

Investment Policy Statement

For Palcoin Venture Capital



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Introduction

This Investment Policy Statement (IPS) provides a comprehensive investment framework for Palcoin Venture Capital (the "Fund"). It outlines the investment philosophy, objectives, strategies, risk management practices, and governance structures guiding the Fund's activities as it invests in innovative startup projects.

1. Fund Objectives

The fund aims to achieve the best possible returns while managing investments according to an acceptable level of risk.

The primary objectives of Palcoin Venture Capital are:

1. **Capital Appreciation:** Achieve significant long-term capital growth through strategic investments in early-stage and growth-stage startups.
2. **Investment in Innovative Blockchain Projects:** Palcoin Venture Capital aims to identify and invest in groundbreaking blockchain startups that are poised to disrupt traditional industries. By focusing on innovative technologies and solutions, we seek to drive growth in the crypto ecosystem.
3. **Supporting Early-Stage Entrepreneurs:** Our fund is dedicated to nurturing early-stage crypto entrepreneurs by providing them with not just capital, but also mentorship and strategic guidance. We aim to empower founders to refine their ideas and scale their businesses effectively.
4. **Diversification of Portfolio:** We strive to build a diversified investment portfolio across various sectors within the crypto space, including DeFi, NFTs, and Web3. This diversification helps mitigate risks while maximizing potential returns.
5. **Fostering Community Engagement:** Palcoin believes in the power of community. We aim to support projects that prioritize community involvement and decentralized governance, fostering ecosystems where users have a voice and stake in the success of the projects.
6. **Promoting Sustainable Growth:** Our investment strategy emphasizes sustainability and responsible practices within the blockchain space. We seek projects that demonstrate environmental consciousness and long-term viability.
7. **Market Education and Awareness:** We are committed to enhancing understanding of blockchain technology and its applications. By supporting educational initiatives, we aim to cultivate a more informed investor base and promote broader adoption of crypto solutions.
8. **Collaboration with Other Investors:** Palcoin Venture Capital actively seeks to collaborate with other investors and venture funds. By pooling resources and expertise, we can support a broader range of projects and amplify our impact on the crypto ecosystem.
9. **Maximizing Returns:** Ultimately, our primary goal is to generate substantial returns for our fund and Palcoin holders. Through careful analysis, strategic investments, and active management, we aim to deliver strong financial performance while adhering to our ethical standards.

By focusing on these objectives, Palcoin Venture Capital seeks to be at the forefront of the crypto revolution, supporting visionary startups that are set to transform the future of finance and technology.

2. Investment Philosophy

Palcoin Venture Capital believes that startups represent a crucial driving force in technological innovation and economic growth. The Fund focuses on identifying and investing in companies with unique value propositions, strong leadership, and the potential for scalability.

Core Belief: Blockchain and digital assets represent a transformative technology with the potential to revolutionize various industries.

At Palcoin Venture Capital, our investment philosophy is rooted in a deep understanding of the blockchain landscape, a commitment to innovation, and a focus on long-term value creation.

Here's how we approach our investments:

- 1. Thesis-Driven Investment:** We begin with a well-defined investment thesis that focuses on identifying trends and opportunities within the crypto ecosystem. Our team conducts thorough research to understand market dynamics, technological advancements, and emerging sectors that have the potential for significant growth.
- 2. Focus on Founders and Teams:** We believe that great companies are built by exceptional teams. Our investment process prioritizes the evaluation of founders' vision, experience, and ability to execute. We seek passionate and resilient entrepreneurs who are committed to driving their projects forward.
- 3. Value-Add Partnership:** Beyond capital, we aim to be valuable partners to the startups we invest in. We provide strategic guidance, mentorship, and access to our network of industry experts. Our hands-on approach ensures that our portfolio companies have the support they need to thrive.
- 4. Emphasis on Innovation:** We are passionate about supporting innovative technologies that push the boundaries of what blockchain can achieve. Our investments focus on projects that offer unique solutions, enhance user experience, and address real-world challenges.
- 5. Risk Management and Due Diligence:** Our rigorous due diligence process helps us assess potential risks and rewards before making an investment. We evaluate the technical feasibility, market demand, and competitive landscape of each project to ensure a sound investment decision.
- 6. Long-Term Perspective:** We are committed to a long-term investment horizon, recognizing that the crypto space can be volatile. Our strategy involves supporting companies through various market cycles, fostering their growth over time rather than seeking short-term gains.
- 7. Sustainability and Ethics:** Palcoin is dedicated to investing in projects that prioritize ethical practices and sustainability. We seek to support initiatives that not only promise financial returns but also contribute positively to society and the environment.
- 8. Community-Centric Approach:** We believe in the power of community within the blockchain ecosystem. Our investments focus on projects that encourage community engagement, decentralized

governance, and active user participation, ensuring that stakeholders have a voice in the success of the project.

