

# WILLOW | CRYPTO

## Digital Asset Risk Acknowledgement Form

This information is for those individuals or organizations who wish to have ADCM, LLC dba Willow Crypto (“ADCM” or “Willow Crypto”) manage a portfolio of digital assets on their behalf. All investments have risks, but due to the emerging, rapidly advancing, and changing landscape in the digital assets space, Willow Crypto believes it prudent to share with potential investors some of the risks inherent in digital assets in general in more detail.

If you have questions regarding this information, please contact [info@investwithwillow.com](mailto:info@investwithwillow.com) or call 413-236-2980.

### **A Brief Overview: Bitcoin and Digital Assets**

Successfully investing or trading bitcoin and other digital asset requires technical skill and at least a basic knowledge of how Blockchain works. Below we set out some background information and discuss some of the most significant issues that investors should be aware of in this new and rapidly changing industry.

A bitcoin is a digital currency that is issued by, and transmitted through, an open source, digital protocol platform (the “Bitcoin Network”). The Bitcoin Network is an online, peer-to-peer user network using a digital transaction ledger known as the “Blockchain”, which is stored, in whole or in part, on all users’ software programs. Each transaction is recorded, time stamped and publicly displayed in a “block” in the publicly available Blockchain, therefore creating a verifiable transaction history of all bitcoins in existence (except for off-Blockchain transactions). The protocols for the Bitcoin Network permit the creation of a limited number of bitcoins (not to exceed 21 million). Accordingly, other (competing) digital assets have been developed, such as Ethereum. As digital asset networks do not rely on governmental authorities or financial institutions to create, transmit or determine the value of digital currencies, users may acquire and trade digital currencies without the involvement of intermediaries. However, numerous third-party service providers have appeared, to facilitate transactions and converting digital currencies to or from fiat currency.

The growth of the blockchain and distributed ledger technology industry in general, as well as the blockchain and distributed ledger technology networks on which ADCM will be investing in, is subject to a high degree of uncertainty. The factors affecting the further development of the digital asset industry, as well as blockchain and distributed ledger technology networks, include, without limitation:

- Worldwide growth in the adoption and use of digital assets, blockchains and distributed ledger technologies;
- Government and quasi-government regulation of digital assets and their use, or restrictions on or regulation of access to and operation of blockchain networks or similar systems;
- The maintenance and development of the open-source software protocols for blockchain and distributed ledger technology networks;
- Changes in consumer demographics and public tastes and preferences;
- The availability and popularity of other forms or methods of buying and selling goods and services, or trading assets including new means of using fiat currencies or existing networks;
- General economic conditions and the regulatory environment relating to digital assets; or
- A decline in the popularity or acceptance of the blockchain networks.
- Unfavorable developments in any of the above factors could adversely affect the ADCM’s business or the functionality or value of its digital asset investments.

The prices of digital assets have historically been subject to dramatic fluctuations and are highly volatile. Several factors may influence the market price of these assets including, but not limited to:

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- purchasers' expectations with respect to the rate of inflation;
- changes in the software, software requirements or hardware requirements underlying the digital assets;
- changes in the rights, obligations, incentives, or rewards for the various holders of the digital assets;
- interest rates;
- currency exchange rates, including the rates at which digital assets may be exchanged for fiat currencies;
- government-backed currency withdrawal and deposit policies of digital asset exchanges;
- interruptions in service from or failures of major digital asset exchanges on which digital assets and security digital assets are traded;
- investment and trading activities of large purchasers, including private and registered funds, that may directly or indirectly invest in securities digital assets or other digital assets;
- monetary policies of governments, trade restrictions, currency devaluations and revaluations;
- regulatory measures, if any, that affect the use of digital assets and security digital assets;
- global or regional political, economic or financial events and situations;
- expectations among digital assets participants that the value of security digital assets or other digital assets will soon change; and
- a decrease in the price of a single digital asset may cause volatility in the entire digital asset industry and may affect other digital assets

### **General Risks Associated with Digital Assets**

**As a new technological development, investing in digital assets is subject to different risks in addition to those traditionally associated with the trading of assets. These digital assets are highly speculative and can lose some, or all of their value, and are not covered by FDIC or SIPC insurance.**

