



**THE ORIGINAL
PRIVATE EQUITY TOKEN**

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Summary

'Blockchain will bring a radical shift in the way we think about financial assets and the way the financial industry will operate in the future.'

- Goldman Sachs

FundCoin is designed to bridge the two worlds of private equity (PE) and blockchain technology, facilitating to investors the benefits of the combination of these two. PE offers significantly higher returns than almost any other asset class but is notorious for its exclusivity, being open only to professional investors and dedicated venture funds. Blockchain technology, meanwhile, is now entering the mainstream and offers opportunities for returns in excess of even PE, but is still considered complex and daunting by most prospective investors.

The original Private Equity token, FundCoin (FND), is backed by investments in a private equity fund managed by boutique fund management house Finles Capital Management. These investments will include key blockchain companies and funds. The fund will be underpinned by a series of income-generating securities that will be used to hedge the high-risk, high-return opportunities of blockchain investment and provide a stream of yield returns with which to buy back FND tokens from the open market - maintaining liquidity and an increasing token price over the longer term.

FundCoin will therefore be a unique opportunity for both novice and experienced investors from the traditional financial world and the cryptocurrency spheres alike. It will enable them to benefit from the backing of private equity opportunities and investments in the blockchain sector, and the combined and diversified returns that both have to offer.

Introduction: private equity and blockchain

The FundCoin project was created to leverage the opportunities posed by the growth of two distinct but promising trends: private equity and blockchain technology. Whilst these both hold exceptional merit in their own right, access to each poses a number of challenges for the everyday investor. However, their combination holds out something greater than the sum of its parts and a strategy that recognizes and utilizes their respective strengths and weaknesses can be used to design an entirely new and exciting asset class proposition.

PRIVATE EQUITY

Private Equity (PE) refers to a class of assets relating to companies that are not publicly traded.

Whilst retail investors are freely able to buy and sell publicly-traded stocks on major stock exchanges, as well as bonds and other types of security through a range of vehicles offered by brokers, the nature of private equity means that it cannot readily be accessed without specialist information or contacts. Thus PE investments are typically made by dedicated private equity firms, individual angel or high net-worth investors, and venture capital firms.

Private equity is, by nature, exclusive. More and more professional investors are allocating funds to private equity, and assets under management (AUM) now total over \$2.5 trillion. However, it remains out of reach for most retail investors due to the high entry levels.

This restriction and the quality of the opportunities mean that PE as a whole has significantly outperformed almost every other asset class: over the past 20 years, returns have averaged 12.3%. At a time when interest rates remain at or near all-time lows, bond yields are close to zero, and dividend yields are historically low, PE represents very attractive levels of returns.

OPPORTUNITIES OF BLOCKCHAIN

‘Blockchain will bring a radical shift in the way we think about financial assets and the way the financial industry will operate in the future.’

- Fortune

Blockchain: overview

- Blockchain represents a new form of database or means of storing information.
- A blockchain is a shared ledger, with responsibility for maintenance distributed across a large number of participants.
- The properties of blockchain lend it to transferring and storing value efficiently.
- The first blockchain-based currency was bitcoin.
- Blockchain currencies are also known as cryptographic currencies or cryptocurrencies, crypto coins, digital cash, or virtual cash.
- New crypto coins or ‘tokens’ can be created on blockchains, with tokens representing whatever the issuer wants and is able to honour.

Blockchain technology made its debut with the launch of bitcoin in 2009. Whilst the nature and benefits of blockchain will be explored in more detail below, at this stage it is worth noting the rapid increase in interest and adoption of this suite of technologies.

KEY STATISTICS

- Total cryptocurrency market cap increased by 700% in the last year, whilst average trading volumes increased 30-fold.
- The sector is becoming better regulated within the legal systems of different jurisdictions. For example, Japan now recognizes bitcoin as a legal payment method.
- Cryptocurrencies - particularly bitcoin - are being accepted by major tech corporations, including Microsoft, Dell, Expedia and Time Inc.
- Initial Coin Offerings (ICOs) are emerging as a major new fundraising tool, with more than \$2 billion raised by 100+ projects and over \$1 billion in 2017 alone.

A COMBINED APPROACH

Whilst the private equity industry is well established and understood (if inaccessible) to most investors, the cryptocurrency or blockchain sector is new and unfamiliar. Nevertheless, investors will likely be aware that, as an emerging asset class, blockchain is experiencing an exponential growth phase. It currently sits at a watershed position, at a key juncture between Innovation and Early Adoption. The sector consequently presents unique opportunities for forward-thinking and risk taking investors.

'Blockchains will become the critical backbone of the future capital markets infrastructure.'

- Accenture

FundCoin (FND) is a combination of these two promising asset classes. It will use a blockchain token to reflect the benefits of a diverse and balanced portfolio comprising both blockchain and traditional private equity investments, whilst employing the innovative fundraising mechanism of the ICO to collect the capital required.

As well as having a number of intrinsic benefits for users and issuers, a blockchain-based approach will allow ordinary investors to benefit from the opportunities offered by private equity investments, lowering the barrier to entry and enabling them to enjoy the opportunities only available to a small number of professional investors.

- \$1.7 billion VC investment in blockchain startups over the past 2 years
- 280+ new blockchain startups founded
- \$100+ billion total cryptocurrency market cap
- Bitcoin represents around half of this total
- Crypto assets represent only part of the remainder
- \$4 trillion Asset Management industry ripe for disruption

Blockchain technology

Blockchain-based currencies, also known as cryptographic currencies or cryptocurrencies, offer a fundamentally different way of creating, storing and transferring value than the traditional monetary and financial system does. Rather than being uniformly better or worse, the blockchain represents a paradigm shift in the way we conduct finance. This brings both advantages and disadvantages with it. As with any technology, there are risks to uncritical acceptance. However, there are also far-reaching advantages, and carefully-managed implementation offers significant benefits to both investors and institutions.

