Precidian Investments

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June 15, 2016

VIA ELECTRONIC SUBMISSION

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: SR-NYSEArca-2016-08

Dear Mr. Fields:

Precidian Funds LLC ("Precidian") believes it would be remiss if we didn't point to the growing body of evidence in support of our application. As evident from the early adoption of our structure by some of the world's largest asset managers (Blackrock, Capital, SSgA, Invesco PowerShares, Cohen & Steers) to the recent purchase of an ownership stake in Precidian Investments by Legg Mason, clearly the industry leaders believe that the Precidian structure not only addresses their needs but also the needs of their clients for an ETF solution. So too, have major U.S. exchanges endorsed the need for our solution, NYSE Arca through the 19b4 process (requiring the SRO to make representations to the ability of the market makers to make efficient markets and the exchange to competently surveil the new ETF) and BATS who intends to submit a letter of support in coming weeks. In addition, backing continues to grow from independent analysts covering the ETF and Asset Management Industry. The most recent report (see attached report) from Craig Siegenthaler at Credit Suisse, "*Precidian's Nontransparent ETF Model Could Provide Best Option for Traditionals to Defend Against Passive ETFs*," makes clear his lack of optimism for Eaton Vance's NextShare structure, the only structure approved by the SEC to date. Mr. Siegenthaler goes on to point out many of the benefits of Precidian's ActiveShares℠ structure stating, "We believe there are four clear advantages of the ETF structure to the mutual fund: (1) tax efficiency, (2) cost, (3) liquidity, (4) transparency." Other points that Mr. Siegenthaler makes:

Nontransparent ETFs – Best Option for Active Managers: We continue to think a new ETF structure that is being proposed by Precidian (a private firm partially owned by LM) and the NYSE could provide the best chance of success for active managers to defend against iShares, Vanguard, StateStreet, PowerShares, WisdomTree, and the rest of the ETF market. For example, if a portfolio manager runs an identical strategy through an A class mutual fund (common share class with upfront load, sub-TAs, and 12b-1s), an I-class mutual fund (most competitive MF but has minimum hurdles, only exists in certain accounts, and also has a sub-TA fee), and a NTETF – we think the NTETF would cannibalize a lot of the AuM in most channels with the exception of the commission-based platforms. So we think the early adopters of Precidian's NTETF could have a head-start in protecting their business from passives and new regulations, and also be successful in winning clients from competitors that only exist in the older mutual fund structures.

Broker Sign-ups… not a risk: While EV's NextShares model has been having trouble signing-up large/established broker-dealers, we see this as less of a risk for Precidian. Specifically, Precidian does not use a new technology that requires system updates and education. Precidian's NTETFs will function exactly like the existing ETFs in the market place, only it won't provide transparency. So when NYSE begins trading the first batch of Precidian NETFs, investors will be able to buy and sell them through their existing accounts at traditional brokerage firms, financial supermarkets, and discount brokers. And when clients learn of the key advantages versus their existing A, C, I mutual funds, we expect the cannibalization to occur.

High Quality Early Adopters: In 2014, several large asset management firms agreed to license Precidian's technology. This list includes BlackRock ($4.6Tn), Capital Group ($1.4Tn), Invesco ($780B), State Street ($2.4Tn), and we also believe Legg Mason ($670B) with be an initial adopter too given its 20% ownership. Combined, these firms represent almost $10Tn of AuM. Alternatively, Eaton Vance's NextShares model has licensed its technology to firms representing about $600B of AuM in total.

Fee Structure: Precidian's NTETF will have a structure similar to every other ETF. There will be a management fee collected for the asset manager and transaction expenses (small commission + bid-ask), but no upfront load, no trailers, and no TAs/sub-TAs. So its NTETF will function well on most direct platforms (discount brokers, financial super-markets), and on fee-based/advisory platforms (traditional brokerage, IRAs, RIAs) - which are gaining share from commission-based accounts (and this will accelerate with DOL rule implementation in 2017/18). There are only two differences between the Precidian model and existing ETFs: (1) transparency, (2) Precidian provide the flexibility of a 12b-1 fee for ETFs that will target commission based platforms.

We are not optimistic on EV's Nextshares because (1) it's not a true ETF (hybrid mutual fund), (2) requires investment & education, (3) no large brokers have signed-up, (4) none of the largest asset managers have signed-up (unlike Precidian), (5) cost savings for most fund managers may be less than initially anticipated. We also think that if Precidian gains SEC approval, that its model will eventually win versus NextShares.

Thank you for the opportunity to submit this letter and for your consideration of these comments. Questions regarding these comments may be directed to the undersigned.