By adhering to this investment philosophy, Palcoin Venture Capital aims to foster innovation, drive sustainable growth, and generate significant returns for our investors while contributing to the advancement of the blockchain ecosystem.

3. Investment Strategy

Investment Approach: Palcoin will adopt a combination of venture investment in early-stage startups and strategic investments in established cryptocurrencies or tokens as well as Proprietary trading strategy.

3.1 Target Sectors

When constructing a crypto portfolio for the Palcoin Venture Capital Fund, we will consider diversifying across the following key sectors:

1. Decentralized Finance (DeFi): Invest in platforms that offer lending according to Sharia principles, borrowing according to Sharia principles, and trading services without intermediaries, focusing on innovation in liquidity provision and yield farming.
2. Non-Fungible Tokens (NFTs): Explore projects related to digital art, collectibles, gaming, and metaverse assets, emphasizing those with strong community engagement and utility.
3. Web3 and Decentralized Applications (dApps): Support projects that enhance user privacy, data ownership, and decentralized governance, as these will drive the next evolution of the internet.
4. Layer 1 and Layer 2 Solutions: Invest in protocols that improve blockchain scalability and efficiency, including newer Layer 1 blockchains and Layer 2 scaling solutions like rollups.
5. Infrastructure and Protocols: Focus on underlying technologies that support blockchain development, such as oracles, cross-chain solutions, and security frameworks.
6. Stablecoins and Digital Payments: Explore projects that facilitate stable and efficient transactions, as well as those enhancing cross-border payment solutions.
7. Privacy Solutions: Consider investments in projects that prioritize user privacy and anonymity, which are increasingly important in the digital age.
8. Tokenized Assets: Look for platforms that facilitate the tokenization of real-world assets, such as real estate or commodities, enabling broader accessibility and liquidity.
9. Gaming and Metaverse: Invest in blockchain-based gaming platforms and virtual environments that integrate economic systems and social interaction.
10. Social Tokens and DAOs: Explore projects focused on community-driven governance and social engagement, including decentralized autonomous organizations (DAOs) and creator-focused tokens.
11. Technology: Artificial intelligence, machine learning and Disruptive technology.

By diversifying across these sectors, you can mitigate risks while maximizing the potential for growth within the rapidly evolving crypto landscape.

Assets Allocation based on target sectors

Creating an optimal allocation strategy for the Palcoin Venture Capital crypto fund involves balancing risk and potential returns across various sectors.

Here's a suggested allocation strategy based on the sectors discussed:

1. Decentralized Finance (DeFi)

Invest in innovative DeFi protocols that offer unique financial products, as this sector has shown significant growth and utility.

2. Non-Fungible Tokens (NFTs)

Allocate funds to projects within the NFT space, focusing on those with strong community engagement and diverse use cases, such as gaming and digital art.

3. Web3 and Decentralized Applications (dApps)

Invest in projects that enhance user ownership, privacy, and decentralized governance, which are crucial for the future of the internet.

4. Layer 1 and Layer 2 Solutions

Focus on both established Layer 1 blockchains and innovative Layer 2 scaling solutions that address network congestion and transaction costs.

5. Infrastructure and Protocols

Support foundational technologies that enable blockchain development, such as oracles and cross-chain solutions, which are essential for ecosystem interoperability.

6. Stablecoins and Digital Payments

Invest in projects that facilitate stable transactions and improve payment solutions, as these are critical for mainstream adoption and utility.

7. Privacy Solutions

Allocate a smaller portion to privacy-focused projects, addressing growing concerns about data security and user anonymity.

8. Tokenized Assets

Consider emerging platforms that enable the tokenization of real-world assets, providing access to new investment opportunities.

9. Gaming and Metaverse

Invest in blockchain gaming projects and metaverse initiatives that integrate economic systems, capitalizing on the growing interest in virtual worlds.

10. Social Tokens and DAOs

Allocate a small portion to community-driven governance projects, which can offer unique engagement opportunities but may carry higher risks.

11. Technology: Artificial intelligence, machine learning and Disruptive technology

Investing a significant part of the fund in AI, machine learning, and innovative technologies, given that this sector is anticipated to see considerable growth in the next few years.

Rationale

Diversification: This allocation strategy provides broad exposure across multiple sectors, reducing the risk associated with concentrating investments in any single area.

Growth Potential: By prioritizing AI, disruptive technology, DeFi, Layer 1 and Layer 2 solutions, and Web3 projects, we tap into rapidly evolving and potentially high-return sectors.