Core to the challenges and value proposition of blockchain technology is the concept of decentralization. Traditional financial systems operate on centralized lines. A single, trusted third party is required to mediate transactions between individuals. This third party may be a bank, credit card company or other form of payment processor. However, when transacting online or electronically, it has always been necessary to maintain a centralized ledger of balances. Online banking customers therefore do not transfer money to one another; they instruct the bank to transfer their funds to the recipient's account on their behalf.

‘On the one hand information wants to be expensive, because it’s so valuable. The right information in the right place just changes your life. On the other hand, information wants to be free, because the cost of getting it out is getting lower and lower all the time.’

- Accenture

Such centralized systems are necessary due to the nature of data. As the music industry discovered in the early years of the web and the rise of file-sharing platforms like Napster, it costs practically nothing to copy valuable data and distribute it freely. The problem posed for financial transfers is that it would be possible for a person to copy a transaction and send the same money multiple times – there is no way of trusting individuals to maintain accurate accounts. Thus a trusted intermediary is required to serve this purpose. Everyone else is excluded from direct access to the ledger of accounts.

This centralization and trust in a third party brings with it a number of unintended consequences:

- **Loss of control by end users.** Customers do not have direct access to their own money. The trusted party has the ability to block or reverse transfers unilaterally, or to make unauthorized transfers.
- **High costs.** The centralized authority can also impose high fees of various kinds upon users. These may or may not reflect the actual cost of a given activity (e.g. international transfers).
- **Surveillance and the erosion of financial privacy.** Transactions can easily be tracked, both for legitimate purposes and for criminal ones.

BITCOIN

In the context of online financial transactions, the issue of preventing fraudulent transfers of funds already spent is known as the Double Spend Problem. Before bitcoin was implemented, many experts believed this was impossible to solve. Whilst various forms of peer-to-peer online money had previously been explored, none proved fit for purpose until Satoshi Nakamoto articulated his idea for Bitcoin on the Cryptography Mailing List and in his 2008 white paper.

Bitcoin addresses the double spend problem by using a shared ledger or set of accounts known as a blockchain. The blockchain is maintained by the network as a whole (or a large number of active nodes in the network), rather than by a single trusted party. Satoshi Nakamoto's approach to the problem was to organise the bitcoin system in such a way that it is very easy for anyone to check the validity of a transaction (i.e. that the sender has the required funds), but very difficult to add new transactions to the shared ledger.

In practical terms, this means making it computationally expensive – resource-heavy – for a member of the network to add a new tranche of transactions to the blockchain. These 'miners', in bitcoin terminology, compete to do so by performing a series of mathematical operations known as hashing, aiming to find a hash that fits the given criteria. The difficulty of this operation is continually adjusted according to the computational power of the network as a whole, such that only a single hash meeting the requirements is found every ten minutes on average. At the time of writing, the network generates around 7 million trillion hashes per second, a number which has more than quadrupled in the last year - indicating the rising interest in bitcoin mining as well as ever more powerful mining hardware.

The computer that finds this hash is permitted to add the new 'block' of transactions to the shared ledger, and is rewarded with newly-created bitcoins (currently 12.5 per block) as well as any transaction fees paid by users in those transactions.

If a miner attempts to submit a fraudulent transaction to the blockchain, they would first have to compete successfully to find the next hash. However, having done so, the invalid transfers would immediately become apparent to the rest of the network, which would discard the fraudulent transactions. This makes it extremely unlikely for any member of the network to succeed in conducting a fraudulent transaction, and expensive to try, whilst the miner would also forego the rewards of maintaining the network honestly. Incentives are therefore aligned to ensure that network members act collectively to ensure the integrity of the blockchain.

ADVANTAGES AND DISADVANTAGES

For a large proportion of its history, since its invention around 7,000 years ago, money has been used as a medium of transfer directly between people (as well as a store of value and unit of account). In its earliest form, money as we typically understand it took the form of pieces of precious metal, assayed to establish purity and weighed out at the point of transaction. Whilst this system may have been slow and inefficient, it required no third parties. Centralisation began to occur with the first coins, around 600 BCE, when kings and emperors introduced seigniorage – the difference between the face value of the coin and the cost of production, including its metal content. This represented a form of tax and a transfer of wealth from citizens to the issuer of the currency. Further centralisation and control over the money supply occurred through the rise of the banking sector, and with the advent of ‘fiat’ money, which is issued by banks and governments through policy decision, rather than being backed by precious metals.

Bitcoin is the first truly peer-to-peer online money, offering the ability to transfer value from one user to another, without a trusted middleman to police accounts. It arguably represents a form of money far more like the ones humans used to transfer value thousands of years ago than the more recent ones of fiat and electronic money.

Decentralisation is the defining characteristic of blockchain, and every advantage and disadvantage associated with bitcoin and blockchain-based value transfer stems from the peer-to-peer nature of cryptocurrencies:

Irreversibility. Blockchain transfers are made directly from sender to recipient. Although they are recorded by miners, they are not dependent on any single party to execute – if one node refuses to validate a transaction, another will. This means that cryptocurrency transactions can be viewed as analogous to physical cash transactions. Once a transfer has been recorded on the blockchain, there is no way of reversing it without the recipient's consent. This has profound implications. It is impossible to prevent one person sending money to another – there is no financial censorship. It also means that stolen funds cannot be returned by technical means.