Sincerely,

Daniel J. McCabe
CEO, Precidian Investments LLC

2 June 2016
Americas/United States
Equity Research
Asset Managers

US Asset Managers

SECTOR REVIEW

Research Analysts
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Ari Ghosh
[redacted]

Precidian's Nontransparent ETF Model could Provide Best Option for Traditionals to Defend Against Passive ETFs

We believe there are four clear advantages of the ETF structure to the mutual fund: (1) tax efficiency, (2) cost, (3) liquidity, (4) transparency. However, underperformance of actives versus passives (after fees) over the last decade has also titled the demand for product from active to passive (and passive exists in ETF form while most active products do not).

- **Global ETF Wave Accelerating in 2015-18:** We estimate increased investor education on the ETF model, continued migration from commission-based accounts to advisory/fee-based, new regulations in the US (DOL Rule) and outside the US (CRM2-Canada, MiFID2-Europe, RDR-UK) will cause a large share shift in industry AuM from funds to ETFs over the next five years. ETF share in the US is 15% today, but we think it could eventually reach 40-60% over the next ten years. So the question on every CEO's mind is - how can active traditional, benchmark-relative managers fight back?
- **Nontransparent ETFs – Best Option for Active Managers:** We continue to think a new ETF structure that is being proposed by Precidian (a private firm partially owned by LM) and the NYSE could provide the best chance of success for active managers to defend against iShares, Vanguard, State Street, PowerShares, WisdomTree, and the rest of the ETF market. For example, if a portfolio manager runs an identical strategy through an A-class mutual fund (common share class with upfront load, sub-TAs, and 12b-1s), an I-class mutual fund (most competitive MF but has minimum hurdles, only exists in certain accounts, and also has a sub-TA fee), and a NTETF – we think the NTETF would cannibalize a lot of the AuM in most channels with the exception of the commission-based platforms. So we think the early adopters of Precidian's NTETF could have a head-start in protecting their business from passives and new regulations, and also be successful in winning clients from competitors that only exist in the older mutual fund structures.

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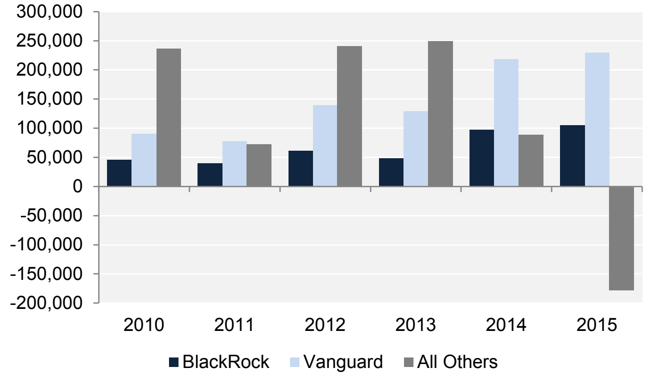
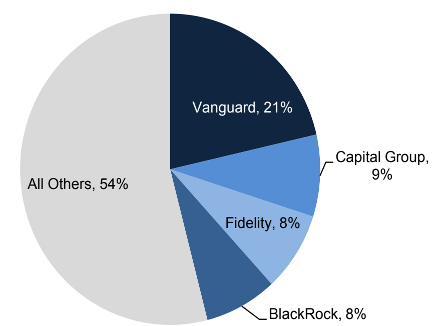
Figure 1: US Mutual Fund and ETF Net Flows (USD in $Ms)



Source: Credit Suisse Asset Manager Research, Simfund (LT flows ex Money Mkt)

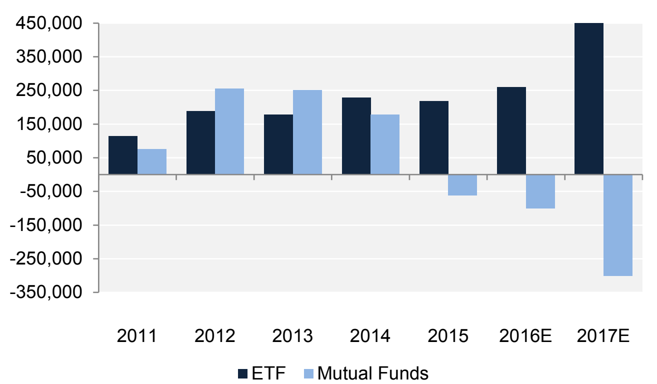
Figure 2: US Retail Market Share (Mutual Fund + ETF AuM)



Source: Credit Suisse Asset Manager Research, Simfund (LT AuM ex Money Mkt)

