

March 29, 2021

W. Thomas Conner
Shareholder

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0609

Re: File No. SR-NYSEArca-2020-105

Dear Ms. Countryman:

On behalf of this firm's client, Teucrium Trading, LLC ("Teucrium" or the "Sponsor"), we are writing to provide responses to a series of questions that the U.S. Securities and Exchange Commission (the "Commission") has asked regarding a proposed rule change to list and trade the shares of the Teucrium Water Fund (the "Fund") on the NYSE Arca, Inc. exchange (the "Exchange" or "NYSE Arca").

The Commission published the initial notice of the proposed rule change on December 8, 2020.¹ On January 14, 2021, the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.² On March 9, 2021, the Commission issued an order (the "Order") instituting such proceedings.³ This letter responds to a request for comments by the Commission in the Order.

The Fund

The Fund, which will be managed and controlled by Teucrium Trading, LLC ("Teucrium" or the "Sponsor"), is a series of the Teucrium Commodity Trust ("Trust").⁴ The investment objective of the Fund is for changes in the net asset value ("NAV") of shares of the Fund to reflect the changes in the price of water rights in the state of California, as measured by the Fund's benchmark ("Benchmark").

¹ See Notice of Filing of Proposed Rule Change To List and Trade the Shares of the Teucrium Water Fund Under NYSE Arca Rule 8.200-E, Commentary .02, Securities Exchange Act Release No. 90608 (December 8, 2020), 85 FR 80854 (December 14, 2020) (the "Notice").

² See Notice of Designation of a Longer Period for Commission Action on a Proposed Rule Change To List and Trade the Shares of the Teucrium Water Fund Under NYSE Arca Rule 8.200-E, Commentary .02, Securities Exchange Act Release No. 90927 (January 14, 2021), 86 FR 6719 (January 22, 2021).

³ See Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change Relating [sic] to List and Trade the Shares of the Teucrium Water Fund under NYSE Arca Rule 8.200-E, Commentary .02, Securities Exchange Act Release No. 91283 (Mar. 9, 2021), 86 FR 14356 (March 15, 2021).

⁴ Additional information regarding the Trust, the Fund, and its shares, including investment strategies, calculation of net asset value and indicative fund value, creation and redemption procedures, and additional background information about the water market and water futures contracts, among other things, can be found in the Notice and the registration statement and pre-effective amendments filed with the Commission on Form S-1 (File No. 333-248948) under the Securities Act of 1933.

The Benchmark is a weighted average of the closing settlement prices for three equally weighted Nasdaq Veles California Water Index Futures Contracts (“Veles Futures Contracts”) traded on the Chicago Mercantile Exchange Inc. (the “CME”). Veles Futures Contracts are financially settled and trade eight consecutive quarterly contracts (March, June, September and December of a two-year period) plus the two nearest serial months that are not included in the quarterly contracts. Settlement for Veles Futures Contracts occurs the third Wednesday of the expiration month.

The Benchmark will be comprised of three equally weighted Veles Futures Contracts, the first to expire, the second to expire, and the third to expire contract months (the “Benchmark Component Futures Contracts”).⁵ The Benchmark is not designed to track the spot price of water or water rights.⁶

The Commission’s Questions and Teucrium’s Responses⁷

Teucrium’s responses to the questions asked by the Commission in the Order are provided below.

Question 1

What are commenters’ views on whether the market in Benchmark Component Futures Contracts represents a significant market, i.e., a market of significant size?

Response 1

Teucrium believes that the market in Benchmark Component Futures Contracts clearly represents a “significant market,” i.e., a “market of significant size,” in accordance with the legal standards articulated by the Commission in the “Order Disapproving a Proposed Rule Change, as Modified by Amendment No. 1, to Amend NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares) and to List and Trade Shares of the United States Bitcoin and Treasury Investment Trust Under NYSE Arca Rule 8.201-E.”⁸ The Benchmark Component Futures Contracts, like the Veles Futures Contracts generally, are traded on the CME. For the reasons discussed below, Teucrium believes that:

- (a) there is a reasonable likelihood that a person attempting to manipulate the Fund would also have to trade on the market in Benchmark Component Futures Contracts to successfully manipulate the Fund, so that the surveillance-sharing agreement in place between the NYSE Arca exchange and the CME exchange would assist in detecting and deterring misconduct; and
- (b) it is unlikely that trading in the Fund would be the predominant influence on prices in that market.