Risk Management: Smaller allocations to emerging sectors (like privacy solutions and social tokens) allow for potential upside while managing overall portfolio risk.

This allocation strategy can be adjusted based on market conditions and emerging opportunities, ensuring the portfolio remains dynamic and aligned with the evolving crypto landscape.

| Sector | Min | Max | Target |
|---|-----|-----|--------|
| Decentralized Finance (DeFi) | 0% | 20% | 12% |
| Non-Fungible Tokens (NFTs) | 0% | 20% | 5% |
| Web3 and Decentralized Applications (dApps) | 0% | 20% | 11% |
| Layer 1 and Layer 2 Solutions | 0% | 20% | 18% |
| Infrastructure and Protocols | 0% | 20% | 10% |
| Stablecoins and Digital Payments | 0% | 20% | 10% |

| | | | |
|--------------------------------|----|-----|-----|
| Privacy Solutions | 0% | 10% | 5% |
| Tokenized Assets | 0% | 20% | 8% |
| Gaming and Metaverse | 0% | 15% | 5% |
| Social Tokens and DAOs | 0% | 10% | 2% |
| AI, ML & Disruptive technology | 0% | 20% | 14% |

3.2 Investment Stages

We will consider targeting the following investment stages:

1. Seed Stage: Focus on early-stage projects that are in the concept or development phase. Investments here can include funding for prototype development and initial market research. This stage often offers the highest potential returns but also carries significant risks.
2. Pre-Series A: Invest in startups that have a working product or prototype and are beginning to attract initial users. This stage allows for investment in teams refining their business models and scaling their offerings, providing the opportunity for early engagement.
3. Series A: Target projects that have demonstrated product-market fit and are looking to scale operations. Investments in this stage can help companies expand their user base, enhance marketing efforts, and build out their teams.
4. Growth Stage: Invest in established projects that have a proven track record of user acquisition and revenue generation. This stage is ideal for supporting further scaling, expansion into new markets, and enhancing technological capabilities.
5. Bridge Financing: Look for opportunities to provide bridge financing for startups needing capital to reach critical milestones before a larger funding round. This can include follow-on investments in promising companies.
6. Token Sales and Initial Coin Offerings (ICOs): Participate in token sales or ICOs of projects with strong fundamentals and community support. This can provide exposure to early-stage projects while diversifying the investment approach.

By targeting these various investment stages, the Palcoin Venture Capital fund can balance risk and return, supporting a range of projects as they progress through their development cycles.

Assets Allocation strategy based on Investment Stage

Rationale

Diversification: This combination provides exposure to various stages of development, balancing high-risk and high-reward investments with more stable opportunities.

Risk Management: By investing in both early and growth stages, you can mitigate risks associated with volatile early-stage projects while benefiting from more mature startups.

Strategic Flexibility: This approach allows for adaptability based on market trends and emerging opportunities, ensuring the portfolio remains relevant in the fast-evolving crypto landscape.

By maintaining this balanced mix, Palcoin Venture Capital can effectively harness the potential of the crypto market while managing risk and maximizing returns.

1. Seed Stage:

Invest in high-risk, high-reward early-stage projects with innovative ideas. This portion allows you to capitalize on groundbreaking technologies and concepts that can lead to significant returns.

2. Pre-Series A:

Focus on projects that have validated their concepts and are developing a product. This stage helps bridge the gap between ideation and market entry, providing an opportunity to support promising startups early on.

3. Series A:

Allocate a substantial portion to Series A investments, targeting startups with proven product-market fit. This stage typically offers a balance of risk and reward as companies look to scale.

4. Growth Stage:

Invest in established projects that are expanding their operations and user base. This stage allows for more stable returns, as these companies often have a clearer revenue trajectory and market presence.

5. Bridge Financing:

Consider a small portion for bridge financing opportunities. This can provide quick capital to promising startups and allow you to maintain relationships with existing portfolio companies.

Recommended Allocation Strategy

| Investment Stage | Min | Max | Target |
|------------------|-----|-----|--------|
| Seed Stage | 0% | 35% | 20% |
| Pre-Series A | 0% | 35% | 21% |

| | | | |
|------------------|----|-----|-----|
| Series A | 0% | 45% | 29% |
| Growth Stage | 0% | 45% | 25% |
| Bridge Financing | 0% | 15% | 5% |

3.3 Geographical Focus

Cryptocurrency investments should be diversified geographically whenever is possible. Here are some key considerations for geographic diversification in crypto investments:

Benefits of Geographic Diversification

1. Risk Mitigation: Investing in different regions can reduce the impact of localized regulatory changes, economic instability, or market downturns. If one market experiences a downturn, others may perform better.
2. Access to Emerging Markets: Many emerging markets are rapidly adopting blockchain technology and cryptocurrency, presenting unique investment opportunities. Countries with favorable regulatory environments can foster innovative projects.
3. Varied Regulatory Landscapes: Different countries have different regulations regarding cryptocurrencies. Investing in regions with clear and favorable regulations can provide a safer investment environment.
4. Cultural and Market Variations: Different regions may have unique use cases and applications for cryptocurrency based on cultural or economic factors. Understanding these differences can lead to more informed investment choices.

