regulatory approvals and market readiness.

Portfolio-protected AETFs — reality or fiction?

What about AETFs that, like NextShares, would not disclose their full holdings on a daily basis to avoid front-running and free-riding risks? The SEC has considered, and thus far not approved, a number of proposed "portfolio-protected" AETF structures. A key concern for the SEC in evaluating portfolio-protected AETF concepts is whether the proposed structure provides an adequate basis for ensuring that trading prices of fund shares will maintain consistently close alignment with NAV, including during periods of market stress or volatility. Other considerations include whether the proposed method of maintaining price-value alignment avoids discrimination among investors, whether the asserted portfolio protection benefits will be realized in practice and whether, on an overall basis, the requested relief is necessary or appropriate in the public interest and consistent with the protection of investors.

In October 2014, the SEC issued notice of its intent to deny approval of the only portfolio-protected AETF structure to visibly advance toward final consideration, the "blind trust" model developed by Precidian Investments (Precidian).[12] As proposed, market makers would not know a fund's holdings, but would instead rely on fund prospectus disclosures and intraday indicative values (IIVs) of fund shares disseminated every 15 seconds throughout each business day's core trading session to identify arbitrage opportunities and build and manage hedge positions. In the denial notice, the SEC discounted the value for these purposes of broad prospectus disclosures and questioned the reliability of IIVs as a primary pricing signal, due in part to reliance on stale data and the absence of meaningful standards in the calculation of IIVs. As stated in the notice, the SEC preliminarily believed that "the specific features proposed by Applicants that would cause the proposed ETFs to operate without transparency *fall far short* [emphasis added] of providing a suitable alternative to the arbitrage activity . . . that is crucial to helping keep the market price of current ETF shares at or close to the NAV of the ETF."[13] Following notice by the SEC of its intent to deny approval, the requests for exemptive relief based on the Precidian blind trust model were withdrawn.

Exemptive applications have been filed in recent years for two other types of proposed portfolio-protected AETF structures.[15] The first approach was introduced by T. Rowe Price in September 2013[16] and submitted in revised form by Fidelity in September 2014[17] and Cohen & Steers in October 2014.[18] In this "tracking portfolio" structure, each AETF would publicly disclose on a daily basis the composition of a non-replicating portfolio of securities that is designed to closely track the performance of the fund's portfolio (Tracking Portfolio). As proposed, market makers would use IIVs disseminated at 15 second intervals throughout each business day's core trading session to identify arbitrage profit opportunities in AETF shares and use the disclosed Tracking Portfolio to hedge their intraday positions. The Tracking Portfolio (or another disclosed proxy portfolio) would also be employed for in-kind creations and redemptions.

Precidian introduced the other proposed portfolio-protected AETF concept in December 2014,[19] two months after the SEC gave notice of its intent to deny approval of the blind trust model. In the new Precidian proposal, an AETF would disclose its daily portfolio holdings to agents representing each of the AETF's Authorized Participants[20] (AP Agents) subject to a confidentiality agreement. Each AP Agent would use the disclosed holdings information to calculate and communicate to the associated Authorized Participant real-time portfolio valuations on a continuous intraday basis. The Authorized Participant (or an affiliated market maker) would use the communicated fund valuations to identify arbitrage opportunities in AETF shares and would instruct its AP Agent to enter into intraday hedge positions and creations and redemptions of shares on the Authorized Participant's behalf. The basket of securities and cash used for in-kind creations and redemptions would be a pro rata slice of the AETF's portfolio holdings and would not be disclosed except to AP Agents.

To date, neither the Tracking Portfolio AETF approach nor the AP Agent concept shows sign of nearing approval. The primary obstacle for the Tracking Portfolio approach is likely convincing the SEC that trading prices of fund shares will maintain consistently close alignment with underlying fund values, given the acknowledged deficiencies of IIVs disseminated at 15 second intervals as a primary pricing signal and the imprecision of the disclosed Tracking Portfolios as hedging instrument for market makers. The AP Agent approach faces similar challenges persuading the SEC that a high level of price-value alignment can be achieved by Authorized Participants and affiliated market makers transacting through AP Agents to hedge their intraday portfolio risk and to effect in-kind creations and redemptions. Additional challenges for the AP Agent proposal likely include selective disclosure concerns (since Authorized Participants will have access to valuation information not available to other market participants) and the potential for reverse engineering of portfolio holdings by Authorized Participants (using the provided continuous intraday valuations).

