

# MultiFire Token Fund, Fund Brochure

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## Item 1. Cover Page

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## Item 2. Material Changes

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## **Item 4. Advisory Business**

### **Porcupine LLC**

Porcupine LLC (“we”, “Porcupine LLC”) is registered in Florida and works solely as a manager of hedge funds. Porcupine LLC is not currently involved in any other lines of business, but in the future it can offer portfolio management services and financial data mining services to other parties if that is found to be appropriate and will not act against the fund management business.

### **The Fund And The Fund Manager**

#### **Relationship of the Fund and the Fund Manager**

This brochure is a description of a hedge fund called “MultiFire Token Fund”, which is a hedge fund that is managed by Porcupine LLC.

MultiFire Token Fund, later “Fund”, is a hedge fund whose legal entity is Porcupine MultiFire LP, a Delaware Limited Partnership. This document describes what the Fund is and how it is operated. The intended audience of this document is anyone who wants in-depth information related to the Fund, prospective investors, for example.

#### **Profile Of The Fund**

The Fund is a hedge fund that pools investments and investors for the purpose of giving investors an opportunity to invest in a broad range of individual investment opportunities simultaneously. Porcupine LLC will determine what the investments in the fund will be and also make all decisions about when and in what to invest. These decisions are limited by the rules of the Fund that are discussed later in this document in Item 16, “Investment Discretion”. In short, the fund will invest in investment opportunities found in the cryptoasset market and the whole cryptocurrency world.

#### **Porcupine LLC Only Offers Investment Opportunities In The Fund**

The manager of the Fund is Porcupine LLC. Porcupine LLC offers investment opportunities to the Fund for those who qualify under the rules 506(b)<sup>1</sup> and 506(c)<sup>1</sup> of regulation D in the United States. Porcupine LLC does not provide any other form

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<sup>1</sup> <https://www.sec.gov/fast-answers/answers-rule506htm.html>

of advisory services for its clients. We do not engage in general solicitation in the countries of United States, Peoples Republic of China or Finland.

## **Fund Administration Using Blockchain Technology**

### **Immutable Storage**

Porcupine LLC uses blockchain technology to administer the Fund. The shareholder ledger of limited partners of Porcupine MultiFire LP is stored in a blockchain. We use Ethereum blockchain for this purpose, which is a public blockchain. Most of the administrative operations are carried out within the Ethereum blockchain.

The blockchain itself functions as the immutable and safe storage of the shareholder ledger. An account in the Ethereum blockchain will be associated for each client. Client controls their Ethereum account with their private key. Each account also entails a public key. A public key means basically the same as an account numbers in the financial world. It can be used, for example, to identify an account.

### **Tokens**

In the blockchain, the shares of the Fund are represented by a cryptographic token. The token is called MultiFire Token (“MFT”). We also employ another token to represent the right to receive management and other fee payments from the fund. This has been named Porcupine Token (“PCP”).

### **Smart Contract**

Porcupine LLC will make use of a custom made smart contract to carry out operations involving the shareholders ledger. Porcupine LLC can initiate all these operations but only a few are available to the shareholder. We can limit the availability of operations on a per client basis if need be. All operations for information retrieval are available for anyone who knows the public key of the account in question.

### ***Possible Operations On The MFT Token***

The smart contract can store MFT tokens as well as ether cryptocurrency. In these capacities, the smart contract makes up an account of the Fund itself. The operations that are carried out with the MFT tokens, either by the token holder (client) or Porcupine LLC in the role of the general partner of the Fund, are summarized below.

- 1) Issuing new MFT tokens. The tokens will initially be stored in the smart contract.
- 2) Transferring MFT tokens from the smart contract to a client account
- 3) Transferring MFT tokens from one blockchain account to another
- 4) Destroying MFT tokens, for terminating ownership, for example in the case of redemption of shares/ MFT tokens
- 5) Transfer of an amount of ether cryptocurrency contained in the smart contract to a recipient account in the Ethereum blockchain. This equals to asset transfer from an account inside the Fund to an outside account
- 6) Receipt of an amount of ether cryptocurrency from a sender account in the Ethereum blockchain. This equals to asset transfer to a account in the Fund from an account outside the Fund.