⁵ The Benchmark has been revised from that described in the Notice. We expect NYSE Arca to file a revised proposed rule change for the Fund in the near future.

⁶ The Nasdaq Veles California Water Index (the “Veles Water Index”), which was designed to provide water market participants with a price for water through verifiable price discovery, sets a weekly benchmark spot price of water rights in California, based on the volume-weighted average of the transaction price in California’s five largest and most actively traded water markets.

⁷ Teucrium provides the information and analysis herein based on Teucrium’s understanding and belief, formed in part through discussions with water and financial industry participants, including representatives of the publisher of the Veles Water Index.

⁸ See Securities Exchange Act Release No. 88284 (February 26, 2021), 85 FR 12595 (March 3, 2021).

Regarding point “(a)” above, the predominant holdings affecting the value of the Fund will be Benchmark Component Futures Contracts.⁹ There are three markets that a potential manipulator theoretically could use to attempt to manipulate the prices of shares of the Fund: (i) the underlying spot market for the commercial contracts on water rights in California that are the basis for the price of the Benchmark Component Futures Contracts, (ii) the Veles Water Index, and (iii) the CME market in Benchmark Component Futures Contracts. For the reasons discussed below, Teucrium believes that the spot market for California water contracts is inherently resistant to manipulation. Moreover, as discussed below in response to Question 3, Teucrium believes that it would be difficult to manipulate the Veles Water Index. Accordingly, as a practical matter, a potential manipulator will have to trade the Benchmark Component Futures Contracts in order to successfully manipulate the price of Fund’s shares.

With regard to point “(b)” above, the Veles Futures Contracts (including the Benchmark Component Futures Contracts) ultimately settle each month on the Final Settlement Day to the Veles Water Index (NQH20), which, as explained in detail in the response to Question #3 below, is in Teucrium’s view unlikely to be susceptible to manipulation. Accordingly, trading in the Fund’s shares should not influence the actual final settlement price of any given monthly Benchmark Component Futures Contract.

Moreover, Teucrium believes that a potential manipulator trying to use the Fund to influence daily price settlements of Benchmark Component Futures Contracts would face at least two major hurdles. First, the activities of a potential manipulator ought to be detected under the surveillance sharing agreement in place between the NYSE Arca and the CME. Second, and perhaps more importantly, due to the significant size requirements for creation and redemption baskets that will necessitate the simultaneous trading of multiple Benchmark Component Futures Contracts, the natural arbitrage/hedging activities of market makers providing liquidity to the Fund should result in futures trading activity that would attract both natural water participants to the futures markets as well as additional scrutiny from the CME, NYSE, and regulatory authorities. Natural water participants would have incentive to arbitrage away any skew in values attempted by a manipulator using the Fund, thereby negating any attempt to influence Benchmark Component Futures Contracts’ prices through activity in the Fund. This means the true perceived value of water by natural water market participants should become the predominant factor in daily Benchmark Component Futures Contract price settlements, rather than trading activity in the shares of the Fund itself.

Question 2

What are commenters’ views on the possibility that the Fund could acquire a substantial portion of the market for some or all of the Benchmark Component Futures Contracts? What are commenters’ views on whether such a concentration of holdings could affect the Fund’s portfolio management, the liquidity of the Fund’s portfolio, or the pricing of the Benchmark Component Futures Contracts?

Response 2

There is a possibility that the Fund could acquire and hold a substantial portion of the market for some or all of the Benchmark Component Futures Contracts, i.e., a large portion of the open interest of the Benchmark Component Futures Contracts traded on the CME. For the reasons discussed below,

⁹ The Fund will invest in cash and cash equivalents, but the total net asset value of the Fund will generally equal the notional marked-to-market value of the Benchmark Component Futures Contracts.

however, Teucrium does not believe that such a concentration of holdings would unduly affect the Fund's portfolio management, the liquidity of the Fund's portfolio, or the pricing of the Benchmark Component Futures Contracts.