Whether these or other proposed portfolio-protected active ETP structures — which neither disclose their full holdings on a daily basis nor utilize NAV-based trading — can obtain SEC exemptive relief in the future remains to be seen. It should be noted that the proposed Tracking Portfolio and AP Agent structures are both generally limited to U.S. equity funds.[21]

Conclusion

Seven years after the introduction of the first AETFs, these products account for less than 0.2% of the market for actively managed funds. The failure of AETFs to achieve commercial success primarily reflects the reluctance of fund sponsors to offer their leading active strategies in a format that requires daily disclosure of fund holdings, due to the associated front-running and free-riding risks. When NextShares launch, investors may for the first time be able to access the performance and tax advantages and conveniences of an exchange-traded product structure across the full range of active strategies. As a result, NextShares have the potential to transform the delivery of active fund strategies in the same way that ETFs have changed index investing.

Appendix A

Daily portfolio monitor as of March 31, 2015: Core Bond Active ETF (hypothetical)

Current Portfolio Analytics

Metric	Value	Δ 1M	Δ 3M
Duration (Yr)	3.82	⬇ -0.96	⬇ -1.02
Maturity (Yr)	22.13	⬇ -1.14	⬇ -0.87
Coupon Rate	3.22%	⬇ 0.0%	⬇ -0.1%
Net Assets ($ MM)	491	⬇ -35	⬇ -19
Net Flows ($ MM)	-6	⬇ -30	⬇ -5

Current Sector Breakdown

Sector	Alloc	Δ 1M	Δ 3M
Treasury	29.5%	⬇ -0.6%	⬇ -1.0%
Government	14.5%	⬆ 2.2%	⬆ 5.0%
Corporate	18.1%	⬇ -2.4%	⬇ -1.8%
Securitized	32.8%	⬇ -0.5%	⬆ 4.3%
Cash	5.1%	⬆ 1.3%	⬇ -6.4%

Current Credit Breakdown

Rating	Alloc	Δ 1M	Δ 3M
AAA	3.3%	⬆ 1.3%	⬆ 0.3%
AA	71.9%	⬆ 1.7%	⬆ 2.6%
A	12.9%	⬆ 1.5%	⬆ 2.4%
BBB	11.3%	⬆ 2.3%	⬆ 2.3%
BB/B	0.4%	⬇ -0.6%	⬇ -0.6%
NR	0.3%	⬇ -6.1%	⬇ -7.0%

