



| EDGA & EDGX STOCK EXCHANGES     |                   |            |                 |
|---------------------------------|-------------------|------------|-----------------|
| Regulatory Information Circular |                   |            |                 |
| Circular Number:                | 2011-105          | Contact:   | Jeff Rosenstock |
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**Subject: QuantShares U.S. Market Neutral Momentum Fund  
QuantShares U.S. Market Neutral Size Fund  
QuantShares U.S. Market Neutral Quality Fund  
QuantShares U.S. Market Neutral Anti-Momentum Fund**

### **Background Information on the Funds**

As more fully explained in the Trust’s Registration Statement (Nos. 333-173167 and 811-22540), The FQF Trust (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Trust consists of several exchange-traded funds, including the Funds listed above (each, a “Fund” and collectively, the “Funds”). The Funds are exchange-traded “index funds” (“ETFs”). The shares of the Funds are referred to herein as “Shares.”

Each Target Index is comprised of approximately 400 eligible securities. Eligible securities are those that are in the top 1,000 securities by market capitalization in the Dow Jones U.S. Index, which satisfy minimum average daily trading volumes and cost-to-borrow constraints as established by the index provider. The securities included in the universe are categorized as belonging to one of 10 sectors. In connection with the monthly reconstitution of each Target Index, each Target Index identifies approximately the top 20% of the securities with respect to the applicable attribute or characteristic within each sector as equal-weighted long positions and approximately the bottom 20% of securities with respect to the same attribute or characteristic within each sector as equal-weighted short positions. The Target Indices are market neutral using a dollar neutral methodology and equal weighted both on the long and short sides. Each Target Index will also be sector neutral – meaning the number of long and short positions in each sector in the index approximate the weighting of that sector in the universe. For example, if a sector in the universe comprises 100 securities, the index would identify the 20 securities with the highest ranking within that sector as long positions and the 20 securities with the lowest ranking within that sector as short positions. Sectors are defined by the Industry Classification Benchmark. If between reconstitutions the value of short positions in a Target Index exceeds the value of the long positions by an amount that is established by the index provider, the Target Index will be rebalanced back to equal weights and sector neutrality.

#### *QuantShares U.S. Market Neutral Momentum Fund*

The Fund seeks to track the performance of the Dow Jones U.S. Thematic Market Neutral

Momentum Index (the “Target Momentum Index”) by investing at least 80% of its net assets (plus any borrowings for investment purposes) in common stock, including the short positions, in the Target Momentum Index. The Target Momentum Index is a market neutral index that is dollar-neutral. As such, it identifies long and short securities positions of approximately equal dollar amounts. In choosing to track a market neutral index, the Fund seeks to limit the effects of general market movements on the Fund and to limit the correlation of the performance of the Fund with the market’s overall movements.

The universe for the Target Momentum Index is the top 1,000 eligible securities by market capitalization in the Dow Jones U.S. Index (“universe”). The securities included in the universe are categorized as belonging to one of 10 sectors. The Target Momentum Index identifies approximately the 20% of the securities with the highest momentum within each sector as equal-weighted long positions and approximately the 20% of securities with the lowest momentum within each sector as equal-weighted short positions. A stock’s momentum is based on its total return, which is a function of price performance and dividend returns over the first twelve of the last thirteen months. High momentum stocks are those stocks with higher total returns, and low momentum stocks are those stocks with lower total returns.

#### *QuantShares U.S. Market Neutral Size Fund*

The Fund seeks to track the performance of the Dow Jones U.S. Thematic Market Neutral Size Index (the “Target Size Index”) by investing at least 80% of its net assets (plus any borrowings for investment purposes) in common stock, including the short positions, in the Target Size Index. The Target Size Index is a market neutral index that is dollar-neutral. As such, it identifies long and short securities positions of approximately equal dollar amounts. In choosing to track a market neutral index, the Fund seeks to limit the effects of general market movements on the Fund and to limit the correlation of the performance of the Fund with the market’s overall movements.

The universe for the Target Size Index is the top 1,000 eligible securities by market capitalization in the Dow Jones U.S. Index (“universe”). The securities included in the universe are categorized as belonging to one of 10 sectors. The Target Size Index identifies approximately the 20% of the securities with the smallest market capitalizations within each sector as equal-weighted long positions and approximately the 20% of securities with the largest market capitalizations within each sector as equal-weighted short positions.

