

Understanding Counterparty Risk when investing in Collateralised ETPs

It is important to understand counterparty risk before investing in Collateralised ETPs. This document outlines the nature of this risk and how it is mitigated by the provision of collateral.

First, let's look at some of the different entities involved in the Collateralised ETPs and their respective roles:

Issuer of Collateralised ETPs	GraniteShares Financial Plc
Swap Counterparty	Natixis
Swap Collateral Custodian	The Bank of New York Mellon SA/NV
ETP Security Trustee	BNY Mellon Corporate Trustee Services Ltd

The **Issuer** of Collateralised ETPs, GraniteShares Financial Plc, is a public limited company incorporated as a special purpose vehicle (SPV). The Issuer is a standalone entity, ring-fenced from other GraniteShares entities, whose sole purpose is to issue Collateralised ETPs as outlined in the base prospectus, together with any supplements and related documentation. The base prospectus has been approved by the Central Bank of Ireland for the purposes of the Prospectus Directive.

GraniteShares Collateralised ETPs provide exposure to the underlying indices through a swap agreement with Natixis, the **Swap Counterparty**. Natixis is rated A1 (stable) by Moody's as of 25 January 2019. (To view all Natixis's ratings, see https://www.natixis.com/natixis/jcms/ala_5477/en/ratings)

The swap agreement results in counterparty credit risk. To mitigate the risk of counterparty exposure, Natixis is required to ensure that at the end of each business day, collateral assets having a total value at least equal to the value of all outstanding GraniteShares ETPs are posted with the **Swap Collateral Custodian**, the Bank of New York Mellon SA/NV.

What does this mean? For example, if the value of all outstanding GraniteShares ETPs was €150 million, Natixis would be required to ensure that it has posted at least €150 million worth of eligible collateral to the Swap Collateral Custodian.

This collateral is held in one or more segregated accounts. Natixis has granted security over these segregated account(s) in favour of the Issuer in respect of Natixis' obligations under the swap agreement. In effect, the assets held can only be used to meet the Issuer's obligations to investors in the Collateralised ETPs.

The Bank of New York Mellon's role as Swap Collateral Custodian is two-fold:

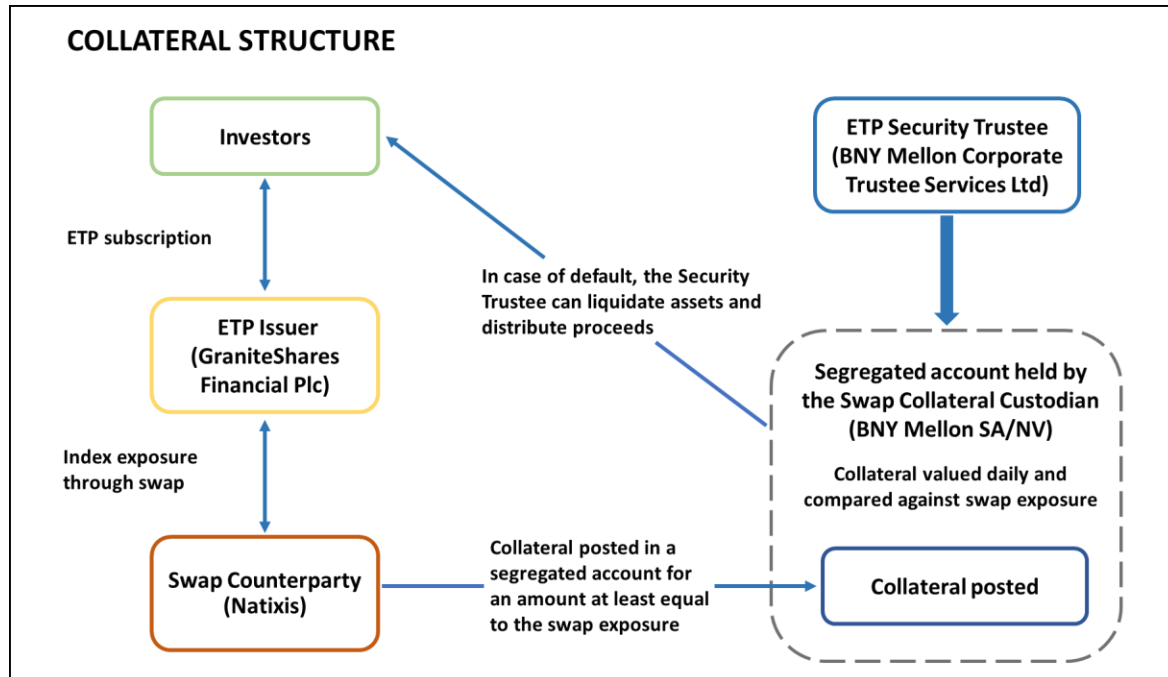
1. Act as custodian by holding and valuing the securities posted by the Swap Counterparty
2. Compare daily the value of securities deposited in the segregated account(s) versus exposure to the Swap Counterparty. In the event of a deficit, it will ask the Swap Counterparty to post additional eligible collateral.

