

# Agro Fixed Yield Stablecoin Fund Risk Disclosure

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*This document outlines the potential risks associated with investing in the Agro Fixed Yield Stablecoin Fund.*

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# 1 Introduction

This Risk Disclosure document provides a comprehensive overview of the potential risks associated with investing in the Agro Fixed Yield Stablecoin Fund. Our commitment to transparency requires that we clearly communicate all material risks to our investors to enable informed decision-making.

## Risk Overview

While we employ rigorous risk management strategies, all financial investments involve some degree of risk. This document outlines the specific risks related to decentralized finance (DeFi) stablecoin investments, our assessment of each risk, and the steps we take to mitigate these risks.

Please read this document carefully before making any investment decisions. The information provided here is intended to help you understand the nature and risks of investing in our fund but should not be considered as investment advice.

## 2 Smart Contract Risk

Smart contracts are the foundation of DeFi protocols. Despite rigorous testing, these contracts may contain bugs or vulnerabilities that could be exploited.

### Medium Risk

**Risk Assessment:** Medium

Smart contract exploits remain one of the most significant risks in the DeFi ecosystem. While major protocols undergo extensive auditing, vulnerabilities can still be discovered over time.

**Potential Impact:** Smart contract failures could lead to partial or complete loss of invested funds.

### Our Mitigation Strategy

- We only integrate with protocols that have undergone multiple security audits by reputable firms
- We prioritize protocols with long operational histories and proven track records
- We diversify across multiple protocols to minimize exposure to any single smart contract failure
- We continuously monitor security forums, disclosures, and bug bounty programs for early detection of vulnerabilities
- We maintain relationships with security researchers and audit firms for rapid assessment of emerging threats

### 3 Protocol Risk

Protocol risk refers to the operational and financial risks associated with the underlying DeFi platforms where we deploy capital.

#### Medium Risk

**Risk Assessment:** Medium

DeFi protocols face various operational challenges including governance issues, competitive pressures, and technical limitations.

**Potential Impact:** Protocol failures, insolvency, or abandonment could lead to loss of funds or reduced yields.

#### Our Mitigation Strategy

- Our investment team conducts thorough due diligence on all protocols, including assessment of:
  - Governance structure and quality of the development team
  - Economic sustainability of the protocol's business model
  - Liquidity and total value locked (TVL) trends
  - Code quality and documentation
- We actively monitor protocol governance proposals and participate when necessary to protect investor interests
- We diversify across protocols with different architecture designs to reduce correlation risk
- We maintain continuous monitoring of protocol health metrics (reserve ratios, utilization rates, etc.)

## 4 Stablecoin Depegging Risk

Stablecoins are designed to maintain a peg to their underlying asset (typically USD). However, various factors can cause stablecoins to deviate from their intended value.

### High Risk

**Risk Assessment:** High

Stablecoin depegging events have occurred multiple times in the past, sometimes resulting in significant devaluation. Even established stablecoins are not immune to market stress.

**Potential Impact:** A significant depegging event could result in substantial loss of principal, regardless of the protocol's security.

### Our Mitigation Strategy

- We primarily use USDC, which has a transparent reserve backing and regular attestations
- We avoid algorithmic stablecoins that lack full collateralization
- We continuously monitor stablecoin market indicators including:
  - On-chain premiums/discounts across major exchanges
  - Liquidity depth in stablecoin pairs
  - Redemption volumes and patterns
  - CDS (Credit Default Swap) equivalents for stablecoin risk
- We have established contingency plans for rapid conversion between stablecoins during market stress
- We maintain relationships with OTC desks for emergency liquidity if needed

## 5 Regulatory Risk

The regulatory landscape for cryptocurrencies and DeFi is evolving rapidly, with regulatory approaches varying significantly across jurisdictions.

### High Risk

**Risk Assessment:** High

Regulatory actions could significantly impact the DeFi ecosystem, including stablecoin issuers, lending protocols, and aggregator services like ours.

**Potential Impact:** Regulatory changes could limit our ability to access certain protocols, force operational changes, or potentially require service termination in certain jurisdictions.

### Our Mitigation Strategy

- We maintain a proactive approach to regulatory compliance, working with legal experts specializing in blockchain regulation
- We monitor regulatory developments across major jurisdictions
- We build relationships with industry advocacy groups to stay informed of potential regulatory changes
- Our architecture is designed to adapt to evolving regulatory requirements
- We maintain contingency plans for various regulatory scenarios
- We seek to work with protocols that demonstrate commitment to compliance

## 6 Market Risk

Market conditions significantly affect DeFi yields, with interest rates often showing higher volatility than traditional finance.

### Moderate Risk

**Risk Assessment:** Moderate

Yield fluctuations in DeFi are common and can be substantial. While this affects our profit margin more than investor returns, extreme market conditions could impact our ability to maintain target rates.

**Potential Impact:** Sustained periods of low DeFi yields could necessitate reducing our offered fixed rate. Extreme market stress could temporarily impact liquidity.

### Our Mitigation Strategy

- We maintain strategic yield reserves to smooth out short-term market fluctuations
- Our diversified protocol approach reduces exposure to market-specific yield compression
- We actively adjust our protocol allocation to optimize for prevailing market conditions
- Our team conducts ongoing macroeconomic analysis to anticipate potential yield shifts
- We stress-test our portfolio against historical market events to ensure resilience



## 7 Liquidation Risk

Although the Agro Fixed Yield Stablecoin Fund does not employ leverage directly, some underlying protocols may use leveraged strategies.