There are three categories of liquidity considerations regarding the Teucrium Water Fund's portfolio -- initiating trades, liquidating trades, and the rebalancing/rolling of positions.

Initiating trades. The Fund will be required to initiate trades when the Fund fulfills requests for creation baskets. Teucrium believes that trading by natural sellers of water and speculators/asset allocators will create liquidity in Benchmark Component Futures Contracts.

Liquidating Trades. Conversely, liquidating trades, those that are required when the Fund fulfills requests for redemption baskets, will create liquidity for natural buyers of water as well as from speculators/asset allocators.

In addition, in connection with both initiating and liquidating trades, Teucrium will utilize the trade execution tool referred to as an "Exchange for Related Product" ("EFRP") in conjunction with creation and redemption orders, leading to accurate tracking of the Fund's Benchmark. An EFRP is an approved product on the CME where the Benchmark Component Futures Contracts are traded. EFRPs allow for the exchange of futures in return for an offsetting related product, in this case, the creation or redemption order of shares of the Fund. In an EFRP transaction, the activity in the futures is always the opposite side of the action versus the creation or redemption of shares in the Fund.

As an example, when the Fund receives a creation order from an Authorized Purchaser (an "AP"), the Fund will create new shares to give (sell) to the AP; in exchange, the Fund takes (buys) futures contracts from the AP in mutually agreed quantities. Conversely, in the case where the AP redeems shares in the Fund, the Fund will give (sell) futures to the AP and the Fund will receive (buy) shares from the AP through the EFRP process. Because APs generally hedge their create or redeem positions by taking the opposite position in the underlying futures contracts, the EFRP process creates natural liquidity in the market when the Fund trades Benchmark Component Futures Contracts upon receiving a creation or redemption order.

The EFRP process enables both parties to receive what they need in a single CME-approved negotiated transaction at predetermined quantities and price levels, allowing for efficient tracking of the Fund's Benchmark. Teucrium believes that liquidity in water futures markets will be adequate for these trades because creation/redemption baskets are by nature of a significant size and value, which will attract natural water buyers and sellers and large speculators to the water futures markets.

Rebalancing/Rolling of Positions. The timing and rebalancing/rolling of positions, while necessary and part of the Fund's Benchmark roll schedule, can and will be adapted to available market liquidity within the parameters of the Fund's defined trading methodology. This will allow for flexibility and manager discretion of execution. Teucrium's portfolio managers are constantly exercising such discretion in the administration of Teucrium's existing fund family; this experience and expertise will be applied to the management of the Fund as well.

It is important to note here the significant probability that the Fund will be a major catalyst for liquidity in the water futures markets in and of itself. Natural buyers and sellers of water will be more attracted to

the water futures markets when they can achieve certain minimum levels of scale in their hedging requirements for water, which will help make their hedging activities more efficacious. The Fund, by virtue of its structure as an exchange traded product with basket sizes requiring the simultaneous trading of multiple futures contracts, will be of considerable importance to these natural water market participants. In addition, the CME allows for block trading of futures, enabling participants to trade sizeable positions within thinly traded markets in an orderly and efficient fashion.

To reiterate, Teucrium believes that the general water futures trading activities of the Fund will attract natural water market participants to the CME water futures markets, which will in turn attract speculators/asset allocators. In essence, the presence of the Fund in the water futures markets should enable volume to beget volume, which is common in maturing futures markets.

Importantly, the financial settlement feature of the Veles Futures Contracts will also act as a backstop for all participants if there is inadequate liquidity in an expiring Benchmark Component Futures Contract. That is, because the Fund's Benchmark is structured with a discretionary roll feature as to when existing positions are rolled, portfolio managers could choose to let Benchmark Component Futures Contracts settle to cash with no harm done to the Fund's portfolio with statistically minor (or no) Benchmark tracking deviance. Other water market participants will also benefit from the financial settlement feature; in a worst case scenario, one in which a Benchmark Futures Contract market participant cannot find adequate liquidity to exit an existing open position, the futures contract will expire and financially settle upon expiration, yielding cash to the investor. Final settlement pricing of the Veles Futures Contract occurs on the third Wednesday of each month to the Veles Water Index (NQH20) and is published at approximately 9:30 a.m. (Eastern Time).