Geographic diversification in cryptocurrency investments can enhance our portfolio's resilience and growth potential. By being mindful of global trends and regional opportunities, we can create a well-rounded investment strategy that leverages the strengths of different markets.

Recommended geographical diversification structure

| Region | Min | Max | Target |
|---------------|-----|-----|--------|
| North America | 0% | 35% | 25% |
| Europe | 0% | 30% | 20% |
| Asia | 0% | 35% | 15% |

| | | | |
|------------------------|----|-----|-----|
| MENA | 0% | 25% | 10% |
| Latin America | 0% | 25% | 10% |
| Africa | 0% | 20% | 10% |
| Oceania | 0% | 15% | 5% |
| Other Emerging Markets | 0% | 15% | 5% |

Rationale

- **Balanced Exposure:** This structure ensures a diversified approach across well-established and emerging markets, reducing overall risk.
- **Growth Potential:** By investing in both mature and rapidly evolving regions, you can capture various growth opportunities in the crypto landscape.
- **Adaptability:** This allocation can be adjusted based on market conditions and emerging trends, ensuring that portfolio remains dynamic over time.

4. Risk Management

Managing risk in a crypto venture capital portfolio requires a strategic approach tailored to the unique characteristics of early-stage investments in the blockchain space. Here's a comprehensive risk management strategy for Palcoin's crypto venture capital portfolio:

1. Diversification Across Sectors, Stages and regions
 - Allocate investments across various sectors to reduce exposure to sector-specific risks.
 - Invest at different stages of development to balance high-risk, high-reward investments with more stable, mature projects.
 - Geographic diversification can enhance your portfolio's resilience and growth potential.

2. Thorough Due Diligence

- Comprehensive Analysis: Conduct rigorous due diligence on potential investments, focusing on team experience, technology, market demand, and competitive landscape.
- Ongoing Monitoring: Keep track of projects/investments in your portfolio and their performance post-investment, including product development, market traction, and financial health.

3. Position Sizing

- Limit Exposure: Define maximum investment limits per project based on risk assessment. Avoid over-concentration in any single investment.
- Gradual Scaling: Consider phased investments, where you increase your stake in a company based on its performance and milestones achieved.

4. Exit Strategies

- **Clear Exit Plans:** Establish defined exit strategies for each investment, including thresholds for returns or timeframes for evaluation.
- **Follow-on Investments:** Be prepared to make follow-on investments in successful projects while being cautious not to double down on underperforming assets.

5. Regular Portfolio Review and Rebalancing

- **Performance Assessment:** Conduct regular reviews of the portfolio's performance and risk profile. Adjust allocations based on market conditions and individual project developments.
- **Rebalancing:** Periodically rebalance your portfolio to align with your investment strategy and risk tolerance.

6. Market and Regulatory Awareness

- **Stay Informed:** Monitor regulatory developments in the crypto space, as changes can significantly impact project viability and market conditions.
- **Market Trends:** Keep an eye on emerging trends in technology and user adoption, which can affect the performance of your investments.

7. Network and Community Engagement

- **Leverage Networks:** Build relationships within the crypto community, including founders, developers, and other investors. This can provide valuable insights and early warnings about potential risks.
- **Participate in Governance:** Engage in governance discussions for projects where you hold tokens, contributing to decision-making and risk management.

8. Risk Assessment Framework

- **Develop a Framework:** Create a structured risk assessment framework to evaluate potential investments based on factors like market risk, technological risk, operational risk, and liquidity risk.

- Scoring System: Implement a scoring system to quantify risks associated with different projects, aiding in comparison and decision-making.

9. Crisis Management Plan

- Prepare for Downturns: Develop a crisis management plan to address potential market downturns or project failures. This should include communication strategies and action plans.
- Contingency Funds: Maintain a portion of your capital as contingency funds to capitalize on emerging opportunities during market corrections.

10. Mental and Emotional Discipline

Stick to our Thesis: We shall maintain focus on our investment thesis and strategy, avoiding impulsive decisions based on market sentiment.

Long-term Perspective: We shall adopt a long-term investment mindset, recognizing that volatility is inherent in the crypto space, particularly with early-stage investments.