### ***Subscriptions***

The subscription process is a combination of operations 1, 6 and 2. In an offering, we first create the total amount of tokens offered (1), and later, as subscriptions are made with appropriate transfers of ether cryptocurrency (6), the tokens are delivered to the client in question (2).

We apply our KYC policy for each new client. Before the client can subscribe to the Fund, he/she has to sign the subscription document. The client signs it electronically using his/her private key. When the client has been determined to be eligible for a subscription, we include the client account in a whitelist at the smart contract. At this point, the client can initiate the subscription by transferring an appropriate amount of ether cryptocurrency to the smart contract. The client will be given instructions on how to do this. After a successful Ethereum transaction, the client's account will be credited tokens (2) automatically by the smart contract.

### ***Redemptions***

An investor client whose Ethereum account displays an amount of MFT tokens has a subscription in the Fund. A client can initiate a redemption by calling the smart contract's redeem-function. For an investor client, this is only possible using the private key of the client's account. The call to the redeem-function includes instructions about the amount MFT tokens to be redeemed. The smart contract contains logic that determines whether the redemption can take place. Porcupine LLC controls the process so that redemptions can be suspended, if it is decided to do so. This suspension of redemptions can be client-specific or it can be global, affecting all clients of the Fund.

Technically, a redemption happens when operations 4 and 5 are combined. The smart contract does this automatically when the redeem-function executes successfully.

### *Distributions*

Porcupine LLC acting as the general partner of the Fund can decide to accomplish a distribution to all MFT token holders. The asset that the smart contract can distribute is ether cryptocurrency. Technically this is done by calling smart contract's distribute-function, which will send ether cryptocurrency to all token holders.

### *Trade – Transfer of MFT Tokens*

Trading a share in the Fund is technically possible. A client can transfer his/her tokens to another Ethereum account held by another person or entity. Technically this can be done by a call to the smart contract's transfer method.

We recognize that there are legal restrictions to the transfers of shares of the Fund. Namely, we will need to whitelist the receiving party in the same way as any new subscriber of the Fund before any such transaction can take place.

We will prohibit any transfers of MFT tokens by token holders initially. In order to carry out a trade transaction, the receiving party must register his Ethereum account with us and provide further information. Then, as a new client, he/she/entity needs to send enough documentation to prove his identity and investor status. Lastly, we also require that the new client reports the source of the funds that he/she/entity will provide in the transaction.

Trading of MFT tokens at a cryptocurrency exchange is technically possible. We can allow this to happen if we find an exchange that has appropriate KYC practices for its customers. We will allow this only for investors who live outside the United States.

## **Item 5. Fees and Compensation**

### **Definitions**

#### *Base Currency*



The base currency will be chosen to be the **unit of the Fund's net asset value**. The base currency of MultiFire Token Fund is U.S. dollar.

#### *Total Net Asset Value ("NAV")*

The Net Asset Value of the Fund is expressed in the Base Currency. It comprises all assets held by the Fund, minus any liabilities of the Fund. To get the value, values of all assets held in the Fund are first converted to the Base Currency by using publicly available exchange rates. After that they are summed together. Finally, the amount of current liabilities is subtracted. These liabilities include any unpaid redemptions as well as accrued management and performance fees.

After the Fund is in full operation, Porcupine LLC computes NAV every 24 hours, Monday through Sunday, using in-house developed software. The software will be publicly available for review and download. The value of NAV is published in the smart contract and also on the Fund's website. Before that, we may publish the NAV on our website on a quarterly or monthly basis.

#### *MFT Token Value*

The value of one MFT token is based on the total NAV of the Fund. It is obtained by dividing the total NAV by the total amount of MFT tokens outstanding. The Token Value is used in computations of subscription and redemption amounts.

### **How Fees Are Charged**

Porcupine LLC charges the management fee and the performance fee, based on in-house calculations. The amounts of these fees are made public by the smart contract and also published on the Fund's website. The fees are charged by issuing an amount of MFT tokens and transferring them to holders of the PCP token. PCP token exists only for this purpose. Porcupine LLC holds 50% of the total PCP tokens outstanding and the other 50% will be distributed during the ICO to registered clients. Those clients will receive 50% of total fees charged from the Fund.

