



## Disclosure Information

Effective June 2019

CHS Hedging, LLC  
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### Principals

The business address for all principals is 5500 Cenex Drive, Inver Grove Heights, MN 55077.

#### *C. Nelson Neale, Vice President CHS Inc./President CHS Hedging LLC*

Nelson joined CHS Hedging as vice president, CHS Inc. in May 2019 and currently serves as President, CHS Hedging. As President, Nelson is responsible for management and profitability of its commercial and producer programs. He is a proven risk management, finance and business development leader, with expertise in trading, insurance, agriculture and commodity environments. Prior to joining CHS Hedging, he spent seven years at Land O'Lakes and its subsidiary WinField United, as head of services and member of the leadership team. Other WinField United positions included director and head, finance and risk programs; and president, WinSure Captive Insurance Company. Positions outside of the cooperative system included consulting, senior management, and global risk and commodity trading positions with Oliver Wyman Consulting, Inc., New York, N.Y.; The World Bank, Washington, D.C.; Tyson Foods, Springdale, Ark.; UBS Investment Bank, Stamford, Conn.; and Enron, Inc., Houston, Texas.

#### *Joe Barker, Director of Commercial Brokerage Services, CHS Hedging LLC*

Joe has spent 16 years providing commodity price risk management services for agricultural clients of CHS Hedging. He began in the Indianapolis branch office as a commodity broker in 2000. From 2007 to 2014, he was the branch manager of the Kansas City office and spent the several years in the Indianapolis office. Joe served on the Kansas City of Board of Trade and was on the KCBT Clearing Corporation Board of Directors while in Kansas City. He serves on an ad hoc committee for the National Council of Farmer Cooperatives as well as the Ag Advisory Committee for the CFTC, Joe provides industry perspective and policy feedback to the CFTC during its rule-making process related to implementation of the Dodd-Frank Act.

#### *Kent Beadle, Director of Producer Brokerage Services, CHS Hedging LLC*

Kent is the marketing manager for Russell Consulting where he focuses on analyzing the commodity and financial markets for all Russell Consulting clients and their associates. In that role, he also leads regular teleconferences and publishes the weekly e-newsletter. In addition, he helps manage the CHS Pro Advantage contract that is a collaboration with CHS Inc., offering growers access to professional pricing for a portion of their crops. Kent has been analyzing markets since 1985 where he had various roles with CHS Hedging and the parent company CHS Inc.

*Paula Barjesteh, Director of Finance and Risk & Chief Financial Officer, CHS Hedging LLC*

Paula is the Chief Financial Officer and Director of Finance and Risk for CHS Hedging LLC where her primary responsibilities include managing financial, regulatory, risk and operations for CHS Hedging. She oversees functions within operations, treasury and research, and ensures back office and business intelligence systems support the company's needs. Paula's previous role was in the CHS grain marketing department as the Assistant Grain Accounting Manager where she oversaw a team that manages grain trade contracts for multiple commodities, futures and modes of transportation. Prior to joining CHS, Paula held a variety of roles with Cargill in their hedge fund subsidiary CarVal Investors, including Treasury Manager and Financial Control Director, where she oversaw \$10 billion assets under management in loan portfolios, corporate securities and commercial real estate.

*Linda Bryden, Chief Compliance Officer, CHS Hedging LLC*

Linda leads the internal processes for promoting and ensuring compliance with the laws, regulations of the CFTC, NFA, Exchanges and other regulators. She is also responsible for implementing company policies and procedures and making sure they are communicated and trained upon across the company. She works to preserve CHS Hedging's strong track record and reputation for compliance and integrity. She has been in the agriculture industry for more than 25 years and has served Hedging in a compliance role since 2002.

*John Griffith, Chairman of CHS Hedging Board of Managers and Sr Vice President, Global Grain Marketing and Renewable Fuels*

John is responsible for CHS global commodity and renewable fuels trading, supply chain management and risk management, including, CHS Hedging, which offers commodity brokerage services to growers and partner cooperatives. He is a member of many trade associations and serves as a director on numerous boards including the Minneapolis Grain Exchange, North American Export Grain Association, North American Millers Association and the Market Street Terminal LLC.

