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Introduction

This is a risk and legal assessment of the proposed deployment of Dai via the existing RWA-015 Andromeda vault for the purchase of Ethena Protocol's USDe and sUSDe product via the Coinbase Prime Web3 Wallet ("W3W"). BlockTower Capital Advisors LP ("BlockTower") will act as Arranger, Coinbase, Inc will act as custodian ("Custodian"), and Ankura Trust Company, LLC will act as paying agent ("Paying Agent").

Key Transaction Terms

Term	
Figure	
Description	
Stability Fee	
0%	
Set to 0% for purposes of MakerDAO accounting.	
Eligible Collateral	
USDe / sUSDe	
Ethena's synthetic dollar ("USDe") seeks to combine yield derived from staked Ethereum as well as the funding & basis spread from futures markets.	
Management Fees	
2.5% of Net Asset Value	
Paid to BlockTower monthly. Calculated by determining the daily net asset value of the account for a given calendar month. Subject to Minimum Fee.	
Minimum Fee	
\$2.5M	
The minimum total fee payable to BlockTower during the first year of Project Ethena, following which, the minimum fee will not apply.	
BlockTower Indemnity	
\$2.5M	
Indemnity will be capped at \$2.5M and will operate for 4 years from Inception Date.	

Executive Summary

Project Ethena contemplates a series of transactions whereby Dai from the Andromeda Vault is deployed, exchanged for USDC, and used to acquire USDe and stake such USDe into sUSDe. More comprehensive information on the Ethena protocol can be found at <https://www.ethena.fi/>.

Project Ethena implements the proposed transaction by means of TACO & SUBS, LLC, a Cayman Islands limited liability company (the "Subsidiary") and wholly-owned subsidiary of TACO Foundation, a Cayman Islands exempted limited

guarantee foundation (the “Parent,” and together with the Subsidiary, “TACO”).

The Parent, as directed by Maker Governance pursuant to the Process for Deployments and Returns described below, will cause the Subsidiary to instruct the Arranger and Paying Agent to implement deployments into and/or returns out of USDe/sUSDe on the Ethena Protocol.

Documents

Public Documents

- [Separately Managed Account Agreement \(“SMA”\) & Paying Agent Agreement](#)
- [TACO Foundation - Certificate of Incorporation](#)
- [TACO Foundation - Articles of Association](#)
- [TACO Foundation - Memorandum of Association](#)
- [TACO Foundation - Register of Directors and Officers](#)
- [TACO & SUBS, LLC - Certificate of Registration](#)
- [TACO & SUBS, LLC - Registration Statement](#)
- [TACO & SUBS, LLC - Register of Managers](#)
- [TACO & SUBS, LLC - LLCA](#)
- [TACO & SUBS, LLC - Manager Resolutions re: Establishment of TACO & SUBS, LLC](#)
- [TACO & SUBS, LLC - Registered Office Services Agreement](#)

Confidential Documents

- Coinbase Prime Broker Agreement
- Coinbase Web3 Wallet Addendum

DAO Resolutions

- [DAO Resolutions Relating to Setup & Deployment](#)

Additional Resources

- [Risk Assessment - USDe Morpho Lending Integration \(BA Labs\)](#)
- [Project Andromeda: Risk & Legal Assessment](#)
- [Project Andromeda: Technical Assessment](#)
- [Confirmation of Coinbase Prime Deposit Address](#)

Key Definitions

Term

Description

Arranger

BlockTower Capital Advisors LP, a Delaware limited partnership.

Coinbase Prime Broker Agreement

An agreement between Coinbase and Subsidiary pursuant to which Coinbase provides prime broker services to Subsidiary.

Coinbase Web3 Wallet Addendum

A supplemental agreement (between Coinbase and Subsidiary) to the Coinbase Prime Broker Agreement governing the use of the W3W services.

Custodian

Coinbase, Inc. and its subsidiaries and affiliates (“Coinbase”)

Deployment Request

A request sent by Ecosystem via email to the Director of TACO to initiate a deployment.

Ecosystem

The [Ecosystem Team](#).

Ethena

ETHENA LABS, S.A., a Portuguese limited liability company.