Costs. Because transactions are collectively secured, there is no single middleman to keep accounts and therefore no one entity that can charge fees for this service. In the early days of bitcoin, transfers were essentially free, since it was often unnecessary to include a transaction fee – the rewards that were issued with every block were larger (50 BTC), there was less competition among miners and there were not enough transactions to fill blocks to their full capacity. Today, rewards are lower (12.5 BTC per block) and transaction volumes are high enough to fill most blocks. Instead of there being a flat cost imposed for transactions, though, miners accept transfers with the highest fees – there is an efficient marketplace for transaction fees. Other blockchain protocols tend to have still lower fees. Additionally, due to their decentralised and global nature, geographical boundaries are irrelevant to blockchain networks. Whilst banks and traditional money transfer services usually charge high fees for cross-border transfers and currency exchange, bitcoin transactions cost the same regardless of the locations of sender and recipient.

Privacy. The bitcoin blockchain is transparent: it is a straightforward matter to track transactions from the sender to the recipient's address. In this respect, the blockchain is highly auditable – anyone can see exactly where money has moved. However, addresses may or may not be identifiable. Bitcoin is often described as anonymous. It is more accurately pseudonymous. A bitcoin address is effectively nothing more than a random string of numbers and letters, which means that there is nothing to link it intrinsically to the owner. Information may be collected about transactions relating to a given address, but no personal data has to be registered to use a bitcoin wallet. A number of other blockchain currencies further prioritize financial privacy through a variety of means.

ALTCOINS

Because the bitcoin software is open source, anyone can download and use it. They can also modify it in any way they like - although if the ruleset that maintains the integrity of the blockchain is altered, then transactions from these modified wallets will not be recognized or accepted by the rest of the bitcoin network. Essentially, it is a cryptocurrency than others by being backed by real investments.

By copying and altering bitcoin's code, a large number of alternative cryptocurrencies, or 'altcoins', have been created in this way. A handful of other altcoins have been created from scratch, using completely new code that is not based on bitcoin. Most altcoins do not offer fundamental improvements over bitcoin, simply adjusting one or other parameter to bring about a minor change. Others have introduced meaningful innovations, and have themselves been cloned (copied) and modified over time. One of the first altcoins was Litecoin, which uses a different means of creating hashes (reducing the advantage of the kind of specialist hardware used by bitcoin miners) and increasing the number of units of the currency to 84 million, from bitcoin's 21 million.

Such is the proliferation of these alternative cryptocurrencies that, at the time of writing, their collective value totals approximately the same as bitcoin's market cap. (Whilst this is often characterized as bitcoin losing its dominance in the cryptocurrency space, the reality is that bitcoin itself has increased substantially in value, and its reduced overall market share is a result of both the proliferation of other blockchain projects and their increase in value.) After bitcoin, the single largest blockchain platform by value is Ethereum.

ETHEREUM

Bitcoin is the undisputed leader in blockchain value transfer. The size of its network means that transfers, whilst comparatively slow by cryptocurrency standards, are unparalleled in terms of their security. Many other altcoins tend to prioritize certain features, such as speed, privacy, efficiency (bitcoin mining has a high energy cost), or application within a specific sector or business.

However, blockchains can be used for far more than value transfer.

Blockchains do not de facto record financial balances. Blockchains publicly record information, strings of characters, and although they are well suited to online transactions their scope is far broader than this. The information they hold can, for example, be a simple message – either encrypted and accessible only by the intended recipient, or in plain text and readable by all. One application of this is proof-of-existence. Because the blockchain is immutable – that is, once information is recorded it cannot be altered, even by the sender – it is possible to post a message that proves a certain document existed at a given time. Bitcoin was not designed for this purpose, but it can support such a use case. The very first block in the bitcoin blockchain - the so-called Genesis block - includes the message:

The Times 03/Jan/2009 Chancellor on brink of second bailout for banks

Another application of the blockchain is to use it as the foundation of a decentralized computer that runs code automatically and unfailingly, according to pre-set instructions. In the same way that the bitcoin collectively records financial transactions, Ethereum executes programs across its global network – decentralizing not just payment but software applications too.

The traditional approach to web service provision is to create large data centers to run the servers that support companies' websites and applications – whether a huge and demanding company like Google or Facebook, or a small personal or business site. This critical infrastructure

entails significant costs, as well as vulnerabilities – if a site relies on a single data center, it can be knocked offline by an accident or malicious attack, and large or important services will ensure a high degree of redundancy to avoid disruption.

Ethereum’s ‘smart contracts’ make it possible to replace such infrastructure with a decentralized network of computers. These contracts distribute execution of computer code around the global network, effectively outsourcing it to the blockchain. The computers that run this code are rewarded with payments of Ether (ETH), the native currency of the Ethereum platform. Small fees in ETH are paid by those who want to use the network to run distributed software. As with bitcoin, there is no single point of failure and applications are executed reliably, according to the instructions located on the blockchain, without further intervention.

Ethereum’s diverse and powerful functionality makes it suitable for a wide range of purposes. These include collecting funds securely in a process of decentralised crowdfunding, as well as executing more complex and far-ranging code. For these reasons, Ethereum will be used by Finles to launch FundCoin, the first private equity blockchain token.

