

January 29, 2010



## CBSX Trader News Update

### CBSX to Add New Stocks for Trading

TO: Members

SUBJECT: Grail Advisors ETF Trust

Compliance and supervisory personnel should note that, among other things, this Information Bulletin discusses the need to deliver a prospectus to customers purchasing shares ("Shares") of the two (2) exchange-traded funds ("Funds") listed below issued by Grail Advisors. Please forward this Information Bulletin to other interested persons within your organization.

The following securities have been approved for trading on CBSX:

<u>Exchange-Traded Funds</u>	<u>Symbol</u>
Grail McDonnell Intermediate Municipal Bond ETF	GMMB
Grail McDonnell Core Taxable Bond ETF	GMTB

### **Background Information on the Fund**

The Grail Advisors ETF 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 (each, a "Fund" and collectively, the "Funds"). This circular refers only to the Funds listed above. The shares of each of the Funds listed above are referred to herein as "Shares." Grail Advisors, LLC (the "Adviser") is the investment adviser for the Funds. McDonnell Investment Management, LLC ("McDonnell") serves as each ETF's sub-adviser.

GMMB seeks a high level of current tax-exempt income and higher risk-adjusted returns relative to its benchmark. GMMB invests, under normal circumstances, at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in debt securities with interest payments exempt from federal income taxes. GMMB will typically invest in municipal securities and will invest, under normal market conditions, primarily in tax exempt general obligation, revenue and private activity bonds and notes, which are issued by or on behalf of states, territories or possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities (including Puerto Rico, the Virgin Islands and Guam). Tax-exempt means that the bonds pay interest that is excluded from gross income for regular federal income tax purposes. GMMB's investments generally include municipal securities with a full range of maturities and broad issuer and geographic diversification. While GMMB may invest in securities of any maturity, under normal circumstances, the dollar-weighted average maturity of the portfolio is expected to range from three to ten years.

McDonnell, as the sub-adviser, employs a total return investment strategy which emphasizes sector and security selection and yield curve positioning. Sector and security decisions are reached through robust fundamental credit analysis as well as an assessment that incorporates the sector and security's credit momentum.

The total return strategy places a limited dependence on adjusting the portfolio in anticipation of a change in the level of interest rates. GMMB invests primarily in investment grade securities, which are securities rated in one of the top four credit quality categories by at least one nationally recognized statistical rating organization rating that security (a "rating agency"). GMMB considers pre-refunded bonds or escrowed to maturity municipal securities, regardless of rating, to be investment grade securities. GMMB may invest up to 20% of its net assets in high yield securities or below investment-grade securities rated BB+ (or comparable) or below by a rating agency or, if unrated, determined by McDonnell to be of comparable quality. GMMB may invest up to 20% of its assets in taxable debt securities. These may include securities issued by the U.S. Government and/or its agencies, corporate debt securities, mortgage-backed and other asset-backed securities, and securities of other investment companies, including other ETFs. GMMB may only invest in U.S. dollar-denominated securities.

GMMB may invest in derivative instruments, such as futures and interest rate, total return and credit default swaps. Investments in derivatives must be consistent with GMMB's investment objective and may only be used to manage risk and not to enhance leverage. Use of certain derivative instruments may give rise to taxable income.

GMTB seeks a high level of current income and higher risk-adjusted returns relative to its benchmark. GMTB invests, under normal circumstances, at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in debt securities. GMTB will invest primarily in investment-grade securities, including securities issued by the U.S. Government and/or its agencies, municipal securities, mortgage-backed and other asset-backed securities, and corporate and bank obligations, including commercial paper, corporate notes and bonds. While GMTB may invest in securities of any maturity, under normal circumstances, the average duration of the portfolio is typically expected to range from three to six years. Duration is a measure of the underlying portfolio's price sensitivity to changes in interest rates.

