ALPHA NODE CAPITAL

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

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In the spotlight are two of Alpha Node Capital's largest portfolio allocations. We dive deeper into these two crypto assets to understand more about their ESG rating.

BITCOIN

Bitcoin is a decentralised cryptocurrency that has been in existence for the longest period and has the largest market share. It employs a process called mining, which involves solving complex mathematical problems to ensure the network's security and resilience. The concept was first introduced in 2008 through a whitepaper written by an individual or group of individuals who used the name Satoshi Nakamoto. Subsequently, Bitcoin was launched in January 2009.

Bitcoin's consensus mechanism relies on the energy-intensive proof-of-work (PoW) algorithm, which has raised concerns over its potential environmental impact. The term Bitcoin ESG refers to the environmental, social, and governance implications of the energy-intensive PoW algorithm used for mining, as well as the decentralised and unregulated nature of the Bitcoin network. The negative environmental impact of Bitcoin mining has led to concerns over its ESG rating and calls for the industry to transition towards more sustainable practices. The social and governance implications of Bitcoin relate to its potential use in illegal activities and lack of regulation, which could be viewed as a risk factor for investors considering Bitcoin as an investment.

There are several ways in which Bitcoin's ESG can be improved. Some of these solutions include:

a. Transition to renewable energy sources: Bitcoin mining consumes a lot of energy, but the environmental impact can be reduced by using renewable energy sources such as solar, wind, or hydroelectric power.

b. Increase energy efficiency: By using more energy-efficient mining hardware and optimising mining processes, Bitcoin miners can reduce their energy consumption and carbon footprint.

c. Implement carbon offset programs: Bitcoin mining companies can participate in carbon offset programs, which allow them to purchase carbon credits to offset their carbon emissions.

d. Support transparency and traceability: Bitcoin transactions can be made more transparent and traceable, which can help reduce the risk of illegal activities such as money laundering and financing of terrorism.

e. Increase regulatory oversight: More regulatory oversight can help ensure that Bitcoin transactions are conducted in compliance with laws and regulations, and that environmental and social standards are being met.

By implementing these solutions, the Bitcoin industry can work towards improving its ESG performance and ensuring a more sustainable future for the industry. Please note that achieving greater transparency and regulatory oversight (items 4 and 5) in the Bitcoin industry may be challenging due to the decentralised and pseudonymous nature of the technology, as well as the complex and evolving regulatory landscape. While efforts are being made to increase transparency and regulatory oversight, there is no guarantee that these efforts will be successful or sufficient to address all concerns related to Bitcoin's ESG performance.

Green Crypto Research - Bitcoin 01/01/2023

ENVIRONMENT: D

- The highest energy consumption per transaction of all blockchains
- Very high energy consumption
- Very high electronic waste

SOCIAL: B+

- Decentral store of value and means of payment
- Very good distribution of assets
- Relative to other blockchains high entry and usage barriers

GOVERNANCE: B+

- Only a few mining pools control more than 50%
- No threatening legal/regulatory concerns
- No known security incidents since inception in 2009

Blockchain is the technology behind Bitcoin, which is a type of digital currency that operates independently of banks and governments. There are about 260,000 Bitcoin transactions per day with an average fee of $1.5 per transaction. However, mining Bitcoin generates 6,000 tons of electronic waste and 60 million tons of CO2 emissions per year. Currently, there are no exclusions or requirements under the SFDR or EU Taxonomy that apply to Bitcoin, except for Article 6 of SFDR.

SFDR stands for the Sustainable Finance Disclosure Regulation. It is a regulation that was adopted by the European Union in 2019 and went into effect in March 2021. The regulation establishes a classification system for financial products based on their ESG characteristics, which includes three categories: Article 6 (products with no ESG focus), Article 8 (products promoting ESG characteristics), and Article 9 (products with a sustainable investment objective).