BLOCKCHAIN CROWDFUNDING

The idea of crowdfunding – collecting investment for a project from a large number of people – is at least 200 years old. In the 18th and 19th centuries, it was established as a relatively common means by which writers and philosophers would secure funding for their next opus from their audiences. These would typically be non-profit activities, or works of perceived collective benefit; the pedestal for the Statue of Liberty was funded by over 160,000 individual donations, for example, after the expected government funding was not forthcoming. The internet allowed artists and musicians, in particular, to connect directly with their fanbases, and many creative projects were funded in this way. Well-known sites such as Kickstarter have capitalized on the trend and allow anyone to set up a crowdfunding campaign.

This approach of grassroots project funding has become popular in the blockchain space, in the form of the Initial Coin Offering. ICOs or blockchain crowdsales offer numerous advantages over traditional forms of crowdfunding thanks to the unique properties of cryptocurrencies.

INITIAL COIN OFFERINGS (ICOS)

Like conventional crowdfunding, ICOs aim to collect investment for a given project from a particular community. However, funding will generally take the form of bitcoins and other cryptocurrencies, rather than traditional currencies. These can be deposited from anywhere in the world, with no minimum or maximum amount, quickly, reliably, at very little cost and without relying on any bank or formal payment infrastructure. As a result, blockchain crowdfunding is far more accessible for a larger number of people than an ordinary, centralized campaign.

In return for the funds they send, ICO investors are sent blockchain tokens representing a stake in the new enterprise (the role the token plays differs from project to project). These tokens may require the creation of a totally new blockchain, or they may be hosted on an existing platform such as Ethereum – a simpler and more secure approach. Unlike stakes held in a traditional crowdfunded project, these can easily be transferred to new investors. Consequently secondary markets can and do arise, enabling price discovery and allowing holders to exit their investment whenever they want.

Supporters invest in these tokens in the expectation that they will rise in value through increasing demand and/or reducing supply. This can be achieved in a number of different ways. (Although it is a straightforward matter to issue dividends on a blockchain platform, this contravenes securities regulations and is therefore generally not used.) Typically the project will aim to raise organic demand for the token through promoting widespread adoption.

HISTORY AND GROWTH OF ICO INVESTMENT

From modest beginnings, volumes of investment into ICOs has grown rapidly over the past four years. One of the very first ICOs was for the Nxt blockchain platform, held at the end of 2013. Just 21 bitcoins (BTC) with a value of around \$21,000 were collected. Nine months later, Ethereum held its ICO and raised around \$18 million in BTC over the course of a month in the summer of 2014 – a remarkable amount at the time. Ethereum’s crowdsale established that it was possible to collect large sums of money in cryptocurrencies, but it was initially considered a one-off. However, 2016 saw several multi-million-dollar blockchain crowdsales, including the custom tokens platform Waves (\$16 million).

A large proportion of ICOs today launch their tokens either on Ethereum or Waves. In 2017 alone, over a billion dollars has been invested in different initiatives, mostly on one or both of these – some projects use both blockchains for reasons of redundancy and to use the unique functionality of each.

- Cryptocurrency trading application **Bancor** raised \$153 million in Ether in 3 hours.
- Browser advertising application **Basic Attention Token** (Ethereum) raised \$35 million in less than a minute.
- Decentralized organizations management system **Aragon** (Ethereum) raised \$25 million in less than 15 minutes.
- Online gaming initiative **MobileGo** (Waves and Ethereum) raised \$53 million.
- Market predictions app **Gnosis** (Ethereum) raised \$12.5 million.

REGULATION

In contrast to conventional securities, ICOs are currently unregulated or only lightly regulated in many countries - though there have recently been moves to tighten regulation in certain key jurisdictions. This partly reflects their status as a totally new class of financial asset; partly the fact that they are generally structured differently to assets like stocks, bonds and so on; and partly because their decentralized nature makes it very difficult for the authorities to regulate them as tightly as centralized securities.

Additionally, ICO tokens may take many different forms, serving various purposes. Whilst it is possible to issue dividend-paying assets, this is not encouraged or common because it raises legal and regulatory issues for both investors and issuing businesses or individuals. Instead, tokens often serve the purpose of an internal currency or 'fuel' for the platform. For example, Ethereum raised money at its crowdfund by selling Ether (ETH), which is used as 'gas' when transactions are made on the network. Because ETH is needed to create a smart contract or send tokens on Ethereum, demand for it is built into the platform. Although it is subject to speculative forces, like any other cryptocurrency or even commodities like gold or wheat, its value is underpinned by this demand. Many blockchain tokens issued at ICO can therefore be considered as broadly analogous to other kinds of digital products of value, such as software or ebook downloads. These do not fit easily within existing securities regulation.

Notwithstanding, the large amount of money flowing into the blockchain sector through ICOs has prompted increased scrutiny from regulators, and in recent weeks and months there have been some significant developments. The Monetary Authority of Singapore (MAS) has just clarified that 'the offer or issue of digital tokens in Singapore will be regulated by MAS if the digital tokens constitute products regulated under the Securities and Futures Act (Cap. 289) (SFA)', whilst recognizing that 'The types of digital tokens offered in Singapore and elsewhere vary widely. Some offers may be subject to the SFA while others may not be. All issuers of digital tokens, intermediaries facilitating or advising on an offer of digital tokens, and platforms facilitating trading in digital tokens should therefore seek independent legal advice to

ensure they comply with all applicable laws, and consult MAS where appropriate.' This clarification has been made partly because ICOs are vulnerable to money laundering and terrorist financing (ML/TF) risks, and partly because some ICO tokens evidently do fall under the existing definition of what constitutes a security.