*Jean Briand, Chief Accounting Officer and Senior Vice President Finance, CHS Inc.*

Jean is responsible for enterprise-wide financial control, planning and reporting. He also leads financial shared services and strategic sourcing efforts. Jean is tasked with driving the effectiveness and efficiency of finance activities across CHS. He is a certified public accountant and a certified managerial accountant.

*Dustin Haaland, Director of Renewable Fuels and Additives Supply, CHS Inc.*

Dustin, leads the team that handles procurement, merchandising and distribution of ethanol and biodiesel blended into Cenex ® branded and unbranded fuels. He is responsible for Renewable Identification Numbers (RINS) trading and refinery asset compliance with the Renewable Fuels Standard (RFS). In addition, he leads quality assurance initiatives and additive supply efforts to ensure the highest quality for CHS refined and renewable fuel products.

*Tom Malecha, Senior Vice President of Processing and Food Ingredients, CHS Inc.*

Tom is responsible for management and oversight of ethanol and soybean processing facilities and businesses in the U.S., China, and Israel. He serves on the board of managers for CHS Hedging and has previously served on the board of directors of the National Oilseed Processors association (NOPA).

*Steve Neelly, Senior Merchandiser, CHS Inc.*

Steve is responsible for grain and oilseeds marketing, risk management and logistics at CHS-owned farm supply locations. Previously, he served as director of grain trading in St. Paul, Minn. and manager at the Lincoln, Neb. grain marketing office. Steve has been in the grain industry for more than 25 years and is a manager on the CHS Hedging board.

*Angie Olsonawski, Senior Vice President, and Corporate Treasurer, Finance CHS Inc.*

Angie is responsible for enterprise-wide treasury functions including banking relationships, cash management, capital structure, equity management, funding, liquidity, interest rate risk management, and property and casualty insurance programs. Angie joined CHS Inc in 2000 and has a deep understanding of the core business functions and is a recognized leader in the energy industry. She serves on the board of managers for CHS Hedging.

### **Business Activities**

CHS Hedging, LLC (“CHS Hedging” or “Company”) is a Futures Commission Merchant (“FCM”) that provides full-service commodity price risk management and market intelligence to its customers, primarily through the use of exchange-traded futures and options but also through the use of non-cleared, over-the-counter products. The Company has remained focused on the agriculture and energy sectors, which compliments the businesses of its parent, CHS Inc. CHS Hedging utilizes 98% of its assets, for exchange-cleared activity and 0.3% for over-the-counter activity. Of the 98%, 76% is related to customer business and 24% to affiliates of the Company. CHS Hedging utilizes 100% of its net capital, for exchange-cleared activity and 0.0% for over-the-counter activity. Of the 100%, 98% is related to customer business and 2% to affiliates of the Company.

CHS Hedging provides individualized consulting and education in the areas of agriculture, energy and crop nutrients. The Company’s wholly owned subsidiary Russell Consulting Group provides an avenue to offer marketing and financial advice to crop and livestock producers. The Energy Risk Management Program puts dedicated energy market expertise to work for commercial energy business. And the Crop Nutrient Risk Management Program delivers consultation for crop nutrient dealers and retailers, with a special emphasis on inventory and risk transfer strategies. CHS Hedging uses approximately 2% of its assets and 0% of its net capital for consulting and education.

### **Customers**

The customer base of CHS Hedging consists primarily of commercial agriculture and energy businesses, such as grain elevators and energy supply companies, and individual and corporate farmers and ranchers. The Company also offers futures and options clearing services to other FCMs on a limited basis. CHS Hedging customers are primarily located in the U.S.A., with less than 1% of its active customer accounts domiciled outside of the country.

CHS Hedging’s customers primarily trade in the agriculture and energy markets. The Company clears grain trades directly at the Chicago Board of Trade and the Minneapolis Grain Exchange. For the clearing of other products, the Company utilizes R. J. O’Brien & Associates, LLC and SG Americas Securities Holdings, LLC as carrying brokers. The Company requires that FCMs meet certain criteria with regard to capitalization, access to liquidity, creditworthiness, concentration and regulatory and supervisory compliance.