ETHEREUM

Ethereum has undergone a significant transition from the conventional proof of work (PoW) consensus algorithm to a more eco-friendly and sustainable proof of stake (PoS) consensus mechanism. This move was primarily aimed at reducing the carbon footprint associated with the energy-intensive process of mining blocks on the Ethereum network.

As a result of this shift towards a greener approach to blockchain technology, Ethereum's Environmental, Social, and Governance (ESG) rating has received positive recognition, with a sustainable potential for ESG at a commendable B grade.

It is noteworthy that our portfolio has a heavy weighting to Ethereum. This strategic allocation underscores our confidence in the long-term viability and potential of the Ethereum network to provide sustainable returns while fostering environmental sustainability.

Green Crypto Research - Ethereum 01/01/2023

ENVIRONMENT: B

- Switched from proof-of-work to proof-of-stake on September 15, 2022
- Low energy consumption
- Low electronic waste

SOCIAL: B-

- Infrastructure for decentral applications
- Very good distribution of assets
- Relative to other blockchains high entry and usage barriers

GOVERNANCE: A-

- Transparent decision making
- Well-established with over 4,000 developers
- With the exception of the DAO hack in 2015, there have been no known security incidents since inception

Compared to Bitcoin, Ethereum requires a lesser amount of energy to operate. Its annual power consumption is 0.4 billion kWh, with a power consumption of 0.85 kWh per transaction. Ethereum processes around 1.2 million transactions daily, with each transaction incurring an average fee of $5. The PoS consensus mechanism used by Ethereum produces 40 tons of electronic waste and 200 thousand tons of CO2 emissions every year. A GCR report shows that the exclusion under SFDR applies to Ethereum, and that Articles 6 and 8 under SFDR also apply. The EU Taxonomy is also applicable, and the report states that the system does not harm the environment.

Comparison of Fund Portfolio's ESG Rating

	Name	GCR ESG Rating	Envvironment	Social	Governance	Updated
	Bitcoin BTC	D	D-	B+	B+	01/01/2023
	Ethereum ETH	B	B	B-	A-	01/01/2023
	Binance Coin BNB	B	A-	B-	B	01/01/2023
	Cardano ADA	A	A-	A-	A+	01/01/2023
	Litecoin LTC	C	C-	A-	C+	01/01/2023
	Polygon MATIC	A	A+	A-	A-	01/01/2023
	Monero XMR	D	D+	C	D+	01/01/2023
	Aave	B	A+	B	B+	30/01/2023
	Chanlink LINK	B	A-	A-	B+	31/10/2022

Source: Green Crypto Research

ANC PORTFOLIO

The shift from proof-of-work to proof-of-stake consensus mechanisms in Ethereum highlights the growing awareness of the environmental impact of blockchain technology. This transition aims to reduce the energy consumption and carbon footprint associated with transaction verification and block validation by replacing the computationally intensive mining process with a more energy-efficient approach that relies on staking.

While there have been concerns raised about the environmental, social, and governance (ESG) implications of Bitcoin, some mining companies have taken proactive steps to mitigate their carbon emissions and enhance their ESG ratings. This includes the adoption of renewable energy sources, such as solar and wind, and the deployment of high-efficiency mining equipment that can maximise the computational power per unit of energy consumed.

Our fund remains optimistic about the long-term investment potential of both Ethereum and Bitcoin, and as such, maintains a significant weighting allocation towards these assets. While there are legitimate concerns surrounding the ESG implications of blockchain technology, we believe that the industry's efforts to address these issues will lead to the development of more sustainable and socially responsible practices in the space.

We believe that a balanced and nuanced approach is necessary when evaluating the investment potential of blockchain technology, taking into account both its opportunities and risks, as well as its ESG implications. By staying informed and proactive in our investment strategy, we aim to capture the potential upside of this emerging asset class while promoting sustainable and responsible practices in the industry.