At the end of July, the US Securities and Exchanges Commission (SEC) similarly issued a report cautioning investors that some ICO tokens would fall under the definition of a security and would be subject to the same regulation: 'federal securities laws apply to those who offer and sell securities in the United States, regardless whether the issuing entity is a traditional company or a decentralized autonomous organization, regardless whether those securities are purchased using U.S. dollars or virtual currencies, and regardless whether they are distributed in certificated form or through distributed ledger technology.'

In practice, it is difficult for the authorities to prevent individuals from investing in ICOs due to the peer-to-peer and relatively private nature of cryptocurrency transactions. This does not change the reality that issuing and investing in certain ICOs will be illegal in some jurisdictions. The evolving nature of the regulatory picture also means that the detail of the situation is unclear for some jurisdictions, pending further clarification of what kinds of ICO offering fall within the relevant definitions of what constitutes a security.

As a result of this, Finles has decided to exclude US, Singaporean and EU investors from the FundCoin crowdsale. The current state of regulation in these jurisdictions means we are unable to recommend investment in our project to parties based in these areas. As the regulatory situation becomes clearer we will revisit the possibility of including investors in these areas.

OPPORTUNITIES AND CHALLENGES

The ICO phenomenon represents the emergence of a qualitatively different system of creating, storing, transferring, raising and investing money. Due to its decentralized nature, and the centralized paradigm of traditional financial services, it does not always interface well with the existing financial system. Finles identifies a number of both opportunities and challenges in ICOs and blockchain platforms as they currently stand.

OPPORTUNITIES OF BLOCKCHAIN-BASED INVESTMENT

- **Accessibility.** Both investment in conventional securities and participation in traditional crowdfunding campaigns pose barriers to ordinary investors. They are typically limited by geographical location, and those who are not resident in the relevant country may not be able to register easily. There may be lengthy KYC/AML processes. The open nature of blockchains means that anyone with an internet connection can participate in an ICO.
- **Cost benefits.** Even if location and verification are not a problem, currency conversion fees for foreign investors can be high, making it expensive to invest in conventional assets - particularly for smaller amounts of money. The nature of digital cash means that any amount of money can be invested from anywhere in the world, and smaller transactions - even so-called microtransactions of less than \$1 - may not incur prohibitively expensive fees. Commission fees are low or non-existent, so there are few additional costs imposed on investors.
- **Global nature.** These factors open up a far broader pool of potential investors than would generally be the case. This benefits companies seeking to raise money for a new project, and allows smaller initiatives to appeal to a wider audience.
- **The 'forward dollar'.** Funds can be collected before product development has been started, or at any stage of the development process.
- **Community engagement.** Crowdsales involve large numbers of grassroots investors, who will also act as a product or service's first customers, as well as testers, focus groups, promoters and so on. Leveraging this community can be tremendously valuable for businesses.

- **Growth potential.** The fledgling nature of the blockchain-based economy and the cutting-edge nature of the technology and many of the specific projects funded by ICOs means that token value can grow far in excess of traditional investments. As a whole, blockchain platforms represent around \$100 billion of value in total - a tiny fraction of the wealth stored in conventional asset classes.

CHALLENGES OF THE ICO PHENOMENON

- **Lack of regulation.** The current regulatory situation means that the legal framework for ICOs can be unclear. Ultimately this benefits neither investors nor businesses, since it allows fraud to occur, and consequently entails loss of confidence in the sector and the technology as a whole. The semi-regulated status means there are legal grey areas that dissuade businesses from using ICOs to access funding, and investors from participating.
- **Lack of professionalism.** The emerging nature of the sector, as well as the fact that its activities take place entirely online, mean that cryptocurrency still has a 'Wild West' reputation. In some cases this extends to outright fraud and scams; in an anonymous environment, in which identities can be disguised and money moved quickly, there are opportunities for unscrupulous actors and the history of cryptocurrency is littered with examples of misappropriated funds. More often, business is not conducted with the rigour that would be expected and demanded in a fully regulated setting. This may be manifested in amateurish approaches to all aspects of business, from product development to customer service; unqualified personnel; and substandard security and accounting practices, to name a few.
- **Marketing over substance.** Whilst there are problems within the sector, there are clearly also enormous opportunities for profit. Many marketing campaigns focus on this, even when the viability of the concept or technology itself has not properly been established. The result is that some projects are simply undeliverable. Others become hugely overfunded, receiving many times the investment that they require to succeed - with implications for the secondary market.

- **Exposure to bitcoin and convertibility.** Most altcoins still trade primarily or exclusively against bitcoin, whilst bitcoin itself trades mainly against USD and CNY. This means that altcoins are exposed both to volatility against BTC, and to BTC's volatility against fiat currencies. Additionally, there are hurdles involved in cashing out assets from the crypto economy into the traditional banking system - not least the extra steps involved in exchanging an asset for BTC, and then the BTC for USD. Aside from the commission fees entailed, limited orderbook depth means that slippage is often a problem in buying or selling large amounts of crypto tokens. Trading blockchain tokens directly against USD would mitigate unnecessary volatility, as well as opening up investment to a far larger pool of traders and money.
- **Complexity and security.** Crypto tokens are must be stored securely by both exchanges and individuals. Without a reasonable degree of familiarity and competence with key software and knowledge of best practices, the safety of tokens from loss or theft cannot be guaranteed. The irreversible nature of blockchain transactions means that stolen tokens cannot be recovered in the same way that a bank can reverse an unauthorized transfer. This technical overhead is off-putting to many otherwise interested investors.
- **Investor mentality.** With such a high risk/reward ratio, cryptocurrency traders often take a short-term approach to investment. Because there are many similar opportunities in the space, traders jump from one project to the next, selling tokens that apparently underperform against the next big perceived opportunity. Many will sell some or all of their stake immediately after a crowdfund ends and the new token begins trading on exchanges. This short-termism frequently exaggerates market movements - undermining broader confidence in well-run projects, as well as presenting longer-term and savvy investors with the chance to acquire underpriced tokens.

