# Hashnote Management LLC

# Risk Management and Internal Controls Policy

# I. Introduction

Hashnote Management LLC (the "Firm") is registered with and regulated by the U.S. Commodity Futures Trading Commission ("CFTC") as a commodity pool operator. The Firm is also a member of the National Futures Association ("NFA"). The firm operates multiple private funds which are exempt commodity pools with the NFA; certain of the funds are registered as mutual funds with the Cayman Islands Monetary Authority ("CIMA").

This Risk Management and Internal Control Policy ("Policy") sets out the Firm's approach to risk management and internal controls. The Policy is designed to provide a holistic approach in understanding and managing risk that is Firm-wide and consistent in its approach. This Policy is designed to meet, among other obligations, the requirements of an Internal Control Policy ("ICP") pursuant to NFA Compliance Rule 2-9 and NFA Interpretive Notice 9074.

## 1. Purpose and Scope

The purpose of this Policy is to develop appropriate risk management policies and procedures for managing risks arising from the operation of the firm's business, which are commensurate with its size, scale and complexity. This Policy applies to all employees and contractors appointed by the Firm and, depending on the nature of the relationship, any outsourced or third-party relationships.

This Policy will be reviewed annually or in the event of an external market change or other environmental factor that requires the Policy to be reviewed sooner. This includes but is not limited to new products or services or changes in business volumes.

## 2. Policy Ownership

The Directors of the Firm have ultimate accountability for ownership of the Policy and overseeing its implementation. The Directors will also be responsible for setting the tone from the top regarding the desired risk and compliance culture of the organization.

The Chief Compliance Officer ("CCO") is responsible for the ongoing implementation and monitoring of the Policy. This person reports to the Board on any risk related matters.

## 3. Policy Communication and Training

The Policy will be communicated to all employees by the CCO and senior management. All new starters will be provided an induction regarding the Policy and its requirements.

All Employees are required to read the Policy and provide an acknowledgement that they have read, understood and agree to comply with the Policy on an annual basis. This Policy is also provided to each new Employee upon joining the firm as part of their new joiner orientation.

Adherence to the Policy, including the outcome of any risk decisions and management behaviors with respect to risk management, will be considered as part of remuneration and performance management reviews.

## II. Enterprise Risk Management Framework

### 1. The Risk Management Framework

The illustration below sets out the Firm's enterprise risk management framework.


The components within the framework should be implemented by management so that risk management becomes a part of day-to-day decision-making within the Firm.

### 2. Risk Strategy

The Risk Strategy defines the overall strategy and related set of principles implemented by the Firm.
The Firm has adopted the guiding principles below to manage risk and ensure any exposure remains within the Firm's risk appetite. This includes active management of any changes that could impact the Firm's risk profile or threaten the delivery of its risk strategy. The Firm requires all Employees to be aware of the risks that could present and take responsibility for managing or escalating the risks that may arise in their respective area(s) of responsibility.

Below are the Firm's guiding principles for risk management:

- It is integrated into the Firm's policies and procedures and is tailored according to its strategy, products, ongoing business activities, processes, and systems. It accounts for the Firm's regulatory requirements and the jurisdiction in which it operates.
- It is dynamic, agile, and responsive to change.
- It takes into consideration both cultural and human factors, such as diversity, biases, and differences in thinking.
- It is based on industry best practice.

## 3. Risk Appetite

The Firm's risk appetite seeks to balance its ability to successfully execute its business strategy while protecting the Firm and its Clients from internal and external risks.

The Firm faces both financial risks, such as market and liquidity risks, as well as non-financial risks, such as operational and regulatory risks

The Risk Appetite Statements below have been established to document the Firm's risk appetite. These Risk Appetite Statements are solely for Hashnote Management LLC and not necessarily reflective of risk parameters of the funds it operates; the risk profile for each fund is separately documented in the respective private placement memoranda ("PPMs") and limited partnership agreements ("LPAs") or articles of association of such funds.