Ethena Protocol

The synthetic dollar protocol developed on Ethereum by Ethena.

Inception Date

The date on which the initial Project Ethena funds are received by the Custodian.

Parent

TACO Foundation, a Cayman Islands exempted limited guarantee foundation company and the sole member/manager of the Subsidiary.

Paying Agent

Ankura Trust Company, LLC, a New Hampshire limited liability company and chartered non-depository trust company.

Return Request

A request sent by Ecosystem via email to the Director of TACO to initiate a return.

Separately Managed Account Agreement (“SMA”)

The agreement pursuant to which BlockTower will manage and supervise the TACO Account based on guidelines and instructions provided by TACO as BlockTower’s client.

Paying Agent Agreement

The agreement pursuant to which Ankura will act as the Paying Agent with respect to the TACO Account.

Subsidiary

TACO & SUBS, LLC, a Cayman Islands limited liability company and wholly-owned subsidiary of the Parent.

TACO

The Parent and the Subsidiary, collectively.

TACO Account

The assets deployed in Project Ethena and the proceeds thereof.

W3W

Coinbase Prime Web3 Wallet

Ethena Protocol

Ethena is a synthetic dollar protocol developed on the Ethereum blockchain. Their synthetic dollar, USDe, is created and backed with staked Ethereum and delta-hedging techniques implemented via futures and perpetual futures contracts. This collateral backing is intended to provide a stable and scalable alternative to existing fiat backed and CDP stablecoins. USDe can be minted through the Ethena front-end by whitelisted users who have passed KYC/AML checks or purchased permissionlessly in the secondary market from AMMs and DEXs.

Unlike most delta-neutral strategies which use spot ETH as the primary collateral, the Ethena protocol generates yield from two sources: the staking yield from Ethereum collateral and the funding rate from short perpetual futures and/or basis spread from expiry futures contracts. The yield from staked ETH has been relatively steady around 5%, and while the yield from

short futures positions varies considerably based on market conditions, there has historically been a positive funding rate and basis spread. The collective yield generated by the Ethena protocol collateral and futures contracts is passed to users who stake their USDe for sUSDe. Yield accumulates in the staking contract, increasing the value of sUSDe over time. Ethena maintains a growing reserve fund (currently \$25.2M) from protocol surplus created by unstaked USDe to compensate sUSDe holders in the event of negative funding rates.

Ethena accesses the futures market through a number of different centralized exchanges such as Binance, Bybit, Bitget, Deribit, and Okx. In order to mitigate exchange failure risk, Ethena deposits all collateral with off-exchange settlement providers (e.g. Copper Clearloop). In the event of an exchange failure or bankruptcy, the collateral held with the off-exchange settlement provider can be transferred to open new futures positions in a different market. If there is a precipitous drop in the price of ETH and the exchange fails prior to a periodic settlement with the off-exchange settlement provider, it is possible for losses to occur. Ethena will utilize its reserve fund to absorb losses in these events. More information about the reserve fund can be found [here](#).

While the Ethena protocol aims to provide a stable, market neutral yield, there remains a series of risks which are discussed in the section titled “Risks

” below.

TACO Foundation

TACO Foundation (the “Parent”) is a Cayman Islands exempted limited guarantee foundation. It was registered in November 2022 and was used to facilitate the deployment of a [\\$150M Dai facility](#) into real-world credit assets. In May 2023, the Parent was also used in connection with [Project Andromeda](#). Similar to James Asset (PTC) Limited and the RWA Foundation, the Parent serves as an entity through which Maker Governance can conduct activity in the “real world.”

The Parent’s operations are governed according to its Articles of Association (the “Articles”), which provide that the Director of TACO may only make certain decisions on certain matters with the prior approval of Maker Governance via a DAO Resolution. Specifically, clause 4.16 of the Articles requires that the director of the Parent must implement all MakerDAO resolutions (subject to applicable law). This makes the Parent highly responsive to directions from Maker Governance.