A HYBRID APPROACH

‘Blockchain presents the possibility of revolutionizing client onboarding for wealth managers.’

- Ernst and Young

The exceptional opportunities and pitfalls of this emerging sector and asset class present ordinary investors with a series of dilemmas: how can they evaluate projects accurately to identify profitable initiatives whilst simultaneously negotiating the sometimes considerable technical hurdles that exist?

Finles will bridge the gap between the two worlds of decentralized communities and technologies, and traditional real-world expertise, leveraging the advantages of both. Key to this approach is minimizing the risk inherent in blockchain-based investment whilst maximizing the returns. This will be achieved in a number of ways, including through taking a professional strategy to evaluating blockchain opportunities, and by creating a balanced portfolio of assets - from both blockchain and conventional asset classes - to profit from gains whilst reducing exposure to market fluctuations.

About Finles

Founded in 1977, Finles is a sophisticated boutique fund management house, and responsible for the management of EUR 500 million on average. The company also manages the Finles/IEX Dutch Hedge Fund Index.

Finles is regulated (AIFMD) by the Netherlands Authority for the Financial Markets (AFM), approved UCITS Fund Investment Manager by the Authority of Malta (MFSA) and registered in the USA by the SEC. Finles is based in The Netherlands and has a network of partners in the Middle East, Far East, Greater China, Europe and the US.

Clients include pension funds, insurance companies, private banks, wealth managers and family offices.

AWARDS

- Hedgeweek 2011: Best Global Macro Fund
- World Finance Hedge Fund Awards 2013: Best Emerging Markets FoHF
- International Hedge Fund Awards 2014: Dedicated Hedge Fund Selection Firm of the Year, The Netherlands
- Hedge Fund Awards 2015: Best Hedge Fund Manager, The Netherlands
- Hedge Fund Awards 2015: Best European Manager of Emerging Markets Focused Fund of Funds
- Finance Monthly Global Awards 2015: Best Hedge Fund Manager, The Netherlands
- Corporate LiveWire 2015: Global Fund Awards Best Hedge Fund Manager of the Year, the Netherlands

FINLES CAPITAL MANAGEMENT NON-EXECUTIVE SUPERVISORY BOARD

Mark E. Boerstra, Member of the Non-Executive Supervisory Board

Mr Boerstra was Managing Partner of Attica Holding BV from 2000 to 2011. Attica Holding BV offered fund and asset management services to private and institutional investors. Between 1992 and 2000, Mr. Boerstra served as the Executive Director of Lombard Odier (Nederland) Holding BV. His responsibilities at Lombard Odier were general and operational affairs, as well as asset management for private clients.

Gert M. Jochems, Member of the Non-Executive Supervisory Board

Mr. Jochems is currently Chairman of the Board of FM Conduct, which he founded in 2006. FM Conduct offers services in the area of compliance and integrity issues to a broad professional customer base. He is also active as a CIO at Zien, Luisteren en Verbinden BV, which he founded in 2012. Zien, Luisteren en Verbinden BV assists various types of organizations in developing new ideas. Since 2011 Mr. Jochems has also been the Chairman of the Supervisory and Accounting Committee of the Central American Timber Fund.

Dr. Bernard R. Bot, Executive Adviser to the Non-Executive Supervisory Board

Before joining Finles, Dr Bot held various positions in the service of the Dutch Ministry of Foreign Affairs. Between 1986 and 1989 he was Ambassador of the Netherlands to Turkey. He then served as Secretary-General of the Ministry of Foreign Affairs in The Hague until 1992. Between 1992 and 2003 he was Permanent Representative of the Netherlands to the European Union in Brussels. He was the Dutch Minister of Foreign Affairs from 2003 to 2007.

FINLES CAPITAL MANAGEMENT TEAM



**ROB
VAN KUIJK**
CEO/CIO

Mr. van Kuijk is responsible for Business Development and overall Investment Strategies. Within Finles he has built up extensive experience in managing worldwide multi-manager portfolios, having been one of the first Dutch fund managers to invest in hedge funds, in 1998.



**JAN PIETER VAN
OUDVORST**
CFO

Mr. van Oudvorst started working for Finles in 1998. He manages the Finance Department and is the company's controller for Finles and its funds.



HANS VAN DER HOLST

Senior Staff

Mr. van der Holst was responsible for the operational and financial activities at Finles from 1994. He is now responsible for Legal and Compliance within Finles. Prior to joining Finles he worked as a director at Delta Lloyd (Aviva) and later at UAP (currently AXA).



ARJAN VAN DER HEIDEN

Chief Compliance Officer

Mr. van der Heiden holds a Bachelor's degree in Economics and a Masters degree in Auditing (CPA). He is responsible for regulatory and compliance aspects of the company's operations. He started his career working for KPMG and later worked for the Dutch Central Bank and The Netherlands Authority for the Financial Markets (AFM).



WEBKO WUITE

Portfolio Manager

Portfolio Manager of a number of portfolios and mandates, Mr Wuite is also responsible for monitoring existing investments and research and due diligence of existing and potential new investment opportunities.



