



## Information Circular: Compass EMP Funds 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:** July 1, 2014

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Exchange-Traded Fund	Symbol	CUSIP #
Compass EMP US 500 Volatility Weighted Index ETF	CFA	20452Y833
Compass EMP US 500 Enhanced Volatility Weighted Index ETF	CFO	20452Y817
Compass EMP US EQ Income 100 Enhanced Volatility Weighted Index ETF	CDC	20452Y783

### Background Information on the Funds

The Compass EMP Funds 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 Funds listed above (each, a "Fund" and together, the "Funds"). The shares of the Fund are referred to herein as "Shares." Compass Efficient Model Portfolios, LLC (the "Advisor") is the investment adviser to the Funds.

CFA seeks to provide investment results that match the performance of the CEMP U.S. Large Cap 500 Volatility Weighted Index (the "Index") before fees and expenses.

The Fund employs a replication strategy that entails holding all, or approximately all, the stocks in the Index.

The Index is an unmanaged index that was created by the Fund's investment advisor and generally consists of the common stock of the 500 largest companies by market capitalization that have their headquarters in the U.S. and the stock of which trades on U.S. exchanges. The Index may include less than 500 stocks depending on the number of companies meeting the Index's criteria. The Index includes only companies with consistent positive earnings (at least its 4 most recent quarters) and is weighted based on the volatility of each stock. Volatility is the extent to which the return of a security fluctuates between its highest price and its lowest price within a given period. The weight of each member in the Index is defined by its own volatility relative to the average volatility of all Index members measured over the past 180 trading days. Stocks with lower volatility receive a higher weighting and stocks with higher volatility receive a lower weighting. The Index is reconstituted every March and September and is adjusted to limit exposure to any particular sector to 25%. Under normal market conditions, the Fund invests at least 80% of its assets (defined as net assets plus any borrowing for

investment purposes) in securities of U.S. issuers included in the Index as of its most recent reconstitution.

CFO seeks to provide investment results that match the performance of the CEMP U.S. Large Cap 500 Long/Cash Volatility Weighted Index (the "Volatility Index") before fees and expenses.

The Fund employs a replication strategy that entails holding all, or approximately all, the stocks in the Volatility Index.

The Volatility Index is an unmanaged index that was created by the Fund's investment advisor and generally consists of the common stock of the 500 largest companies by market capitalization that have their headquarters in the U.S. and the stock of which trades on U.S. exchanges with consistent positive earnings (at least its 4 most recent quarters) and weighted based on the volatility of each stock. Volatility is the extent to which the return of a security fluctuates between its highest price and its lowest price within a given period. The weight of each member in the Volatility Index is defined by its own volatility relative to the average volatility of all Index members measured over the past 180 trading days. Stocks with lower volatility receive a higher weighting and stocks with higher volatility receive a lower weighting. The Volatility Index may include less than 500 stocks depending on the number of companies meeting the Index's criteria.

CDC seeks to provide investment results that match the performance of the CEMP U.S. Large Cap High Dividend 100 Long/Cash Volatility Weighted Index (the "Dividend Index") before fees and expenses.

The Fund employs a replication strategy that entails holding all, or approximately all, the stocks in the Dividend Index.

The Dividend Index is an unmanaged index that was created by the Fund's investment advisor and generally consists of the common stock of the 100 highest dividend yielding stocks of the CEMP U.S. Large Cap 500 Volatility Weighted Index. The Dividend Index includes only those companies with consistent positive earnings (at least its 4 most recent quarters) and is weighted based on the volatility of each stock. Volatility is the extent to which the return of a security fluctuates between its highest price and its lowest price within a given period. The weight of each member in the Dividend Index is defined by its own volatility relative to the average volatility of all Dividend Index members measured over the past 180 trading days. Stocks with lower volatility receive a higher weighting and stocks with higher volatility receive a lower weighting. The Index may include less than 100 stocks depending on the number of companies meeting the Dividend Index's criteria. The Dividend Index is reconstituted every March and September and is adjusted to limit exposure to any particular sector to 25%.

The Dividend Index seeks to limit risk during unfavorable (non-normal) market conditions by reducing its exposure to the market. Market conditions are measured by reference to the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index. During a period of market decline, defined as a -8% drop from the all-time daily high and based on the month end value of the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index, exposure to the market may be as low as 25% depending on the magnitude and duration of such decline. The Index will return to being fully invested if the month end value of the stocks in the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index returns to a -8% value from its daily high. However, if the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index declines further to -16% from its recent

highest value, 25% of the Index will be reinvested from cash equivalents back into the stocks of the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index at their current securities weighting. If the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index declines still further to -24% from the recent highest value, another 25% of the Index will be reinvested back into the stocks of the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index at their current securities weighting. If the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index declines even further to -32% (or more) from the recent highest value, the remaining 25% of the Index will be reinvested back into the stocks of the CEMP U.S. Large Cap 100 High Dividend Volatility Weighted Index at their current securities weighting and the Dividend Index will then be 100% invested in stocks. The Dividend Index's exposure to the market is dictated by a mathematical index construction algorithm, which is not subject to discretionary human judgment or intervention. The Dividend Index's stock component is reconstituted every March and September. When the Dividend Index's exposure to the market is less than 100%, the uninvested assets will be invested in short term fixed income securities. Under normal market conditions, the Fund invests at least 80% of its assets (defined as net assets plus any borrowing for investment purposes) in the securities of U.S. issuers included in the Index as of its most recent reconstitution.

During unfavorable market conditions the Fund will invest its cash in excess of the amount required for equity investments primarily in fixed income securities, including U.S. Treasury bills and notes, commercial paper and corporate bonds. With respect to such excess cash investments, the Fund expects the dollar-weighted average fixed income maturity to be 12 months or less and the credit quality of such securities to be primarily investment grade (defined as having a rating of BBB- and above). However, up to 20% of the fixed income portfolio may be composed of lower-quality corporate bonds rated B- or higher, which are commonly referred to as "junk bonds."

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

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 50,000 Shares (each block of Shares called a "Creation Unit"). As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (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.

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 each 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 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.compassemfund.com](http://www.compassemfund.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 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), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, equity securities risk, debt securities risk and junk bond 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 Funds 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.

<b>Fund Name</b>	<b>Listing Market</b>	<b>Trading Symbol</b>	<b>IOPV Symbol</b>	<b>NAV Symbol</b>
Compass EMP US 500 Volatility Weighted Index ETF	NASDAQ	CFA	CFA.IV	CFA.NV
Compass EMP US 500 Enhanced Volatility Weighted Index ETF	NASDAQ	CFO	CFO.IV	CFO.NV
Compass EMP US EQ Income 100 Enhanced Volatility Weighted Index ETF	NASDAQ	CDC	CDC.IV	CDC.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 Funds.

Prospectuses may be obtained through the Funds' website. The prospectus for the Funds does not contain all of the information set forth in the Funds' 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 Funds, please refer to the registration statement.

In the event that the Funds rely 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 Funds, 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 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(I)(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. BX members and PHLX members and member organizations should consult the Funds' prospectus and/or the Funds' 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