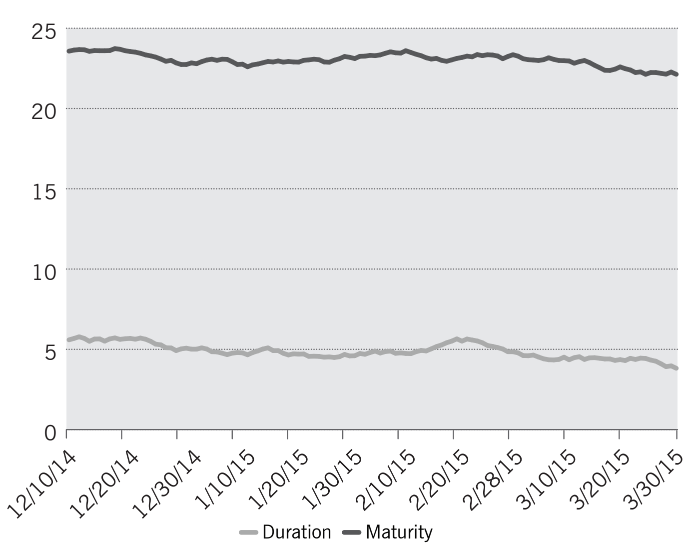
Daily Purchases

Identifier	Security Description	Security Type	Par Amount ($)	Price	Trade Value ($)	% of TNA
FNE03411	FNMA CONV 3.5 JUL 31	Securitized	1,400,000	104.3	1,460,011	0.30%
097023AD	BOEING CO 8.75 AUG 21	Corporate	680,000	134.2	912,560	0.19%
110122AA	BRISTOL-MYERS SQUIBB 7.15 JUN 23	Corporate	650,000	127.7	830,050	0.17%
46625HHS	JPMORGAN CHASE & CO 4.40 JUL 20	Corporate	720,000	99.2	714,528	0.15%
HYAR13-A:A4	HYUNDAI REC TRUST 0.75 SEP 18	Securitized	304,233	99.9	303,929	0.06%
MSBAM12-C5:A2	MORGAN STANLEY BOFA 1.97 AUG 45	Securitized	208,622	100.9	210,500	0.04%
912810QS	US TREASURY BONDS 3.75 AUG 41	Treasury	180,000	110.5	198,900	0.04%
683235AA	ONTARIO PROV CANADA 2.0 SEP 18	Government	150,000	101.6	152,400	0.03%

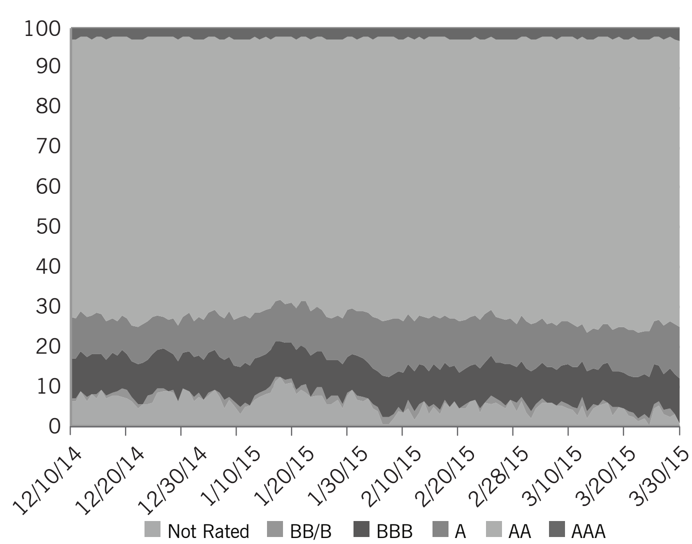
Daily Sales

Identifier	Security Description	Security Type	Par Amount ($)	Price	Trade Value ($)	% of TNA
FNC03011	FNMA CONV 3.0 MAY 26	Securitized	(1,400,000)	104.4	(1,461,374)	(0.30%)
89236TAY	TOYOTA MOTOR CORP 2.0 OCT 18	Corporate	(1,100,000)	100.6	(1,106,600)	(0.23%)
644239AY	NEW ENGLAND TEL + TEL 7.87 NOV 29	Corporate	(600,000)	125.7	(754,200)	(0.15%)
JPMCC06-LDP9	JPM COMMERCIAL MORT 5.33 JUN 47	Securitized	(620,000)	114.7	(710,830)	(0.14%)
4424355B	HOUSTON TEX UTIL SYS REV 3.8 MAY 28	Government	(290,629)	102.2	(297,023)	(0.06%)
620076AH	MOTOROLA INC 7.5 MAY 25	Corporate	(280,000)	119.3	(334,096)	(0.07%)
63946BAE	NBC UNIVERSAL INC 4.37 APR 21	Corporate	(165,727)	95.5	(158,296)	(0.03%)
045167CY	ASIAN DEVELOPMENT BANK 2.12 MAR 25	Government	(25,505)	90.0	(22,955)	0.00%

Duration and Maturity Trend (Yr)



Credit Rating Trend (%)



Daily portfolio monitor as of March 31, 2015: Core Bond Active ETF (hypothetical)