TACO & SUBS, LLC

TACO & SUBS, LLC (the “Subsidiary”) is a Cayman Islands limited liability company and wholly-owned subsidiary of the Parent. The Subsidiary was registered in March 2024 to facilitate the proposed transactions set forth in Project Ethena. The Subsidiary’s operations are governed according to its Limited Liability Company Agreement (the “LLCA”), which provides that management of the Subsidiary shall be vested exclusively in the Subsidiary’s manager (the “Manager”), who shall have the exclusive power and authority, on behalf of the Subsidiary to take any action of any kind not inconsistent with the LLCA (or applicable law) and to do any and all acts which are deemed necessary or convenient to or for the furtherance of the purposes of the Subsidiary. Accordingly, given that the Parent serves as the Subsidiary’s Manager and is its sole member, both the Parent and the Subsidiary are equally responsive to directions from Maker Governance.

BlockTower Capital Advisors LP

BlockTower Capital Advisors LP (“BlockTower”) is an investment adviser registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended.** BlockTower commenced its operations as an investment manager in August 2017 and was founded by Ari Paul (BlockTower’s Chief Investment Officer) and Matthew Goetz (BlockTower’s Chief Executive Officer). BlockTower provides its advisory services to privately offered pooled investment vehicles (“Funds”) as well as individual investors pursuant to separately managed accounts (“SMA Clients,” and together with the Funds, the “Clients”). In rendering its advisory services, BlockTower draws from its personnel’s decades of combined experience across professional investing and trading, venture capital underwriting and investing and credit underwriting and investing.

BlockTower generally invests with a focus on various cryptocurrencies, cryptocommodities, blockchain-based assets and networks, and decentralized platforms or protocols that are based on the blockchain, distributed ledger, directed acyclic graph or similar technologies (collectively, “Digital Assets”) as well as non-Digital Asset markets such as traditional credit underwriting, structuring and investing. BlockTower’s advisory services consist of investigating, identifying, and evaluating investment opportunities, structuring, negotiating, and making investments, managing and monitoring asset performance and monetizing such investments.

Pursuant to the proposed Separately Managed Account Agreement by and between the Subsidiary and BlockTower (the “Project Ethena SMA”), BlockTower will manage, supervise and direct the assets in the Subsidiary’s managed account based on guidelines and instructions provided by the Subsidiary to BlockTower and the Paying Agent. As noted above, the Project Ethena SMA contemplates a series of transactions whereby Digital Assets from the Andromeda Vault are deployed to acquire USDe and stake such USDe into sUSDe. The guidelines and instructions related to the deployment/return of such Digital Assets can be found in Exhibit A of the Project Ethena SMA and are summarized in “The Transactions and Flow of Funds–Deployment” below.

For services provided on Project Ethena, BlockTower will be paid Management Fees of 250 basis points (the “Management Fees”). The Management Fees will be paid on a monthly basis and calculated using the average net asset value of the assets of the Subsidiary’s managed account during the applicable calendar month. Under the Project Ethena SMA, BlockTower is guaranteed a total minimum fee of \$2,500,000 over a one year period. In recognition of the uncertain crypto regulatory environment in the United States, BlockTower will also have access to an indemnity that is capped at \$2,500,000 and will remain available for 48 months following the Inception Date. In the event that BlockTower needs to access the Indemnity Amount, the Paying Agent is authorized to provide the necessary amount of funds from TACO’s bank account.

BlockTower brings the professional expertise required to implement Project Ethena and execute strategies related to fund funding rate arbitrage and/or delta neutral investment strategies. Such expertise include executing investment strategies related to digital assets, trading derivatives like futures and perpetual contracts, and managing yield-bearing, staking products. BlockTower and its investment professionals demonstrate this expertise through the operation of its Flagship Fund, which invests in the same spot and/or derivative markets that the Ethena Protocol operates on, and previous operation of its Market Neutral Fund, which primarily focused on funding rate arbitrage on major exchanges similar to Ethena.

** Please note that such registration does not imply a certain level of skill or training. More information about BlockTower is available on the [SEC’s website](#).

Ankura Trust Company

Pursuant to the Paying Agent Agreement, Ankura Trust Company, LLC, a New Hampshire limited liability company will act as the paying agent (the “Paying Agent”) with respect to Project Ethena. The Paying Agent will be responsible for the payment of Management Fees and expenses as well as assisting with Deployment Requests and Return Requests.