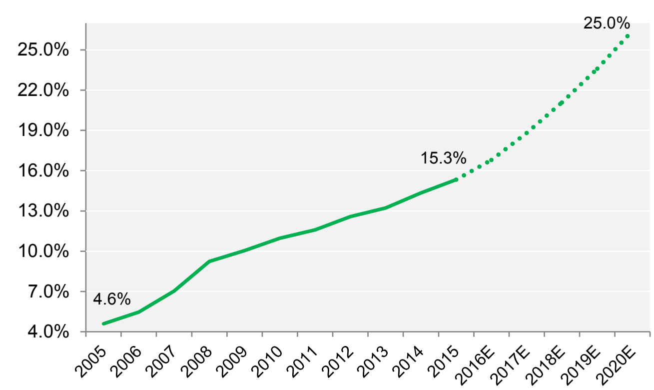
- **SEC Approval Process:** Last week, the NYSE re-filed its amended 19b-4 with the SEC's trading & markets division to permit the trading of 15 Precidian nontransparent ETFs. We estimate this pushes the next deadline into the September/October timeframe (90 day process + 60 day extension), which could be the next opportunity for Precidian to gain approval for its nontransparent ETF model (we think the SEC's Division of IM's parallel approval process is likely linked to T&M). The SEC is being thoughtful with this new structure, and is covering all of the key areas of risk – with much of the SEC's questions/comments focused on the exchange's ability to make an efficient/liquid market near the NTETF's VIIV (see next page) without access to daily portfolio holdings. We think Precidian's initial 15 ETFs, which focus on liquid US markets, avoid most of the issues that many attribute to ETFs (creation/redemption, liquidity/arb, price to NAV gap…). While it's difficult handicapping the SEC approval process, we think there is a 50%+ probability that Precidian gains approval in 2016 or 2017.

Figure 3: ETF vs. Mutual Fund Net Flows (USD in $Ms)



Source: Credit Suisse Asset Manager Research, Simfund, LT flows ex-Money Market

Figure 4: US ETF Market Share



Source: Credit Suisse Asset Manager Research, Simfund

Key characteristics of Precidian's NTETF structure:

1. Precidian's model only discloses holdings quarterly
2. Precidian's redemption process is carried through a "confidential account" without disclosing the identity of the securities
3. Precidian's NTETFs will be quoted through a verified intraday indicative value (VIIV) every second during normal trading hours (930am – 400pm ET)

- **SEC Comment Letters:** The SEC received four letters – three positive (including LM's CEO Joe Sullivan) and one negative which was from Gary Gastineau (founder and patent owner behind Eaton Vance's NextShares model). Mr. Gastineau makes several points on the fact that it's more difficult to make an efficient market when you lack the detail on the underlying securities. Note: Vanguard's ETF model has been nontransparent since 2000, and Gary Gastineau has a rev-share arrangement with Eaton Vance's NextShares model (main competitor for Precidian).
- **Support from Legg Mason:** In 1Q16, LM announced that they purchased a 20% equity stake in Precidian. Earlier in 1H15, LM also hired Rick Genoni and Brandon Clark from Vanguard, who were responsible for building Vanguard's fast-growing ETF business. While we think many asset managers have underinvested for the future, we are positive on LM's recent affiliate additions (ETFs, alts, infrastructure, solutions) which we think will provide key net flow contributions over the next five years. Additionally, LM's ETF strategy is not to launch pure passive ETFs and enter the price war with Vanguard, iShares, and Schwab, but instead focus on both active and smart beta segments. Specifically, we eventually look for LM to re-launch some of its popular products (ClearBridge Aggressive Growth, Western Core) in either transparent or nontransparent ETF structures. LM recently launched four smart beta ETFs (UDBI, DDBI, EDBI, LVHD) by leveraging the technology of its QS affiliate. We also think the support of Legg Mason could help Precidian with the approval process, and also with the eventual distribution (while LM will likely be a first-mover with the NTETF launch).
- **Broker Sign-ups… not a risk:** While EV's NextShares model has been having trouble signing-up large/established broker-dealers, we see this as less of a risk for Precidian. Specifically, Precidian does not use a new technology that requires system updates and education. Precidian's NTETFs will function exactly like the existing ETFs in the market place, only it won't provide transparency. So when NYSE begins trading the first batch of Precidian NETFs, investors will be able to buy and sell them through their existing accounts at traditional brokerage firms, financial supermarkets, and discount brokers. And when clients learn of the key advantages versus their existing A, C, I… mutual funds, we expect the cannibalization to occur.
- **High Quality Early Adopters:** In 2014, several large asset management firms agreed to license Precidian's technology. This list includes BlackRock ($4.6Tn), Capital Group ($1.4Tn), Invesco ($780B), State Street ($2.4Tn), and we also believe Legg Mason ($670B) with be an initial adopter too given its 20% ownership. Combined, these firms represent almost $10Tn of AuM. Alternatively, Eaton Vance's NextShares model has licensed its technology to firms representing about $600B of AuM in total.
- **Fee Structure:** Precidian's NTETF will have a structure similar to every other ETF. There will be a management fee collected for the asset manager and transaction expenses (small commission + bid-ask), but no upfront load, no trailers, and no TAs/sub-TAs. So its NTETF will function well on most direct platforms (discount brokers, financial super-markets), and on fee-based/advisory platforms (traditional brokerage, IRAs, RIAs) - which are gaining share from commission-based accounts (and this will accelerate with DOL rule implementation in 2017/18). There are only two differences between the Precidian model and existing ETFs: (1) transparency, (2) Precidian provide the flexibility of a 12b-1 fee for ETFs that will target commission-based platforms.

