



Investors Exchange Product Information Circular 2016 - 0315

Date: August 31, 2016

Re: First Trust Horizon Managed Volatility ETFs

Investors Exchange LLC commenced operating as a national securities exchange on August 19, 2016 followed by a two-week security-by-security phase-in period. This Information Circular is being issued to advise you that the following security has been approved for trading pursuant to unlisted trading privileges (“UTP”) on the Exchange as UTP Derivative Securities pursuant to IEX Rule 16.160, and will begin trading on IEX during the phase-in period. See the [Exchange’s Website](#) for the phase-in schedule.

<u>Securities (the “Fund”)</u>	<u>Symbol</u>
First Trust Horizon Managed Volatility Domestic ETF	HUSV
First Trust Horizon Managed Volatility Developed International ETF	HDMV

Issuer/Trust: First Trust Exchange-Traded Fund III

Issuer/Trust Website: www.ftportfolios.com

Primary Listing Exchange: NYSE Arca

Compliance and supervisory personnel should note that, among other things, this Information Circular discusses the need to deliver a prospectus to customers purchasing shares of the Fund (“Shares”) issued by First Trust Exchange-Traded Fund III (“Trust”). Please forward this Information Circular to other interested persons within your organization.

The purpose of this information circular is to outline various rules and policies that will be applicable to trading in these new products pursuant to the Exchange’s unlisted trading privileges, as well as to provide certain characteristics and features of the Shares. For a more complete description of the Issuer, the Shares and the underlying market instruments or indexes, visit the Issuer Website, consult the Prospectus available on the Issuer Website or examine the Issuer Registration Statement or review the most current information bulletin issued by the Primary Listing Exchange. The Issuer Website, the Prospectus and the Issuer Registration Statement are hereafter collectively referred to as the “Issuer Disclosure Materials.”

Background Information on the Funds

Each Fund is an actively managed ETF and, thus, does not seek to replicate the performance of a specified passive index of securities.

HUSV: Under normal market conditions, HUSV seeks to achieve its investment objective by investing at least 80% of its net assets (including investment borrowings) in common stocks of domestic companies listed and traded on U.S. national securities exchanges that the Sub-Advisor believes exhibit low future expected volatility. The goal of this strategy is to capture upside price movements in rising markets and reduce downside risk when markets decline. To implement this strategy, the Sub-Advisor employs volatility forecasting models to forecast future expected volatility. The strategy is largely quantitative and rules-based, but also includes multiple parameters over which the Sub-Advisor may exercise discretion (including, but not



limited to, the number of holdings and the weightings of particular holdings) in connection with its active management of HUSV.

To begin, the Sub-Advisor gathers pricing and generates return data for the starting universe, which is comprised of common stocks of large-cap domestic companies listed and traded on U.S. national securities exchanges. The Sub-Advisor then conducts volatility forecasts for securities comprising the starting universe and ranks them from low to high based on their volatility forecasts. The Sub-Advisor will target 50-75 securities for inclusion in the portfolio based on future expected volatility. Once the final portfolio is selected, the Sub-Advisor measures co-movements of the selected securities using statistical techniques designed to reduce estimation error. In the final portfolio construction, the Sub-Advisor gives larger weights to securities with lower future expected volatility and has the ability to adjust how aggressive the weighting scheme is depending on market conditions.

HDMV: Under normal market conditions, HDMV seeks to achieve its investment objective by investing at least 80% of its net assets (including investment borrowings) in common stocks and depositary receipts of developed market companies listed and traded on non-U.S. exchanges that the Sub-Advisor believes exhibit low future expected volatility. The term "developed market companies" means those companies (i) whose securities are traded principally on a stock exchange in a developed market country, (ii) that are organized under the laws of, or have a primary business office in, a developed market country, or (iii) that have at least 50% of their assets in, or derive at least 50% of their revenues or profits from, a developed market country. The goal of this strategy is to capture upside price movements in rising markets and reduce downside risk when markets decline. To implement this strategy, in selecting securities for HDMV from a portfolio of eligible securities, the Sub-Advisor employs volatility forecasting models to forecast future expected volatility. The strategy is largely quantitative and rules-based, but also includes multiple parameters over which the Sub-Advisor may exercise discretion in connection with its active management of HDMV.

To begin, the Sub-Advisor gathers pricing and generates return data for the starting universe, which is comprised of common stocks and depositary receipts of large and mid-cap securities across developed markets, which securities have been pre-screened to ensure they are reasonably liquid and accessible for trading. The Sub-Advisor then conducts volatility forecasts for securities comprising the starting universe and ranks them from low to high based on their volatility forecasts. The Sub-Advisor will target 100-200 securities for inclusion in the portfolio based on future expected volatility. Once the final portfolio is selected, the Sub-Advisor measures co-movements of the selected securities using statistical techniques designed to reduce estimation error. In the final portfolio construction, the Sub-Advisor gives larger weights to securities with lower future expected volatility and has the ability to adjust how aggressive the weighting scheme is depending on market conditions.

