



## INFORMATION CIRCULAR: ELKHORN ETF TRUST

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**TO:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**FROM:** BX / PHLX Listing Qualifications Department

**DATE:** September 21, 2016

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### EXCHANGE-TRADED FUND

### SYMBOL

### CUSIP #

Elkhorn Commodity Rotation Strategy ETF

DWAC

287711816

### BACKGROUND INFORMATION ON THE FUND

The Elkhorn ETF Trust (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"), consisting of several investment portfolios. This circular relates only to the Elkhorn Commodity Rotation Strategy ETF (the "Fund"). The shares of the Fund are referred to herein as "Shares." Elkhorn Investments, LLC (the "Adviser") serves as the investment adviser to the Fund.

The Elkhorn Commodity Rotation Strategy ETF seeks to provide investors with total return

The Fund is an actively managed exchange-traded fund that seeks to provide total return which exceeds that of a benchmark, the Elkhorn Dorsey Wright Commodity Rotation Index (the "Benchmark"). The Benchmark tracks a proprietary model of commodity futures (the "Benchmark Model") that is developed, maintained and sponsored by Dorsey Wright & Associates ("Dorsey Wright"). The Fund will seek excess return above the Benchmark, before Fund expenses are taken into account, solely through the active management of a short duration portfolio of highly liquid, high quality bonds. The Fund is not an index tracking exchange-traded fund and is not required to invest in all components of the Benchmark. However, the Fund will generally seek to hold similar interests to those included in the Benchmark and will seek exposure to commodities included in the Benchmark.

The Fund is not sponsored, endorsed, sold or promoted by Dorsey Wright. Dorsey Wright's only relationship to the Fund is the licensing of certain service marks and service names of Dorsey Wright in connection with the Benchmark and the Benchmark Model. Dorsey Wright has no obligation to take the needs of the Fund's investment advisor or the Fund into consideration in connection with its licensing of the Benchmark and the Benchmark Model.

The selection universe of the Benchmark Model consists of twenty-one commodity indices that each track an individual commodity. Commodities indices are used as Benchmark Model constituents

because of the nature of the relative strength methodology utilized by Dorsey Wright in the Benchmark Model. Commodities futures contracts expire after too short a period of time to provide adequate historical information to calculate and compare performance over time. However, indices that track the futures of a single commodity and “rolls” (i.e., purchases and subsequently sells prior to expiration) futures within the index provide pricing information that does not terminate upon the expiration of a single contract.

Dorsey Wright believes that the most adaptive tool to achieve the goal of discerning the strongest momentum versus that of the weakest is relative strength. Relative strength measures the price performance of a security versus a market average, another security or a universe of securities. The Benchmark Model uses the historical price data made available by the indices to perform relative strength analysis, taking into account, among other characteristics, the performance of a commodity as compared to the broad commodity market and the relative performance of each single commodity versus all of the other commodities. The five commodities with the highest relative strength are chosen for inclusion in the Benchmark. Once the five commodities comprising the Benchmark have been selected, the Benchmark determines which futures contract on the five commodities to purchase based on a methodology embedded within the underlying indices that seeks to minimize the effects of negative roll yields and ensure that the chosen futures contracts are sufficiently liquid. Roll yield refers to the amount of return generated by rolling a futures contract. The Benchmark is rebalanced and reconstituted on a monthly basis.

The Benchmark regularly rolls individual commodity futures contracts so as to maintain a fully invested position. This frequent buying and selling of futures contracts, in addition to attempts by the Fund to rebalance its exposure to various market sectors, may cause the Fund to experience higher levels of portfolio turnover.

Under normal market conditions, the Fund intends to invest in exchange-traded commodity futures contracts through a wholly-owned subsidiary of the Fund organized under the laws of the Cayman Islands (the “Subsidiary”). As a means to provide investment returns that are highly correlated to those of the Benchmark, the Subsidiary may also invest directly in commodity-linked instruments, including pooled investment vehicles, exchange-traded funds and other investment companies, and swaps and exchange-traded options on futures contracts, to the extent permitted under the 1940 Act and any applicable exempted relief (collectively, “Commodities-Related Assets” and, together with exchange-traded commodities futures contracts, “Commodities Instruments”).

The remainder of the Fund’s assets will primarily be invested in: (1) short-term investment grade fixed income securities that include U.S. government and agency securities, corporate debt obligations and repurchase agreements; (2) money market instruments; (3) certain bank instruments; and (4) cash and other cash equivalents. The Fund uses such instruments as investments to seek to exceed the performance of the Benchmark and to provide liquidity, serve as margin or otherwise collateralize the Subsidiary’s Commodities Instruments exposure on a day-to-day basis.

Although the Fund, through the Subsidiary, will generally hold the components included in the Benchmark, the Fund and the Subsidiary will be actively managed and will not be obligated to invest in all or (or to limit investments solely to) such futures contracts. In addition, with respect to investments in exchange-traded futures contracts, the Fund and the Subsidiary will not be obligated to invest in the same amount or proportion as the Benchmark, or be obligated to track the

investment of the Benchmark. There can be no assurance that the Fund's performance will exceed the performance of the Benchmark at any time.

The Fund will not invest directly in exchange-traded commodity futures contracts. The Fund expects to gain exposure to these investments exclusively by investing in the Subsidiary. The Subsidiary is advised the Adviser. The Fund's investment in the Subsidiary is intended to provide the Fund with exposure to commodity markets within the limits of current federal income tax laws applicable to investment companies such as the Fund, which limit the ability of investment companies to invest directly in exchange-traded commodity futures contracts. The Subsidiary has the same investment objective as the Fund, but unlike the Fund, it may invest without limitation in Commodities Instruments. Except as otherwise noted, for purposes of this prospectus, references to the Fund's investments include the Fund's indirect investments through the Subsidiary. The Fund will invest up to 25% of its total assets in the Subsidiary.

