

## Investors Exchange Product Information Circular 2022 – 0079

**Date:** February 18, 2022

**Re:** Engine No. 1 ETF Trust

This Information Circular is being issued to advise you that the following securities have been approved for trading pursuant to unlisted trading privileges (“UTP”) on the Investors Exchange (“IEX” or the “Exchange”) as UTP Derivative Securities pursuant to IEX Rule 16.160. 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 exchange-traded funds. Please forward this Information Circular to interested persons within your organization.

### Exchange-Traded Fund

### Symbol

Engine No. 1 Transform Climate ETF

NETZ

Issuer/Trust: Engine No. 1 ETF Trust

Issuer/Trust Website: <https://etf.engine1.com/>

Primary Listing Exchange: Cboe BZX Exchange, Inc.

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 products. For a more complete description of the Issuer, the securities 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.

### Background Information on the Funds

Engine No. 1 ETF 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”.

The Fund is an actively-managed exchange-traded fund (“ETF”) that seeks to invest in companies that are creating value by transforming themselves and others to meet the growing demands of climate change. Target companies are primarily those that the Adviser believes are transitioning towards more sustainable business practices, products, or services, as well as companies that are providing enabling technologies to help others transition. Target companies are generally chosen from companies included in the Morningstar® US Market Extended TR USD Index<sup>SM</sup>, which measures the performance of US securities and targets 99.5% market capitalization coverage of the investable universe. It is a diversified broad market index, and does not incorporate ESG criteria.

The key criteria by which the Adviser assesses companies for investment by the Fund, in addition to traditional operational and financial performance, is expected to include reporting and targets, progress, and positioning, including the following:

- Companies whose leadership has recognized the importance of sustainability and has responded through climate-specific reporting and targets. This can include carbon emissions reporting as well as commitments to cutting carbon emissions by a given amount by a given date.
- Companies whose business practices, products, and services reflect progress in slowing, preventing, and reversing climate change. This can be judged by the historical and projected carbon intensity of the business, including how capital budgets, research and development, and corporate strategy are shifting over time.

- Companies whose business model is well-adapted to the risks and opportunities that climate change presents. The Adviser may assess the degree to which climate change and the social, government, business, and investor movements to fight it will affect the growth, profitability, and risk to potential investments over time.

Through its disciplined, process-driven approach, the Adviser attempts to construct a portfolio of companies that are well-positioned against the risks of climate change and able to take advantage of the opportunities that climate change presents. In considering potential investments, the Adviser will use a proprietary framework that takes into account both fundamental analysis as well as measures a company's positive and negative climate externalities. Externalities are the side effects or consequences of production or consumption that impact third parties and are not reflected in market prices, such as the costs of respiratory disease from burning diesel gasoline. The framework combines both top-down data across the economy (for instance, carbon emissions data from a wide range of companies), as well as bottom-up sector-by-sector and company-by-company analysis (for instance, assessing a particular company's financial statements).

The Fund will invest, under normal circumstances, at least 80% of the value of its net assets, plus the amount of any borrowings for investment purposes, in portfolio companies that are either poised to transform or are actively in the process of transforming to a more climate-friendly business model, (e.g., businesses that are transforming to a less carbon or resource intensive business model) or that provide goods or services that aid other businesses in effecting such a climate-friendly transformation, in accordance with Rule 35d-1 under the 1940 Act. The key criteria, as discussed above, by which the Adviser assesses companies for investment by the Fund will be applied to all investments by the Fund except for temporary investments or investments in cash equivalents.

