

## 1. PRELIMINARY LEGAL FRAMEWORK

- 1.1 **Detailed exposition of financial hazards inherent in derivative market engagement.** The engagement in derivative markets involves complex financial instruments whose value is derived from underlying assets. These markets are characterized by high volatility and rapid price fluctuations. Investors must recognize that such engagement is not suitable for all individuals and requires a sophisticated understanding of market mechanics. The hazards include, but are not limited to, market risk, counterparty risk, and liquidity constraints, all of which can lead to significant financial depletion.
- 1.2 **Core component of the Discretionary Mandate and Supplementary Covenants.** This risk protocol is not a standalone document but a foundational element of the broader Discretionary Authorization. By entering into this agreement, the client acknowledges that these risk disclosures form a binding part of the contractual relationship. The supplementary covenants further detail the specific obligations and rights of both the Manager and the Investor, ensuring a clear legal perimeter for all advised or managed trading activities and capital allocations.
- 1.3 **Required reading alongside the Operating Protocols and Principal Service Terms.** Transparency is paramount in fund management. This document must be synthesized with the **Operating Protocols**, which govern the day-to-day execution of trades, and the Principal Service Terms, which outline the fee structures and administrative duties. A holistic review of these documents is mandatory to ensure the client is fully apprised of the operational environment and the legal safeguards protecting the fund's integrity.

## 2. EXPOSURE TO SEVERE CAPITAL VULNERABILITY

- 2.1 **Highly speculative ventures with the potential for unbounded financial liability.** Derivative trading is classified as a highly speculative venture. Unlike traditional equity investments where loss is capped at the principal, certain derivative strategies—particularly those involving short positions or high gearing—can result in liabilities that exceed the initial margin deposit. The client must be prepared for the possibility of unbounded financial liability, necessitating a rigorous approach to risk management and the use of non-essential capital only.
- 2.2 **Breadth of Negotiable Instruments (FX Pairs, Commodities, Spot Metals, etc.).** The CAPMONEY scope covers a wide spectrum of negotiable instruments, each carrying unique risk profiles. Foreign Exchange (FX) pairs are subject to geopolitical shifts; Commodities are influenced by global supply chain disruptions; and Spot Metals often act as volatility hedges but are prone to rapid price reversals. Diversification across these instruments does not eliminate risk but requires the Manager to employ multi-faceted analytical models to navigate varying market correlations.
- 2.3 **Market instability and the peril of illiquid execution environments.** Market instability can lead to "thin" trading environments where the gap between the bid and ask price widens significantly. In such illiquid environments, executing large orders without impacting the market price becomes difficult. This creates a peril where positions cannot be

exited at the desired valuation, potentially leading to larger-than-anticipated losses. CAPMONEY monitors liquidity providers constantly to mitigate this, yet the risk remains inherent in distressed global markets.

## 3. POTENTIATION OF DEFICITS THROUGH GEARING

- 3.1 **Performance-based collateralized trading and its inherent speculative dangers.** Gearing, or leverage, allows the fund to control large market positions with a relatively small amount of collateral. While this amplifies the potential for performance-based gains, it equally potentiates the risk of rapid deficit accumulation. The speculative danger lies in the fact that even a minor adverse move in the underlying asset can lead to a total loss of the collateralized margin, requiring immediate action to stabilize the account.
- 3.2 **Practical demonstration of leverage exposure.** To illustrate for instance, an account geared at 10:1 experiences ten times the volatility of the underlying market. A 5% appreciation in the asset results in a 50% gain in equity, but conversely, a 5% depreciation results in a 50% loss of the account's total value. This sensitivity necessitates the understanding of position sizing, as the speed of equity depletion in leveraged accounts can outpace standard manual intervention.
- 3.3 **Risk of negative balances exceeding the initial capital commitment.** In extreme market "black swan" events, prices can gap across levels, skipping the price at which a margin call would normally occur. This creates the risk of a negative balance, where the losses incurred exceed the client's total deposited funds. While CAPMONEY employs safety protocols, the client remains legally responsible for the principal and any deficit resulting from extraordinary market conditions that bypass standard liquidation thresholds.