Summary

Implementing these risk management strategies will help you navigate the complexities of crypto venture capital investing. By diversifying your portfolio, conducting thorough due diligence, and maintaining a disciplined approach, you can mitigate risks and enhance the potential for returns in this rapidly evolving market. Regularly revisiting and refining your risk management practices will be key to long-term success.

4.1 Due Diligence Process

Conducting thorough due diligence is crucial when investing in cryptocurrencies, as the market can be highly volatile and complex. Here's a comprehensive due diligence process to guide our crypto investments:

1. Essential requirements

The following requirements are must to have, failure to comply with any results in immediate investment rejection:

| |
|--|
| Project must comply with Islamic finance and investments principles – Sharia Compliant |
| Founders Identity disclosed and verified/background check |

2. Project Overview

- **Whitepaper Analysis:** Review the project's whitepaper for clarity, purpose, and technical details. Ensure it outlines the problem being solved, the solution proposed, and the implementation strategy.
- **Use Case Validity:** Assess the real-world application of the project. Determine if the use case is relevant and addresses a genuine market need.

3. Team Evaluation

- **Founders and Key Team Members:** Research the backgrounds of the founders and core team. Look for relevant experience, past successes, and industry reputation.
- **Advisory Board:** Examine the advisors associated with the project. Strong industry connections can lend credibility.

4. Technical Assessment

- Code Quality: If available, review the project's codebase on platforms like GitHub. Look for active development, code quality, and transparency.
- Technology Stack: Understand the technology used and its scalability, security features, and potential limitations.

5. Market Analysis

- Competitive Landscape: Identify competitors and assess how the project differentiates itself. Analyze their market positioning and advantages.
- Market Demand: Research the target market size, growth potential, and adoption trends. Look for indicators of demand for the project's solution.

6. Tokenomics

- Token Utility: Understand the role of the token within the ecosystem. Is it used for transactions, governance, or staking?
- Supply and Distribution: Analyze the total supply, circulation, and distribution strategy. Check for potential inflation and the impact of token unlocks.

7. Regulatory Considerations

- Legal Compliance: Investigate the project's compliance with local regulations and international laws. Consider how regulatory changes could impact the project.
- KYC/AML Policies: Ensure the project has adequate Know Your Customer (KYC) and Anti-Money Laundering (AML) practices in place especially if the project is operating or will be operational in the USA or EU.

8. Community Engagement

- Community Size and Activity: Evaluate the project's community on platforms like Discord, Telegram, X, and social media. A vibrant organic community can indicate strong support and engagement.
- Feedback and Sentiment: Analyze community feedback and sentiment. Check forums like Reddit or Bitcointalk for discussions about the project.

9. Partnerships and Collaborations

- Strategic Partnerships: Look for partnerships with established companies or institutions that can enhance credibility and support growth.

- Ecosystem Integration: Assess how well the project integrates with existing platforms or networks in the blockchain space.

10. Risk Assessment

- Market Risks: Identify market risks, including volatility, competition, and technological changes that could impact the project.
- Operational Risks: Evaluate risks related to the project's execution, such as team turnover, funding issues, or legal challenges.

11. Exit Strategy

- Investment Horizon: Define your investment timeline and exit strategy. Consider whether you'll hold long-term or look for short-term gains.
- Liquidity Considerations: Assess the liquidity of the token on exchanges. Understand the potential challenges in selling your holdings.

Summary

Conducting thorough due diligence is essential to mitigate risks in the highly volatile crypto market. By following this comprehensive process, you can make informed investment decisions and identify projects with strong potential for success. Regularly revisit your due diligence process, especially as market conditions and projects evolve.

4.2 Continuous Monitoring

- Regularly monitor the performance of portfolio companies and overall market conditions, conducting quarterly reviews to assess alignment with investment goals.

5. Investment Criteria

Establishing comprehensive investment criteria for Palcoin Venture Capital fund is essential for making informed decisions and ensuring alignment with our fund's goals. Here's a structured set of investment criteria that we will consider:

1. Market Opportunity
 - Market Size: Assess the total addressable market (TAM) and serviceable available market (SAM) for the project aiming for significant growth potential.
 - Problem-Solution Fit: Evaluate whether the startup addresses a clear and pressing problem in the market. The solution should be innovative and relevant.

2. Product Viability
 - MVP Status: Determine if the startup has a Minimum Viable Product (MVP) or a working prototype. Early traction and user feedback are critical.
 - Technology Assessment: Review the technology stack and its scalability, security, and integration capabilities. Consider the robustness of the underlying blockchain or protocol.
 - While investing in seed-stage opportunities without an MVP carries inherent risks, thorough evaluation across these criteria can help mitigate some of that risk. Emphasizing the strength of the team, clarity of the problem being addressed, and the overall market opportunity will provide a solid foundation for making informed investment decisions. Regular follow-ups and engagement with the startup will also help monitor progress as they work towards developing their MVP.