Finally, we note that Teucrium's portfolio managers have extensive experience trading in various levels of futures liquidity and are keenly aware of the considerations involved in executing trades in lightly and/or sporadically traded futures contracts.¹⁰ Teucrium's portfolio managers have a proven track record of successful trading, execution, and benchmark tracking in futures markets. Teucrium will monitor the market in Benchmark Component Futures Contracts closely and take care in the execution of both initiating and liquidating positions.

Question 3

What are commenters' views on the risks of price manipulation and fraud in the underlying spot water markets and how these risks might affect the Benchmark Component Futures Contracts? What are commenters' views on how these risks might affect the Fund's NAV and trading in the Shares of the Fund? What are commenters' views on how an investor may evaluate the price of the Shares in light of these risks?

Response 3

Teucrium believes that there is an extremely low risk that price manipulation and fraud could occur in the Southern California spot water markets specific to the Veles Water Index components. This is

¹⁰ Teucrium's portfolio managers have 85 years of combined experience in trading commodity futures contracts of all types; currently, they manage the portfolios of the Teucrium Corn Fund, Sugar Fund, Wheat Fund, Soybean Fund, and Agriculture Fund.

because water is probably the most heavily regulated commodity in the United States, and Southern California's water markets may be the most heavily regulated water markets of all.

California has over the course of literally hundreds of years developed a comprehensive regulatory regime under which water use and transferable rights of water use are governed.¹¹ California's laws regarding water are complex, but for purposes of this response it may be useful to enumerate a partial list of regulatory highlights. The list below is not exhaustive, but it illustrates why in Teucrium's view the water markets in Southern California are more resistant to market manipulation than any other commodity market in the United States today.

- No individual or entity may enter California to purchase water without first obtaining permission from regulatory authorities;
- Every transaction and/or movement of water is reviewed and approved by regulators prior to its finalization and consummation;
- Water transactions are reviewed by regulators on a case-by-case basis;
- Water buyers must justify water need/usage;
- Water sellers must demonstrate ownership; and
- Water transfer impacts are considered in all cases.
- Per the State of California's Guide to Water Transfers, "All water use in California is governed by the State's constitutional provisions that prohibit waste and unreasonable use of water."¹²
- Sellers of water must possess a valid right to divert water for beneficial use in order to make a transfer.
- Consumers/buyers of water must receive consumptive or non-consumptive permits from regulatory authorities. The granting of permits is conditioned upon, but not limited to, prior water rights not being harmed, public trust resources being appropriately protected, and the public interest being preserved.

Importantly, water-related rights and laws are administered and enforced by the California State Water Resources Control Board (SWRCB), its divisions and the California Courts. Water transactions may be reviewed by the SWRCB, the California Department of Water Resources (DPW), the California Department of Fish and Wildlife (CDFW), the U.S. Bureau of Reclamation (Reclamation), the U.S. Fish and Wildlife Service (USFWS), the National Marine Fisheries Service (NOAA Fisheries), and any affected county governments and local/regional water districts. In addition, the California water code

¹¹ Miller, Gordon R., "Shaping California Water Law, 1781 to 1928," *Southern California Quarterly*, vol. 55, no. 1, 1973, pp. 9–42, www.jstor.org/stable/41170461?seq=1. (Accessed March 29, 2021.)

¹² See State Water Resources Control Board, "A Guide to Water Transfers (Draft July 1999), https://www.waterboards.ca.gov/waterrights/water_issues/programs/water_transfers/docs/watertransferguide.pdf. (Accessed March 29, 2021.)

mandates that “[w]ater transfers that require the use of State, regional, or a local public agency’s conveyance facilities require the owner of the conveyance facilities to determine that the transfers will not harm any other legal user of water, will not unreasonably affect fish and wildlife, and will not unreasonably affect the overall economy of the county from which the water is transferred.”¹³

In summary, water in California is highly regulated, may not be owned, must be used for beneficial purposes and may not be wasted or used for non-beneficial purposes. Because each transaction involving the sale and transfer of water is reviewed and approved by regulatory authorities and affected parties prior to the actual sale and transfer, Teucrium believes strongly that as a practical matter, California’s water regulatory regime will not offer the opportunity to intentionally affect, influence, or manipulate the availability or price of water for speculative or other reasons through the use or acquisition of water in California.

