EasyCrypto

Bundle Rules

This document sets out the methodologies for the calculation, eligibility requirements, and ancillary disclosures of the EasyEquities bundle instruments. The document is intended to inform clients, prospective clients and all stakeholders about the functionality of the EasyEquities bundle methodologies.

1. Disclaimer

First World Trader Proprietary Limited trading as EasyEquities EasyEquities (subsequently referred to as "EasyEquities", or "We") and its affiliates offer the bundle technologies as a means for investors to gain direct and secure exposure to the cryptocurrency market. The crypto asset bundles are not to be misconstrued as a mutual fund, ETN or collective investment scheme. A bundle is defined as a proprietary investment management technology that allows EasyEquities, and EasyEquities clients to directly trade and securely store a specified set of crypto assets with defined operational rules.

EasyEquities provides no assurance as to the size of the anticipated tracking error incurred by the bundles. Transactional fees, rebalancing fees and deviations in pricing across exchanges may cause varying tracking errors to arise between the bundles and their underlying constituents. Crypto asset prices historically exhibit significant standard deviations of price and pose the risk of loss of invested capital. As such, EasyEquities clients are encouraged to invest responsibly. The future value of crypto assets is conjectural, and returns are not guaranteed. The recommended investment horizon of investments using the bundles is the long term. To the maximum extent allowed by law, EasyEquities, its licensors, respective employees, contractors, agents, suppliers and vendors shall bear no liability for any injury, damages or loss - whether direct or indirect, consequential, incidental, punitive or otherwise arising in connection with the EasyEquities bundles or any data or values relating thereto - whether arising from their negligence or otherwise. Without limiting any of the foregoing, in no event shall EasyEquities have any liability for loss of capital or indirect, punitive, special or consequential damages or losses, even if notified of the possibility thereof.

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2. include proprietary information of EasyEquities,
3. may not be altered, copied or redistributed without prior consent from EasyEquities,
4. are provided solely for informational purposes,
5. are completed in good faith and subject to ongoing systematic reviews,
6. seek to align with best investment practices.

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2. Introduction

Crypto asset defined:

A cryptocurrency, crypto asset, digital asset or virtual asset is defined herein as a cryptographically secured digital instrument for which the issuance, transfer and ownership are recorded on a data structure of a decentralised blockchain protocol.

Management responsibility:

EasyEquities is responsible for the calculation, production and operation of all bundle instruments offered and their respective pricing. Moreover, EasyEquities is responsible for maintaining and disseminating the correct price of the respective bundle instruments.

2.1. EC10

EC10, originally named DCX10, was launched on 15 September 2018. The EC10 index consists of the top 10 cryptocurrencies weighted by market capitalization, exclusive of Stablecoins. The EC10 bundle is a basket of cryptocurrencies that grants investors access to a low-cost solution to easily own and manage a diversified crypto portfolio. The EC10 bundle is a ready-made investment that provides clients with direct exposure and ownership of the underlying cryptocurrencies within the bundle. The bundle offers exposure to the industry because it is rebalanced weekly in conjunction with the reconstitution criteria outlined in Section 3.2. The EC10 seeks to appeal to a diverse investor base with a longer-term investment horizon and a greater tolerance for risk.

2.2. ECE10

The ECE10 constitutes the top 10 cryptocurrencies weighted equally. Since this bundle assigns comparatively greater weightings to altcoins and lower weightings to ETH and BTC, it could be argued to be a riskier investment product with regard to the volatility of price and downside deviation. The ECE10 bundle offers exposure to the industry given it is rebalanced weekly in conjunction with the reconstitution criteria outlined in Section 3.2.

2.3. ECA20

The ECA20, refers to a bundle of assets meeting the formal eligibility requirements of altcoins. The ECA20 is an equally weighted bundle of the top 20 crypto assets exclusive of Bitcoin. The ECA20 bundle offers equally weighted high-risk exposure to the industry and is rebalanced weekly in conjunction with the reconstitution criteria outlined in Section 3.2.