McDonnell, as the sub-adviser, employs a total return investment strategy which emphasizes sector and security selection and yield curve positioning. Sector and security decisions are reached through robust fundamental credit analysis as well as an assessment that incorporates the sector and security's credit momentum. The total return strategy places a limited dependence on adjusting the portfolio in anticipation of a change in the level of interest rates.

GMTB invests primarily in investment grade securities, which are securities rated in one of the top four credit quality categories by at least one nationally recognized statistical rating organization rating that security (a "rating agency"). GMTB may invest up to 20% of its net assets in high yield securities or below investment-grade securities rated BB+ (or comparable) or below by a rating agency or, if unrated, determined by McDonnell to be of comparable quality.

GMTB may invest without limit in securities issued by the U.S. Government, its agencies and instrumentalities, up to 90% of its assets in mortgage-backed and other asset-backed securities, and up to 80% of its assets in corporate bonds. In addition, GMTB may invest up to 30% of its assets in municipal securities. GMTB may only invest in U.S. dollar-denominated securities. It may also invest in securities of other investment companies, including other ETFs and money market funds.

GMTB may invest in derivative instruments, such as futures and interest rate, total return and credit default swaps. Investments in derivatives must be consistent with GMTB's investment objective and may only be used to manage risk and not to enhance leverage. Use of certain derivative instruments may give rise to taxable income.

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") or multiples thereof. 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.

Each Fund pays out dividends from its net investment income to shareholders monthly. Each Fund distributes its net capital gains, if any, annually.

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.grailadvisors.com](http://www.grailadvisors.com).

### **Dissemination of Fund Data**

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

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

Exchange members are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and SAI, and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

## **Exchange Rules Applicable to Trading 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.

## **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, credit risk, derivatives risk, foreign investment risk, interest rate risk and municipal securities risk.

## **Trading Hours**

The values of any security underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on the CBSX from 8:00 a.m. CT until 3:00 p.m. CT. The trading increment for the Fund's Shares will be \$0.01.

## **Extended Hours Trading**

Members are reminded that trading in the Fund's Shares prior to 8:30 a.m. may result in additional trading risks which include: (1) that the current underlying index value may not be updated, (2) the intraday indicative value may not be updated, (3) lower liquidity may impact pricing, (4) higher volatility may impact pricing, (5) wider spreads may occur, and (6), since the intraday indicative value is not calculated or widely disseminated, an investor who is unable calculate an implied value for an ETF in those sessions may be at a disadvantage to market professionals.

## **Trading Halts**

The Exchange will halt trading in the Shares based on Rule 52.3 and/or because dissemination of the intraday indicative value of the Shares and/or the underlying value of the index has ceased.

## **Suitability**

Members are reminded of their obligation under Rule 53.6 whereby the Member shall use due diligence to learn the essential facts relative to every customer

prior to trading the Shares or recommending a transaction in the Shares that an investment in the Shares is suitable for the customer. Members should adopt appropriate procedures for the opening and maintaining of accounts, including the maintaining of records prescribed by any applicable regulatory organization and by the rules and regulations of the Commission.

### **Delivery of a Prospectus**

Consistent with the requirements of the Securities Act and the rules thereunder, investors purchasing Shares in the initial public offering and anyone purchasing Shares directly from a Fund (by delivery of the designated securities) must receive a Prospectus. In addition, Members are required to deliver a Prospectus to all purchasers of newly-issued Shares (i.e. during the initial public offering). Members purchasing shares from a Fund for resale to investors will deliver a Prospectus to such investors.

Prospectuses may be obtained through 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 Commission. For further information about a Fund, please refer to the Registration Statement.

In the event that a Fund relies upon an order by the Commission exempting the Shares from certain Prospectus delivery requirements under Section 24(d) of the 1940 Act and makes available a written product description, the Exchange requires that Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust, no later than the time a confirmation of the first transaction in the Shares, is delivered to such purchaser. In addition, ETP Holders 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 a 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 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."

An Member carrying an omnibus account for a non-Member 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 Members under this rule.

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

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

Inquiries regarding this Information Bulletin should be directed to David Reed, 866.458.2279.

