



To: Dash Network
From: Mike Lewis - Chair - DIF Supervisor Board
RE: Response to Feedback & Update on DIF Plans/Strategy
Date: 15.05.2020

To the Dash Network:

In response to valuable feedback received from the network in recent weeks, we would like to assure the network that we have listened. We are actively working to implement changes and improvements that - based on feedback - we believe the network would like to see.

We as elected Supervisors care greatly about Dash as a whole and the DIF in particular, and we want to ensure that the feedback the network has been sending us (via written/verbal/voting) during the last two proposals is acted upon, where appropriate. It's clear that a number of MNOs are dissatisfied with the current trajectory of the DIF, so this letter is designed to update and reassure the network that we are here to serve you, and that we're working hard to transition the DIF from "world-first" concept to a fully-established and sustainable Dash entity.

With that in mind, the first order of business is to announce that the supervisors have voted on the following motions at our most recent meeting:

Date: 11.05.2020

Present: Mike Lewis, Amanda B. Johnson, Hytham Abdel-Karim, Spencer Kuzara, Jan Heinrich Meyer

Apologies: Cole Allen

1. To separate all funding and governance decisions going forward?

YES - All supervisors present voted yes to this motion.

2. Reduce treasury ask in line with the block reward reductions?

YES - All supervisors present voted yes to this motion.

3. Submit two regular funding proposals every quarter going forwards at 4.5% of the treasury budget each, in the same format as Q4-2019?

YES - All supervisors present voted yes to this motion.

4. To submit 2 x two-month replacement proposals (as per decision 3) for the remainder of Q2?

YES - All supervisors present voted yes to this motion.

5. To ask the network to vote down the current Q2 2020 proposal for 500D?

YES - All supervisors present voted yes to this motion.

6. To drop the previous request for full decision-making autonomy from the network. The current Supervisors will not make any further request during the remainder of the current elected term.

YES - All supervisors present voted yes to this motion.

7. Construct a revised plan for the remainder of Q2 and issue a statement/update to the network?

YES - All supervisors present voted yes to this motion.

As a result of the votes above, the following motions are carried:

1. The DIF will separate all funding and governance decisions going forwards.
2. The DIF will reduce its treasury asks in line with scheduled block reward reductions.
3. The DIF will submit two regular funding proposals every quarter going forwards at 4.5% of the treasury budget each, in the same format as Q-42019.
4. The DIF will submit 2 x two-month replacement proposals (as per motion #3) for the remainder of Q2-2020.
5. To ask the network to vote down the current Q2-2020 proposal for 500D.
6. To drop the previous request for full decision-making autonomy from the network. The current Supervisors will not make any further request during the remainder of the current elected term.
7. To construct a revised plan for the remainder of Q2 and issue a statement/update to the network.

Exchange and banking update

As discussed in the recent Q1 update, we plan to move a substantial portion of our Dash reserves to custodial platforms during Q2. We have made significant progress towards this with the successful opening of a corporate account with Bitcoin Suisse, based in Zug, Switzerland. Our plan is to use this account to provide custody and staking services for a portion of our Dash reserves in the future. The timeline for bringing this account online and operational, along with the exact amount of reserves we will hold on the platform, will be determined by Demelza and the Directors.

We are also progressing with account openings with other well-known and reputable crypto services providers such as Bitgo and Kraken. We continue to face headwinds in the form of compliance, but the Directors are working hard on this, and we are confident that we can overcome these in the coming months.

Finally, we are still working hard to open bank accounts for the DIF. We are currently in application processes with a USD provider and a CHF provider, and have received referrals for others. Again, the opening of fiat banking facilities has proven challenging due to regulatory and compliance issues. The Directors are working hard on this and we are confident that we will overcome these issues and successfully open at least one account in the coming months.

Rebalancing Strategy - Plan and Update

Demelza will continue to execute the rebalancing strategy as set out in the Q1-2020 quarterly call. This involves hedging a portion of our 100% Dash position into gold in a disciplined way that protects against downside risk and takes advantage of upside volatility as and when it occurs. The primary aims of this strategy are to substantially de-risk the DIF's balance sheet and improve our risk-adjusted returns over time. We wish to make clear that this strategy is a *means-to-an-end*, holding 100% reserves in an asset capable of fluctuating as much as 50% in a matter of days is not an attractive prospect! The rebalancing strategy is therefore a crucial element of the work Demelza is doing, and it will create a strong and stable balance sheet of reserves ready for investment in the future.

There are no current plans to change this rebalancing strategy, though it may evolve at Demelza's discretion as and when new tools/products/services become available to us in the future. We will update the network of any significant changes to the current plan, and regular updates on the progress/development of this strategy will be presented by Demelza at our quarterly calls.

Short-Term Plan Regarding Operations

We have received a substantial amount of feedback from the network regarding this area. As a result, during Q2-2020 we commit to:

- not make any VC investments without network approval during this quarter.
- flesh out a clearly defined VC strategy which outlines exactly what the DIF is looking to invest in, how the process works, and what our criteria is for investing.
- develop and publish a comprehensive plan to transition the DIF from a start-up to a fully established and sustainable Dash entity which provides real and significant value to the network.
- develop a plan to strengthen the internal processes and operational team at the DIF, winding down the day-to-day involvement of DIF supervisors over time.