2.4. ECNMG

The EasyEquities NFT / Metaverse / GameFi (ECNMG) bundle is an equally weighted bundle constituting the top 5 coins granting access to the growing sector of digital asset ownership. The ECNMG bundle constitutes the corresponding top 5 'NMG' crypto assets by market capitalisation, weighted equally. The biggest use-cases currently of digital ownership on blockchains extend to the ownership of digital images, virtual real estate, and online gaming assets. As such, ECNMG constituents are elected in consonance with such uses-cases embedded in the protocol of elected assets.

2.5. Bundle Benefits

Benefits of a bundling approach to crypto asset investing include:

- A mitigation of crypto-specific risk with investing attributed to greater crypto diversification. Many professional investors prefer a diversified approach, so you're 'not putting all your eggs in one basket. This follows the investment principles laid out by modern portfolio theory.
- Your crypto holdings are kept up to date with the dynamic crypto market through the automated weekly reconstitution of the bundles, and
- EasyEquities provides immediate access to multiple secure, liquid and reputable crypto exchanges to offer superior trade execution pricing for both buy and sell transactions.
- Provides diversified exposure to specific sectors and/or classes of cryptocurrencies.

2.6. Our principles

We aim to consistently provide investors with a hassle-free, rules-based and transparent way to invest in crypto assets. The crypto market is relatively new and presents several challenges to traditional investment protocols associated with stocks and bonds. The EasyEquities bundles aim to combine the best of traditional asset investing methodologies with appropriate adjustments to adapt to the decentralised characteristics exhibited in the cryptocurrency investment sphere.

The principles of the EasyEquities bundles include:

- Maintaining a systematic and transparent approach to investment management.
- The pricing and corresponding performance of our bundle follow a structured, transparent and predefined rules-based approach.
- Maintaining invest-ability.
- The bundles are designed in all aspects to be investable through the direct acquisition of the underlying crypto assets. So, our bundle will take into account factors impacting liquidity, exchange trading pairs, spreads, exchange stability, custody limitations, custody charges and other notable factors.
- Minimising bundle turnover.
- Maintaining fully backed collateral.
- To maintain a passive market-cap-weighted approach to index rebalancing, in consonance with the methodology of the eligibility requirements for each respective bundle.

3. Bundling Approach

3.1. Defining a crypto bundle

The bundles are developed to provide customers with a clear, pre-defined, rules-based and transparent approach to owning a diversified basket of crypto assets constituents. When purchasing the bundle instruments, clients automatically purchase the underlying cryptocurrencies within the bundle.

3.2. Rebalancing and reconstitution

On a weekly basis bundles are reconstituted to ensure that:

1. Clients hold the cryptocurrencies in consonance with the rules of the bundle, and
2. The cryptocurrencies within the bundles are appropriately distributed in alignment with target weightings and deployed across EasyEquities and other clientele basis.

The weekly rebalancing is considered a re-weighting and is performed by EasyEquities' direct indexing algorithmic computation methodology. This process is fully automated and ensures that your portfolio stays up to date with the fast-paced crypto market.

What does it mean to reconstitute a bundle?

Reconstitution:

> We analyse the crypto market and compare the relative size of individual cryptocurrencies as measured by the market capitalisation weightings per respective bundle. If a cryptocurrency that is not included in the bundle has grown in value so that it has become more valuable than a cryptocurrency that was held within our bundle during the prior week, then we would sell the cryptocurrency which has declined in relative value and purchase the cryptocurrency that has increased in value and include it in the bundle.

Buffer Rules:

> The bundles harness a market capitalization buffering rule to accommodate sustainable and cost-efficient turnover of the lower ranking coins in the bundles. The potential benefit of excessive swapping is outweighed by the cost and risk of doing so. However, the equally weighted bundle prices are affected equally by all constituents in the bundle. Thus, the potential benefit of excessive swapping is outweighed by the cost and risk of doing so. A crypto asset that is held in a bundle will only be removed if there is an eligible crypto asset that exceeds its inflation-adjusted, free-float 7-day rolling average market capitalization by a minimum of a target percentage at the time of reconstitution. The buffer rule weightings for the respective bundles are as follows:

- EC10: 10%
- ECA20: 15%

- ECE10: 20%
- ECNMG: 20%

Investment Committee

Overview: The EasyEquities Investment Committee has sole responsibility for developing, maintaining, and adjusting the bundle methodologies.