3. Team Quality
 - Experience and Track Record: Evaluate the founding team's experience in blockchain technology, finance, and entrepreneurship. Look for a proven track record of success.
 - Team Composition: Assess the team's skills and expertise, including technical, marketing, and operational capabilities. A well-rounded team is crucial for execution.

4. Tokenomics and Economic Model

- Utility and Function: Analyze the token's purpose within the ecosystem. It should have a clear utility that drives demand and engagement.
- Supply and Distribution: Examine the tokenomics, including total supply, distribution strategy, and inflation mechanisms. Avoid projects with overly complex or unclear tokenomics.

5. Regulatory Compliance

- Legal Framework: Ensure the startup complies with relevant regulations and has a clear understanding of the legal landscape in the jurisdictions they operate.
- KYC/AML Practices: Verify that the startup implements robust Know Your Customer (KYC) and Anti-Money Laundering (AML) measures.
- Evaluate if the token is a security or utility token.
- The absence of cryptocurrency regulations in certain regions should not be a cause to dismiss the project.

6. Competitive Landscape

- Competitor Analysis: Identify direct and indirect competitors. Evaluate the startup's competitive advantages and differentiation strategies.
- Market Positioning: Assess how well the startup positions itself in the market relative to competitors, including branding and value proposition.

7. Community and Ecosystem Engagement

- Community Size and Activity: Look for an engaged and active community that supports the project. Strong community backing can indicate potential success.
- Partnerships and Collaborations: Evaluate existing partnerships with established firms or projects that can enhance credibility and growth prospects.

8. Financial Projections and Funding Needs

- Revenue Model: Assess the startup's business model and revenue generation strategy. Consider sustainability and scalability.
- Funding Requirements: Understand the startup's funding needs, use of funds, and runway. Ensure they have a clear plan for achieving milestones.

9. Risk Assessment

- **Technology Risks:** Identify potential technical challenges or vulnerabilities, including smart contract risks or scalability issues.
- **Market Risks:** Evaluate the risks associated with market volatility and competition. Consider how these factors could impact the startup's success.

10. Exit Strategy

- **Potential for Returns:** Consider the potential for significant returns on investment. Analyze possible exit scenarios, including acquisitions or public offerings.
- **Time Horizon:** Align the investment timeframe with the fund's overall strategy and liquidity requirements.

Summary

By following these comprehensive investment criteria, our Venture Capital fund can make informed and strategic investment decisions. Each criterion should be rigorously evaluated to ensure alignment with the fund's objectives and risk tolerance, ultimately enhancing the potential for long-term success in the dynamic crypto landscape. We will regularly revisit and refine these criteria as the market evolves.

6. Investment Considerations & Constraints

When aligning Palcoin Venture Capital's investment criteria for crypto startups with Islamic finance principles, it's essential to identify specific investment constraints that ensure compliance with Shariah law. Here are the key constraints to consider:

1. Avoidance of Riba (Usury)**

Interest-Free Financing: Investments must not involve any form of interest (riba). This means avoiding crypto projects that generate returns through interest-bearing loans or contracts.

2. Gharar (Uncertainty and Speculation)

Minimizing Uncertainty: Crypto investments should be based on clear and well-defined terms. Avoid projects with excessive speculation, ambiguous terms, or unclear business models that could lead to significant uncertainty.

3. Halal Activities

Permissible Use Cases: Ensure that the crypto projects engage in activities that are halal. Avoid projects associated with prohibited industries such as gambling, alcohol, and adult content.

4. Ethical Considerations

Social Responsibility: Invest in projects that contribute positively to society and align with Islamic values. Consider the potential social impact of the technology or solution being offered.

5. Profit and Loss Sharing

Equity-Based Structures: Favor investments that utilize profit and loss sharing models, such as equity participation. Avoid fixed-income models typical in traditional finance that do not comply with Islamic principles.

6. Asset-Backed Investments

Tangible Value: Ensure that investments are backed by tangible assets or real economic activities. Avoid purely speculative tokens or cryptocurrencies without an underlying value or use case.

7. Zakat Obligations

Social Contributions: Consider how the startups approach zakat (charitable giving) and whether they have a mechanism to contribute to social welfare, aligning with Islamic principles of community support.

8. Regulatory Compliance

Shariah Advisory: Involve a qualified Shariah advisory board to review investment opportunities and ensure compliance with Islamic principles throughout the investment process.