- **Precidian will not be the first non-transparent ETF model – Vanguard was first.** When Vanguard first received exemptive relief in 2000, it received approval for an ETF that was not transparent, and was allowed to make creations/redemptions with baskets of securities that did not exactly match the index (non-prorata). Vanguard has a patent on this model, which actually exists as a separate share class from its index mutual funds.
- **Detail on Precidian's Patents:** We believe Precidian's patents extend to ~2030, which has a slightly longer time-frame than Eaton Vance's NextShares. After 2030, third-parties will be able to re-create the structure either internally or market and sell it to other asset managers. If Precidian gains SEC approval and is successful, we actually think the scale it builds by 2030 would provide a material "moat" for Precidian, and it could then reduce prices in 2031 to make it very costly for copy-cats to re-create its model versus licensing the technology directly. We estimate Precidian will charge around 2-5 bps of AuM to license its model.
- **Asset classes –** Precidian's initial 15 NTETFs are focused on US listed securities (including ADRs), which will all trade during standard US market hours. Given the SEC's focus on the ability to maintain a tight spread (price to NAV), we think it makes sense for Precidian to first concentrate on the most liquid US asset classes that trade in parallel to build a stronger case for the model, and help the next round of approvals. Alternatively, less liquid international markets (e.g., India) could be more difficult given the "stale" fund NAV that would exist during US trading hours, as the ETF explores economic reality and moves away from NAV (which is composed of pricing from the last trades in Indian trading hours). In the fixed income class, we also think less liquid loan classes (high yield), or geographies in different time zones (global bond), or securities that take time to get the underlying asset (bank loans = asset-liability mismatch) could trade at wider spreads to NAV than US equities – so we think it's prudent for Precidian to consider these classes with a later launch.
- **We are not optimistic on EV's Nextshares** because (1) it's not a true ETF (hybrid mutual fund), (2) requires investment & education, (3) no large brokers have signed-up, (4) none of the largest asset managers have signed-up (unlike Precidian), (5) cost savings for most fund managers may be less than initially anticipated. We also think that if Precidian gains SEC approval, that its model will eventually win versus NextShares.
- **Here are the 15 NTETFs that Precidian proposed in its first filing:** (1) Precidian U.S. Managed Volatility Fund; (2) Precidian Strategic Value; (3) Precidian Large Cap Value; (4) Precidian Focused Dividend Strategy; (5) Precidian U.S. Large Cap Growth; (6) Precidian U.S. Core Equity; (7) Precidian U.S. Mid Cap Growth; (8) Precidian Total Return; (9) Precidian High Dividend Yield; (10) Precidian Small Cap Dividend Value; (11) Precidian Multi-factor Small Cap Core; (12) Precidian Multi-factor Small Cap Growth; (13) Precidian Large Cap Core Plus 130/30; (14) Precidian Mid Cap Core Plus 130/30; and (15) Precidian Small Cap Core Plus 130/30.

- **Here is a link to Precidian's most recent 19b-4 filing with the SEC's Division of Trading and Markets:**

https://www.federalregister.gov/articles/2016/05/23/2016-12028/self-regulatory-organizations-nyse-arca-inc-order-instituting-proceedings-to-determine-whether-to

Companies Mentioned *(Price as of 01-Jun-2016)*
BlackRock (BLK.N, $364.59)
Eaton Vance (EV.N, $36.41)
Invesco (IVZ.N, $31.31)
Legg Mason (LM.N, $34.22)
The Charles Schwab Corp (SCHW.N, $30.81)
WisdomTree Investments (WETF.OQ, $11.83)

Disclosure Appendix

Important Global Disclosures

I, Craig Siegenthaler, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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Restricted	0%	

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