## 4. OBLIGATORY ACCOUNT REBALANCING & LIQUIDATION

- 4.1 **Automated Position Closure logic and threshold-based triggers.** To preserve the surviving capital, CAPMONEY utilizes automated position closure logic. Once equity hits a specific "Stop-Out" threshold—typically a percentage of the required margin—the system systematically liquidates open positions at the best available market price. These triggers are non-discretionary and are designed to function as the final line of defense against total capital exhaustion, ensuring the fund adheres to its risk-reduction mandates without emotional delay.
- 4.2 **Security deposit requirements and administrative adjustments.** Maintenance of a security deposit (margin) is a prerequisite for all managed trading. The relevant brokers reserve the right to make administrative adjustments to these requirements in response to heightened market volatility. Such adjustments may require the client to reduce exposure or provide additional collateral. This ensures the fund remains robust against intraday price swings that could otherwise threaten the stability of the entire portfolio.
- 4.3 **Mandatory exit scenarios under distressed market conditions.** During periods of systemic financial distress, characterized by extreme volatility or the failure of price discovery mechanisms, CAPMONEY may initiate a mandatory market exit. This involves the closure of all active positions

to protect the principal from unpredictable technical or system failures or exchange suspensions. Such exits are executed with the priority of capital preservation, acknowledging that a realized loss is preferable to unquantifiable exposure in a collapsing market.

## 5. THE MANAGER AS EXECUTOR / FIDUCIARY DISCLAIMERS

- 5.1 **Assessment of third-party solvency and clearing risks.** CAPMONEY acts as the strategic executor, while third-party brokers and banks act as custodians. The Manager conducts rigorous due diligence on these partners, yet the risk of third-party insolvency remains. If a custodian or clearinghouse fails, the client's assets may be frozen or lost. CAPMONEY's fiduciary duty is to manage the strategy; it does not extend to insuring the solvency of these external financial institutions.
- 5.2 **Managerial autonomy regarding trade entry and account termination.** The Discretionary Authorization grants the Manager full autonomy over all trading decisions. This includes the selection of assets, the timing of entries, and the right to terminate an account's management unilaterally if risk parameters are breached. This autonomy is essential for reacting to 24-hour global markets where immediate decision-making is the difference between capital preservation and depletion.
- 5.3 **Prioritization of Portfolio Integrity and Firm Stability.** The Manager's primary focus is the integrity of the collective portfolio. In certain situations, the Manager may take actions that favor the stability of the fund over the short-term performance of an individual account. This institutional approach ensures that CAPMONEY remains a viable entity capable of fulfilling its long-term mandates, prioritizing the "survival" of the capital pool during turbulent cycles.
- 5.4 **Absence of guaranteed "Optimal Pricing" during extreme market shifts.** In fast-moving markets, the "last traded price" may not be the price available for execution. CAPMONEY strives for the best possible fill, but there is no guarantee of "optimal pricing" during extreme shifts. Markets may gap or provide significantly wider spreads, and the Manager is held harmless for execution variances that occur due to these external market-driven anomalies.

## 6. LIMITATIONS OF PROTECTIVE TRADING INSTRUMENTS

- 6.1 **Conditional reliability of "Stop-Loss" orders and defensive tactics.** A "Stop-Loss" is an order filled once a price is reached, but it is not an absolute guarantee. In volatile markets, the order becomes a "Market Order" once triggered and may be filled at a much lower or much higher price than intended. Defensive tactics, while sophisticated, are conditional and subject to the availability of a counterparty at the specific price point.
- 6.2 **Realized price variances and the impact of Negative Slippage.** Slippage is the difference between the expected price of a trade and the price at which the trade actually executes. Negative slippage often occurs during news events when liquidity is low. These realized price variances are a standard cost of trading and can aggregate over time, impacting the net performance of the mandate.

- 6.3 **Dormant market exposure and Price Gapping during trading halts.** Markets do not trade 24/7 for all instruments. Price Gapping occurs when a market opens significantly higher or lower than its previous close (common over weekends). During these dormant periods, the Manager cannot exit positions, and protective orders may be "jumped," leading to losses that exceed the intended risk per trade.

## 7. SCOPE OF ADVISORY MANDATE AND EXECUTION DYNAMICS

- 7.1 **Regulatory Framework of the Advisory Mandate.** Under the SECP Futures Market Act 2016, the firm's role is limited to providing professional investment advice and research regarding exchange-traded futures. Clients must acknowledge that such privilege does not constitute a discretionary management agreement; the final execution risk and decision-making authority rest solely with the client or their designated executing broker.
- 7.2 **Divergence between Advisory Recommendations and Execution.** Market slippage, latency in client execution, and varying broker commission structures mean that the actual returns realized by a client may significantly deviate from the performance models provided in the firm's Advisory research. The firm is not liable for losses resulting from the client's failure to execute recommendations in a timely or precise manner.
- 7.3 **Exchange-Specific Operational Risks.** Advisory services pertain to products traded on regulated exchanges (such as PMEX). Trading is subject to margin requirement hikes, and potential trading halts. Such interventions are outside the firm's control and can prevent the realization of a strategy, leading to capital erosion during high-volatility events.
- 7.4 **Regulatory Evolution of the Futures Market Act.** The legal landscape governing the Securities and Futures Markets is subject to periodic updates by the SECP. Changes in margin ratios, tax withholding on international remittances, or reporting requirements can impact the viability of existing advisory strategies. The client assumes the risk of any such regulatory shifts.

