



## Who is BetaShares?

BetaShares Capital Limited (“BetaShares”) is a specialist provider of Exchange Traded Funds (“ETFs”) which are traded on the Australian Securities Exchange.

ETFs combine the benefits of shares (tradeable, liquid) and index funds (diversified, low cost) in one product. BetaShares Commodity ETFs allow investors to access the performance of selected commodities as simply as buying any share on ASX.

BetaShares is a public company incorporated in Australia and it is the responsible entity for each BetaShares ETF. BetaShares holds an Australian Financial Services Licence and is regulated by ASIC.

Horizons ETFs, a leading North American ETF issuer, is a shareholder in BetaShares. Horizons ETFs is a member of the Mirae Asset Global Investment Group, one of the largest asset management firms in Asia.

## How are BetaShares Commodity ETFs Structured?

BetaShares Gold Bullion ETF aims to track the price of gold bullion (hedged into Australian dollar), before fees and expenses. As it is possible to store the actual bullion, the product is backed by physical gold bullion. As a result of the relative simplicity of this structure, the remainder of this document is focused on the other BetaShares Commodity ETFs.

The BetaShares Commodity ETFs aim to track the price performance of the selected commodity indices (hedged into Australian dollars), before fees and expenses. Unlike our Gold Bullion ETF, it is not possible to cost-effectively hold and store the underlying commodities. As such, the ETF invests its assets in cash and is paid the performance on the underlying index by a counterparty via a swap agreement. Because the ETF obtains exposure to the performance of commodities in this way, the ETF is referred to as a “synthetic” ETF. However, BetaShares ETFs structured in this fashion are fully backed by cash, which is held in a segregated account by BetaShares’ custodian, RBC Investor Services.

## How does BetaShares Manage Counterparty Risk in its Commodity ETFs?

### Assets Held by the ETF

BetaShares Gold Bullion ETF is backed by physical gold bullion. The other BetaShares Commodity ETFs are fully backed by cash. These assets are held in a segregated account with BetaShares’ custodian, RBC Investor Services.

### Counterparty Limits

BetaShares monitors the credit exposure of the ETFs on a daily basis via daily “mark to market” valuations of the swap agreements. All mark to market valuations are calculated daily by the fund administrator (RBC Investor Services), and reviewed by BetaShares.

The exposure of an ETF to any counterparty is managed by the transfer of cash collateral between the parties. In order to mitigate counterparty risk, the counterparty is required to make cash payments to the ETF should the counterparty owe funds to the ETF. The reverse will apply where the ETF owes the counterparty. This cash payment will be made to the value of any exposure (“zero exposure threshold”) which is calculated daily and settled promptly thereafter, subject to a minimum transfer amount. In other words, counterparty exposure will be met by the payment of cash to the other party. All cash collateral received from the counterparty is also held by the ETF’s independent third party custodian.

### Swap Counterparties

BetaShares applies strict selection criteria in respect of its swap counterparties. In particular, any BetaShares counterparty must:

- be subject to prudential supervision in Australia or elsewhere;
- be of good financial standing;
- have, as a minimum, a long term investment grade credit rating from a major credit ratings agency; and
- be a regulated and significant participant in index, equities and derivative products with trading capabilities in the major asset classes.

BetaShares’ initial swap counterparty is Credit Suisse International, part of Credit Suisse, one of the world’s largest financial institutions. Credit Suisse is a diversified financial institution with over 150 years of history. It is active in over 50 countries and employs more than 48,000 people.

# THE STRUCTURE OF BETASHARES COMMODITY ETFS



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## What if the Swap Counterparty Defaults? What if BetaShares Defaults?

In the event that a counterparty defaults, the ETF still has full recourse to the cash held in the independent third party custody account. Since counterparty exposure is managed to a zero exposure threshold, the extent of any loss (should there be one) is expected to be mitigated.

If BetaShares were to default, this should have no impact on the value of the ETFs. BetaShares acts as trustee of the ETFs. The assets of the ETFs are held by the custodian and are separate from the assets of BetaShares.

## Other Risks

Counterparty risk is only one risk of many risks associated with an investment in ETFs. Any person looking to invest should obtain a copy of the relevant PDS and read the risks section and consider with a financial adviser if the product is appropriate for their circumstances.

## For More Information

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An investment in any BetaShares Exchange Traded Fund ("ETF") is subject to investment risk including possible delays in repayment and loss of income and principal invested. ETFs that are linked to commodity futures do not offer direct exposure to the commodity spot prices, and performance may differ from the spot price itself. The difference in performance can be magnified if there is a persistent disparity between near-term futures prices and long term futures prices and this may lead to unexpected performance results. Neither BetaShares Capital Ltd nor BetaShares Holdings Pty Ltd guarantees the performance of any ETF or the repayment of capital or any particular rate of return. Past performance is not an indication of future performance. This information is prepared by BetaShares Capital Ltd (ACN 139 566 868 AFS Licence 341181) ("BetaShares"), the product issuer. It is general information only and does not take into account your objectives, financial situation or needs so it may not be appropriate for you. Before making an investment decision you should consider the product disclosure statement ("PDS") and your circumstances and obtain financial advice. The PDS is available at [www.betashares.com.au](http://www.betashares.com.au) or by calling 1300 487 577 (within Australia) or +61 2 9290 6888 (outside Australia). Only investors who are authorised as trading participants under the Australian Securities Exchange (ASX) Operating Rules may invest through the PDS. Other investors may buy units in the ETF on the ASX through a stockbroker, financial adviser or online broker. This document does not constitute an offer of, or an invitation to purchase or subscribe for securities. This information was prepared in good faith and to the extent permitted by law BetaShares accepts no liability for any errors or omissions or loss from reliance on any of it.

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