April 2018

Exchange Traded Commodities (ETC) collateral explained

Index tracking with limited third party exposure

To limit tracking error against their benchmark index, some ETF Securities' products use a swap structure to provide exposure to their benchmark. Credit exposure to the relevant swap counterparties therefore needs to be mitigated and this is done by the posting of collateral (assets) by the relevant provider.

Who is the Issuer?

Issuer	Swap Provider(s)
ETFS Commodity Securities Limited (CSL)	Citigroup Global Markets Limited
	Merrill Lynch International
ETFS Hedged Commodity Securities Limited (HCSL)	Citigroup Global Markets Limited
	Merrill Lynch International
ETFS Equity Securities Limited (ESL)	Societe Generale
ETFS Foreign Exchange Limited (FXL)	Morgan Stanley International plc

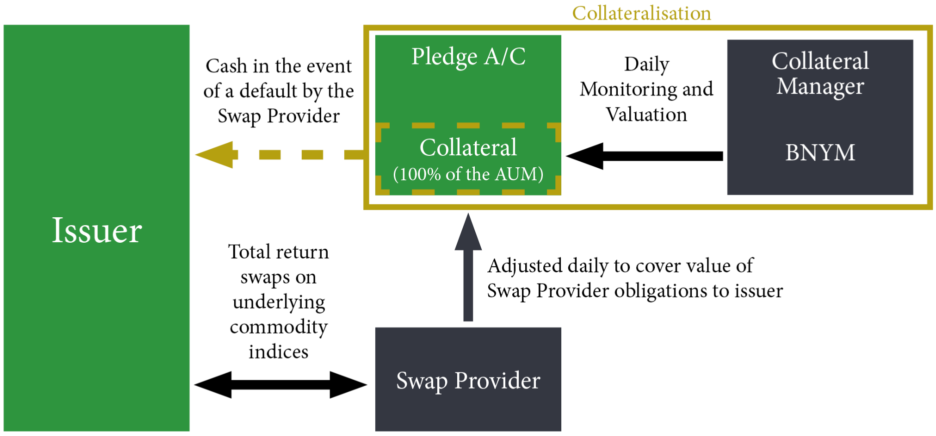
Collateralised swap structures

ETF Securities' Exchange Traded Commodities (ETCs) use two types of collateralised swap structure to gain exposure to the underlying benchmarks: funded and unfunded.

Funded swap structure

In a fully funded swap, the money investors have paid to buy the ETC is transferred to the swap provider (hence, fully funded). In exchange, the swap provider will provide that amount of exposure to the underlying asset and deposit collateral equal to, or greater than, that amount in segregated accounts at the Bank of New York Mellon (BNYM). This structure is used by each of CSL, HSCL and ESL.

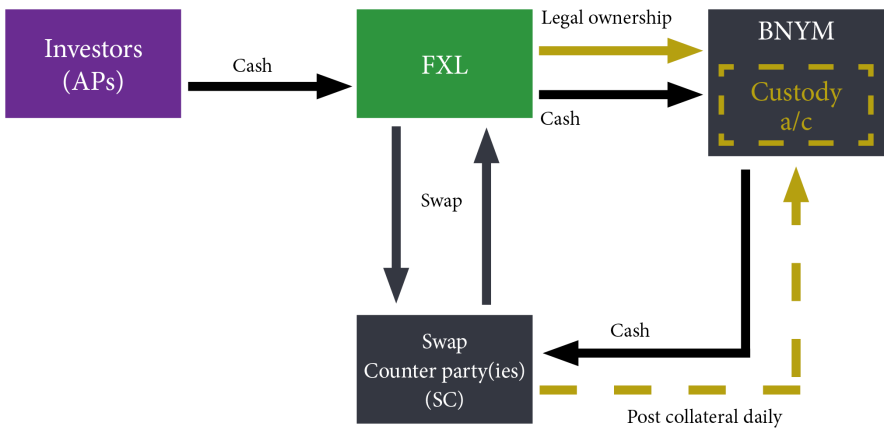
In the fully funded swap structure, the collateral remains owned by the swap provider unless they default in which case, ownership transfers to the issuer and the collateral can be sold and used to redeem affected holders. In the case of CSL and HCSL if only one swap provider defaults, the swaps with the other swap provider remain unaffected and (i) any new creations of securities will only be backed by swaps with the non-defaulting provider; and (ii) the proceeds resulting from the sale of the collateral provided by the defaulting provider may (but do not have to be) used to purchase swaps from the non-defaulting swap provider, replacing those with the defaulting provider where possible.