- **Strategic Risk** – Recognising the changing economy and market, the Firm has a low tolerance for risk that could threaten the outcome of its strategic business initiatives and does not place more than USD 1,000,000 of its Year 1 Net Income at risk.
- **Financial Risk** – The Firm has no tolerance for any loss that results in the business having less capital and assets to satisfy its financial obligations.
- **Operational Risk** – The Firm has some tolerance for loss resulting from inadequate people, processes or systems, recognising that as a newly created business entity the risk and control environment is expected to mature as this Policy is embedded. The Firm has a tolerance for total operational losses of no more than USD 500,000 in a single year.
- **Regulatory Risk** - The Firm seeks to comply with all applicable laws and regulations, including those related to financial crime. The Firm has no tolerance for any activity that would require disclosure to the Firm's regulators.
- **Reputational Risk** – The Firm has no tolerance for decisions, relationships, transactions, or business practices that would result in irrevocable damage to stakeholder confidence or materially jeopardize the value of the Firm's brand.

## 4. Risk Management Procedures

The Firm has established procedures to manage the Firm's material risks in accordance with its Risk Appetite. These procedures document how the Firm mitigates risk and also outline the responsibilities of the Employees in ensuring that the Firm effectively manages its risk and complies with applicable rules and regulations.

The Firm maintains written procedures for particular business and operational processes designed to ensure a separation of duties, which will remain confidential to the Firm. These procedures will ensure that:

- Duties are assigned to different employees in a manner, or there are appropriate automated controls, that ensure that there is regular cross-checking of the work performed in material areas;
- Operational functions relating to the custody of pool assets are separated from financial reporting functions such as recordkeeping/accounting for the assets; and
- In the pool funds area (e.g., subscriptions, transfers and redemptions), no one person is responsible for initiating a transaction, approving a transaction, recording a transaction and reconciling an account to third party documentation and information.

Additionally, this Policy requires that procedures around certain operations be designed to mitigate particular risks, as detailed below.

4.1 Pool Subscriptions, Redemptions, and Transfers

Procedures around pool subscriptions, redemptions, and transfers are specifically designed to provide reasonable protections to client and pool assets, including:

- Verification that pool investments are held in accounts properly titled with the pool's name and are not commingled with the assets of any other person (this is also an appropriate control for risk management and investment and valuation of pools funds);
- Reconciliation (on a periodic basis) of transactions between the pool's general ledger, banks, and other third party depositories (this is also an appropriate control for risk management and investment and valuation of pools funds);
- Authorization of redemptions, including verification that the request is made by a participant, adequate funds are available, the proper Net Asset Value has been calculated (e.g., fee calculations and profit and loss allocations) and the proper amount of funds is released, and timely payment is made to a pool participant or authorized third party; and
- Verification that transactions involving pool funds do not violate NFA Compliance Rule 2-45, Prohibition of Loans by Commodity Pools to CPOs and Affiliated Entities.

4.2 Risk Management and Investment and Valuation of Pool Funds

Procedures around investments and valuation of pool assets include:

- Approval of investments to ensure that each type of investment is authorized and is consistent with the pool's strategy;
- Verification that the Firm values investments in accordance with the Firm's valuation policies;
- Ongoing due diligence of counterparties and other third party depositories that includes reviewing the depository's or counterparty's reputation, trading strategy, past performance, and any actions taken by regulators;
- Ongoing monitoring of the risks associated with investments held at third parties utilized by the pool(s) including market risk and credit risk; and
- Ongoing monitoring of pool liquidity to ensure the pool is able to satisfy redemption requests, margin calls, and other financial obligations.

### 4.3 Fund Administrators

Procedures with respect to fund administrators include:

- Initial and ongoing due diligence on the administrator; and
- Obtaining evidence of a test of controls and security measures conducted at the administrator by an internal audit department or independent specialist.