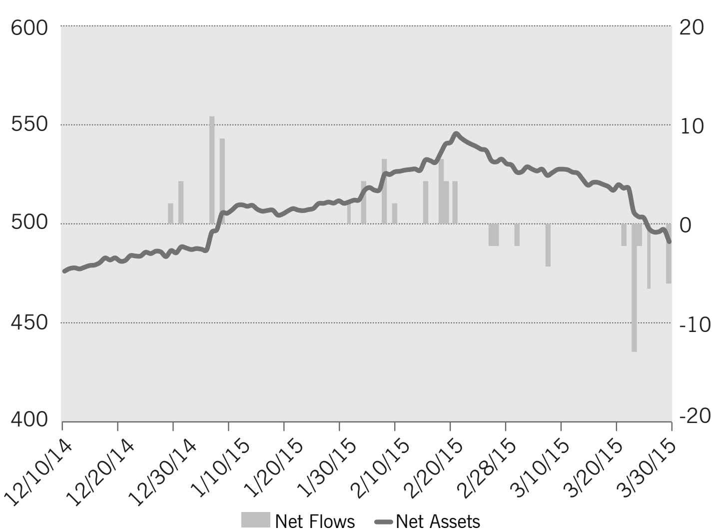
20 Largest Current Holdings

Identifier	Security Description	Security Type	Par Amount ($)	Price	Trade Value ($)	% of TNA
FNE03411	FNMA CONV 3.5 JUL 31	Securitized	25,800,000	104.3	26,909,400	5.48%
912810FJ	US TREASURY BOND 6.12 AUG 29	Treasury	17,900,000	150.3	26,900,120	5.47%
912810FM	US TREASURY BOND 5.37 MAY 30	Treasury	19,000,000	140.4	26,672,200	5.43%
91086QAZ	UNITED MEXICAN STATES 5.75 OCT 2110	Government	25,036,188	98.3	24,598,055	5.01%
912828K5	US TREASURY NOTE 1.37 APR 20	Treasury	24,000,000	98.6	23,652,000	4.81%
FNC03011	FNMA CONV 3.0 MAY 26	Securitized	21,800,000	104.4	22,759,200	4.63%
912810EW	US TREASURY BOND 6.0 FEB 26	Treasury	17,080,000	130.3	22,255,240	4.53%
FGB05004	FHLM GOLD SINGLE FAM 5.0 JUN 33	Securitized	15,135,849	110.4	16,709,978	3.40%
GNA05004	GNMA I SINGLE FAM 5.0 MAR 33	Securitized	9,509,432	112.6	10,707,620	2.18%
AEPTC06-A:A4	AEP TEX CENTRAL TRANS 5.17 JAN 18	Securitized	11,114,464	95.7	10,630,985	2.16%
774341AE	ROCKWELL COLLINS 3.7 DEC 23	Corporate	9,220,000	109.7	10,114,340	2.06%
949746RF	WELLS FARGO & CO 5.60 JAN 44	Corporate	8,540,000	106.3	9,077,166	1.85%
GSMS12-GCJ7	GS MORTGAGE SECURITIES 3.37 JUN 45	Securitized	9,304,854	96.8	9,002,446	1.83%
912810RE	US TREASURY BONDS 3.62 FEB 44	Treasury	8,000,000	108.1	8,648,000	1.76%
037833AR1	APPLE INC SR UNSEC 2.85 JUN 21	Corporate	8,200,000	104.1	8,536,200	1.74%
3130A0JR	FEDERAL HOME LOAN BANK 2.37 DEC 19	Government	7,432,284	101.5	7,543,768	1.54%
92343VBC	VERIZON COMM 3.5 NOV 21	Corporate	7,400,000	102.1	7,555,400	1.54%
912828K6	US TREASURY NOTE 0.5 APR 17	Treasury	7,550,000	99.7	7,527,350	1.53%
FNA06004	FNMA 6.0 JUL 33	Securitized	6,500,000	115.0	7,475,000	1.52%
912828XD	US TREASURY NOTES 1.87 MAY 22	Treasury	6,200,000	106.9	6,626,560	1.35%