On each business day, if the value of the collateral held in the relevant BNYM account is less than the value of the swaps with the relevant swap provider at the end of the previous business day then that swap provider must post the extra collateral required. Any excess collateral may only be removed by a swap provider with the approval of BNYM to ensure that withdrawals are in accordance with the terms of the relevant agreements.

Unfunded swap structure

In an unfunded swap structure, the money investors have paid to buy the ETCs is retained by the relevant Issuer and used to purchase collateral from the swap provider under a repurchase agreement (repo). The collateral is held in account at BNYM in the name of the Issuer. Cash from investors is first paid to BNYM who only release any cash to the swap provider upon eligible collateral being posted. This structure is used by FXL and all cash inflows are 100% collateralised with a daily mark to market of swap exposure.



Collateral Quality and Valuation

To ensure that the collateral provides adequate protection, criteria apply to these products to define (i) which assets may be posted as collateral -"eligible collateral"; and (ii) how those assets are valued.

Eligible collateral

CSL & HCSL

Type of Eligible collateral	Concentration limits and margin
Money market funds - AAA money market funds not limited to Government or Treasury money market funds	< 75% of the total collateral pool in money market funds < 20% of the net asset value or outstanding shares of any particular money market fund issuer < 25% of the total collateral pool in any particular money market fund issuer
Sovereign fixed income - USA (with minimum rating of AA) - G10 (excluding Japan) and other European government bonds (with minimum rating of AA) - Supranational bonds with a L-T issuer rating not lower than AAA - US Agencies 100% backed by the government (with minimum rating of AA) - Japanese government bonds ("JGBs") (with minimum rating of A- or A3)	**Country concentration limit:** USA 100% UK, Japan, Germany, France 50% Others 25%

Equities	Concentration limits and margin
Securities have to belong to specific indices. Currently, the main index names include the major benchmarks such as S&P 500 and EURO STOXX 50, and the other index names include developed market indices such as NASDAQ and DJ STOXX 600	Max 3.3% per security issuer: **For each security** Free-float market cap: 2.5% 30 day ADV 100% **Country concentration limit** USA 75% UK, Japan, Germany, France 25% Others 10% **Margin** Either 85% or 75% depending on the particular index.

In the case of eligible money market funds or sovereign fixed income (excluding JGBs):

Remaining months to maturity (MTM)	Valuation percentages
MTM < 12	99.5%
12 ≤ MTM ≤ 60	98%
MTM > 60	96%

In the case of JGBs:

Remaining months to maturity (MTM)	Valuation percentages
MTM < 12	94%
12 ≤ MTM ≤ 60	92%
MTM > 60	90%

FXL

Type of Eligible collateral	Concentration limits and margin
Money market funds - AAA Government or Treasury money market funds only **Sovereign fixed income** - G10 and other European government bonds (with minimum rating of AA) - Supranational bonds with a L-T issuer rating not lower than AAA - US Agencies 100% backed by the government	<100% of the total collateral pool in government funds of US < 50% of the total collateral pool in government funds of UK, Japan, Germany or France < 25% of the total collateral pool in government funds of other countries < 25% of the total collateral in supranational bonds of one issuer **Margin** <5 years to maturity 100% 5-10 years to maturity 101% 10+ years to maturity 102% US Agencies 102% Unsubordinated bonds 102%

Equities	Concentration limits and margin
Securities have to belong to specific indices. Currently, the main index names include the major benchmarks such as S&P 500 and EURO STOXX 50, and the other names include developed market indices such as NASDAQ and STOXX 600	Max 3.3% or $10 million per security issuer: **For each security** Free-float market cap: 2.5% 30 day ADV 100% **Country concentration limit** USA 75% UK, Japan, Germany, France 25% Others 10% **Margin** Either 105% or 110% depending on the particular index