## 8. INSTITUTIONAL COUNTERPARTY AND LIQUIDITY VULNERABILITIES

- 8.1 **Institutional Counterparty Insolvency.** In international Forex management, funds are often held with Tier-1 Prime Brokers or Liquidity Providers. While the Manager selects these entities with extreme diligence, the insolvency or "bail-in" of a banking institution remains a systemic risk. Such an event could lead to the freezing of assets or a total loss of principal that is beyond the firm's operational control.
- 8.2 **"Black Swan" Liquidity Gaps.** In the Financial market, certain geopolitical or economic events (e.g., unexpected central bank interest rate shifts) can cause "gaps" where liquidity vanishes instantly. In these scenarios, "Stop-Loss" orders may not be filled at the requested price but at the next available market price (negative slippage), which can be substantially worse than the intended exit point.

8.3 **Algorithmic, and High-Frequency Distortion.** The modern FX landscape is dominated by HFT (High-Frequency Trading) algorithms. These can create artificial "Flash Crashes" or "Stop-Hunts" that trigger institutional liquidations. While the Manager employs professional risk-mitigation protocols, systemic technological disruptions in the global ECN (Electronic Communication Network) can impact fund valuation.

8.4 **Cross-Border Jurisdictional Conflict.** For funds managed in international jurisdictions, legal or tax disputes may be subject to foreign laws. The client acknowledges that the recovery of funds or legal recourse in international Forex markets may be more complex and costly than in local equity markets.

## 9. PORTFOLIO STRATEGY AND SYSTEMIC MACRO RISKS

9.1 **Concentration Risk and Asset Correlation.** While the firm seeks to diversify positions, extreme market events can cause previously uncorrelated assets to move in tandem (e.g., a "flight to safety" where multiple currency pairs move against the fund simultaneously). Such spikes in correlation can neutralize the benefits of diversification, leading to higher-than-anticipated portfolio drawdown during periods of global stress.

9.2 **"Drag" from Transactional Costs and Carry.** Continuous management of institutional portfolios involves bid-ask spreads, overnight financing (Swap) rates, and rollover costs for futures contracts. In a low-volatility or "sideways" market, these cumulative costs can create a "performance drag," where the fund's net equity declines even if the underlying market prices remain relatively stable.

9.3 **Model Risk and Parameter Sensitivity.** Models used to determine entry and exit points are based on historical price behaviors and economic variables. In the event of a "regime shift"—where the underlying dynamics of the global economy change—these models may lose their predictive validity. The firm is not liable for losses resulting from the inherent limitations of strategic modeling in unprecedented market conditions.

## 10. INVESTOR PROFILE & SUITABILITY

10.1 **Confirmation of professional competence and strategic understanding.** The CAPMONEY framework is designed for professional or sophisticated investors who possess the competence to evaluate complex financial strategies. The client confirms they understand the "High-Water Mark" model and the risks of margin trading. This understanding is crucial, as the strategy involves non-linear instruments and may operate in high-speed execution environments.

10.2 **Evaluation of personal net worth and "Non-Essential Risk Capital."** Investors must only deploy "Risk Capital"—funds that are not essential for their daily living expenses, mortgage, or emergency savings. The evaluation of personal net worth is the client's responsibility; they must ensure that a total loss of the capital committed to any investment in the financial market will not result in financial hardship or a change in their lifestyle.

10.3 **Client's obligation to determine the fitness of the strategy for their goals.** While CAPMONEY provides the expertise and advisory service, the final decision on the "fitness" of the strategy rests with the client. Every investor has different goals and risk appetites. The client must determine if a high-volatility, performance-driven fund aligns with their broader financial planning and time horizons.

## 11. MANDATORY INVESTOR ATTESTATIONS

11.1 **Affirmative verification of danger comprehension, margin usage, and exit authority.** By executing this agreement, the Investor provides an affirmative verification of their comprehensive understanding of all inherent market risks. The Investor explicitly warrants the use of leverage to amplify positions and acknowledges the firm's unilateral authority to de-risk, liquidate, or hedge positions to protect both the Investor's capital and the its operational stability. This attestation serves as the definitive legal cornerstone of the professional relationship.