The Paying Agent Agreement also provides the flexibility for the Paying Agent to make payments that are not enumerated in the agreement. However, such payments will require jointly issued instructions from both the Arranger and TACO via Maker Governance.

Coinbase

Coinbase will be the primary exchange and custodial platform for executing transactions associated with Project Ethena. All accounts within Coinbase will be owned by TACO and operated by the Directors of TACO, BlockTower, and/or Ankura. Coinbase Prime is marketed as an institutional grade platform for digital assets. In the context of Project Ethena, the Coinbase Prime Web3 Wallet (“W3W”) platform will be used as the custodial platform for holding assets like USDC, USDe, and sUSDe and executing onchain functions.

The Coinbase Prime Web3 Wallet is a full feature MPC wallet platform with the ability to whitelist onchain addresses, require 2FA for interactions, and enforce a multiparty approval workflow. The Coinbase Prime and Web3 Wallet platform will be setup with proper user-specific permissions, with the Director of TACO having Administrator privileges, but still be subject to a multiparty approval process for executing transactions and/or making changes to the account. BlockTower and Ankura are expected to have Full Trader and/or Approver privileges, which means they can either initiate and/or approve transactions but not initiate account-level changes. Overall, Coinbase Prime provides the capabilities and security for executing on Project Ethena.

The Transactions and Flow of Funds

Portfolio & Risk Monitoring

Given the characteristics of the Ethena Protocol and funding rates basis trades, the transactional structure and monitoring system have been set up to be reactive with multiple parties involved from a risk mitigation perspective. The reactivity within the design stems from the ability to trigger a potential deployment or return of any size within a predefined slippage parameter via the Ecosystem team enabled via DAO Resolution No. 8. The Ecosystem Team may receive inputs to influence a deployment or return from a variety of Ecosystem Actors that provide monitoring and reporting, including but not limited to BlockTower, BlockAnalitica, and Steakhouse Financial.

BlockTower has the primary responsibility for providing reporting on the current portfolio holdings and monitoring key signals (including but not limited to funding rates, funding rate z-scores, exchange open interest, and market volatility). BlockTower will leverage an extensive in-house system that is plugged into the same markets and market analytic tools, like Coinglass, Coinalyze, and Kaiko, to actively monitor Project Ethena. The collective inputs will be communicated to the Ecosystem Team who, based on these inputs and/or Maker stakeholder direction, can send a Deployment or Return proposal via the []

[/cdn-cgi//email-protection#f58d8d8d8d8db598949e9087909b9192949890db969a98) to TACO, which in turn, will instruct BlockTower and the Paying Agent.

Deployment

1. As permitted by the “ONGOING DEPLOYMENT” DAO Resolution linked above, the Ecosystem team sends a “Deployment Proposal” from []

](/cdn-cgi//email-protection#58202020202020183539333d2a3d363c3f39353d763b3735) to the director of the Parent, Leeward Management Limited, indicating the amount of USDC to be deployed into the Ethena Protocol and the acceptable slippage threshold.

1. TACO & SUBS LLC will then email BlockTower and Ankura to initiate a deployment into Project Ethena.
2. The Paying Agent will call the relevant RWA015_A_OUTPUT_CONDUIT contracts in order to mint Dai, swap for USDC, and deposit the USDC into the Coinbase Prime account.
3. Upon receipt of the USDC in the Coinbase Prime account, BlockTower will utilize Coinbase’s Web3 wallet and the Ethena front-end to mint and stake USDe, receiving sUSDe in return, to be held in the Coinbase Prime account, which is subject to a multiparty approval workflow with at minimum one initiator (BlockTower) and one approver (Ankura / TACO).
4. BlockTower will email TACO & SUBS confirming the completion of the deployment.

Return of Capital

1. As permitted by the “ONGOING DEPLOYMENT” DAO Resolution linked above, the Ecosystem team sends a “Return Proposal” from []

](/cdn-cgi//email-protection#8cfff8edeee5e0e5f8f5cce1ede7e9fee9e2e8ebede1e9a2efe3e1) to the director of the Parent, Leeward Management Limited, indicating the amount of USDC to be returned from the Ethena Protocol and the acceptable slippage threshold.