#### **Custodial and Exchange Risk.**

The trading of digital asset digital assets is fragmented across several different exchanges. These exchanges are targets for distributed denial of services attacks (referred to as "DDoS Attacks") and other hacking attempts. Certain digital asset exchanges have experienced trading disruptions due to fraud, failure, security breaches and DDoS Attacks. There can be no assurance that your digital assets will not be adversely affected by an attack on an exchange. Client accounts will hold digital assets in one or more digital "wallet" that ADCM, in its sole discretion, deems appropriate for any such digital asset. These wallets or accounts will be held at a qualified custodian. Storage of a digital asset in the digital wallet generally represents the public address associated with the underlying Blockchain, which is known as the "public key." To transfer a digital asset to or from the digital wallet, the controller of the wallet must also have the unique, private numerical code, often referred to as the "private key." To the extent a private key in respect of any digital asset is lost, destroyed, accessed by a third party or otherwise compromised and no backup of the private key is accessible, the Account or its custodian will be unable to transfer the digital asset held in the public wallet address associated with that private key. Consequently, such digital assets will effectively be lost, which could adversely affect the value of your portfolio. The custodian may periodically store digital assets in "hot wallets" which are connected to the internet to facilitate transactions in digital assets. Digital assets stored in "hot wallets" may be more susceptible to theft or compromise than digital assets stored in other digital wallets. There can be no assurance the digital asset storage process will not be compromised. **Storage and maintenance of private keys is ultimately the responsibility of the investor and not ADCM.**

#### **Protocol and Governance Risk.**

Digital assets are a relatively recent technological innovation. Bitcoin is widely considered to be the first popular digital asset and was invented in 2009. Other digital assets in which we may invest were created after Bitcoin. There can be no assurance that the digital asset industry will continue in its current form. Digital assets are generally created and supported by an underlying blockchain or protocol, such as the Bitcoin Protocol or the Ethereum Protocol. Any malfunction, malicious attack, breakdown or abandonment of the network may have an adverse effect on the digital asset's protocol or network which could lead to loss of value of the digital asset. Moreover, advances in cryptography, or technical advances such as the

development of quantum computing, could present risks to the digital assets by rendering ineffective the cryptographic consensus mechanism that underpins a digital asset's protocol. There can be no assurance that changes or developments in digital asset protocols will not adversely impact your Account. The protocols on which digital assets are based are generally open source (permissionless) software. Any user can download the software, modify it and then propose that users and miners of a specific digital asset adopt the modification. When a modification is introduced and a substantial majority of users and miners consent to the modification, the change is implemented and the digital asset's protocol and network remains uninterrupted. However, if less than a substantial majority of users and miners consent to the proposed modification, and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a "fork" (i.e., "split") of the digital asset's network (and the Blockchain), with one prong running the pre-modified software and the other running the modified software. The effect of such a fork would be the existence of two versions of the digital asset network running in parallel, but with each version's digital asset lacking interchangeability.

#### **Loss or Destruction of the Private Key**

Bitcoins (and this applies to other digital assets) are stored in a digital wallet and are controllable only by the possessor of both the public key and the private key relating to the digital wallet in which the bitcoins are held, both of which are unique. If the private key is lost, destroyed or otherwise compromised, an investor may be unable to access the bitcoins held in the related digital wallet which will essentially be lost. If the private key is acquired by a third party, then this third party may be able to gain access to the bitcoins. **Storage and maintenance of private keys is ultimately the responsibility of the investor and not Willow Crypto.**

#### **Other Cyber-Security Risks Including Malicious Activity**

Trading platforms and third-party service providers may be vulnerable to hacking or other malicious activities. Also, if one or more malicious actor(s) obtain control of sufficient consensus nodes on the Bitcoin Network or other means of alteration, then a Blockchain may be altered. While the Bitcoin Network is decentralized, there is increasing evidence of concentration by the creation of "mining pools" and other techniques, which may increase the risk that one or several actors could control the Bitcoin Network or other similar Blockchains. This risk is inherent across all digital asset platforms that use similar consensus mechanisms as Bitcoin.

#### **Risks Associated with Peer-to-Peer Transactions**

Digital assets can be traded on numerous online platforms, through third party service providers and as peer-to-peer transactions between parties. Many marketplaces simply bring together counterparties without providing any clearing or intermediary services and without being regulated. In such a case, all risks (such as double-selling) remain between the parties directly involved in the transaction.

#### **Loss of Confidence in Digital Assets**

Digital assets are part of a new and rapidly evolving "digital assets industry", which itself is subject to a high degree of uncertainty. For a relatively small use of digital assets in the retail and commercial marketplace, online platforms have generated a large trading activity by speculators seeking to profit from the short-term or long-term holding of digital currencies. Most digital assets are not backed by a central bank, a national or international organization, or assets or other credit, and their value is strictly determined by the value that market participants place on them through their transactions, which means that loss of confidence may bring about a collapse of trading activities and an abrupt drop in value.

