



## Information Circular: TDAX Funds, Inc. ETFs

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

**From:** PHLX Listing Qualifications Department

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Exchange-Traded Fund	Symbol	CUSIP #
TDAX Independence 2010 Exchange-Traded Fund	TDD	87238A108
TDAX Independence 2020 Exchange-Traded Fund	TDH	87238A207
TDAX Independence 2030 Exchange-Traded Fund	TDN	87238A306
TDAX Independence 2040 Exchange-Traded Fund	TDV	87238A405
TDAX Independence In-Target Exchange-Traded Fund	TDX	87238A504

### Background Information on the Funds

TDAX Funds, Inc. (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust consists of several exchange-traded funds (each, a "Fund" and collectively, the "Funds"). This circular refers only to the Funds listed above. The shares of the Funds are referred to herein as "Shares." XShares Advisors LLC (the "Adviser") serves as the investment adviser for the Funds.

Each Fund seeks to invest in a portfolio of securities that replicates a particular "lifecycle" benchmark index (the "Underlying Index" or "Index"). "Lifecycle" investing is an investment technique that starts by targeting a particular investment horizon. That investment horizon corresponds to the date the investor expects to need his or her invested assets. For some investors, that date may be the investor's expected retirement date. For other investors, it may be another life event, such as purchase of a vacation home, payment of college tuition or expenses, payments for weddings or nursing home care. Lifecycle investing then uses a single investment (typically, a fund) that is diversified among a variety of asset classes, such as stocks and bonds, to seek to prudently maximize capital appreciation at the target date. The fund automatically rebalances its investment portfolio, periodically altering the portfolio's allocations among each asset class, as the target date approaches to move over time from an aggressive portfolio construction to a more conservative portfolio at the target date. After the target date, the fund will periodically move from a conservative portfolio construction to a marginally less conservative portfolio.

The Underlying Indexes are designed to reflect a portfolio of investments that can be used for lifecycle investing with respect to different target dates. Zacks Investment Research ("Zacks" or the "Index Creator") is the creator of each of the Underlying Indexes. Each Underlying Index is comprised of a mix of securities from three broad asset classes, international equities, domestic equities, and fixed income (including, cash, cash equivalents or short-term money

market instruments). Each Underlying Index automatically rebalances annually, or quarterly when necessary, along a “glidepath” designed to prudently maximize capital appreciation at the target dates. “Glidepath” refers to an Underlying Index’s asset allocation strategy over time. Gradually, an Underlying Index’s allocations among the different classes of securities will adjust from a more aggressive allocation at inception to a more conservative allocation as the target date approaches. Upon reaching the target date, each Underlying Index has a very conservative allocation, relative to its Lipper benchmark, as discussed below. In general, more aggressive allocations place a higher percentage of assets in equities (US and international equities) rather than in fixed income securities, whereas conservative allocations focus more heavily on investments in fixed income securities.

Upon reaching the target date, or at inception with respect to the Zacks In-Target Lifecycle Index, each Underlying Index will have approximately a 10% allocation to equity securities. Over the next five years, allocations shift from conservative to more moderately-conservative allocations, allowing for a larger exposure to equities than at the target date. To achieve a moderately-conservative allocation, each Underlying Index following the target date, or inception date with respect to the Zacks In-Target Lifecycle Index, will slowly increase its allocation to equity securities until in the fifth year after the target date the allocation to equity securities will range between 20-40%, as determined by the equity allocation of the Lipper Mixed-Target Allocation Conservative Funds Index at that time. These allocations will thereafter generally remain static to perpetuity. However, the Underlying Index may from time to time be rebalanced five years after the target date, and annually thereafter as necessary to retain the similarity in allocations to the Lipper Mixed-Target Allocation Conservative Funds Index if its equity to fixed income allocations vary by more than 5% compared to that Index.

Each Underlying Index focuses on a different target date and is comprised of a diversified group of equity and fixed income securities. Each Underlying Index has as a benchmark a corresponding target date of a Lipper Mixed-Asset Target Index, or in the case of the Zacks In-Target Lifecycle Index, the Lipper Mixed-Target Allocation Conservative Funds Index. Each of the Lipper Mixed Asset Target Indices is an index of mutual funds in the Lipper Mixed Asset category. The Lipper Mixed-Asset Target Allocation Conservative Funds Index is an index of mutual funds that maintains between 20-40% allocation to equity securities, with the remainder in bonds, cash or cash equivalents.