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

As described more fully in the Issuer's prospectus and Statement of Additional Information, each Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV"). Each Fund will issue or redeem shares that have been aggregated into blocks of shares and or multiples thereof ("Creation Units") to authorized participants who have entered into agreements with the Funds' distributor. A Creation Unit consists of 50,000 shares. The Funds generally will issue or redeem Creation Units in return for a designated portfolio of securities (and an amount of cash) that the Funds specify each day.

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 and is recognized as the owner of all Shares for all purposes.



The NAV of each Fund is generally determined as of the close of trading (normally 4:00 p.m., Eastern Time) on each day the New York Stock Exchange is open for business. The NAV of the Fund is calculated 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 outstanding shares of the Fund, generally rounded to the nearest cent.

Principal Risks

Interested persons are referred to the discussion in the prospectus for each Fund of the principal risks of an investment in each Fund. These include, but are not limited to: authorized participant concentration risk, currency exchange rate risk, cyber security risk, depositary receipts risk, equity securities risk, Europe investment risk, management risk, market maker risk, market risk, new fund risk, non-diversification risk, non-U.S. securities risk, portfolio turnover risk, and smaller companies risk. In addition, the market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares. As a result, the Shares may trade at market prices that may differ from their NAV. The NAV of the Shares will fluctuate with changes in the market value of each Fund's holdings.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on IEX is subject to IEX equity trading rules.

Trading Hours

The value of the Index underlying the Shares will be disseminated to data vendors every 15 seconds during Regular Trading Hours.

The Shares will trade on IEX between 8:00 a.m. and 5:00 p.m. Please note that trading in the Shares during the Exchange's Pre-Market and Post-Market Sessions ("Extended Market Sessions") may result in additional trading risks which include: (1) that the current underlying indicative value may not be updated during the Extended Market Sessions, (2) lower liquidity in the Extended Market Sessions may impact pricing, (3) higher volatility in the Extended Market Sessions may impact pricing, (4) wider spreads may occur in the Extended Markets Sessions, and (5) because the indicative value is not calculated or widely disseminated during the Extended Market Sessions, an investor who is unable to calculate an implied value for the Shares in those sessions may be at a disadvantage to market professionals.

Dissemination of Data

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

<i>Name</i>	<i>Trading Symbol</i>	<i>IOPV Symbol</i>	<i>NAV Symbol</i>
First Trust Horizon Managed Volatility Domestic ETF	HUSV	HUSV.IV	HUSV.NV
First Trust Horizon Managed Volatility Developed International ETF	HDMV	HDMV.IV	HDMV.NV

Delivery of a Prospectus



Exchange Members 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 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 SEC. For further information about the Fund, please refer to its 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, Exchange Rules require that Exchange Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Issuer of the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, Exchange Members 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 an IEX member 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 UTP Derivative Securities] has been prepared by the [open-ended management investment company name] and is available from your broker. It is recommended that you obtain and review such circular before purchasing [the UTP Derivative Securities]."

An Exchange member 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 such Exchange member under this rule.

Upon request of a customer, Exchange Members also shall provide a copy of the Prospectus.

Suitability

Trading in the securities on the Exchange will be subject to the provisions of IEX Rule 3.170 and other applicable suitability rules. Members recommending transactions in the securities to customers should make a determination that the recommendation is suitable for the customer.

Trading Halts

The Exchange will halt trading in the Shares of a security in accordance with Exchange Rules. The grounds for a halt include a halt because the intraday indicative value of the security and/or the value of its underlying index are not being disseminated as required, a halt for other regulatory reasons or due to other conditions or circumstances deemed to be detrimental to the maintenance of a free and orderly market.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The Securities and Exchange Commission (the "SEC") has issued letters granting exemptive, interpretive and no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 for exchange-traded securities listed and traded on a registered national securities exchange that meet certain criteria.

AS WHAT FOLLOWS IS ONLY A SUMMARY OF THE RELIEF OUTLINED IN THE NO-ACTION LETTERS REFERENCED ABOVE, THE EXCHANGE ADVISES INTERESTED PARTIES TO CONSULT THE NO-



ACTION LETTERS FOR MORE COMPLETE INFORMATION REGARDING THE MATTERS COVERED THEREIN AND THE APPLICABILITY OF THE RELIEF GRANTED IN RESPECT OF TRADING IN SECURITIES. INTERESTED PARTIES SHOULD ALSO CONSULT THEIR PROFESSIONAL ADVISORS.

Regulation M Exemptions

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

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of Shares of the above-mentioned Fund to engage in secondary market transactions in such Shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the 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.

Rule 10b-10 (Customer Confirmations for Creation or Redemption of Fund Shares)

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

Section 11(d)(1); 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 a 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.

Rule 14e-5

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

1. such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchase; 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.

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. Members should consult the Prospectus for a security and the security's website for relevant information.

Please contact IEX Regulation at 646-343-2000 with any inquiries regarding this Information Circular.