### 4.4 Know Your Customer and Anti-Money Laundering

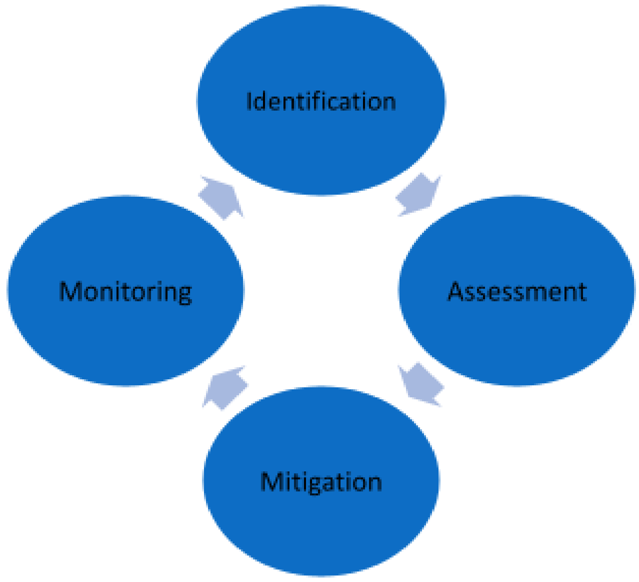
Procedures with respect to know-your-customer ("KYC") and anti-money laundering ("AML") reviews will address the specific requirements under various regulatory regimes applicable to specific funds under management or clients in separately managed accounts. Such regimes include but are not limited to the Cayman Islands Proceeds of Crimes Act. Such procedures may be outsourced to third parties, including the fund administrator.

### 4.5 List of Procedures

The Firm maintains the following written procedure documents to implement this Policy. These documents contain sensitive information security procedures and are not to be shared with third parties.

- Client Onboarding Handbook
- Access Controls Procedures
- Account Statements and Reconciliations

## 6. Risk Management Process




The risk management process is a continuous process whereby risks are identified, assessed, mitigated and monitored. Depending on the type of risk being managed and the extent of its potential or immediate threat to the Firm, different tools and techniques are adopted to ensure the risks are effectively managed and appropriate systems and controls are established.

The Firm will establish processes to identify, assess, mitigate, and monitor risks that it faces. Such processes will include periodic due diligence reviews of third party service providers (including fund administrators, outsourced compliance providers, banks, custodians, and technology service providers), conducted on a frequency reasonably consistent with the risk level presented by the provider.

The Firm will also conduct annual reviews of its policies and procedures to evaluate their effectiveness in identifying, assessing, mitigating, and monitoring risks.

### *6.1 Categorisation of Risk*

The below risk types and applicable to the Firm.

| **Primary Risk Category** | **Secondary Risk Category** | **Definition** |
|---|---|---|
| Strategic Risk | | Risk of events or decisions that could stop the Firm achieving its strategic goals. To include changes in market appetite and support for blockchain and other virtual asset-based technologies. |
| | | Risk threatening or reducing the adequacy of a firm's financial resources, and as a result adversely affecting confidence in the financial system |