The Adviser considers environmental, social, and governance ("ESG") factors as core to its investment process, particularly in considering the ways in which each company's social and environmental externalities could ultimately drive financial and operational performance. The Adviser does not use ESG ratings or rankings to exclude specific companies or sectors from investment, but instead uses its own proprietary analysis of each company's externalities to make better informed decisions. The Adviser utilizes a quantitative approach to measuring companies' externalities, based on both public information as well as a due diligence process undertaken by the Adviser with respect to potential investment that focuses on key impacts on climate including emissions, waste, land and water use, lobbying efforts and product impacts. The Adviser estimates externalities at companies using data from the companies themselves, third-party data sources including both generalist and specialist for-profit data providers, non-profit and academic data providers, and government and multi-lateral data sources (e.g., United Nations or World Bank sources) for companies' social and environmental metrics. As part of its due diligence process for prospective investments, the Adviser then assesses ways those externalities may affect company revenue and earnings projections, discount rates, terminal values, and valuations particularly through changes in regulation; customer or employee preferences; and competitive risk from innovation or disruption. For example, the Adviser may use one or multiple data sources to estimate the carbon emissions associated with a company's products and operations and then assess how possible changes in regulations on carbon emissions, shifting demand for carbonintensive products based on consumer preferences, and risk of disruption from lower carbon technologies created by competitors could potentially lower long-term growth assumptions, increase the discount rates the Adviser applies to that growth to account for higher risk, reduce terminal values to reflect lower terminal growth, and as a result lower assumed valuation of the company. Although the Adviser may from time to time consider any of environmental, social and governance factors, its specific focus for the Fund will be on the environmental factors most relevant to climate change.

The Fund intends to initially invest primarily in U.S. listed equity and American Depositary Receipts ("ADRs") securities of companies relevant to its investment theme and over time may invest in non-U.S. listed securities as market and investment opportunities change. The Fund's investments may include micro-, small-, medium- and large-capitalization companies.

The Fund also seeks to encourage transformational change at the public companies within its portfolio through the application of proxy voting guidelines developed by the Adviser that are based on a commitment to protecting and enhancing the value of its clients' assets and to aligning shareholder and stakeholder interests through favoring actions that encourage companies to invest in their employees, communities, customers and the environment. In applying the proxy voting guidelines and seeking select engagement opportunities within the Fund's portfolio, the Adviser intends to measure the investment made by

companies in their employees, communities, customers and the environment with financial, operational, and ESG metrics that are provided by (i) the companies themselves, (ii) several third-party data providers (which are subject to change from time to time), including, but not limited to, Refinitiv and FactSet®, and (iii) the Adviser itself. These metrics include, but are not limited to, wages, workforce diversity, employee health and safety, capital expenditures, carbon emissions, and land use, among others. The Adviser will assess these metrics against qualitative and quantitative criteria developed by the Adviser. The metrics utilized by the Adviser will consider a broad range of ESG factors, and will not focus principally on metrics related to reduced carbon emissions.

The Fund's proxy voting guidelines, as well as the financial, operational and ESG metrics included in such guidelines, will apply to all companies held by the Fund. The Adviser will generally follow the recommendations of an independent third party proxy voting service retained by the Adviser to implement the proxy voting guidelines when determining how to vote on any specific matter.

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

As described more fully in the Prospectus and Statement of Additional Information, the Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 20,000 Shares (each, a "Creation Unit"). Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

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 Fund describes the various fees and expenses for the Fund's Shares.

For a more complete description of the Fund visit the Issuer Website.

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

IEX Members are hereby informed that procedures for purchases and redemptions of Shares in Creation Units are described in the Trust's Prospectus and SAI and that Shares are not individually redeemable but are redeemable only in Creation Unit aggregations or multiples thereof.

### **Principal Risks**

As with any investment, you could lose all or part of your investment in the Funds, and the Funds' performance could trail that of other investments. These Funds are subject to the principal risks noted below, any of which may adversely affect the Funds' net asset value per share ("NAV"), trading price, yield, total return and ability to meet its investment objective. 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 but are not limited to principal investment risk, ETF structure risk, activism risk, limited history of operations risk, equity securities risk, ESG investing risk, concentration risk, micro capitalization companies risk, small and medium capitalization companies risk, large-capitalization companies risk, market risk, non-diversification risk, active management

risk, asset class risk, concentration risk, cybersecurity risk, infectious illness risk, issuer risk, operational risk, risk of investing in the U.S., securities lending risk and ADR risk.

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

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

### **Trading Hours**

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

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.

### **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 the Exchange's 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.