#### *QuantShares U.S. Market Neutral Quality Fund*

The Fund seeks to track the performance of the Dow Jones U.S. Thematic Market Neutral Quality Index (the “Target Quality Index”) by investing at least 80% of its net assets (plus any borrowings for investment purposes) in common stock, including the short positions, in the Target Quality Index. The Target Quality Index is a market neutral index that is dollar-neutral. As such, it identifies long and short securities positions of approximately equal dollar amounts. In choosing to track a market neutral index, the Fund seeks to limit the effects of general market movements on the Fund and to limit the correlation of the performance of the Fund with the market’s overall movements.

The universe for the Target Quality Index is the top 1,000 eligible securities by market capitalization in the Dow Jones U.S. Index (“universe”). The securities included in the universe are categorized as belonging to one of 10 sectors. The Target Quality Index identifies approximately the 20% of the securities with the highest quality ranking within each sector as equal-weighted long positions and approximately the 20% of securities with the lowest quality ranking within each sector as equal-weighted short positions. A stock’s quality ranking is based on an equally weighted combination of its return on equity (earnings over the last twelve months divided by book value) and debt-to-equity ratios within its sector. Stocks with a higher return on equity and a lower debt-to-equity ratio (above average quality characteristics) within each sector receive higher rankings, and stocks with a lower return on equity and a higher debt-to-equity ratio (below average quality characteristics) within each sector receive lower rankings.

#### *QuantShares U.S. Market Neutral Anti-Momentum Fund*

The Fund seeks to track the performance of the Dow Jones U.S. Thematic Market Neutral Anti-Momentum Index (the “Target Anti-Momentum Index”) by investing at least 80% of its net assets (plus any borrowings for investment purposes) in common stock, including the short positions, in the Target Anti-Momentum Index. The Target Anti-Momentum Index is a market neutral index that is dollar-neutral. As such, it identifies long and short securities positions of approximately equal dollar amounts. In choosing to track a market neutral index, the Fund seeks to limit the effects of general market movements on the Fund and to limit the correlation of the performance of the Fund with the market’s overall movements.

The universe for the Target Anti-Momentum Index is the top 1,000 eligible securities by market capitalization in the Dow Jones U.S. Index (“universe”). The securities included in the universe are categorized as belonging to one of 10 sectors. The Target Anti-Momentum Index identifies approximately the 20% of the securities with the lowest momentum within each sector as equal-weighted long positions and approximately the 20% of securities with the highest momentum within each sector as equal-weighted short positions. A stock’s momentum is based on its total return, which is a function of price performance and dividend returns over the first twelve of the last thirteen months. High momentum stocks are those stocks with higher total returns, and low momentum stocks are those stocks with lower total returns.

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

Unlike conventional mutual funds, the Funds issue and redeem Shares on a continuous basis, at NAV, only in Creation Units consisting of 50,000 Shares. Individual Shares may only be purchased and sold on the Exchange through a broker-dealer. Shares of the Funds will trade at market prices rather than NAV. As such, Shares may trade at a price greater than NAV (premium) or less than NAV (discount).

FFCM LLC serves as the investment advisor for the Funds. Foreside Fund Services, LLC (the “Distributor”) is the principal underwriter and distributor of the Funds’ shares. J.P. Morgan Investor Services Co. is the administrator, accountant, custodian and transfer agent for the Funds.

The Depository Trust Company (“DTC”) will serve as securities depository for the Shares, which may be held only in book-entry form; stock certificates will not be issued. DTC, or its nominee, is the record or registered owner of all outstanding Shares.

The NAV per Share of the Funds will be determined as of the close of trading (normally, 4:00 p.m. Eastern Time (“ET”)) on each day that the Exchanges are open for business. NAVs will be available from the Distributor and is also available to National Securities Clearing Corporation (“NSCC”) participants through data made available from NSCC.

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.quant-shares.com](http://www.quant-shares.com).

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

Members 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 Prospectus for a description of risks associated with an investment in the Shares. These risks include Anti-Momentum Risk; Momentum Risk; Derivatives Risk; Industry Concentration Risk; Leverage Risk; Market Neutral Style Risk; Mid- and Large-Capitalization Stock Risk; Passive Investment Risk; Premium/Discount Risk; Quality Risk; Short Sale Risk; Size Risk; Stock Market Risk; Tracking Error Risk; and Trading Halts Risk. In addition, as noted in the Prospectus, 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 the Funds’ holdings. The market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares.