Eligible Collateral

The posted collateral must meet certain set criteria with respect to asset quality, concentration, margin and liquidity as set out in the schedule of Eligible Collateral (see below).

Role of the ETP Security Trustee

In the event of a Swap Counterparty default and non-payment of any corresponding redemption amount under the GraniteShares ETPs, the **ETP Security Trustee**, BNY Mellon Corporate Trustee Services Ltd, would be in a position to enforce the security and to sell the collateral in order to redeem the outstanding GraniteShares ETPs.



Comparing GraniteShares Collateralised ETPs and other similar leveraged products

	GraniteShares Leveraged ETPs	Leveraged certificates	CFDs and Spread Betting
Exchange listed	Yes	Yes	No
Ring-fenced structure	Yes	No	No
Counterparty risk	Yes – but mitigated through collateralisation and ring fencing assets	Yes – no mechanism to mitigate credit risk	Yes – No mechanism to mitigate credit risk
Transparency of collateral holding	Yes – holding posted daily on the website	N/A	N/A
Independent Custodian	Yes	N/A	N/A
Independent Trustee	Yes	Yes	No

Schedule of Eligible Collateral

Type of eligible collateral	Concentration limits, margin and liquidity
Sovereign fixed income	
Debt securities or obligations issued or guaranteed by any of the governments of Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom or the United States of America, where such government has a long-term issuer rating of not lower than “AA” by S&P or “Aa2+” by Moody’s	100% in total, provided that debt securities or obligations issued or guaranteed by a single Sovereign Issuer cannot represent more than 25% of the Posted Collateral (except for the United States of America which may represent 100%). Margin: 100% for the first five years, 101% for the next five years and 102% thereafter
Supranational debt	
Supranational bonds issued by the International Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe, the Asian Development Bank or the Inter-American Development Bank, in each case provided such issuer has a long-term issuer rating of not lower than “AAA” by S&P or “Aaa” by Moody’s	100% in total, provided that the amount of any such Eligible Collateral posted cannot represent more than 2.5% of the aggregated amount of any issuance programme. Margin: 100% for the first five years, 101% for the next five years and 102% thereafter
Other debt (Eligible Securities)	
Any (i) convertible or corporate bonds that are linked to shares that are a member of one of the Eligible Equity Indices (as defined below) and (ii) covered bonds whose issuer is incorporated in an Eligible Country (as defined below), in each case rated not lower than “A” by S&P or “A2” by Moody’s	100% in total, provided that the amount of Eligible Securities and Eligible Equities issued by any one entity and forming part of the Posted Collateral cannot have an aggregated value in excess of (A) 5% of the Posted Collateral or (B) USD 30,000,000. Margin: 103%
Equities (Eligible Equities)	
Shares (common, REITs or preferred) that (i) are a member of one of the Eligible Equity Indices (as defined below) and (ii) have a market capital of at least USD 1,000,000,000	100% in total, provided that the amount of Eligible Securities and Eligible Equities issued by any one entity and forming part of the Posted Collateral cannot have an aggregated value in excess of (A) 5% of the Posted Collateral or (B) USD 30,000,000. Margin: 105% Liquidity: the amount of any Eligible Equity posted cannot represent more than 100% of the