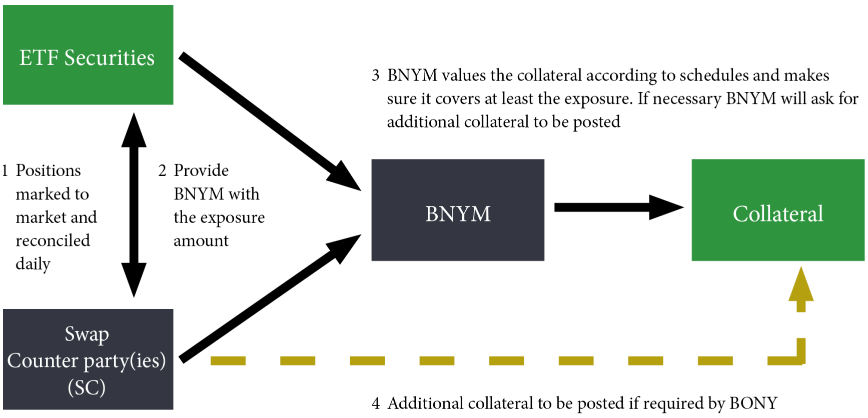
ESL

Type of eligible collateral	Concentration limits and margin	
Sovereign Fixed Income		
-Non-US G10 and other European Government bonds (with minimum L-T rating of BBB-)	< 35% of the total collateral pool per Sovereign Issuer	
Other Fixed Income		
-Covered, convertible, and corporate bonds (with minimum rating of A)	>10% of the total collateral pool per issuer	
Equities	For Each Security:	
	Free-float market cap:	> $1.1 billion
	60 day ADV:	> $10 million

In all cases none of (i) securities issued by the swap provider or an affiliate, (ii) securities subject to corporate actions; and (iii) ABS or MBS are eligible collateral and no collateral lending or rehypothecation is allowed.

Valuation of Collateral

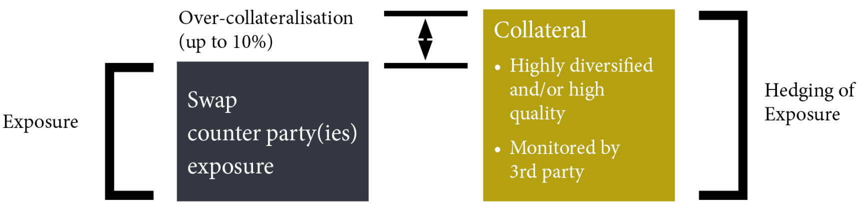
On a daily basis, the issuer and the relevant swap provider will agree the exposure to be collateralised and notify this to BNYM who compare this against the value of the assets in the relevant account.



Collateral is valued by BNYM on a daily basis and subject to detailed collateral screening and valuation methodologies including:

- Sourcing prices from at least 4 data vendors;
- Testing and validating price quality;
- Removing invalid prices after standard deviation tests and tolerance level tests; and
- Valuing at zero any security if the last available price is more than 5 days old.

The aim is to hold collateral of greater value than the relevant swap exposure which is partly achieved through the use of valuation haircuts – percentage reductions to market value of the assets applied in the valuation:



Important facts relating to the collateral

Collateral schedule matters – The holdings of eligible collateral posted by the swap providers will change daily. Investors should carefully consider the criteria of the quality of eligible collateral as well as the concentration and margin limits that apply.

Credit risk – eligible collateral is posted to reduce potential credit risk if the swap provider were to default. The posting collateral does not guarantee that no loss would occur on a credit event. The realised value of the eligible collateral following an event of default may differ from the amount owed by the swap provider, as prices fluctuate intraday (i.e. from the last point the exposure and collateral were valued). Our collateral schemes apply strict margins and concentration limits to reduce the risk of such a loss, but do not completely remove it.

On a daily basis, ETF Securities publishes a breakdown of assets that have been transferred as collateral for CSL, HCSL, ESL and FXL.

Please visit ***www.etfsecurities.com*** for more information.

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