Financial Risk

| Primary Risk Category | Secondary Risk Category | Definition |
|---|---|---|
| | Market Risk | Risk of losses arising from movements in market variables, which impact on the expected performance or return of investments |
| | Credit Risk | Risk of loss should a counterparty or issuer not be able to meet its financial obligation to the Firm |
| | Capital Risk | Risk the Firm does not have sufficient capital to meets its obligations |
| | Investment Risk | Risk that investments do not achieve expected returns within the expected horizon or timescale |
| | Liquidity Risk | Risk the Firm is unable to finance its operations due to either restricted access to the capital markets or access becoming cost prohibitive. Can be caused by market or idiosyncratic stress events |
| Operational Risk | | Risk of loss, or of damage to the Firm's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events. Includes execution of the investment process and ongoing fund management |
| | Legal, Regulatory & Compliance Risk | Failure to detect or act upon change in laws and/or regulations or else operate in compliance with expected requirements |
| | Financial Crime Risk | Failure to prevent and/or detect financial crime, including money laundering, fraud and bribery & corruption. Includes internal and external fraud and includes application fraud, identity fraud, investor fraud, and broker fraud |
| | Business Continuity & Resilience Risk | Failure to recover, maintain continuity and/or minimise loss following a business continuity or disaster |
| | Change Risk | Risk or project or change not achieving its stated objectives and/or goals |
| | IT / Technology Risk, including Cyber Risk | Risk of technology failure and/or performance issues, either due to an accidental or deliberate act |
| | Data Protection & Information Security Risk | Risk that data relating to personal information or other protected asset is not secured, leading to physical, material or non-material damage |
| | People Risk | Risk that the Firm is not effectively skilled, resourced or engaged to achieve its strategic goals |
| | Financial Control & Reporting Risk (including Tax) | Risk of poor financial processes and/or controls, both relating to payments, accounting and tax |
| | Third Party Risk & Outsourcing Risk | Risk of third parties or other outsourced relationships not performing to an expected standard |
| | Products & Pricing Risk | Risk of product design and/or execution not resulting in intended commercial or customer outcomes |

| Primary Risk Category | Secondary Risk Category | Definition |
|---|---|---|
| | Payments Risk | Risk of payments either being late or incorrect |
| | Conduct risk | Risk that an action leads to customer detriment or negatively impacts market stability or effective competition |
| Reputational Risk | Note: Reputational Risk is consequence of all risks not a specific risk type | Risk of loss to financial capital, social capital and/or market share resulting from damage to the Firm's reputation |

*6.2 Risk Treatment Strategies*

Risks in the Firm will typically be treated by adopting one of the following mitigation strategies:

- **Tolerance or acceptance** – by not taking any action.
- **Mitigation or treatment** – by choosing to invest in controls.
- **Transfer** – by moving the risk to a third party (e.g. by purchasing insurance).
- **Terminate** – by avoiding the risk altogether (e.g. by changing strategy).

In order to mitigate risks effectively, and dependent upon the type and nature of risk, the following should be considered:

- Avoiding conflicts and, where required, implementing segregation of duties.
- Establishing authority levels and/or processes for approval.
- Monitoring controls to consider adherence to policies and/or limits.

## 7. Risk Reporting

Risk reporting is the primary mechanism of the Firm to provide visibility to and understand both its risk profile and the outputs of the risk management process.

All reporting should support the ability to:

- Determine roles and responsibilities to produce reporting and any decisions to be taken.
- Escalate breaches of the Firm's risk appetite to senior management.
- Consider both internal and external risks.
- Confirm the findings of any monitoring activities and/or controls.
- Be assessed for effectiveness by compliance, risk, or external audit personnel.
- Be communicated to regulators in relation to any supervisory activities.
- Be timely and accurate.
- Avoid jargon and unnecessary technical language.

To achieve this, the Firm should establish an approach to monitor and review the risk profile of the Firm on an ongoing basis. This should include monitoring any risk exposures in order to recommend or propose actions that might be required by management to mitigate any risks.

It is important to ensure appropriate governance controls are applied to reporting in terms of ensuring data accuracy, integrity, completeness, timeliness, availability, and confidentiality. Any limitations in risk data aggregation and reporting capabilities should be escalated to RC and the Board.

## 8. People / Culture (including Training)

Establishing a positive risk culture that supports responsible decision-making is critical to any successful organization. Employees should be encouraged to talk openly about risk and risk issues without fear of being overlooked or criticized.

This should include:

- Employees being trained and developed in accordance with their role and risk-taking responsibilities.
- Poor risk-taking and poor behaviors being held to account and considered as part of performance management.
- Risk roles and responsibilities being clearly documented.
- Establishing a positive culture that encourages an open dialogue on risk.