9. Transparency and Disclosure

Clear Communication: Maintain transparency in all investment terms, risks, and financial disclosures. Investors should fully understand the nature of their investment and associated risks.

10. Avoiding Excessive Leverage

Limit Debt Exposure: Be cautious about investing in crypto projects with high levels of debt. Excessive leverage can lead to instability and may conflict with Islamic finance principles.

Conclusion

By adhering to these investment constraints, Palcoin Venture Capital can ensure that its investment criteria for crypto startups align with Islamic finance principles. Engaging with Shariah advisors and maintaining transparency in investment dealings will enhance the fund's integrity and commitment to ethical investing in the crypto space.

7. Liquidity Considerations

Addressing liquidity considerations in a crypto startup fund requires careful planning and a multi-faceted approach. By diversifying investments, exploring secondary market options, maintaining clear communication with investors, and establishing structured exit strategies, the fund can enhance its liquidity profile while effectively managing the unique challenges of the crypto landscape. Regular reviews of liquidity strategies will also help adapt to changing market conditions and investor needs.

Given the illiquid nature of venture capital investments, Palcoin will:

- Maintain a prudent liquidity strategy, ensuring adequate cash reserves for Investment budget, operational needs and investor redemptions.
- Develop clear exit strategies for each investment, including exchange listings, mergers and acquisitions, and secondary sales.
- Build Cash Reserves Pool: Maintain a portion of the fund in cash or liquid assets to cover operational costs and potential redemption requests.
- Emergency Liquidity Options: Establish relationships with liquidity providers or other funds that can facilitate quick exits in case of urgent liquidity needs.

8. Dynamic reallocation/rebalancing

Portfolio rebalancing is a crucial strategy for maintaining our desired risk and return profile.

Here are key situations when we will consider rebalancing our portfolio:

1. Target Allocation Deviations

Percentage Thresholds: If any asset class or sector deviates by 10% percentage from its target allocation, it's time to rebalance. This helps prevent overexposure to high-performing assets or underexposure to underperforming ones.

2. Scheduled Time Intervals

Regular Reviews: Investment committee will review annually the investment portfolio. Even if no significant deviations occur, periodic reviews allow us to reassess the investment strategy based on changing market conditions.

3. Market Volatility

Increased Market Fluctuations: During periods of high volatility, we will consider more frequent rebalancing to mitigate risks and adjust to market dynamics. This is particularly relevant in the crypto space, where price swings can be significant.

4. Change in Investment Thesis

Fundamental Changes: If the underlying fundamentals of a sector or asset change (e.g., regulatory shifts, technological advancements, or major news events), it may warrant rebalancing to align with the new landscape.

5. Performance Assessment

Underperforming Assets: If certain investments consistently underperform or fail to meet key milestones, we will consider reducing their allocation and reallocating funds to more promising opportunities.

6. New Investment Opportunities

Emerging Trends: If new investment opportunities arise that align with our strategy and offer high potential, we will consider rebalancing the portfolio to make room for these assets.

7. Risk Tolerance Adjustments

Changes in Risk Profile: If our company risks tolerance change, we will consider adjusting our portfolio accordingly.

8. Cash Flow Needs

Liquidity Requirements: We might consider portfolio rebalancing in case of urgent liquidity requirements through liquidating portions of the portfolio strategically.

9. Tax Considerations

Tax-Loss Harvesting: In some cases, rebalancing can be an opportunity to sell underperforming assets for tax-loss harvesting while rebalancing our portfolio.

Conclusion

Regularly monitoring of our portfolio and being aware of these triggers will help us maintain a balanced investment approach. Establishing clear criteria for rebalancing will ensure that our portfolio aligns with the overall investment strategy and risk tolerance, ultimately supporting our long-term financial goals.

9. Governance and Oversight

9.1 Fund Management

The Fund will be managed by a team of experienced professionals with expertise in crypto and digital assets venture capital, market analysis, and startup growth.

The appointment, replacement, and compensation of any Investment Manager shall be determined by Fund Management and may be amended from time to time as deemed necessary in the best interests of the Fund and its stakeholders.

For the purpose of calculating performance compensation:

- Performance fees shall be calculated only on realized net profits.
- Trading losses, transaction costs, exchange fees, custody fees, and other direct trading expenses shall be deducted before determining net profits.
- No performance fee shall be payable during any month in which the proprietary trading portfolio incurs a net loss.
- The Fund reserves the right to implement additional performance measurement mechanisms, including high-water marks, clawback provisions, or risk-adjusted performance metrics.

To incentivize performance and align interests with the Fund, the Fund may pay the appointed Investment Manager a performance-based compensation of up to forty percent (40%) of the net monthly trading profits generated through proprietary trading activities.