### **Management fee**

Porcupine LLC will charge a 2% yearly management fee from the Fund. The fee will be computed on a daily basis and the amount that has accrued will be paid monthly to Porcupine LLC. The computation is done based on the current total net asset value of the Fund.

## Early Redemption Fee

Porcupine LLC will charge a 1% early redemption fee from Fund investors during the first 6 months following a subscription. This fee is charged in the form of ether, and transferred directly to an Ethereum account held by Porcupine LLC.

## Item 6. Performance-Based Fees

### Performance Fee

Porcupine LLC charges a 30% performance fee from the Fund's assets. The recent performance of the fund's MFT token value determines the fee. The period used in the calculation of this fee is one day. At the end of this period, the fee is charged if the token value has reached a new all-time high, called a new "high water mark". The amount of the fee per each token is obtained by computing

$$30\% * (\text{Token Value} - \text{High Water Mark}).$$

In the case that the token value exceeds the previous high water mark, the high water mark used in assessing the next fee, is updated to the current token value:

$$\text{High Water Mark} = \text{Token Value}.$$

Conversely, if the token value does not exceed the previous high water mark, there will be no performance fee and the high water mark stays the same.

The total amount of the performance fee is obtained by multiplying the amount per token by the total number of tokens outstanding.

The high water mark is published in the smart contract and also on the Fund's website.

When we calculate the performance fee based on the Token Value, the result will reflect the *net profit* of the fund, void of any previously accrued fees. Also, both the management fee and performance fee are accrued daily. The management fee is calculated first, and the same day's performance fee will be positive only if there is any profit after the management fee.

## Item 7. Types of Clients

The Fund clients will be investors from all countries. The kinds of clients accepted depend on the legislation of client's country of residence.

### **The United States**

Relying on Rule 506(b) with exemption 4(a)(2)<sup>2</sup>, Porcupine LLC offers investment opportunity in the Fund for U.S. accredited investors without general advertising. Advertising will be restricted to a dedicated cryptocurrency group that consists of people knowledgeable in the field of cryptocurrency investing. The group communicates using various digital group communication channels.

Porcupine LLC also accepts contributions from up to 35 non-accredited investors from the United States.

### **Other Countries**

We also accept contributions from investors residing in other countries as well. The client takes responsibility for understanding the laws, rules and other limitations posed by the local governmental bodies. We expect the client to know enough about the risks involved in overseas investing and that he/she will obey the local laws and regulations when making an investment. We will require overseas investors to sign and send an application where the client assures that he/she has understood the documentation we have provided in English. If the client is not fluent in English, he/she will also have to turn to an interpreter. The interpreter is required to make assurances about the quality of the interpretations he/she offered.

### **Clients' Sophistication Level**

We require that Fund investors understand the main principles and nature of cryptocurrency investments and the risks and opportunities involved in these.

### **Know Your Customer Policy**

Before an investor can subscribe to the Fund we will take the client through a KYC process. A subscription could take place either when participating in an ICO, pre-ICO or through any other type of placement.

The KYC procedure begins by the client entering basic information about himself/herself and registering an e-mail address on the customer web portal. We will require that the prospective clients give their name, email address and

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<sup>2</sup> <https://www.sec.gov/fast-answers/answers-rule506htm.html>

residential address. Next, the clients will be asked to provide digital material to prove their identity. We require every client in every country to provide us documents to prove their identity. To prove his/her identity and residential address, the customer can provide:

- Digital photo of passport / Other government issued ID
- Digital copy of a utility or bank account statement bill with address showing
- A Digital photograph of the client holding her/his credit card, with the client's face visible in the photo

In addition, we will ask the client to provide the address of their Ethereum wallet. Because the Ethereum addresses and wallets are anonymous, we will ask the identified client to prove that they hold the wallet's private key. In other words, the client will need to show that they control that wallet.

The U.S. investor must also provide documents to prove claimed investor status.

### **Money Laundering And Terrorism**

We will be applying our anti-money laundering and anti-terrorism policies. We enforce these policies according to our documented AML/AT-procedures. We have a named AML/AT-responsible person, who also teaches all personnel that are involved in client relations and client asset transfers.