#### **Regulatory Concerns Preventing or Restricting Trading of Digital Asset**

Regulation of digital assets and digital asset trading continues to evolve in the United States and foreign jurisdictions. Regulatory actions could negatively impact digital assets in various ways, including, for purposes of illustration only, through a determination that one or more digital assets are regulated financial instruments or securities that require registration or licensing. Regulators, including state, federal, or foreign regulators, as well as state and federal agencies, may also determine that trading or transacting in digital assets is an activity requiring licensing or is otherwise subject to regulation under existing law. State and federal regulators may also assert that a digital asset or digital asset trading is being conducted unlawfully

under interpretations of existing law and may take action at any time to freeze or stop digital assets from being released or traded, and regulators may assert criminal or civil claims against digital asset companies or digital asset trading participants, without notice. The basis for regulatory claims can include anti-money laundering or anti-terrorist financing regimes. There can be no assurance that digital assets in which we invest will not be adversely affected by increases in regulatory activity concerning particular digital assets or digital asset exchanges or trading platforms.

There are significant inconsistencies among various regulators with respect to the legal status of digital currencies. Regulators are also concerned that digital assets may be used by criminals and terrorist organizations. In the future, certain countries may restrict the right to acquire, own, hold, sell, or use digital assets.

Regulatory uncertainties surrounding blockchain and distributed ledger technologies abound. Because global and national standards are far from being fully established, fund managers face the heavy disclosure obligation to not only disclose existing regulatory considerations but the potential outcome of various regulatory issues that have yet to be decided. The comprehensive regulation needed to facilitate institutional investment will require the coordination of global standards, particularly for the exchanges. For U.S. governance, regulatory standards will likely be set not by a single authority, but by a combination of state, national, international and industry bodies, judicial precedent, international agreements, and industry associations.

Digital assets investments are inherently global. Even for fund managers drawing on an investor base solely located within its home country, regulatory issues across the world can have direct and indirect impacts on the investment portfolio. Digital asset exchange platforms, custodians, counterparties, and (for centralized exchanges) digital asset issuers are rarely all located within a single jurisdiction.

### **Taxation of Digital Currencies**

For investors in digital assets, it should be noted that there is substantial uncertainty with respect to the tax treatment of an investment in digital currencies. Digital assets may be considered assets in certain jurisdictions and currency in others. Sales or value-added taxes may be imposed on purchases and sales of digital assets. The investors, based on their home jurisdiction, may require specific tax advice on a regular basis to ensure the tax treatment of their investments in digital assets.

### **Technological Risks**

Digital asset technology is fast-moving and highly interdependent, with market intermediaries that are quickly evolving and frequently updating core business functions. Digital assets on a distributed ledger present unique cybersecurity risks relating to the physical security of the digital asset. Unlike equity, debt, and futures instruments, which are representatives of an underlying asset and typically cannot be “stolen,” digital ownership of assets is based on encryption techniques that generate units independent of a centralized repository of ownership, represented by access codes, which can be misappropriated or lost in ways that can be unrecoverable. Exchanges, custodians, and various hardware and computer programs have made strides towards mitigating the risk of loss, but the fundamental cybersecurity risk of trading and holding digital assets remains a critical risk facing investors. **Storage and maintenance of private keys is ultimately the responsibility of the investor and not Willow Crypto.**

### **Price Change Risk**

The price of digital assets fluctuates constantly. Your digital asset trade or balance could surge or drop suddenly. Please note that there is a possibility that the price of any digital asset could drop to zero.

### **Business Hours Risk**

The price of digital assets could fluctuate, sometimes heavily, after traditional market hours. ADCM does not take any responsibility for not being able to buy and sell digital assets after ADCM market hours.

### **Liquidity Risk**

There is a possibility that trades cannot be settled, may be difficult to settle, or can be traded only at significantly adverse prices depending on the market situation and/or market volume.

**Unanticipated Risks.**

Cryptographic digital assets and digital assets are new and still largely untested. In addition to the risks outlined in this Brochure, there are other risks associated with the purchase of Digital assets that ADCM is unable to anticipate. Such risks may further materialize as unanticipated variations or combinations of the risks discussed in this Brochure.

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**By signing below, you certify that you understand and accept the risks involved in investing in digital assets. Further, you acknowledge your ability to undertake this risk, including losing the full principal value.**

**By signing below, you agree to same arbitration terms set forth in ADCM's Discretionary Agreement.**

Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_