MINUTES OF MEETING OF TRUSTEES OF

THE VARDY SUPERANNUATION FUND

Held at The Residence of Trustees

On the 30th June 2023

PRESENT:	John Vardy (Chairperson) Elaine Vardy
CHAIRPERSON:	John Vardy

The trustees have resolved that the following Derivatives Risk Statement be adopted and implemented for the Vardy Superannuation Fund to reflect investment in Derivative and/or Cryptocurrencies.

DERIVATIVE and CRYPTO CURRENCY RISK STATEMENT

Vardy Superannuation Fund

INTRODUCTION

The Superannuation Industry Supervision Act (SISA) requires a Derivatives Risk Statement (DRS) to be in effect for Superannuation Funds where a charge is given, in relation to the use of derivatives by the trustee of the fund. This document sets out the DRS of the **Vardy Superannuation Fund,** and has been designed to cover the specific requirements of Regulation 13.15A of the SIS act.

Where the trustees use the services of an Investment Adviser, and that Investment Adviser makes recommendations to the trustee which entail the use of derivatives, the trustees are still responsible for ensuring that the use and implementation of derivatives is in accordance with the aims of this DRS.

1. POLICIES FOR THE USE OF DERIVATIVES, INCLUDING AN ANALYSIS OF THE RISKS ASSOCIATED WITH THE USE OF DERIVATVIES AND CRYPTOCURRENCIES WITHIN THE INVESTMENT STRATEGY OF THE FUND.

The use of derivatives AND Cryptocurrencies

The trustees consider that as with any investment, derivatives AND Cryptocurrencies must fulfill the following criteria:

(a) it must be intended to support the fund's overall investment strategy.
(b) the purpose of making a specific investment must be consistent with the investment objectives of the fund.
(c) all investment guidelines in respect of each member must be complied with.

More specifically, the trustees may intend to use these investments for the following purposes:

(a) writing (selling) covered options to produce extra income for the fund;
(b) hedging the portfolio against the risk of adverse movements in market prices and thereby reducing volatility;
(c) achieving diversified exposure to an entire market through market indices;
(d) achieving transactional efficiency through reducing the cost of achieving a required exposure;

Risk analysis

The trustees are responsible for the risk management and investment decisions of the fund, including those relating to derivatives. Although professional advice may be sought, the ultimate responsibility remains with the trustees.

As Trustees we accept full responsibility for assessing the risks of our investments and whether they remain appropriate to our strategy. We do not rely on the presentation of the financial accounts or audit opinion to determine the risks or appropriateness of any investment. We review risk on an ongoing basis, and as Trustees we will determine exclusively if and when to adjust our investments as our circumstances change.

There are various types of risks associated with derivatives. These can be broadly categorized under the headings of market risk, basis risk, liquidity risk, credit risk, and legal risk. These risks are described below.

A. Market Risk

Market risk is the risk of adverse movements in markets. It arises through the holding of any financial instrument, physical or derivative, which creates exposure to movements in prices of a security or market. The market risk associated with the use of derivatives and Cryptocurrencies is assessed in the context of the risk profile of the total portfolio.

B. Basis Risk

Basis risk is the risk that the value of a derivative will not move in line with the related physical position.

C. Liquidity Risk

There are two types of liquidity risk that arise from investing in derivatives. These are:

Market Liquidity Risk - the risk that the trustees may not be able to, or cannot easily, unwind or offset a particular position due to inadequate market depth or disruptions in the market place.

Funding Liquidity Risk - the risk that the trustees may not be able to meet the future cash flow obligations from the derivative activities such as meeting margin calls on futures contracts.

D. Counter-party (Credit) Risk

Counter-party risk is the risk that a counter-party will fail to perform contractual obligations, that is default either in whole or part, under a contract.

E. Legal Risk

Legal risk is the risk that a derivative contract will not be legally enforceable.

CRYPTO CURRENCY – SPECIFIC RISKS

The trustees also acknowledge awareness of the many risks associated, as outlined below, though not exhaustive. Within reason, the Trustees aim to manage these risks.