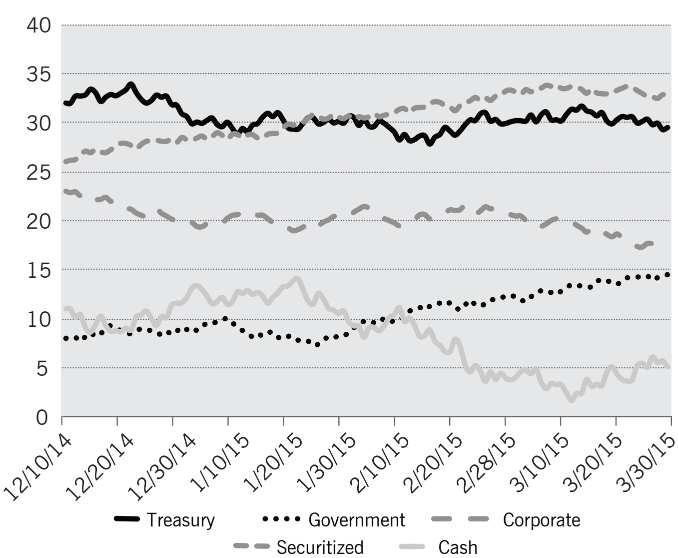
Largest Trades Over the Past Three Months

Identifier	Security Description	Security Type	Par Amount ($)	Price	Trade Value ($)
FNE03411	FNMA CONV 3.5 JUL 31	Securitized	25,800,000	105.0	27,090,000
GNA05408	GNMA I SINGLE FAM 5.5 JAN 38	Securitized	(22,500,000)	112.7	(25,357,500)
912810QU	US TREASURY BOND 3.12 Feb 42	Treasury	(20,000,000)	99.0	(19,794,000)
912828K5	US TREASURY NOTE 1.37 APR 20	Treasury	19,000,000	98.2	18,658,000
620076AH	MOTOROLA INC 7.5 MAY 25	Corporate	(14,000,000)	118.5	(16,590,000)
037833AR1	APPLE INC SR UNSEC 2.85 JUN 21	Corporate	(13,700,000)	103.0	(14,111,000)
FGB05004	FHLM GOLD SINGLE FAM 5.0 JUN 33	Securitized	12,000,000	110.4	13,248,000

Net Assets and Flows ($ MM)



Sector Allocation (%)



Notes:

[1] As used in this paper, "exchange-traded product" or "ETP" encompasses exchange-traded funds (ETFs), NextShares exchange-traded managed funds (NextShares) and other exchange-traded financial instruments that can issue and redeem shares on an ongoing basis. An ETF is an open-end fund or unit investment trust registered under the Investment Company Act whose shares trade at prices determined intraday. NextShares are open-end funds registered under the Investment Company Act whose shares trade at prices directly linked to the fund's next-determined net asset value per share (NAV).

[2] The SEC's decision to permit the offering of the initial AETFs followed by more than six years the November 2001 issuance of the SEC Concept Release on AETFs (IC-25258), which set forth the considerations the SEC viewed as most relevant in the evaluation of active ETP proposals. The Concept Release and responding public comments focused significantly on the issue of portfolio holdings disclosure, recognizing the potential conflict between providing sufficient disclosure to allow for efficient secondary market trading, but not so much as to invite front-running of the fund's portfolio trades and free-riding on the manager's investment ideas.

[3] Technically speaking, the requirement is that, before the commencement of exchange trading each business day, an AETF must disclose on its website the identities and quantities of the portfolio securities and other assets held by the fund that will form the basis for the fund's calculation of its NAV at the end of that business day. Under the accounting procedures followed by AETFs (and most mutual funds and index ETFs), the portfolio trades entered into by a fund are not reflected in the fund's NAV until the following business day after trade execution. Accordingly, the portfolio that forms the basis for each business day's NAV calculation is the fund's holdings as of the close of the prior business day — which is what AETFs are required to disclose.

[4] Because ETP shares are ''redeemable securities'' as defined in the Investment Company Act, each holder is entitled to receive "approximately his proportionate share of the issuer's current net assets, or the cash equivalent thereof." The SEC takes the view, not unreasonably, that this condition is met by an ETP only if the product structure incorporates a reliable mechanism to ensure that fund shares will trade within a consistently narrow range of their underlying value. For AETFs, arbitrage trading by market makers that are positioned to identify and exploit discrepancies in the value of an AETF's underlying holdings and the market trading price of the AETF itself provides this mechanism.

[5] Throughout this paper, "current," "today" and "now" refer to March 31, 2015.