For all of the reasons stated above, Teucrium believes that the underlying spot water markets pose no discernible risks of affecting the value or price of the Fund’s Benchmark Component Futures Contracts, the Fund’s NAV, trading in shares of the Fund, or of the Veles Water Index (NQH20) itself.

At this point, a brief primer on the Veles Water Index (NQH20) may be illustrative. The Veles Water Index represents the most current (weekly) valuation of water as determined by actual water entitlement transactions from Southern California’s surface water market and four adjudicated groundwater basins, which are the five largest and most actively traded water markets in California. Transactions utilized in calculating the Veles Water Index are consummated real water transactions that have been reported to and approved by California Water Agencies and Water Masters. Transactional information is gathered by WestWater Research (<https://www.waterexchange.com>) from government and private reporting sources.

The vetting and verification of these transactions includes, but is not limited to, price, volume, sale date, water right type, and participating counterparties. Transaction data is not accepted unconditionally; confirmation of details, including copies of purchase agreements, is obtained from multiple governmental and private sources. The Veles Water Index is calculated and disseminated by NASDAQ once per week and published every Wednesday morning at approximately 9:30 a.m. (Eastern Time) and represents water leases and sales that occurred Monday through Friday of the prior week.

Calculation of the Veles Water Index is based upon a non-public proprietary formula developed by Veles Water Limited.¹⁴ The Veles Water Index calculation methodology contains three main formulaic items: volume weighting of vetted and verified water transactions, algorithmic smoothing of historical inputs, and an “echo” function that includes, but gives diminishing importance to, multiple consecutive calendar months of prior weekly data sets. As such, the possibility is remote and highly difficult, if not completely impossible, for market participants to manipulate, replicate, or predict with certainty the actual value of the Veles Water Index.

¹³ See California Department of Water Transfers, “DWR’s Role in Facilitating Transfers,” <https://water.ca.gov/Programs/State-Water-Project/Management/Water-Transfers> (citing to California Water Code Section 1810). (Accessed March 29, 2021).

¹⁴ See Veles Water, “What We Do,” <http://veleswater.com>. (Accessed March 29, 2021).

Similar to other mature commodity markets, counterparties to actual water transactions will have a general idea of where the approximate value of the Veles Water Index might be from week to week. This will make them natural participants in the related water futures markets to arbitrage the value of futures contracts toward the actual value of the Veles Water Index settlement. Across the Western states the agricultural sector accounts for approximately 67% of the transacted water volumes over the last 10 years from the sell side, followed by municipalities at 16%. On the buy side, municipalities are the largest in the category with 44% of the total market, followed by environmental buyers at 26%, and the agricultural sector at 15%. Members of all these categories of water industry participants will likely also be participants in the CME market in Veles Futures Contracts.

It is worth repeating that the only theoretical way that manipulation of the Fund's NAV or the price of Benchmark Component Futures Contracts might occur would be through the manipulation of the Benchmark Component Futures Contracts themselves. Because the CME's Veles Futures Contracts generally settle to the Veles Water Index, and the Index is calculated on actual water rights transactions vetted by various entities within the State of California, the actual final settlement price of any given futures contract would be very difficult to manipulate. The CME is a highly experienced self-regulatory exchange with sophisticated surveillance systems and a cross-surveillance agreement in place with the NYSE Arca where the shares of the Fund will actually trade. Teucrium believes that it is extremely unlikely that the activities of a potential manipulator in the CME water futures markets would go undetected.

In addition, as described above, Teucrium believes it would be highly difficult for a potential manipulator to affect the final settlement value of the Veles Water Index, which is the final reference price for the cash settlement of expiring Veles Futures Contracts. Therefore, the possibility is exceedingly remote for an investor to be materially harmed by a potential manipulator. As stated previously, in a worst case scenario investors in Veles Futures Contracts, including the Fund, would receive the true value of their water holdings, in cash, at the expiration of a Veles Futures Contract, based upon the value of the Veles Water Index as of the third Wednesday of each futures expiration month.