4. Bundle rebalancing and reconstitution

Any amount held in a bundle over a rebalancing period will have a distributed rebalancing fee levied and deducted from the total value held. The process to complete a rebalance is as follows:

1. The value of a single unit of the bundle in USD is calculated using price data from CMC.
2. The EasyEquities rebalancing fee is levied on the total bundle value being rebalanced.
3. The list of the largest cryptocurrencies as measured by market capitalisation is retrieved from CMC. This includes a closing value for each cryptocurrency in the list.
4. The post-rebalance bundle composition is calculated by using the new asset closing values, the list of largest cryptocurrencies by market capitalisation and the USD bundle unit price calculated above in step 1.
5. The differences between the old and new composition of the bundle are calculated and our system automatically initiates transactions to bring the underlying asset holdings in line with the new bundle composition target weightings.

5. Eligibility requirements

5.1. Crypto asset exchange eligibility requirements

Crypto asset exchanges from which we obtain prices and volumes for the bundle calculations are subject to the following selection criteria:

1. The exchange has significant trading volume for at least ten or more crypto assets.
2. The exchange has no capital controls in place for international investors in the country where the exchange is domiciled in.
3. The exchange charges trading fees.
4. The exchange operates in compliance with local laws and is not subject to a significant regulatory investigation or under severe legal action.
5. The exchange has an accumulative trading volume of over USD 10m per day calculated on a 20-day moving average basis.
6. The exchange has appropriate Know-Your-Client (KYC) and Anti-Money-Laundering (AML) policies and procedures in place and the processes are properly documented.
7. The exchange incorporates, or intends to incorporate trade surveillance measures.

Eligible exchanges that EasyEquities currently employs are:

1. Binance
2. Bitfinex
3. OKEX

4. Luno
5. VALR

6. Asset pricing

This section outlines how we identify the prices of individual crypto assets and price the bundles. This section also describes how EasyEquities handles network distributions including hard forks and airdrops.

6.1. Crypto asset pricing

- The USD price for each crypto asset on our platform is the latest available price on CoinMarketCap (CMC).
- CMC offers the most accurate and reliable prices for crypto assets globally
- Our pricing system automatically switches to CoinGecko which is of a similar standing to CMC should CMC be down for longer than 10 minutes.
- Conversion of USD prices to ZAR is performed applying the ratio between the pairs BTCUSD as displayed on CMC and BTCZAR on Luno and VALR, thereby factoring in any premium or discount due to arbitrage.
- CMC provides up-to-the-minute updates for all market data found on their website. All data is run through several data cleaning and verification algorithms to ensure data integrity.
- CMC offers a detailed overview of its pricing methodology at https://coinmarketcap.com/methodology/.

6.2. Bundle pricing

In calculating crypto bundle prices, we incorporate USD-based pricing data from CMC and CoinGecko together with ZAR based data from Luno and VALR. On 18 September 2018 a single EC10 bundle was arbitrarily pegged at a price of \$1.00. This valuation was apportioned to the relative coins that constituted the EC10 index at the time and from this a number of coins per bundle was determined. The price of the ECA20 bundle was arbitrarily set to R50 at its inception.

Following the creation date, multiple reconstitutions ensued to the present moment and we are left with a "coins per bundle" breakdown. The price per bundle (P_B) is calculated as the sum of the number of individual coins *per bundle* (c_i), multiplied by their respective prices (p_i).

$$P_B = \sum_{i=1}^{n=10} (c_i \times p_i)$$

As a reconciliatory mechanism, this value is compared to the total amount of coins across all bundles in the ecosystem, traditionally referred to the Assets under Management ("AUM") divided by the number of bundles in existence.

$$P_B \; cf. \frac{AUM}{\sum(Client\ Bundles)}$$

6.3. Treatment of hard forks and distribution

Hard forks:

When a hard-fork occurs, we consider the asset with the larger post-fork market capitalisation to be the original coin, and the asset with smaller post-fork market capitalisation to be a new asset. Provided that:

- At least 2 eligible exchanges, as listed above, agree to list the hard-forked asset in a period of 10-days, and
- The combined trading volume is at least 5% of the combined trading volume of the original pre-forked token as measured in USD.