NB: It was never part of the plan to have supervisors so involved operationally, but deep uncertainty around the Dash price resulted in us needing to help "boot-strap" the transition of the DIF from a shell company to a fully operational one. Hiring a team of people to do this from the outset (in addition to the requisite directors) would have added substantially to the cost of running this entity and was therefore not viable.

We will update the network during the Q2-2020 call on all the above commitments.

Current Guidance on Our Overall Strategy for VC Investment

The overall strategy will focus on investing in companies that can benefit the Dash ecosystem in some way, either directly or indirectly, which we also believe will generate profits and value. We will focus on five main areas of investment:

1. **y-combinator approach:** which is to support very, very early-stage founders to explore an idea, validate a key hypothesis, or build an early prototype. A good example of using this approach is attracting/supporting individuals to build on Dash Platform.
2. **Seed:** which is to invest in ideas/products/services that are further along the process and are looking for capital to operationalize and launch; or, if already revenue-generating, providing funding to integrate Dash and/or provide a runway to further develop the model prior to scaling up.
3. **Series A:** where we invest in companies that have a well-defined product-market fit and proven systems that demonstrate they are ready to significantly scale up business.
4. **A 'flag' type investment:** where we want to be part of something - for example, becoming part of a broader strategy to strengthen Dash's relationship with a key partner. Such an investment would be much smaller and would likely be in rounds where the founder already has many investors who want to support the company, or it is at a much later-stage towards IPO. We would typically have a small and passive stake in such companies.

5. **A fund of funds:** which is to look at opportunities to invest into other crypto-focused VC funds which have a strong track record and have made promising investments in the space. This could benefit the DIF with some high-quality, risk-adjusted exposure to wider growth in the ecosystem.¹

In addition to providing investment capital, we would like to provide support and mentoring to entrepreneurs who receive funding from us. Early-stage VC is much more than just writing checks - it's a hands-on process, and we would like to strengthen the DIF team where required to ensure we can provide as much support and mentorship as our start-ups need. This will give them the best chance to flourish and grow with the Dash ecosystem.

We will update the network during Q3-2020 with a much more comprehensive strategy and presentation.

Guidance on Some Areas We Are Currently Researching

We are researching several topics, such as:

- the structure, portfolio, strategy, and fees of other blockchain VCs
- the prospect of launching financial products such as tracker certificates ourselves as the Dash Investment Foundation.^{2,3}
- Payment service providers (traditional and crypto)
- Wallet Providers & Staking Services
- Exchanges & FIAT on-/off ramp services
- How the DIF can help support growth on Dash Platform

We are researching these areas as we believe they all have the potential to both benefit Dash as a currency and platform, as well as create viable and profitable business opportunities for the DIF.

Governance and Management Review

Our aim is to create a lean and efficient structure for decision-making and management of the DIF. We are well into the process of transitioning towards a structure that is fully operational without the day-to-day involvement of the supervisors. We will release more information on this in the coming months and publish documentation. This documentation will include an up-to-date

¹ An area that we are researching is the structure, portfolio, strategy, and fees of other blockchain VCs including Polychain, Blockchain Capital, and traditional VCs like Sequoia. Depending on our research, we may consider investing a small portion of the Dash Investment Foundation's assets in another VC's portfolio. This is because the DIF's capitalization is small (<\$1 million), which limits our investment capabilities. However, if we invest \$50,000 in another VC that has \$200 million in assets under management (AuM), then we can gain exposure to some much larger companies like Coinbase, Kraken, Coin Metrics, etc.

² There are tracker certificates for almost every cryptocurrency in the market except for Dash, our initial research indicates that we may be able to work with partners to seed and launch financial products such as a Dash tracker certificate which would have an ISIN and be tradable on the traditional markets.

³ For further information in regards to financial products based on cryptocurrencies please take a look at 3.3.3 and 4.2.6 of this document: https://docs.google.com/document/d/1gUMKOD8FbtgQtkQh6YKJY4RIW3_zE8BGa0UWvJ2Wwnl/edit?usp=sharing

organization chart that details the responsibilities of the DIF supervisors, the directors, and current/future employees. It will also show detailed workflows of our internal processes. In addition, we will publish guidelines for the process of approaching the DIF for investment in the future.

Finally, once we have completed this process, it is our intention to revisit the governance question around the process of the DIF making investment decisions independently of the network.

Outlook

It's been a challenging start for the DIF, and we have hit a number of unexpected bumps in the road as we find our feet as an organization, but we hope that this update will reassure the network that we are making progress and are on the right track. We look forward to updating the network at the start of Q3 with our activities during Q2, welcoming the incoming supervisors for the next term, and unveiling a much more detailed and comprehensive plan and strategy for the years ahead.

Thank you for your continued support and feedback.

May 15th, 2020

Mike Lewis

Chair - DIF Supervisor Board