### Low Risk

**Risk Assessment:** Low

We primarily utilize overcollateralized lending protocols with conservative parameters. Direct liquidation risk to the fund is minimal.

**Potential Impact:** Liquidation events in underlying protocols could result in temporary yield disruptions.

### Our Mitigation Strategy

- We avoid protocols that employ high leverage or risky collateral types
- We monitor collateralization ratios across our portfolio
- We favor protocols with proven liquidation mechanisms and adequate liquidator participation
- We model potential liquidation cascades during our risk assessment process

## 8 Counterparty Risk

Counterparty risk arises from our reliance on various third parties in the DeFi ecosystem.

### Medium Risk

**Risk Assessment:** Medium

The DeFi ecosystem involves multiple parties including protocol developers, node operators, oracle providers, and infrastructure vendors.

**Potential Impact:** Failure of critical counterparties could disrupt operations, affect yields, or in extreme cases lead to fund impairment.

### Our Mitigation Strategy

- We carefully assess the reliability and track record of all counterparties
- We avoid excessive concentration with any single infrastructure provider
- We maintain redundancy for critical services where possible
- We develop contingency plans for potential counterparty failures
- We continuously monitor counterparty performance and health indicators

## 9 Oracle Risk

Oracles provide external data to smart contracts, which many DeFi protocols rely on for pricing and other critical information.

### Medium Risk

**Risk Assessment:** Medium

Oracle failures or manipulations have caused significant losses in DeFi historically.

**Potential Impact:** Oracle manipulation or failure could lead to incorrect pricing, improper liquidations, or smart contract malfunctions in protocols we use.

### Our Mitigation Strategy

- We favor protocols that utilize decentralized oracles with multiple data sources
- We evaluate oracle design when assessing protocol risk
- We monitor for price deviations across oracles and centralized exchanges
- We prefer protocols that implement time-weighted average prices and other manipulation-resistant designs
- We seek protocols with circuit breakers or other safeguards against extreme oracle outputs

## 10 Governance Risk

Many DeFi protocols operate under decentralized governance systems where token holders vote on changes to the protocol.

### Low Risk

**Risk Assessment:** Low

While governance attacks are possible, major protocols have developed increasingly robust governance systems.

**Potential Impact:** Malicious governance proposals could potentially alter protocol parameters in ways that harm users.

### Our Mitigation Strategy

- We actively monitor governance proposals in protocols where we deploy capital
- We assess governance models during our protocol evaluation process
- We favor protocols with timelock delays and other safeguards against governance attacks
- When necessary, we participate in governance to protect investor interests
- We diversify across protocols with different governance models

## 11 Technical Infrastructure Risk

Beyond smart contracts, technical infrastructure including blockchain networks, node operators, and off-chain systems can introduce additional risks.

### Low Risk

**Risk Assessment:** Low

While blockchain networks have proven highly reliable, congestion, gas price spikes, and other technical issues can occur.

**Potential Impact:** Infrastructure issues could temporarily prevent optimal capital allocation or delay withdrawals.

### Our Mitigation Strategy

- We build redundancy into our technical infrastructure
- We monitor network conditions and adjust gas prices accordingly
- We implement circuit breakers to prevent transactions during abnormal network conditions
- We maintain multiple node connections across different providers
- We test our systems against simulated infrastructure failures

## 12 Risk Management Framework

At Agro, we implement a comprehensive risk management framework to protect investor capital while delivering competitive yields.

### 12.1 Risk Assessment Process

Our risk assessment process includes:

- **Protocol Evaluation:** Comprehensive technical, financial, and operational due diligence on all integrated protocols
- **Continuous Monitoring:** Real-time monitoring of key risk indicators across our portfolio
- **Stress Testing:** Regular stress tests against historical scenarios and hypothetical extreme events
- **Security Reviews:** Ongoing security assessments of both protocols and our own infrastructure
- **Risk Committee:** Regular meetings of our risk committee to evaluate emerging risks and adjust strategies

### 12.2 Risk Mitigation Principles

Our approach to risk mitigation is guided by the following principles:

- **Diversification:** Spreading capital across multiple protocols, collateral types, and technical approaches
- **Conservative Parameters:** Favoring security over maximizing yield
- **Transparency:** Providing clear information about where funds are deployed
- **Continuous Improvement:** Regularly updating our risk models based on new information and industry developments
- **Contingency Planning:** Maintaining detailed response plans for various risk scenarios

## 13 Important Disclaimers

- Past performance is not indicative of future results
- The Agro Fixed Yield Stablecoin Fund is not FDIC insured
- While we target a fixed yield rate, this rate is not guaranteed and may be adjusted based on market conditions
- This document does not constitute investment advice or a recommendation to invest
- The risks described in this document are not exhaustive, and other unforeseen risks may emerge
- Cryptocurrency and DeFi investments should be considered high-risk and only represent a portion of a diversified portfolio

## 14 Additional Information

For any questions regarding the risks associated with the Agro Fixed Yield Stablecoin Fund, please contact us at [support@agroearn.com](mailto:support@agroearn.com).

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