Bundle owners who hold the pre-forked crypto asset will then receive direct ownership of the newly formed forked crypto asset in the commensurate amount to their holdings prior to the fork. This means that during a given month you may hold more crypto assets in a given Bundle than at the start of the month. At the next rebalancing date, the hard-forked asset(s) will be treated in the same manner as all other crypto assets when considered for inclusion.

6.4. Distributions

Distributions can come about in two ways:

1. Certain crypto assets provide regular rewards to holders in the form of crypto asset grants, typically in the form of "gas" that powers transactions on the network itself.
2. Some crypto assets entitle their owners to airdrops.

If network distributions have a tradable price on at least two eligible exchanges and they are significant enough in total value to be traded (i.e. the combined distributed assets' value must exceed the supporting exchanges' minimum trading value), they will then be priced using the average price of the two eligible exchanges offering the highest price for the particular asset. If no trade price is available for distribution, or if a network distribution trades on fewer than two eligible exchanges, then the network distributed asset will not be included in a bundle's holdings. This means that during a given month investors may hold more crypto assets in a given bundle than at the start of the month. At the next rebalancing date, the distributed asset will be treated in the same manner as all other crypto assets when considered for inclusion.

7. Contingency treatment

7.1. Data interruption or delay

If the retrieval time of the relevant price source at an eligible crypto asset exchange is at least 15 minutes later than the time of calculation of the real-time prices, then the eligible exchange is removed in the pricing calculation, and the weighting of the affected exchange will be automatically re-distributed proportionally into the remaining functional exchanges until the affected exchange resumes operation.

7.2. Erroneous data

All relevant pricing sources are subject to a filtering process to screen out erroneous data. Erroneous data is disregarded in the calculation of the spot price of a bundle, and the weighting of the affected exchange will be automatically re-distributed proportionally into the remaining functional exchanges until the affected price source is no longer regarded as erroneous.

7.3. Exceptional events

It is clearly acknowledged that the ability to connect to the internet is subject to limitations on the stability of the global network, residence of user, network in use, power supply, computer viruses, hacking, and other uncertain factors. EasyEquities is not liable to any stop in service due to the above-mentioned situations. We may, at our sole discretion, suspend trading, especially in circumstance of force majeure events, including but not limited to typhoon, earthquake, tsunami, flood, power outage, terrorist attacks, computer viruses, Trojan horse, hacking attacks, system instability or government behaviours, material adverse change of applicable laws or policies and other reasons, which result in our inability to provide a reliable service or if, in our reasonable opinion, continuous provision of services would result in significant risks.

7.4. Security and custody

Security is the primary mandate of the EasyEquities development directive. We're committed to keeping assets and personal information safe. We invest heavily to ensure both a secure system and a continually developing internal process for identifying and remedying any vulnerabilities detected. To offer additional investment security facilities, EasyEquities has contracted with BitGo as reliable custody solutions and will implement this during April and May 2021. BitGo's custody solution was built for firms based in jurisdictions that have a regulatory requirement to manage keys locally in deep cold storage. BitGo's self-managed custody is the same technology utilized by BitGo Trust Company, the world's largest, regulated, and purpose-built digital asset custodian. BitGo provides powerful enterprise-grade features and complete customer control over how and where both client and backup keys are stored and generated. Fireblocks is used as a secondary custody solution, through which EasyEquities harnesses crypto deposit and withdrawal functionality on the platform. To ensure system integrity, we employ industry-standard information security practices. These include, but are not limited to:

1. The separation and full isolation of the production environment from all development or testing environments. The production system cannot be accessed, nor deployed via any other means than a pre-configured delivery pipeline.
2. The use of key vaults, operated on globally distributed hardware security modules (HSMs) to securely store an application secret key or access key for the production environment.
3. All accounts and integration partners, or provider accounts, are protected by multi-factor authentication and disable all unneeded functionality.
4. Bi-directional authentication between front and backend systems, network address restriction and whitelisting for communication between distinct applications in the EasyEquities universe.
5. Distinct identity server for central user authentication across all EasyEquities services.
6. Standard web protection techniques to combat injection attacks.
7. Full SSL protection.