The AML/AT-policy is based on a risk level assessment of the client. By default, clients are 'typical-risk' clients. If we assess our clients risk level at any point in time to rise to 'high risk', we will follow-up with the client and ask the client to provide proof about the source of the client's funds. Our clients send and receive assets in the form of tokens and cryptocurrency. Our normal business in the Fund involves transactions of value in the Ethereum blockchain. These transactions will occur from the client's side initiated from an anonymous Ethereum wallet. To reduce the possibility of illegal actions by clients, we require the client to perform a proof that he, after being identified, has access to the Ethereum wallet that he/she has previously registered with us. That way, we make sure that the client has entered the correct wallet address but also that he is not attempting to make any transfers of his Fund assets to unidentified third parties. We only allow this said account as the source and destination of any transfers between the Fund and the client.

## Item 8. Methods of Analysis

### Multi-Strategy Fund

The Fund's investment strategies consist of a number of different sub-strategies. At any instant, these strategies are used for collectively managing the fund's portfolio. Each sub-strategy is used to manage a sub-portfolio.

Each sub-strategy is analyzed separately and then these strategies are assessed combined.

### Sub-Strategy Analysis

The exact nature of in-depth analysis for each strategy is different because the strategies vary widely in their nature of operation and expected outcome. The following variables are nevertheless applicable to any sub-strategy and are determined for each one of them.

- Implicit Leverage: The amount of leverage in the strategy related to a base investment object (cryptocurrency, company, project)
- Risk Corrected Return: Return of investment corrected by implicit leverage
- Historical Volatility: The standard deviation of returns of the sub-portfolio that the sub-strategy manages
- Liquidity: The rate at which the sub-portfolio can be converted to Base Currency

### Top-Level Portfolio Management

Based on the recent performance of each sub-strategy, we make decisions about which sub-strategy should be included in the portfolio management and to what extent. The exact amount of the total Fund's portfolio allocated to each strategy is based on the measures mentioned above and on the in-depth sub-strategy analysis. We follow a few top-level master rules, which decide whether a sub-strategy is allowed to function at all. The rules include a lower limit of recent absolute risk-corrected return and a lower limit of recent absolute risk-corrected return related to total fund return during the same time interval.

### The Sub-Strategies

Here you will find short descriptions of the sub-strategies that are used in the management of the Fund's portfolio.

## *Arbitrage*

Arbitrage trading works by taking advantage of the pricing differences of any specific exchange-traded asset on two different exchanges. For example, if we notice that bitcoin – U.S. dollar currency pair is cheaper on one exchange than on the other we may, depending on the specifics of the situation, buy it on the cheaper exchange and later sell it on the more expensive exchange. This produces usually a small profit. Arbitrage is riskless in theory but in practice, timing issues make it a bit riskier. Still, it remains one of the least risky strategies that exists.

## *Market-Making*

Cryptoassets are quoted as buy and sell orders (bids and asks, respectively) on various exchanges. We can post our own orders and make offers on these markets for other market participants to trade on. The difference in the buy and sell prices of the assets in question will determine the outcome of these trades. In order to generate significant profits, the volume of trading needs to average high because the bid-ask price differences (spreads) tend to be quite narrow in efficient markets.

## *Mining*

This is a unique method to generate profit in the cryptoasset world. Most cryptocurrencies are designed in a way that a process called mining generates the monetary supply. Anyone can, in theory, take part in the collective process of generating new lots of some cryptocurrency. In order to do this in a practical manner, you will need to devote significant amounts of computing resources. The exact resources that are needed will depend on whichever cryptocurrency is being mined. The profitability of mining varies over time as mining ‘difficulty’ changes. There is an on-going race of developing ever more efficient equipment. This in turn will result the net effect of rendering old equipment less and less profitable as the network operating the blockchain will increase the mining difficulty parameter’s value in response to the increased computing resources that become available.

To access mining profits, we may engage in existing businesses operating mining farms by buying shares of the companies. We may also rent mining power from mining power service agents and use it for mining. We may also start a separate business to hold our own mining venture and use the Fund’s assets to finance it. The Fund will own the shares in this business.

## *Cryptocurrency Value*

When anticipating that a cryptocurrency will increase in its market value in the future, we will buy and hold it.

### **Cryptoasset Lending**

We can earn profits with lending our cryptoassets. This is currently possible at Poloniex exchange. This way, we will receive interest income.