1. TACO & SUBS LLC will then email BlockTower and Ankura to initiate a return of capital from Project Ethena.
2. BlockTower will utilize Coinbase’s Web3 wallet and the Ethena front-end to unstake the sUSDe and redeem the USDe for USDC, to be held in the Coinbase prime account, which is subject to a multiparty approval workflow with at minimum one initiator (BlockTower) and one approver (Ankura / TACO).
3. Upon receipt of the USDC in the Coinbase Prime account, Ankura will call the relevant RWA015_A_INPUT_CONDUIT_URN_USDC contracts to deposit principal and RWA015_A_INPUT_CONDUIT_JAR_USDC contracts to deposit gains back to the Maker protocol.
4. Ankura will email TACO, TACO & SUBS, and BlockTower confirming the completion of the return.

Risks

The following list highlights key risks relating to the Ethena Protocol. For an extended discussion of risks, please visit the [Ethena Protocol website](#).

Regulatory Risks.

The digital assets industry is subject to an extensive, highly-evolving and uncertain regulatory landscape. Many of the applicable legal and regulatory regimes were adopted prior to the advent of the internet, mobile technologies, crypto assets, and related technologies. As a result, some applicable laws and regulations do not contemplate or address unique issues associated with the crypto economy, are subject to significant uncertainty, and vary widely across jurisdictions globally. These legal and regulatory regimes, including the laws, rules, and regulations thereunder, evolve frequently and may be modified, interpreted, and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. To the extent TACO is deemed to have not complied with such laws, rules, and regulations in connection with Project Ethena, it could be subject to significant fines and other regulatory consequences, each of which may be significant and could adversely affect MakerDAO.

Minting USDe Risks.

Minting USDe involves interacting with the Ethena Protocol as well as certain off-chain components of Ethena’s business, which may be subject to potential technical, operational and other failures. Ethena has the option to stop minting of USDe, prior to transfer of any assets, due to [specified conditions](#).

Minting USDe comes with the potential for slippage (i.e., the potential to receive more or less than 1.00 USDe for 1.00 USDC or vice versa). An acceptable slippage limit, specified within every deployment / return proposal, can be specified within the Ethena Protocol prior to minting, guaranteeing some level of certainty of the price for transactions. Slippage may be due to an imbalance in the underlying USDe pools, as large minting volumes may cause temporary price dislocations before market makers are able to arbitrage them away. An illustrative example of how certain market makers seek to arbitrage price dislocations, and thus maintain the USDe peg to a dollar may include:

USDe Trading at a Discount

If USDe is worth less in an external market than from Ethena, a market maker could:

1. Buy 1x USDe at 0.95 from Curve using USDC.
2. Redeem 1x USDe at 1.00 from Ethena Labs receiving ETH.
3. Sell the received ETH for USDC on Curve.
4. Generate a Profit.

USDe Trading at a Premium

If USDe is worth more in an external market than from Ethena, a market maker could:

1. Mint USDe using ETH from Ethena Labs.
2. Sell the USDe in the Curve pool for > 1.00 of USDC.
3. Buy ETH using USDC on Curve.
4. Generate a Profit.

Ethena can set a max limit for the number of USDe tokens that can be minted per block.

Redeeming USDe Risks.

Like minting USDe, redeeming USDe involves interacting with the Ethena Protocol as well as offchain components of Ethena's business, which may be subject to potential technical, operational and other failures. Redeeming USDe comes with the potential for slippage (i.e., the potential to receive more or less than 1.00 USDe for 1.00 USDC or vice versa) with two potential mechanisms, depending on size and timeframe. First, Ethena holds liquid collateral to process redemptions; however, for users intending to redeem a large amount, they will need to redeem over several blocks, which may cause a delay in redemptions and potential slippage. Second, there is an open market for USDe, including on Curve and Binance, for selling out of USDe and enabling market makers to arbitrage potential dislocations, similar to the methods illustrated in the risk titled "Minting USDe Risks" above. Ethena can set a max limit for the number of USDe tokens that can be redeemed per block, which may cause significant delays in redemptions.