The Adviser will use its discretion to determine the percentage of the Fund's assets allocated to the Commodities Instruments held by the Subsidiary that will be invested in exchange-traded commodity futures contracts or Commodities-Related Assets. In this regard, under normal market conditions, the Subsidiary is expected to invest in futures contracts in proportional weights and allocations that are similar to the Benchmark. The Fund does not seek leveraged returns; however, the Fund's use of instruments to collateralize the Subsidiary's investments in Commodity Instruments has a leveraging effect and is a means to achieve the investment performance of the Benchmark.

The remainder of the Fund's assets will primarily be invested in: (1) short-term investment grade fixed income securities that include U.S. government and agency securities, corporate debt obligations and repurchase agreements; (2) money market instruments; (3) certain bank instruments and (4) cash and other cash equivalents. The Fund uses such instruments as investments to exceed the performance of the Benchmark and to collateralize the Subsidiary's Commodities Instruments exposure on a day-to-day basis. The Fund may also invest directly in exchange-traded commodity-linked instruments, including pooled investment vehicles and exchange-traded funds, closed-end funds and other investment companies that provide exposure to commodities, equity securities and fixed income securities to the extent permitted under the 1940 Act and any applicable exempted relief.

The Fund may enter into repurchase agreements with counterparties that are deemed to present acceptable credit risks. A repurchase agreement is a transaction in which the Fund purchases securities or other obligations from a bank or securities dealer and simultaneously commits to resell them to a counterparty at an agreed-upon date or upon demand and at a price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased obligations.

For more information regarding the Fund's investment strategy, please read the prospectus for the Fund.

As described more fully in the Trust's prospectus and Statement of Additional Information, the Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit"). Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for the Fund is 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. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Fund describes the various fees and expenses for the Fund's Shares. For a more complete description of the Fund and the underlying Index, visit the Fund's website at [www.elkhorn.com](http://www.elkhorn.com).

### **PURCHASES AND REDEMPTIONS IN CREATION UNIT SIZE**

BX members and PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and Statement of Additional Information and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

### **PRINCIPAL RISKS**

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), active market risk, authorized participant concentration risk, below net asset value risk, benchmark risk, cash transactions risk, clearing broker risk, commodity risk, counterparty risk, credit risk currency risk, cyber security risk, derivatives investment risk, foreign commodity markets risk, foreign currency risk, futures risk, income risk, interest rate risk, liquidity risk, market maker risk, new fund risk, non-U.S. investment risk, options risk, pooled investment vehicle risk, regulatory change risk, regulatory risk, repurchase agreement risk, strategy risk, subsidiary investment risk, swaps risk, and volatility risk.

### **EXCHANGE RULES APPLICABLE TO TRADING IN THE SHARES**

Trading of the Shares on BX is on a UTP basis and is subject to BX equity trading rules. Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

### **TRADING HOURS**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on BX between 8:00 a.m. and 7:00 p.m. ET. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during each market's pre-market and post-market sessions, market participants should note that additional risks may exist with respect to trading the

Fund during these sessions, when the underlying index's values, intraday indicative value, or similar value may not be disseminated or calculated.

### DISSEMINATION OF FUND DATA

The Consolidated Tape Association will disseminate real time trade and quote information for the Funds to Tape C.

Fund Name	Listing Market	Trading Symbol	IOPV Symbol	NAV Symbol
Elkhorn Commodity Rotation Strategy ETF	NASDAQ	DWAC	DWAC.IV	DWAC.NV

### SUITABILITY

Trading in the Shares on BX will be subject to the provisions of BX Equity Rule 2310. Shares trading on PSX will be subject to the provisions of PHLX Rule 763. Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the "know your customer" obligation that is embedded in the BX Conduct Rules.

BX members and PHLX members and member organizations should also review NASD Notice to Members 03-71 for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### TRADING HALTS

BX will halt trading in the Shares of a Fund in accordance with BX Equity Rule 4120. PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund, the value of its underlying index, or a similar value are not being disseminated as required, or a halt for other regulatory reasons. In addition, BX and PHLX will also stop trading the Shares of a Fund if the primary market delists the Fund.

### DELIVERY OF A PROSPECTUS

BX members and PHLX members and member organizations should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund.

Prospectuses may be obtained through the Fund's website. The prospectus for the Funds does not contain all of the information set forth in the Fund's registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about the Fund, please refer to the registration statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, BX Equity Rules 4420 and 4421, and PHLX Rule 803 require that members and member organizations, respectively, provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by members or member organizations to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

Any BX or PHLX member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to BX members and PHLX members or member organizations under this rule.

Upon request of a customer, BX members and PHLX members or member organizations shall provide a copy of the prospectus.

#### **EXEMPTIVE, INTERPRETIVE AND NO-ACTION RELIEF UNDER FEDERAL SECURITIES REGULATIONS**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded Fund.

#### **REGULATION M EXEMPTIONS**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions

in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund's securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

#### **CUSTOMER CONFIRMATIONS FOR CREATION OR REDEMPTION OF FUND SHARES (SEC RULE 10B-10)**

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
- 3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

#### **SEC RULE 14E-5**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a

- distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
  - 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

#### **SECTION 11(D)(1); SEC RULES 11D1-1 AND 11D1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Fund in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of the Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(l)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of the Fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

#### **SEC RULE 15C1-5 AND 15C1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. BX members and PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- Will Slattery, Listing Qualifications, at 301.978.8088
- BX / PSX Market Sales, at 800.846.0477