	Average Daily Volume (“ADV”) as measured over the previous 30 trading days.
Eligible Cash	Margin: 100%
Cash in USD	

For Eligible Securities or Eligible Equities, none of such securities or obligations may be a security or obligation of the following ultimate parent companies: Bank of New York (Bloomberg code 100164), Natixis S.A. (Bloomberg code 115333) and Groupe BPCE (Bloomberg code 16774322).

Eligible Countries:

Country of Incorporation				
Australia	Austria	Belgium	Canada	Denmark
Finland	France	Germany	Italy	Japan
Luxembourg	Netherlands	New Zealand	Norway	Portugal
Spain	Sweden	Switzerland	United Kingdom	USA

Eligible Equity Indices:

Country	Eligible Indices
Austria	ATX
Australia	All ordinaries Index, S&P/ASX200 Index
Belgium	BEL20
Canada	S&P/TSE60, S&P/TSX Completion Index, S&P/TSE Composite
Denmark	OMXC20, OMX COPENHAGEN BMARK (OMXCB)
Europe	DJ Euro Stoxx 600, DJ Euro Stoxx 50, FTSE Eurotop100
Finland	OMX HELSINKI, OMXH TECHNOLOGY
France	CAC40, CAC All Shares
Hong Kong	HANG SENG CHINA AFFILIATED CORP, HANG SENG CHINA ENTERPRISES, HANG SENG, Hang Seng REIT, S&P/HKEX LARGE CAP INDEX, S&P/HKEX GEM INDEX, HANG SENG COMPOSITE INDEX
Germany	DAX, CDAX, HDAX, MDAX
Ireland	ISEQ
Italy	FTSE MIB, FTSE Italia All Shares
Japan	NIKKEI 225, Topix
Luxembourg	LuxX
Netherlands	AEX, AMSTERDAM MIDKAP INDEX
New Zealand	NZSX50
Norway	OBX 25
Portugal	PSI20
Spain	IBEX35, MADRID SE GENERAL
Sweden	OMXS30
Switzerland	SMI, SPI
UK	FTSE100, FTSE250, FTSE AIM All Share
USA	S&P500, DJ Industrial, DJ Composite, Russell 3000, NASDAQ100, NYSE COMPOSITE

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Risk Factors

An investment in a GraniteShares short and leveraged exchange traded product (“ETP”) may not be suitable for all investors. They are intended for investors who wish to take a very short term view on the underlying asset and are not intended as buy and hold investments.

Performance and capital loss: Past performance is not a reliable indicator of future results. The value of an investment may go down as well as up and can result in losses, up and including a total loss of the amount initially invested.

Generic risks: Investments in ETPs involve numerous risks including, among others, company risks, general market risks, credit risks, foreign exchange risks, interest rate risks, geopolitical risks and liquidity risks.

Specific product risks: The Index is constructed to track the performance of an increased (leveraged) and/or short exposure to the underlying asset. A fall (or rise where short and leveraged exposure) in value of the underlying asset can result in a greater reduction in the level of the Index. The Index is designed to

do this on a daily basis only which should not be equated with seeking a leveraged position for periods longer than a day. The ETP's performance over periods longer than one day will not be correlated or symmetrical with the returns of the underlying asset. Potential investors should refer to the section entitled "Risk Factors" and "Economic Overview of the ETP Securities" in the Prospectus relating to the GraniteShares ETPs for further details of these and other risks associated with an investment in short and leveraged ETPs and consult their financial advisers as needed.

Counterparty risk: An investment in a GraniteShares short and leveraged ETP involves counterparty risk. GraniteShares Financial plc has entered into a Swap Agreement with a counterparty, Natixis, that is backed with collateral. Failure of the counterparty to make payments may result in an investment in an ETP suffering a loss.

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