**MARLIES
SONNEVELD**

Client Services

Marlies with Finles since 2013. She is handling client service relationships and would be happy to assist you with your requests for further information



**DR. JAAKKO
P. KARKI**

Executive Adviser

Dr. Karki is an executive adviser in the areas of fund and investment research. He has over 35 years of experience in the financial industry, and since 2003 has acted as the CIO of various hedge fund firms in London. Previously Dr. Karki spent over 12 years as director at investment banks in London and Zurich.



**CLIFF
GO**

Executive Adviser

Mr. Go has been in Private Banking and Wealth Management since 1992. He started his career at Lehman Brothers, then at Prudential-Bache and thereafter as Executive Director of Schroder & Co Limited. He has held the position of Adjunct Professor in the INSEAD Private Equity course in Singapore.

Further details of the Finles Capital Management team can be found on the Finles website.

FundCoin (FND)

Finles is devising a completely new kind of financial asset: one that bridges the high-risk/high-return, cutting-edge and technically challenging world of blockchain investment with the well-established but exclusive world of private equity.

‘The increased transparency afforded by blockchain provides the opportunity to disintermediate and create direct linkage between fund managers and distribution platforms.’

- Accenture

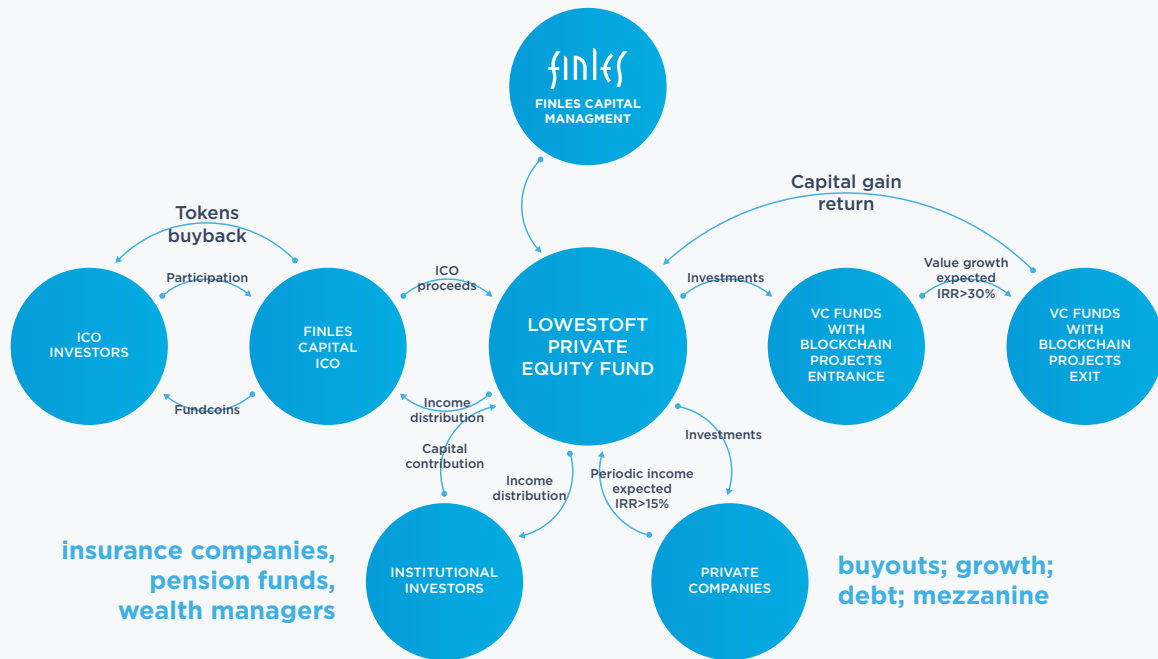
FundCoin (FND) will be a secured digital asset, hosted on the Ethereum blockchain and backed by a series of PE and blockchain investments held in a professionally-managed private equity fund. The fund will take Finles’s characteristically professional approach to investment management, leveraging the high-growth opportunities of blockchain, whilst simultaneously mitigating its risks by allocating a significant proportion of capital to private equity assets uncorrelated with the blockchain sector. This combined approach has a number of key advantages over an either/or approach.

- **Risk management.** FundCoin will make a series of investments in blockchain companies and in specific blockchain tokens (ICOs) due to the significant growth opportunities available. However, cryptocurrencies are notorious for their volatility, with double-digit daily changes in value not uncommon. This volatility will be hedged by the remainder of the fund’s portfolio, which will invest in more conventional assets - ensuring that the downside is always limited and investors have a ‘safe haven’ in the event of a major correction in the cryptocurrency markets. A hybrid of conventional private equity and digital assets, carefully researched and vetted for long-term viability, therefore offers the possibility of high returns with reduced risk exposure.

- **Accessibility.** The opportunities of private equity investment are open only to a relatively select community of professional investors. The open nature of blockchains - the fact that anyone can buy and sell crypto tokens, without requiring specialist knowledge/relationships, accreditation or a minimum amount of money - will allow ordinary retail investors to engage with them. A blockchain token representing a stake in a dedicated fund offers radically reduced barriers to PE investment.
- **Bridging two worlds.** FundCoin is a hybrid project that brings together the very different worlds of conventional finance and cryptocurrency. It provides an entry route to cryptocurrency for investors interested in learning more, whilst limiting the risks and complexities of doing so. It also links capital within the crypto sphere to the real world, along with the income and growth generated by real companies.
- **Liquidity.** Private equity holdings are typically illiquid, since by definition they are not publicly traded. Blockchain tokens are highly tradeable, since they are freely transferable by design. By 'tokenising' a PE fund, an active market can be created for otherwise illiquid assets. Additionally, part of the regular income generated by the portfolio's private equity investments will be used to buy back FND from the open market, supporting the price and promoting further liquidity. This buyback approach does not have the same regulatory implications as issuing a dividend, and is a robust way of delivering value to investors.