Performance Compensation

The Investment Manager shall operate under the supervision of Fund Management and may be subject to periodic review by the Investment Committee.

The primary objective of proprietary trading activities shall be:

1. Generating profits to support the Fund's operational expenses and cash flow requirements;
2. Enhancing treasury returns while maintaining prudent risk management;
3. Providing additional liquidity for Fund operations and strategic initiatives.

The Investment Manager shall be responsible for the day-to-day execution of trading strategies, risk management, position monitoring, and liquidity management within the limits established by the Fund.

The Fund may, at its sole discretion, appoint one or more Investment Managers to conduct and manage such proprietary trading activities on behalf of the Fund. The appointed Investment Manager may be:

- An internal member of the Palcoin team;
- A director, officer, advisor, employee, or contractor of the Fund;
- An external individual or institutional asset manager.

In order to support the financial sustainability of Palcoin Venture Capital and to manage temporary cash flow imbalances, the Fund may allocate a portion of its treasury and liquid assets to proprietary trading activities.

9.1A Proprietary Trading and Appointment of Investment Manager

In order to support the financial sustainability of Palcoin Venture Capital and to manage temporary cash flow imbalances, the Fund may allocate a portion of its treasury and liquid assets to proprietary trading activities conducted in accordance with this Investment Policy Statement.

The Fund may, at its sole discretion, appoint one or more Investment Managers to conduct and manage such proprietary trading activities on behalf of the Fund. The appointed Investment Manager may be:

An internal member of the Palcoin team;

A director, officer, advisor, employee, or contractor of the Fund;

An external individual or institutional asset manager.

The Investment Manager shall be responsible for the day-to-day execution of trading strategies, risk management, position monitoring, and liquidity management within the limits established by the Fund.

The primary objective of proprietary trading activities shall be:

- Generating profits to support the Fund's operational expenses and cash flow requirements;
- Enhancing treasury returns while maintaining prudent risk management;
- Providing additional liquidity for Fund operations and strategic initiatives.

Performance Compensation

To incentivize performance and align interests with the Fund, the Fund may pay the appointed Investment Manager a performance-based compensation of up to thirty five percent (35%) of the net monthly trading profits generated through proprietary trading activities.

For the purpose of calculating performance compensation:

- Performance fees shall be calculated only on realized net profits.
- Trading losses, transaction costs, exchange fees, custody fees, and other direct trading expenses shall be deducted before determining net profits.

- No performance fee shall be payable during any month in which the proprietary trading portfolio incurs a net loss.

The Fund reserves the right to implement additional performance measurement mechanisms, including high-water marks, clawback provisions, or risk-adjusted performance metrics.

The appointment, replacement, and compensation of any Investment Manager shall be determined by Fund Management and may be amended from time to time as deemed necessary in the best interests of the Fund and its stakeholders.

9.2 Investment Committee

An Investment Committee will oversee investment decisions, ensuring adherence to the IPS and alignment with the Fund's objectives.

9.3 Decision Making

AI engine will provide an investment grade to investment opportunities.

The list will be generated and presented to our Investment committee for further analysis and evaluation. Investment opportunities will be further filtered by the investment committee.

Investment committee will then vote on which projects to be presented to our Palcoin holders for voting. To be qualified for voting a project must pass at least 60% approval from rate.

In the event that a project fails below 60% approval rate the project will be dismissed.

Projects then will be presented to Palcoin holders for final voting on funding.

A pass rate of 60% is required for funding.

9.4 Amendments to IPS

Any changes to this IPS must be approved by Palcoin holders. The pass rate is 50%.

9.5 Artificial Intelligence engine role

Palcoin is in the process of creating an advanced A.I. engine designed to enhance the venture capital investment process. This technology will streamline various stages, from deal generation to investment exit, making it easier to identify and evaluate potential investment opportunities.

The A.I. engine will facilitate the application of our investment policy statement by automating analyses and providing insights that align with our strategic goals. It will help in sourcing deals, assessing their

potential, and managing investments effectively throughout their lifecycle. By leveraging this A.I. technology, Palcoin aims to improve decision-making efficiency and optimize investment outcomes, ultimately driving better returns for our stakeholders.

9.6 Reporting and Accountability

- Provide regular performance reports to community, including detailed financial statements, portfolio updates, and market insights.
- Conduct annual reviews of the IPS to incorporate changes in market conditions, regulatory environments, and strategic goals.

10. Conclusion

This Investment Policy Statement serves as a guiding document for Palcoin Venture Capital, establishing a disciplined and strategic approach to investing in startups. The IPS will be reviewed and updated annually or as needed to ensure continued relevance and effectiveness in achieving the Fund's objectives.