### **Project Token Value**

The tokens that are issued in order to finance various projects can provide opportunities for profitable investments. There are hundreds of different projects and tokens that have been issued in the respective ICO's. The tokens are mostly traded in cryptoasset exchanges. The prices tend to be quite volatile as these projects are typically business start-ups.

### **ICO Participation**

The values of the project tokens will oftentimes exceed their subscription price when the tokens are brought to trading in the cryptoasset exchanges. This phenomenon can be taken advantage of by acquiring the tokens at the ICO and later, if the exchange-quoted price is much higher, selling the tokens. Care must be taken to not make a too high impact on the market when doing this. We will limit our participation rate at the ICO's to around 10% maximum.

### **Prediction Algorithms**

Based on observations of market behavior of various cryptoassets, we can develop specialized algorithms that attempt to predict market price action based on input data. These algorithms are used either in 'trading bots' that send orders autonomously to exchanges or as tools for decision making in manual trading. We will develop some algorithms in-house but we will also be using third party algorithm developers, "data scientists", to provide profitable trading algorithms. To make this arrangement work, we have developed a sophisticated system to support risk management.

## **Item 9. Disciplinary Information**

Based on SEC guidelines there is not any disciplinary information regarding the legal entities in this brochure.

## **Item 10. Other Financial Industry**

### **Affiliations**

We are not affiliated with any other financial industry participants.

### **Other Financial Industry Activities**

Porcupine LLC engages currently only in setting up the Fund and providing necessary functions for its proper operation. In the future, we may enter into management of another, external cryptoasset fund. This would be possible when we are in full operation and find that we can offer services similar to our established internal processes. Also we may provide data mining services.

## **Item 11. Code of Ethics**

### **Our Guidelines For Ethical Practices**

In the absence of an established code of ethics in the cryptocurrency world, we believe that it's important to base our general code of ethics practices from equity markets and to use common sense. Our main ethical principle is that we put our customers' and the Fund's interest above our own interest. This means that the supervised persons (owners, employees and advisors) sign an obligation that states that they will not take advantage of any private information related to the Fund's operations they have access to, nor reveal it to any outside parties. Another core principle is the equality of clients. This means that every client is treated the same way regardless of the client's status, the amount of money the client has invested etc. In this spirit, our fee structure and other client policies are the same for everyone.

### **Board Of Ethics**



Should we suspect that someone is violating the rules, the Board of Ethics will meet and give the person an opportunity to give an account of his actions. If the Board comes to the conclusion that the person has violated the rules, his employment status will be terminated and Fund's investors are informed about the situation. The Board will also determine whether the Porcupine LLC is obliged to report about the violation to the SEC. Porcupine LLC's board will elect the CCO and members of the Board of Ethics annually.

### **Transparency Promotes Ethical Behavior**

The goal of the Fund is to be as transparent as possible. This means that we publish our holdings in almost real time on our web portal. All transactions are publicly visible in public blockchains that do not have privacy features. These include the Ethereum and the bitcoin. Investigating these transactions it is possible to discover traits of unethical trading activity. This also works in favor of minimizing the chance of fraudulent and unethical behavior by the Fund manager's employees.

### **Obligations Of Access Persons**

We require our access persons (supervised persons who have access to non-public information) to report their personal cryptocurrency securities transactions and holdings to our CCO at the time they first become an access person and once a year after that. Most cryptoassets, however, are not considered securities. If the Fund is going to invest in a project through an ICO and an access person wants to make an investment in the same project on his own account, he is required to obtain an approval from the CCO prior to the investment.

Our supervised persons are required to report any violations of our code of ethics to the CCO who is obliged to maintain a record of these breaches. The CCO is also responsible for providing each supervised person with a copy of the code of ethics.

### **Client Representative**

One of our Board Members is an elected client representative who brings forth ideas and issues on behalf of all the Fund investors. This person cannot be an owner, employee or advisor of Porcupine LLC. He is elected annually on our web portal where all the investors are able to vote for their candidate. The candidates are self-elected Fund investors.

## About Market Practices

There is a lot of unethical behavior like the so-called pump and dump schemes in the cryptocurrency ecosystem. We will not engage in this kind of unethical behavior and we work to minimize the footprint that we leave in the market. We also try to promote integrity and foster growth in the cryptocurrency ecosystem in other ways. These include for example providing liquidity to small cryptocurrency assets (market making strategies) and long-term investing in sound ICO projects. We have faith that these ethical guidelines will work in favor of every actor of the market.