[6] Please refer to the November 2014 white paper "Avoidable Structural Costs of Actively Managed Mutual Funds," which is available for download at www.NextShares.com/whitepaper.

[7] A number of leading broker-dealers offer their clients separately managed account programs in which portfolio holdings consist of individual securities selected by third-party asset managers that provide the sponsoring broker-dealer with daily model portfolios for implementation in exchange for an asset-based fee. In offering an AETF, the sponsoring asset manager in effect provides every broker-dealer, competing investment adviser and self-directed investor with a daily model portfolio for unrestricted use with no compensation to the sponsoring asset manager.

[8] Some observers have asserted that front-running and free-riding risks do not apply to core fixed income funds. This is true only to the extent that (a) the fund is sufficiently small in relation to the markets in which it invests so that all fund trades can be efficiently executed within a single business day, (b) the fund's management fees are not meaningfully higher than an "implementation only" manager would charge to execute the same strategy and (c) the fund's securities selections and/or asset allocations have no proprietary value that the sponsor seeks to protect.

[9] We chose not to apply this condition to income funds because different bonds of the same or a similar issuer may have substantially similar performance and risk characteristics.

[10] Both PIMCO and Fidelity also offer other fixed income AETFs that are broadly similar to active mutual funds they offer. In all such cases, the correlation of excess return between the AETF and mutual fund is not high enough for the AETF to be considered a clone of the corresponding mutual fund. For example, the correlation of excess return of BOND versus PIMCO Total Return Fund is only 0.74. While BOND (and other PIMCO and Fidelity AETFs) may use a similar name, its investment strategy is not the same as its mutual fund sibling.

[11] *See* Investment Company Act Release Nos. 31333 (November 6, 2014) (notice) and 31361 (December 2, 2014) (order); File No. 812-14139; Eaton Vance Management, et al. Order available at http://www.sec.gov/Archives/edgar/data/1573035/999999999714015496/filename1.pdf and notice available at http://www.sec.gov/Archives/edgar/data/1573035/999999999714014906/filename1.pdf.

[12] To preserve the confidentiality of fund trading activities, the basket of securities, cash and other instruments used by a NextShares fund in creations and redemptions of shares (Basket) will normally not be a pro rata representation of its current portfolio positions. Instruments being acquired by a NextShares fund will generally be excluded from the Basket until their purchase is completed and instruments being sold may not be removed from the Basket until the sale program is substantially completed. Other portfolio positions may also be excluded from the Basket. Different from ETFs, NextShares offer market makers a profit opportunity that is not based on arbitrage and does not require the management of intraday market risk. Because all NextShares trading prices are based on end-of-day NAV, it makes no difference to a NextShares market maker whether the fund's underlying value goes up or down over the course of the day. This means that, unlike for ETFs, market makers don't need to enter into intraday hedges or adjust their hedges as they buy and sell NextShares positions over the course of the day. Because they don't engage in arbitrage and don't need to hedge intraday, NextShares market makers don't need to know a fund's non-Basket holdings.

[13] *See* Investment Company Act Release No. 31300 (October 21, 2014); File No. 812-14116; Precidian ETFs Trust, et al.; (SEC Precidian Response) available at http://www.sec.gov/Archives/edgar/data/1499655/999999999714014497/filename1.pdf and Investment Company Act Release No. 31301 (October 21, 2014); File No. 812-13953; Spruce ETF Trust, et al. (SEC Spruce Trust Response) available at http://www.sec.gov/Archives/edgar/data/1528409/999999999714014496/filename1.pdf.

[14] *See* SEC Precidian Response at page 12 and SEC Spruce Trust Response at pages 12-13.

[15] Exemptive applications were filed seven or more years ago for other proposed portfolio-protected AETF structures, all of which applications appear dormant. *See* SEC File No. 812-13524; Claymore Securities Inc., et al. (April 22, 2008). *See* SEC File No. 812-13362; Vanguard Group Inc., et al. (April 25, 2007). *See* SEC File No. 812-13362; Vanguard Group Inc., et al. (February 9, 2007). *See* SEC File No. 812-13231; Managed ETFs LLC, et al. (August 29, 2005).