Based on its own proprietary intellectual model, Zacks has established specific criteria for determining which securities will represent each of the three broad asset classes and therefore be eligible for inclusion in the Underlying Indexes (the “Index Methodology”). The equity securities that comprise each Underlying Index are identical, only their weightings differ depending on the allocation assigned to these asset classes at any given point in time and depending on the target date for each Underlying Index. The fixed income securities comprising each Underlying Index will differ in that each Underlying Index will be comprised of fixed income securities whose duration seeks to match the time remaining to the target date of that Underlying Index. Each Underlying Index will be administered by Zacks, which also serves as Index Administrator. As Index Administrator, Zacks will employ the Index Methodology to determine the composition of each Underlying Index. Mergent, Inc. acts as “index calculation agent” for Zacks in connection with the calculation and dissemination of each Underlying Index. Amerivest Investment Management, LLC (“Amerivest”) and BNY Investment Advisors (“BNY”) act as investment sub-advisors to the Funds. BNY will be responsible for the day-to-day management of each Fund’s portfolio, which involves principally reconfiguring the portfolio of each Fund annually, or quarterly when necessary, to reflect the reconfiguration of each Underlying Index by the Index Administrator. Amerivest will provide portfolio consulting to the Advisor and oversight over BNY, which involves reviewing the portfolio of securities of each Fund against its respective Underlying Index, assisting in resolving any pricing issues and

assisting in the development of trading strategies.

Each Fund's investment objective is not fundamental and may be changed without shareholder approval. Shareholders will be given 60 days notice of any change in a Fund's investment objective. The Advisor uses a passive, or indexing, approach in managing the Funds. The Funds do not seek to outperform any particular market sector and will not assume temporary defensive positions when markets decline or appear overvalued. Each Fund will invest at least 90% of its assets in the securities of the Underlying Index, or in American Depositary Receipts ("ADRs") based on international equity securities in the Underlying Index. Such securities may include international and domestic equity securities (including common stocks and real estate investment trusts) and fixed income securities (including, bonds, treasury bills and notes, mortgage real estate investment trusts, cash, cash equivalents and short-term money market instruments). The Funds will provide shareholders with at least 60 days' notice of any change in these policies. Each Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, as well as swaps on securities of companies in the Underlying Index (subject to applicable limitations of the 1940 Act. Each Fund will attempt to replicate the Underlying Index by matching the weighting of securities in its portfolio with such securities' weightings in the Underlying Index. In managing the Funds, the Advisor seeks a correlation of 0.95 or better between each Fund's performance and the performance of the Underlying Index. A figure of 1.00 would represent perfect correlation. There is no guarantee that the Advisor will be able to obtain this level of correlation.

From time to time, the Advisor may pursue a sampling strategy in managing a portion of the portfolio. Pursuant to this strategy, a Fund may invest a portion of its assets in securities not included in an Underlying Index if the Advisor believes that investment in such securities is in the best interests of Fund shareholders and that such securities will assist the Fund in tracking the Underlying Index. For example, in some cases certain international securities may be available only in certain share lot sizes or the transaction costs associated with a purchase of a very small position in a fixed income security may be prohibitive. In these cases, a Fund may employ a sampling strategy instead of investing in these particular instruments. If a Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the securities of the Underlying Index, or in ADRs based on equity securities of international companies in the Underlying Index.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 200,000 Shares (each block of 200,000 Shares called a "Creation Unit") or multiples thereof. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements and called Authorized Participants can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Each Fund pays out dividends from its net investment income to investors annually. Each Fund distributes any net capital gains annually.

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 Funds' NAV is determined as of the close of trading (normally 4:00 p.m., Eastern Time or "ET") on each day the New York Stock Exchange is open for business. NAV is calculated by taking the market price of each Fund's total assets, including interest or dividends accrued but not yet collected, less all liabilities, and dividing such amount by the total number of Shares

outstanding. The result, which is rounded to the nearest cent, is the NAV per Share.

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

### **Purchases and Redemptions in Creation Unit Size**

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 SAI, 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 Funds of the principal risks of an investment in the Funds. These include tracking error risk (factors causing a Fund's performance to not match the performance of its underlying index), market trading risk (for example, trading halts, trading above or below net asset value), stock market risk, investment style risk, sector risk, investment approach risk, issuer-specific risk, small and mid-capitalization risk, fixed income risk, REIT risk, sampling risk, foreign investment risk and derivatives risk.

### **Exchange Rules Applicable to Trading in the Shares**

Trading in 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 PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during PHLX's Pre-Market and Post-Market Sessions, market participants should note that additional risks may exist with respect to trading the Funds during these sessions, when the underlying index's values may not be disseminated.

### **Suitability**

Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer, as provided by PHLX Rule 763.

PHLX members and member organizations also should 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**

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

## **Delivery of a Prospectus**

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 Fund 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, PHLX Rule 803(o) requires that PHLX members and member organizations 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, PHLX 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 a PHLX member and member organization 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."

A 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 PHLX members and member organizations under this rule.

Upon request of a customer, PHLX members and member organizations also 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 Funds.

## **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 Funds 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 Funds (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 Funds for redemption does not constitute a bid for or purchase of any of the Funds’ 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 a 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 a 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 a 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 a 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 a 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. . 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](#), Director, PHLX Listing Qualifications, at 301.978.8088
- PSX Market Sales at 800.846.0477