Staking / Un-staking USDe Risks.

Staking USDe into sUSDe involves interacting with the Ethena Protocol and certain offchain components of Ethena's business, which may be subject to potential technical, operational and other failures.

There is a cooldown period, currently set at seven days (subject to change), covering the time from when a user unstakes sUSDe and receives the underlying USDe. This cooldown period can be set by the Ethena protocol up to a maximum of 90 days, which is enforced by smart contracts. Ethena can also impose "locks on sUSDe held in specific wallets due to legal requirements to ensure sanctioned, criminal, and other high-risk actors are not able to interact with the staking contract and receive any protocol rewards, and in the interest of complying with Sanctions, Anti- Money Laundering, and Combating the Financing of Terrorism regimes." Additionally, it is possible that Ethena may impose such locks for other reasons.

According to the Ethena website, "[u]sers can only receive a positive or zero yield holding sUSDe. The value of sUSDe will NOT decline, even in periods where the protocol is earning negative yield, as the protocol does not and cannot remove assets from the staking contract."⁴ Notwithstanding the foregoing, there is no guarantee that users can only receive a positive or zero yield holding sUSDe.

Oracle Risks.

Ethena relies on certain oracles, such as Pyth and Redstone oracles during the minting and redeeming of USDe. Using the price feed from these oracles, the Ethena smart contracts will mint / redeem USDe typically within 5% of the price provided by these oracles. Oracle price feeds may be subject to hacks, manipulation, and front-running, among other risks.

Funding Rate Risks.

Ethena uses perpetual contracts to hedge the delta of the collateral assets backing USDe and the protocol is thereby exposed to funding rate risks associated with those perpetual contracts. Funding rates are designed to ensure that the prices of perpetual contracts align closely with the underlying asset's market price, but they can invert rapidly in response to sharp market movements, exposing traders to significant financial risk. Additionally, liquidity in perpetual futures markets is often fragmented across different exchanges, leading to disparities in pricing and increased slippage risk during trade execution.

Currently, Ethena is integrated with real-time futures market providers, like Coinanalysze, Kaiko and Amberdata, in order to monitor for scenarios like negative funding rates or material reductions in open interest and respond accordingly. The failure

of such integrations could result in an impairment of Ethena's team to understand and mitigate the risks associated with the underlying funding rate risk of sUSDe.

In the scenario of negative funding rates, where taking a delta neutral position with long spot and short perpetuals results in a payment of interest, Ethena has a reserve fund in place to absorb these payments for a short period. However, in prolonged, severely negative funding scenarios, there is a potential for a loss of value in USDe and sUSDe. The following historical data gives some indication to adverse market scenarios and the resulting funding rate dynamics.

In the following charts, depicting daily realized funding rate for ETH perpetual futures, one can observe the historical volatility of funding rates, which may or may not be similar or different in the future. In the observed dataset, illustrated below, the most significant negative daily realized funding rate occurred at around -5.7%, which sustained for two days between September 14, 2022 and September 15, 2022 for coin margined ETH perpetual futures on the Deribit exchange. The second most significant negative daily funding rate event occurred at -3.95% on 3/12/23 on Deribit again. It also should be noted that Ethena claims that the yield from ETH staking is a mitigant to negative funding rates.

Source: Amberdata

Liquidation Risks.

Within Ethena's hedging system, Ethena intends to use minimal leverage on the positions held within perpetual futures exchanges. Despite this policy, there still exists potential for liquidation associated with dislocations between the collateral asset (e.g., stETH) used to margin Ethena's perpetual futures positions, and the underlying asset of the perpetual future (e.g., ETH or stETH). In such scenarios, if a significant discount in stETH were to occur (e.g., more than 60% discount), the minimum collateral maintenance ratios on perpetual future exchanges may be triggered and positions would be incrementally liquidated. In the event of liquidations, collateral assets may be sold at a discount, depending on the volume of liquidations, resulting in slippage and a potential de-peg of USDe from the U.S. Dollar.

Ethereum Staking Risks.