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

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchange’s existing rules governing the trading of equity securities.

### **Trading Hours**

Trading in the Shares on EDGA and EDGX Exchanges (the “Exchanges”) is on a UTP basis and is subject to the Exchanges equity trading rules. The Shares will trade from 8:00 a.m. until 8:00 p.m. Eastern Time. Members trading the Shares during the Extended Market Sessions (Pre-opening and Post-closing sessions) are exposed to the risk of the lack of the calculation or dissemination of underlying index value or intraday indicative value (“IIV”). For certain derivative securities products, an updated underlying index value or IIV may not be calculated or

publicly disseminated in the Extended Market hours. Since the underlying index value and IIV are not calculated or widely disseminated during Extended Market hours, an investor who is unable to calculate implied values for certain derivative securities products during Extended Market hours may be at a disadvantage to market professionals.

### **Trading Halts**

The Exchanges will halt trading in the Shares in accordance with Exchange Rules 14.1(c)(4). The grounds for a halt under this Rule include a halt by the primary market because it stops trading the Shares and/or a halt because dissemination of the IIV or applicable currency spot price has ceased, or a halt for other regulatory reasons. In addition, the Exchanges will stop trading the Shares if the primary market de-lists the Shares.

### **Suitability**

Trading in the Shares on the Exchanges will be subject to the provisions of EDGA and EDGX Exchange Rules 3.7. Members 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 Exchange Rules 3.7.

Members also should review FINRA 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.

### **Delivery of a Prospectus**

Pursuant to federal securities laws, investors purchasing Shares must receive a prospectus prior to or concurrently with the confirmation of a transaction. Investors purchasing Shares directly from the Fund (by delivery of the Deposit Amount) must also receive a prospectus.

Prospectuses may be obtained through the Distributor or on the Fund’s website. The Prospectus does not contain all of the information set forth in the 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 the Trust’s registration statement.

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

The Commission has issued letters dated October 24, 2006 and November 21, 2005 (together, the No-Action Letters”) granting exemptive, interpretive and no-action relief from certain

provisions of and rules under the Securities Exchange Act of 1934 for exchange-traded funds listed and traded on a registered national securities exchange that meet certain criteria. Members should refer to the No-Action Letters available at [www.sec.gov](http://www.sec.gov) for additional information.

### **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 Commission issued a No-Action Letter by which persons participating in a distribution of shares of a fund may engage in secondary market transactions in such shares during their participation in such a distribution, despite the requirements of from Rule 101 under Regulation M. In addition, the SEC has permitted persons who may be deemed to be participating in the distribution of shares of a 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 Commission 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 Fund's securities during the restricted period of Rule 101. The Commission has issued a No-Action Letter to paragraph (e) of Rule 102 under Regulation M which 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 Units 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 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**

The Commission has permitted any person acting as a dealer-manager of a tender offer for a component security of 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 has been issued under Rule 14e-5 states that 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, it must be made in conformance with the following:

- i. 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
- ii. 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
- iii. such bids or purchases are not affected 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 Commission 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 (I)(5)(A), (B) or (C). See letter dated November 22, 2005 from Brian A. Bussey, Assistant Chief Counsel, SEC Division of Market Regulation, to Barclays Global Investors, N.A., dated November 22, 2005. The Commission has issued a No-Action Letter under Section 11(d)(1) of the Act states 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 Commission has issued a No-Action letter 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.

**This Regulatory Information Circular is not a statutory Prospectus. Members should consult the Trust's Registration Statement, SAI, Prospectus and the Fund's website for relevant information.**



## Appendix A

| <b>Ticker</b> | <b>Fund Name</b>                                   | <b>CUSIP</b> |
|---------------|--|--------------|
| MOM           | QuantShares U.S. Market Neutral Momentum Fund      | 351680103    |
| SIZ           | QuantShares U.S. Market Neutral Size Fund          | 351680400    |
| QLT           | QuantShares U.S. Market Neutral Quality Fund       | 351680509    |
| NOMO          | QuantShares U.S. Market Neutral Anti-Momentum Fund | 351680608    |