ICO AND THE LOWESTOFT FUND

FundCoin aims to raise up to €100 million in cryptocurrency investment through a crowdsale. The proceeds will be contributed to a dedicated fund, called the Lowestoft Fund, which will be the centre of FundCoin’s activity.



The Fund seeks to achieve an absolute positive return over its lifetime by investing in Private Equity and Alternative investments. There is both an offensive and defensive element to the Fund’s strategy.

The Fund employs a diversified portfolio approach to blockchain investment strategy by investing in multiple companies or Venture Capital funds via participation in initial fundraising, or by purchasing existing participation from the secondary market.

This strategy is aimed at investing in the growing blockchain industry. The fund will allocate up to 30% of its capital to this strategy.

The Fund employs an approach in capital allocation to proven alternative investment strategies with track record and optimal risk/return ratio. These strategies are less correlated to the performances of the financial markets. Examples of investments include secured lending funds, mezzanine funds and certain hedge funds.

Assuming an offensive return of 30% per annum and a defensive return of 15% per annum under these allocations, total fund performance would be 19.5% per annum - 25% per annum due to the J-curve effect on yield of the private equity part of the portfolio.

PORTFOLIO INFORMATION

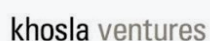
FundCoin's portfolio can be broken down into two distinct elements. These can be characterized as Blockchain Venture Funds or companies; and Traditional PE opportunities and Alternative Investments Strategies. The first represents the 'offensive' component of the portfolio, with the last representing the 'defensive' component. This section offers further information on each of these.

BLOCKCHAIN

The Fund will invest in top venture capital firms that target blockchain opportunities as well as companies behind well-known blockchain projects. These will be purchased at the point of primary fundraising, or from the secondary market. This will give exposure to companies that are positioned as experts in the blockchain space, rather than direct exposure to blockchain currencies and tokens (the comparison of investing in shovels during a goldrush is apt). Investing in these funds and specific companies also brings potential portfolio synergies.

Examples (for information only - not indicative of final portfolio allocations):

 Data Collective

 khosla ventures

 venture 51

 Ribbit Capital

 Tritium
PARTNERS

 WICKLOW
CAPITAL

 AME CLOUD
VENTURES

 DCG

 RRE Ventures

 LIGHTSPEED
VENTURE PARTNERS

 iTechCapital

PRIVATE EQUITY

This element of FundCoin's portfolio focuses on stable income-producing strategies that will provide both periodic income and capital growth potential. Finles is able to source exclusive opportunities within the private equity market by using its extensive knowledge and networks. Typical investment types include corporate lending, mezzanine finance (loans and equity), p2p lending platforms and other specialist instruments. These are unique opportunities, not available to retail investors, that have only a very limited correlation to the broader financial markets - or to the blockchain sector. Again, a diversified approach will be taken to minimise risk.

The income from these investments can be used to support NAV growth and liquidity by purchasing FND tokens from the open market.

Examples (for information only - not indicative of final portfolio allocations):



Crowdsale overview

‘Because blockchains establish trust, they provide a simple, paperless way to establish ownership of money, information and objects.’

- J.P. Morgan

The FundCoin ICO will sell digital tokens (FND) that are backed by private equity investments. The underlying assets will be cash-generating securities and private equity stakes in funds and specific companies, as well as blockchain tokens.

100 million tokens will be sold for the equivalent of €1 each, with deposits accepted in bitcoin (BTC), Ether (ETH) and a range of other popular cryptocurrencies.

Part of the profits from FundCoin’s portfolio of investments will be used to buy back FND from the secondary market, supporting liquidity and NAV growth.

A total of 3% of the proceeds have been allocated to cover ICO administration costs. Management fees are set at 2% of assets under management (AUM) and 20% of realised profits.

PARTICIPANTS

The FundCoin ICO will be of interest to three main categories of prospective investor.

- **Cryptocurrency investors.** These are investors who are already highly familiar with the cryptocurrency sector and hold a significant level of wealth in the crypto economy. These individuals will typically invest in FND to preserve and grow their digital capital.
- **Traditional investors.** These are individuals and groups who are keen to participate in the growth of the blockchain technology industry, but who may have a limited risk appetite and who prefer to take a diversified approach.
- **Novice investors.** These individuals have heard about bitcoin but missed the earlier opportunities to profit from its rapid increase in value.

Contact information

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Disclaimer

The value of your investments can fluctuate. Past performance is no guarantee of future results. Investments carry inherent risks and the value of units may go down as well as up.

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Tokens may not be available to all persons in all jurisdictions as certain offering restrictions may apply. In particular, no tokens will be available in the US, Singapore or the EEA. Offering and trade restrictions, as well as the rights of holders of FundCoin, will be set out in further detail in the offering memorandum.

Investors should refer to the explanatory memorandum for further information.

The Manager of the Lowestoft Fund, Finles N.V., is licensed by the Netherlands Authority for the Financial Markets and is regulated by the Netherlands Authority for the Financial Markets. Offering Memorandums for the Finles Funds are available at Finles N.V. located in Utrecht, the Netherlands. A financial disclosure has been drawn up containing information on the products, its costs and risks. Ask for this financial disclosure and read it carefully before you purchase this product. You can receive a copy of the financial disclosure and the Offering Memorandum by telephoning Finles Capital Management on **+31 (0) 302 974 935**.