CHS Hedging holds customer funds on deposit with clearinghouses, FCMs, and banks. CHS Hedging investments are in compliance with CFTC regulation 1.25, which dictates how customer funds in a segregated account can be invested. The Company does not invest customer funds with its parent or affiliates. The Company requires that bank depositories be U.S.-chartered

commercial banks rated at least an A1 by Moody's and/or A by S&P for long-term deposits. The ratings for short-term borrowings must be at least P-1 for Moody's and A-1- for S&P. The banks' actual and stress-test pro forma leverage and risk-based regulatory capital ratios must well exceed the regulatory minimums. Further consideration will be given to the bank's risk management structure, legal actions, operational reliability and concentration risk. Like CHS Hedging, clearinghouses and other FCMs must adhere to the regulations of the Commodity Exchange Act.

### **Material Risks**

*Affiliate Risk* - CHS Inc., the parent of CHS Hedging and other affiliates, is a cooperative that engages in a variety of business activities relating to energy, grains and foods. Operations include refineries, rural retail locations, processing, marketing, and distribution.

CHS has identified a number of material risks that could adversely affect its business, including commodity prices and economic downturns and risks; competition; environmental liabilities; real or perceived quality, safety or health risks associate with its products; seasonality; business interruptions and casualty losses; its cooperative structure; industry consolidation; alternative fuels; volatile agronomy business; technological improvements in agriculture; joint ventures where CHS has limited control; and changes in laws and regulations regarding tax, environment, energy and agriculture. A substantially material adverse event for CHS could affect the Company's ability to obtain liquidity and capital from CHS on a timely basis. Revenues, results of operations and cash flow could also be adversely affected. Such an event could also damage CHS Hedging's reputation by association.

*Counterparty Risk* - A clearinghouse or FCM may fail to meet its obligations to CHS Hedging or other industry participants. The Company has contributed to the guaranty funds of the Chicago Board of Trade and the Minneapolis Grain Exchange. In the event of a default, the guaranty deposits may be accessed to cover unpaid obligations of the defaulting party.

*Sector Risk* - CHS Hedging serves many customers in the agriculture and energy sectors that are similarly situated in terms of their business activities. Consolidation among customers and with other entities that are not customers could affect revenue and operating results of the Company if the customer chooses to move all or part of its business to another FCM. Sustained conditions of either lower prices and volatility or extremely high prices and volatility, which can be driven by factors such as weather and growing conditions, supply and demand and activities of other market participants, could also have a negative effect on revenue, operating results and cash flow.

*Regulatory Risk* - The regulations governing the FCM industry are subject to change. CHS Hedging is committed to maintaining compliance with the rules and engages with regulators, industry groups and other FCMs to provide input regarding proposed rulemaking. Regulatory changes may affect the Company's ability to maintain its current structure and profitability.

*Liquidity & Capital Risk* - CHS Hedging obtains liquidity and capital exclusively from CHS and/or affiliates on an as needed basis. As such, the Company is dependent on the creditworthiness of the parent to ensure that adequate funds are available in case of need. CHS has one or more lines of credit with a consortium of banks that impose specific covenants in order to maintain the financial health of CHS and the safety of the banks' investments. A breach of the covenants or other catastrophic financial failure of the parent could have a material effect on the Company's access to liquidity and capital.

*Leverage & Liability Risk* - The regulatory leverage risk of the Company is primarily driven by the proprietary trading of the parent and affiliates for the purpose of hedging commodity and other

business-related risks. CHS Hedging does not itself maintain a proprietary position. If the business attributable to the parent and affiliates rises, there may be additional risk to the Company's balance sheet if a substantially material event occurs with the parent or an affiliate. Other than proprietary trading, the Company may also carry an intercompany net payable to the parent for settlement of various payables and receivables.

*Investment Risk* - CHS Hedging maintains a conservative investment approach and utilizes only investments that meet the requirements of CFTC Rule 1.25. Although very safe, these investments are not 100% guaranteed and the Company itself bears the financial risk if any investment fails to perform as expected.