Given all of the above, Teucrium believes investors may rely upon and utilize all of the traditional ways of valuing the NAV of any listed Exchange Traded Product when attempting to value the shares or NAV of the Fund.

Question 4

In its proposal, the Exchange states that the Fund may obtain exposure to the Benchmark through investment in OTC swap agreements, OTC forward contracts, both exchange-listed and OTC options, exchange-listed futures, and exchange-listed options on futures. What are commenters' views on the current availability and price transparency of the OTC financial instruments? What are commenters' views on the ability of the Fund to invest in these instruments if the underlying spot or futures water market experiences emergencies, disruptions, or significant volatility? What are commenters' views on the potential effect of manipulation in the underlying water markets on the pricing of the Fund's OTC water interests?

Response 4

Teucrium does not have information at this time as to the availability of OTC financial instruments in water interests. However, Teucrium believes that as water markets mature, especially in the institutional sector, the availability of such instruments will likely increase. As the Sponsor of the Fund,

Teucrium anticipates that the Fund will have access to such instruments and counterparties when they become available. Teucrium's portfolio managers will use their considerable expertise in these types of markets to obtain exposure to water interests consistent with the Fund's objective of tracking its benchmark. Teucrium's main focus will always be to keep the best interests of the Fund and its shareholders at the forefront of every action. Teucrium has the primary goal of investing in Benchmark Component Futures Contracts. However, in its fiduciary duty as Sponsor, Teucrium believes it prudent and beneficial to the Fund and its shareholders to leave open the possibility of acquiring water-related OTC financial instruments and water interests.

Because Teucrium intends to make every effort to have the Fund's investments directly linked to the value of the Veles Water Index and/or the Veles Futures Contracts; because the Fund publishes its holdings and other pertinent information publicly each day; and because the Veles Water Index and the settlement values of the Veles Futures Contracts are publicly available, investors will have transparency of the Fund's OTC holdings and value.

In summary, Teucrium believes, as per its comments in Questions 1, 2, and 3 above, that there ought to be few material concerns regarding manipulation of the underlying California spot water markets, the Veles Water Index, the Benchmark Component Futures Contract, or the price of the shares of the Fund. Accordingly, Teucrium believes that concerns regarding manipulation of any OTC holdings that price off of the Benchmark Component Futures Contracts are unwarranted.

Question 5

What are commenters' views on whether the Fund would have the information necessary to adequately value, including fair value, the Fund's Benchmark Component Futures Contracts and other water interests when determining an appropriate NAV for the Fund?

As discussed above, both the settlement values of the Veles Water Index and the Veles Futures Contracts (including the Benchmark Component Futures Contracts) are regularly published, widely disseminated, and publicly available. Because the main value driver of the Fund's NAV will be the value of the Benchmark Component Futures Contracts, a subset of the Veles Futures Contracts, the Fund will have the information necessary to determine an appropriate NAV for the Fund.

Teucrium has established administrative procedures that it will use to value all of the futures contracts held by any of its funds. In this regard, the fair value of the Benchmark Component Futures Contracts, or any other water interest, is determined by Teucrium in good faith and in a manner that assesses a water interest's value based on a consideration of all available facts and all available information on the valuation date.

When a Benchmark Water Futures Contract has closed at its price fluctuation limit, the fair value determination procedures attempt to estimate the price at which such futures contract would be trading in the absence of the price fluctuation limit (either above such limit when an upward limit has been reached or below such limit when a downward limit has been reached). This would be done in situations where Teucrium believed that the fair value of a water interest may not reflect such interest's

Ms. Vanessa Countryman
March 29, 2021
Page 10

current market value or the amount that the Fund might reasonably expect to receive for the water interest upon its current sale.¹⁵

Teucrium very much appreciates the opportunity to comment on the proposed listing and trading of shares of the Teucrium Water Fund. Please call the undersigned at [REDACTED] with comments or questions.

Very truly yours,

/W. Thomas Conner /

W. Thomas Conner
Shareholder

¹⁵ See, e.g., “Note 3 – Summary of Significant Accounting Policies – Fair Value – Definition and Hierarchy” in the financial statements in the Trust’s most recent 10-K, stating that in accordance with U.S. GAAP, a fair value hierarchy for inputs is used in measuring fair value.