Staking yield obtained through liquid staking tokens have two primary risk vectors. First, the underlying Ethereum network validators may be subject to loss of funds associated with slashing events occurring at the validator-level. Second, liquid staking token platforms impose an additional degree of smart contract, governance and liquidity risks.

Counterparty Risks.

Primary counterparty risk exists with Ethena. The organization behind Ethena Protocol controls the minting/redeeming of smart contracts, off-chain hedging system and front-end application portal. Each of these components are subject to potential technical failure, hacks and closure.

In addition, secondary counterparty risk exists within Ethena's hedging system, which interacts with centralized exchanges (e.g., Binance, Derabit), custodians (e.g., Copper), and third-party decentralized finance protocols (e.g., Curve). The proper functioning of Ethena's hedging system is necessary for USDe to maintain its peg to the U.S. Dollar via market arbitrage mechanisms/opportunities. Such functions are dependent (in part) upon the secondary counterparties described herein and each of these counterparties may be subject to, without limitation, hacks, interrupted services, smart contract risks and/or closures.

For example, should a centralized exchange that Ethena's hedging system interacts with suffer from a period of interrupted service or closures, this, in turn, may result in potential loss of funds on such centralized exchange and/or periods of the underlying positions being unhedged. While such counterparty risks to centralized exchanges may be mitigated by having custodians (e.g., Copper) custody the collateral assets backing USDe (e.g., stETH) in off-exchange custodial platforms (e.g., Copper Clearloop), custodial platforms are also subject to risks. For example, should a custodian that Ethena's hedging system interacts with suffer from a hack, interrupted services and/or closure, it is possible that the Ethena Protocol could suffer a temporary or permanent loss of funds which may result in slippage and a potential de-peg of USDe from the U.S. Dollar. Such a failure could impair the ability of the client to redeem its assets for fair value. Lastly, should a DeFi protocol (e.g., Curve) the Ethena's Hedging System interacts with suffer from a period of interrupted service or closures, such an event could impair the ability of the Client to redeem its USDe for USDC (or other Digital Assets), resulting in a temporary or permanent loss of funds.

Custodial Risks.

Coinbase serves as the Custodian on Project Ethena via an account in the name of the Subsidiary. Coinbase offers an institutional platform, the Web3 Wallet ("W3W"), for asset custody, DeFi integrations and wallet solutions. For security, Project Ethena will set up a multi-approver process for W3W, whereby, at least two parties need to be engaged for transactions to be initiated and signed. Additionally, within W3W, the Destination Protection functionality permits assets only to be transferred to pre-approved, pre-vetted addresses. Notwithstanding the foregoing, there is no guarantee that the Custodian's system will not be subject to security breaches, technical failures, or unauthorized access, which may lead to the loss or theft of assets.

Conflicts of Interest.

The Arranger is subject to conflicts of interest in providing its services in connection with Project Ethena. Specifically, a client

account advised by the Arranger (and in which capital of BlockTower Persons is invested) is an investor in Ethena, the issuer of USDe/sUSDe, and has equity interest in Ethena. Increases or decreases in USDe/sUSDe may cause increases or decreases in the equity value of Ethena and its platform because it would lead to increases or decreases in total value locked on the Ethena Protocol. Furthermore, other client accounts advised by the Arranger (and in which capital of BlockTower Persons is invested) hold Digital Assets issued by MakerDAO (e.g., MKR and DAI). As the Project Ethena assets are primarily managed for the benefit of MakerDAO, any profits or losses associated with Project Ethena may work to increase or decrease the speculative value of MKR.

Similarly, given that the Digital Assets used to fund the TACO Account originate from the Andromeda vault (and the Digital Assets contained in the vault are used to back DAI's peg to the U.S. Dollar), it is possible that any losses sustained by the TACO Account as a result of the contemplated transactions may negatively affect the value of DAI, and in severe, adverse scenarios, may cause potential de-pegs of DAI from the U.S. Dollar. In the event DAI were to de-peg from the U.S. Dollar, a client account advised by the Arranger would be incentivized to purchase discounted DAI in order to close out its DAI denominated loan with the Parent. Although the Arranger has policies in place to mitigate such a conflict of interest should it arise, it is possible that the Arranger would be required to take actions which may benefit one of its clients at the expense of another.