[16] *See* SEC File No. 812-14214; T. Rowe Price Associates, Inc., et al. (September 23, 2013 as amended March 14, 2014) (T.Rowe Price Filing) available at http://www.sec.gov/Archives/edgar/data/80255/000089843214000444/a40app-a.htm.

[17] *See* SEC File No. 812-14364; Fidelity Beach Street Trust, et al. (September 26, 2014) (Fidelity Filing) available at http://www.sec.gov/Archives/edgar/data/35336/000089457914000140/fbst40app092514.htm.

[18] *See* SEC File No. 812-14379; Cohen & Steers Capital Management, Inc., et al. (October 20, 2014) (Cohen & Steers Filing) available at http://www.sec.gov/Archives/edgar/data/845563/000119312514375900/d804477d40app.htm.

[19] *See* SEC File No. 812-14405; Precidian ETFs Trust, et al. (December 22, 2014) (Predician AP Agent Filing) available at http://www.sec.gov/Archives/edgar/data/1396289/000114420414075294/v397161_40-app.htm.

[20] An Authorized Participant is a broker-dealer or institutional investor that has entered into an agreement with an ETP permitting the purchase and redemption of fund shares in designated “Creation Unit” quantities, generally 25,000 or more shares. ETPs limit direct purchases and redemptions of shares to Creation Unit transactions by or through Authorized Participants. An Authorized Participant may purchase and redeem Creation Units both for affiliated market makers and for unaffiliated customers.

[21] The T. Rowe Price Filing includes (at page 50) the condition that at least 95% of each fund’s portfolio positions will be listed on an exchange whose primary trading session corresponds to U.S. market hours. The Cohen & Steers Filling states (at page 27) that covered funds plan to invest in large-cap and mid-cap stocks that generally trade actively during U.S. market hours. The Precidian AP Agent Filing specifies (at page 18) that fund investments will be limited solely to U.S.-exchange listed securities. The initial fund described in Appendix A of the Fidelity Filing (page 77) would invest primarily in common stocks, including stocks of foreign issuers.

Disclaimer

This paper is for information purposes only and is not intended to constitute, and should not be construed as, an offer to sell securities. Information contained herein is not representative of any NextShares fund. The views and opinions expressed herein are those of the management of Navigate Fund Solutions LLC (Navigate) as of June 2015. Navigate does not guarantee the accuracy or completeness of the information included. Although based on sources deemed reliable, Navigate has not attempted to verify the accuracy of third-party data presented.

The launch of NextShares is conditional upon receipt of required fund regulatory approval, the likelihood and timing of which cannot be predicted. Commercial success also requires completion of enabling implementation technology and acceptance by market participants, which cannot be assured. Like mutual funds, NextShares will not offer investors the opportunity to buy and sell intraday based on current (versus end-of-day) determinations of fund value. NextShares trade execution prices will fluctuate based on changes in fund net asset value (NAV) and may vary significantly from anticipated levels during periods of market volatility. Although limit orders may be used to control trading costs, they cannot be used to control or limit trade execution prices. There can be no guarantee that an active trading market for NextShares will develop or be maintained, or that their listing will continue unchanged. Buying and selling NextShares may require payment of brokerage commissions and expose transacting shareholders to other trading costs. Market trading prices of NextShares may be above, at or below NAV, will fluctuate in relation to NAV based on supply and demand in the market for shares and other factors, and may vary significantly from NAV. The return on a shareholder's NextShares investment will be reduced if the shareholder sells shares at a greater discount or narrower premium to NAV than he or she acquired the shares. The performance of a NextShares fund will depend in part on the portfolio managers' successful application of analytical skill and investment judgment. A NextShares fund is not a complete investment program, and there is no guarantee that it will achieve its investment objective. It is possible to lose money on an investment in NextShares. Investors in NextShares should have a long-term investment perspective and be able to tolerate potentially sharp declines in value. An investment in NextShares is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, entity or person.

navigate fund solutions®

Navigate Fund Solutions LLC is a wholly owned subsidiary of Eaton Vance Corp. formed to develop and commercialize NextShares™ exchange-traded managed funds.

For more information, visit **NextShares.com.**

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