### **Risk Management Practices, Controls and Procedures**

CHS Hedging has established a Risk Management Program that is designed to monitor and manage the risks associated with the Company's role as an FCM. The Company has a Risk Management Unit as established by Senior Management, that is responsible for identification of risks, establishment of risk tolerance limits, periodic risk exposure reports, and supervision, review and testing of the relevant policies and procedures. CHS Hedging also has a designated Risk Manager who is responsible for monitoring the risks of the Company. Relevant policies and procedures include the Risk Management Program, FCM Compliance Manual, Liquidity, Excess Customer Funds, Information Systems Security, Anti-money Laundering, Privacy, Electronic Communications and Red Flags policies.

### **Designated Self-Regulatory Organization (DSRO)**

The Chicago Board of Trade, part of CME Group, Inc., is the DSRO for CHS Hedging. The web address is [www.cmegroup.com](http://www.cmegroup.com).

### **Material Complaints or Actions**

In May 2017, the Minneapolis Grain Exchange, Inc. ("MGEX") filed a disciplinary action against CHS Hedging alleging violations of various technical MGEX rules over a period of several months. MGEX also charged CHS Hedging with engaging in "uncommercial conduct" as a result of those underlying alleged violations. In response to MGEX, CHS Hedging argued that the underlying alleged violations were basically clerical errors and certainly did not rise to the level of "uncommercial conduct". After several calls, discussions and a meeting at MGEX, CHS Hedging and MGEX reached a mutually acceptable settlement agreement pursuant to which CHS Hedging agreed to pay \$250,000 without admitting that the alleged violations occurred. Additionally:

- (1) In CHS Hedging v. Steffensen, CHS asserted a breach of contract action to enforce a personal guaranty executed by the defendant for amounts owed to CHS Hedging. The matter has been resolved through settlement with judgment to be entered in favor of CHS.
- (2) In LeAnn Pierce, Chapter 7 Bankruptcy Trustee v. CHS Hedging, an NFA arbitration proceeding, the bankruptcy trustee for H&I Grain alleges that CHS Hedging is somehow responsible for losses that H&I inflicted by engaging in speculative trading. CHS disputes the allegations and is vigorously defending against the claims.
- (3) In CHS Capital Inc. v. J.E.S. Farms Partnership et al., the defendants counterclaimed asserting alleged misconduct on the part of CHS Hedging. CHS disputes the allegations and is vigorously defending against the counterclaims.

## How to File a Complaint

Information about filing a complaint can be found at:

<http://www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm> or  
<http://www.cmegroup.com/market-regulation/dispute-resolution/>.

## Location of Financial Information

The following items can be found at [www.chshedding.com/disclosure](http://www.chshedding.com/disclosure):

- Annual report information for the most recent fiscal year
- Daily statements of customer segregated, secured and cleared swaps funds for the most current 12-month period
- Monthly 1-FR FCM report information for the most current 12-month period
- Summary monthly capital balances as of the last day of each month for the 12 most recent months
- Protection of Customer Funds Overview, including information about segregation, collateral management, investments and futures commission merchants

Financial information regarding the Company, including how the Company invests and holds customer funds, can be found on the NFA website at

<http://www.nfa.futures.org/basicnet/welcome.aspx>.

Financial information for all FCMs can be found on the CFTC website at

<https://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

## Financial Data as of June 30, 2018

Total ownership equity / Net worth		\$ 58,735,716
Regulatory capital / Adjusted net capital		\$ 48,305,672
House and proprietary margin requirements as a percentage of aggregate customer margin requirements		23%
Smallest number of futures customers that comprise 50 percent of the Company's total funds held for customers	Segregated	25
	Secured 30.7	N/A
	Cleared Swaps	N/A
Aggregate notional value of the Company's non-hedged, principal over-the-counter transactions		\$0.00
Committed unsecured lines of credit available but not yet drawn upon	Amount	\$100,000,000
	Source	CHS Inc.
	Purpose	Short-term liquidity
Aggregate amount of financing the Company provides for customer transactions involving illiquid financial products		\$0.00
Percentage of customer receivable balances that the Company had to write-off as uncollectable during the past 12 months	Segregated	0.00%
	Secured 30.7	0.00%
	Cleared Swaps	0.00%