## Item 12. Brokerage Practices

We do not use cryptocurrency brokerages on the marketplace, because according to our internal tests and lack of their regulation there is no guarantee that those would not self deal, front run or use other malicious practices.

## Item 13. Review of Accounts

### The Asset Mix

The Fund contains both cryptoasset and to a lesser degree, traditional assets. The traditional assets are fiat currency savings on checking account at Wells Fargo bank and possibly other relatively liquid assets, like exchange-traded stocks and other liquid instruments. We may also engage in cryptocurrency mining operations. Mining operations will be carried out in separate corporate entities, which will receive their funding from the Fund. We will make the valuation of these operations ourselves based on commonly used business valuation principles, using the project entities' bookkeeping to achieve that.

### Transparency of The Fund

#### *The Principle of Transparency*

We plan to publish as much of what goes on within the Fund as practically feasible. In the world of the blockchain and cryptoassets, transparency is the norm in the open blockchains like the Ethereum and bitcoin. We can only try to extend this to include the other constituents of the Fund. All actions related to the MFT tokens are public by their nature of existing inside the Ethereum blockchain. With transparent book records, we aim to de-centralize and out-crowd the review of the Fund's accounts.

## *Cryptoassets*

We provide the addresses of all blockchain accounts that hold any Fund assets to the public. By doing so everyone can follow the complete flow of Fund assets and Fund share holdings represented by the MFT tokens. The flow will include any trades that are executed on decentralized peer-to-peer exchanges. The trades of Fund assets executed at cryptoasset exchanges are not publicly visible. Only transfers of blockchain assets between Fund addresses and these exchanges will be visible in the blockchain. Because of the closed nature of most cryptoasset exchanges, we the Fund will disclose the trades that we execute inside these exchanges separately. We will reveal these trades only to the extent that is possible without exposing our proprietary trading methodology. We will walk this line of transparency and privacy in a way that will prevent anyone from reverse-engineering our proprietary trading strategies, but still providing best possible view to what goes on inside the accounts.

If someone in the public detects an inexplicable or dubious transaction in the context of any of the Fund's accounts, we are more than happy to hear that. In order to encourage this, we will employ a bounty program. We will allocate 10% of the MFT tokens initially held by Porcupine LLC for donation to people who discover inexplicable or transactions or transactions that violate a set of rules. We will lay out this set of rules for this process. Someone who proposes a significant improvement in any of our systems will receive a donation from this lot as well.

## *Traditional Assets*

We will disclose all account statements of the bank accounts in the Fund and also the account statements of the brokerage accounts for public review. The audit statements of mining companies owned by the fund will also be made public.

## **Item 14. Client Referrals and Other Compensation**

There will be a perpetual referral in the form of token bonuses. The investor will get 6% of the amount of the purchase of the tokens that his/her referee purchases. The bonus will be in the form of the same MFT tokens as the purchase.

If we decide to use sub-contractor services, such as external portfolio managers, we will split to profit. We have a stringent zero-knowledge proof requirement to qualify the historical performance of external portfolio managers.

## **Item 15. Custody**

### **Cryptoassets**

We do not employ any third party custody. The Fund's assets that exist in any blockchain will be predominantly held behind multi-signature wallets. We will hold only those cryptoassets, which will be needed for trading purposes, on exchange accounts.

### **Non-blockchain assets**

The Fund's assets consist mainly of blockchain assets. Still, we will have a bank account for U.S. dollars. This account will be held at Wells Fargo Bank. We currently have no plans to acquire common stocks or other traditional assets at the fund, but if we decide to do so, we may open a brokerage account at a prime broker of our choice.

## **Item 16. Investment Discretion**

Discretion depends on the sub-strategy in question:

### **Arbitrage**

In theory, arbitrage trading is a riskless strategy, but when executing an inter-marketplace arbitrage, there will be a risk caused by the delay of transfer of cryptoasset between the exchanges where the trades are being done.

### **Market Making**

Market making needs very specialized computer-based order and risk management software. We will develop the software ourselves.

### **Cryptocurrency Value**

We will diversify our cryptocurrency holding sub-portfolio to reduce concentration risks.