Wide Entrance, Narrow Exit –This lowered barrier to entry creates a wide entrance and a very narrow exit, which can be barred due to technological constraints, currency inconvertibility and few counterparties with whom to trade. While the asset class is generally uncorrelated to the traditional economy, it is all correlated to itself, which can create market panics and runs.
Intangible, Illiquid, Uninsured - the intangible and illiquid nature of cryptocurrencies (combined with the point above about narrow exits) hampers their convertibility and insurability. There is rarely insurance for this asset class.
Extortion To Manipulation – While no investor should part ways with money they are not prepared to lose, no matter how nominal the amount, cryptocurrencies are particularly prone to social engineering and misinformation risks.
Care, Custody And Control – Despite the intangible and unseen nature of cryptocurrencies and digital assets more generally, one of the single biggest issues plaguing the market is care, custody and control.
Cyber Risks On All Sides –By this measure, not all cryptocurrencies are created equal in term of their traceability, transaction ledgering and levels of trust or fiduciary responsibility. The risks of cyber attack remain high.
Human Error (And Forgetfulness) –The prospect of being locked out, losing hardware or facing "geophysical risks," such as spilled coffee is often enough to create losses.
(Un)Safe Havens – Another key risk with cryptocurrencies and this asset class more generally is the lack of coordination and clarity on regulatory, financial, tax and legal treatment.
Technological Risks – There have been many reports about the computational complexity and energy consumption of bitcoin mining, as one example of some of the technological limitations of cryptocurrencies. For this, investors should beware of the technological risks and false promises of decentralization that are being made in many projects, for not all blockchains are created equal.
Civil Wars –the constant spectre of civil wars and forks, which can erode market share, valuation and adoption.

2. RESTRICTIONS & CONTROLS ON THE USE OF DERIVATIVES AND CRYPTOCURRENCY

In order to manage & control the risks in Section 1 above, the trustees undertake to implement the following restrictions, controls, and processes:

- All open positions are monitored closely on a daily basis.
- Ensuring prior to and during all derivative contracts that any and all potential expiry exercise obligations can be fulfilled by the fund, and that the exercise event is still consistent with the fund's overall investment strategy.
- Ensuring that positions in derivatives are covered. For the purposes of this DRS, cover consists of cash, or assets that are equivalent to cash and can be converted to cash

within the settlement period. They must be sufficient to meet all potential obligations arising from the underlying asset exposure represented by the derivative position. Cover may also consist of securities for futures or options contracts.

- The setting and execution of a "stop loss" level for all open "sold" option positions, to reduce "unlimited loss" risk on 'cash settled' contracts.
- Asset allocation targets and exposure limits specified in the investment strategy(s) of the fund include both physical and derivative exposures of the portfolio. The trustees must manage portfolios to these target allocations.
- When a derivative contract is entered into, the trustee takes into consideration the likelihood that the price of a derivative will move in line with the underlying physical position and assesses whether the level of basis risk is acceptable.
- The market depth of the derivative will be assessed to control liquidity risk.
- Sufficient cash reserves are maintained in the fund to fund deposits and margin calls equal to the impact of a considered maximum movement of the net (short plus long) derivative position.
- In order to minimize both counter-party and legal risk, the trustees will use exchange traded options and futures, which are subject to market standard documentation and settlement procedures. Participants in the exchange are subject to regulation.
- Effective IT and Data security measures in place

3. COMPLIANCE PROCESSES TO ENSURE THAT CONTROLS ARE EFFECTIVE

The compliance process for the fund includes ongoing monitoring by the trustees to ensure that the above controls and procedures are effective in controlling and managing the identified risks in the use of derivatives and cryptocurrencies. If deficiencies are identified, the trustees will take corrective action. The trustees will review its policies and procedures in an effort to keep current with the evolving derivatives and crypto currency markets and to ensure that they these appropriately and in the best interests of fund members.

Signed

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John Vardy	**Elaine Vardy**
as trustees for the Vardy Superannuation Fund	
Date: 30/06/2023	