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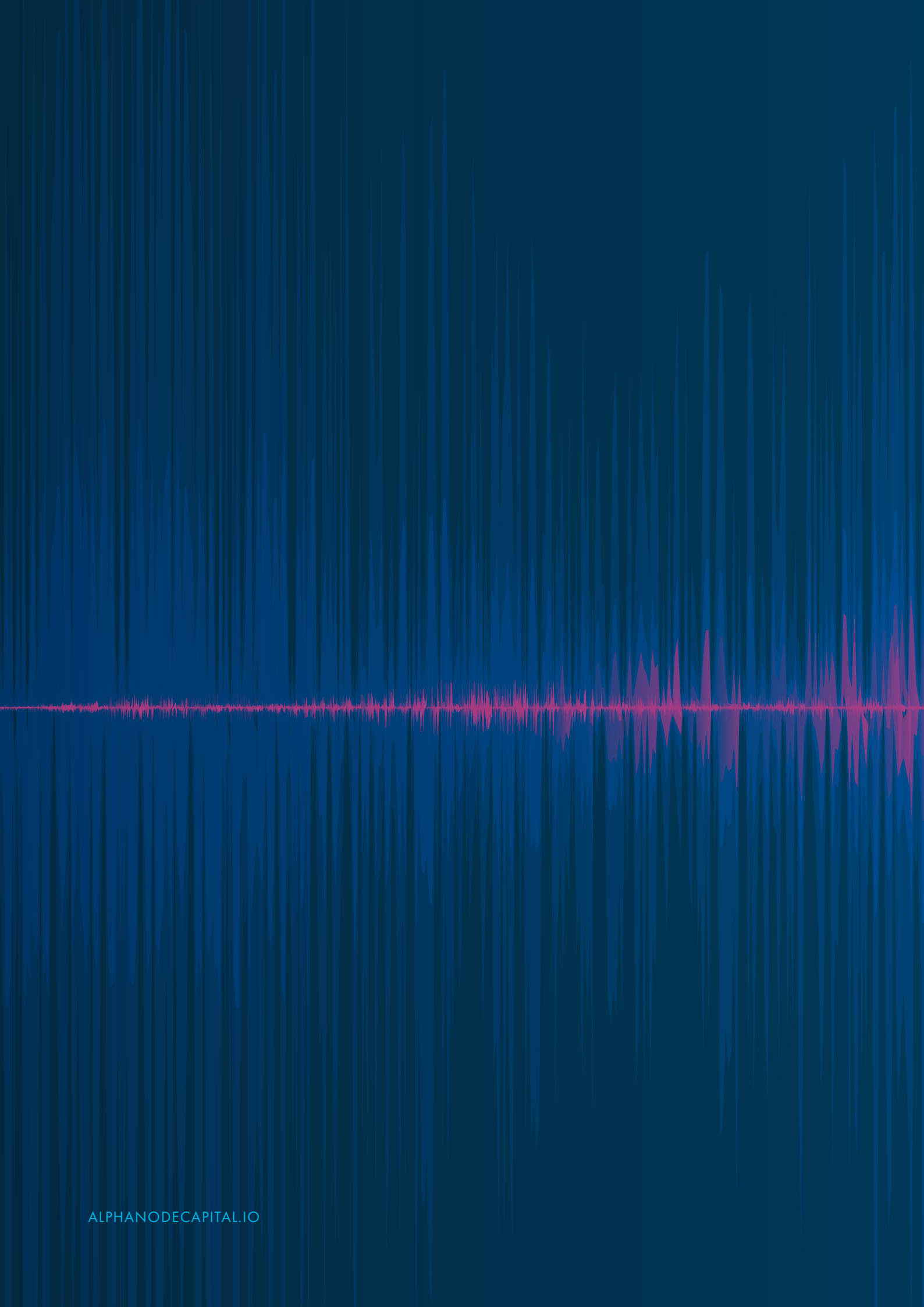

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