### **Cryptoasset Lending**

We will perform appropriate due diligence about the counterparty to eliminate the possibility of fraudulent counterparties. We will look for lending opportunities that

provide a relatively high lending rate and limit the time of the loan, so that the Fund remains liquid enough.

## ICO Investing And Project Tokens

Business risk is the main culprit of the project tokens. Usually fund raising of the given project is based on promises of creation of a product or service in the future. Like with any venture business, there is no guarantee for success. We attempt to diminish that risk by making a fundamentals based analysis. If the project does have a solid plan we will consider investing. If not, we may just take advantage of the possible market hype surrounding the project.

## Mining

The risks in mining are a special topic that would need detailed knowledge about the mining business. But in general terms the risks include:

- Competition risk: More efficient mining equipment will turn existing mining equipment obsolete.
- Falling market values of the mined cryptocurrencies
- Rising difficulty number
- Prices and availability of equipment
- Electricity price changes

We will diversify our mining targets to minimize the cryptocurrency-specific risks. Still, we will give more weight to those mining efforts that produce the best profitability measured in the Base Currency.

## Prediction Algorithms

The algorithms are subjected to various tests before we start using them for live trading. These tests include past historical performance tests with statistical measures, comparison and ranking of these results with other algorithms. We will also use Monte-Carlo analysis of randomized live trading results to generate scenarios of risk. We will set limits for profit variance and various other variables and impose these limits in a real-time risk management system.

Third-party algorithm providers, “data scientists”, will be subject to the same set of tests before and during actual algorithm-based trading. We will not require the algorithm developers to reveal the actual implementation of the algorithms. To gain trust in the algorithms’ performance without knowing the details of their

implementation, we will employ a protocol based on zero-knowledge proof<sup>3</sup> methods.

## Item 17. Voting Client Securities

Token ownership does not grant any voting right in the Fund.

## Item 18. Financial Information

Porcupine LLC with its owners and its parent company, Hedgehog Oy Ltd, Finland, have enough assets available to keep the management operation going for two years. We are currently arranging a fundraising targeting to raise 500 000 USD. The funds raised will be used for bringing the Fund into operation.

## GLOSSARY

### *Blockchain*

A method of storing digital transaction history so that it cannot be tampered with. Blockchain technology provides mechanisms for two parties transacting without the need for a third party as a trustee. See more in Wikipedia:  
<https://en.wikipedia.org/wiki/Blockchain>

### *Cryptocurrency*

A form of digital virtual currency. It uses cryptography to secure transactions and storage, hence the 'crypto-' prefix. Examples of cryptocurrencies are: bitcoin, ether, monero.

### *Cryptoasset*

An asset that exists in the blockchain. Uses the same technology as a cryptocurrency. The project tokens are one example of a cryptoasset.

### *Ether*

The cryptocurrency that is transferred in payments in the Ethereum blockchain.

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<sup>3</sup> [https://en.wikipedia.org/wiki/Zero-knowledge\\_proof](https://en.wikipedia.org/wiki/Zero-knowledge_proof)

### *Ethereum*

Ethereum is a public blockchain that stores and transmits payments denominated in the cryptocurrency, ether. Ethereum blockchain offers also the functionality of smart contracts. Ethereum is also the name of the associated software project. See <https://en.wikipedia.org/wiki/Ethereum> for more information.

### *ICO, Initial Coin Offering*

A new form of sourcing funds for projects. In an ICO, people are receiving tokens in exchange for their contribution in the project. The contributions are usually collected as cryptocurrency transactions to the project. The project may later give meaning and use for the tokens as a part of the software product they are developing.

### *Smart Contract*

A digital contract, which is a computer program stored in blockchain. The network that operates the blockchain will execute the contract based on the rules that have been programmed into it. The smart contract can be used to create vastly different kinds of contracts. Smart contracts may contain various functionalities such as voting, transfer of cryptocurrency and storage of information. The contract works so that the pre-programmed rules are obeyed to initiate these functionalities.

### *Token*

A token is a certificate that belongs to its holders. Token holders are listed in a smart contract's data storage. Tokens can represent ownership or a voting right in a virtual community or corporation. They can be transferred between parties in a manner similar to transfers of cryptocurrencies.