CRESTO

Whitepaper

1.0

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1. Executive Summary

CRESTO.IO is a platform for issuing and trading digital securities (=security tokens) on real estate capital markets. Our aim is to introduce an alternative fundraising and investment instruments through adoption of Security token offering concept and blockchain technology. These instruments are aimed to be:

- more transparent in comparison to traditional securities;
- less costly to issue and govern due to automated process and reduction of intermediary number;
- with high potential boost liquidity on real estate market;
- a more efficient instrument for cross-border capital flows;
- highly customizable;
- an efficient diversification tool with lower correlation to traditional securities markets.

Security tokens issued on CRESTO represent digital alternative of traditional securities. It can be defined as an "upgraded" version of a traditional security rather than an improved version of a utility token.

Major features of security tokens:

- full compliance with financial regulations;
- mimic traditional securities; can be programmed to represent both debt and equity capital with all relevant attributes (maturity, seniority, dividend payment structure, voting rights, etc);
- are issued only by professional real estate asset managers and developers with proven track record;
- are supported by private placement memorandum and performance reports;
- governance process is covered in smart contract and is automated;
- can be sold to accredited individual and institutional investors upon successful KYC/AML completion

A few features differentiating CRESTO from other players in emerging STO industry:

- CRESTO aims to integrate into existing financial framework, rather than to disrupt it. Proven and widely accepted fundraising instruments are converted into digital form;
- industry expertise is crucial at this nascent stage of token economy. Therefore, CRESTO solution is crafted specifically for commercial real estate and is not designed for other industries;
- sourcing quality fundraisers and attractive investment opportunities is prioritized above marketing and sales efforts.

2. Market Context

2.1 Real Estate as an Asset Class

Investing into real estate assets is one of the most efficient instruments to **diversify** investor's traditional portfolio, composed of stocks (shares of public companies), fixed income instruments (government and corporate bonds) and money market (T-bills). Diversification becomes especially important in the context of current uncertainty on stock markets with their unprecedent growth over the last few years.

Real estate, especially residential properties generating cash flow from rent, is a good instrument against value loss at the times of recession, similar to stock of defensive industries. Rising M&A activity with premiums of 10-15% on average signals increasing interest of asset managers for property market[1].

Unique feature of the real estate market is its **dual nature**. On one hand, physical assets are traded directly. On the other hand, there is a whole bunch of securities and derivatives backed up by real estate assets which are traded on public stock exchanges and "over the counter" (OTC trading).

Within the real estate asset class itself there is a plenty of diversification opportunities in terms of geographies, property types, value creation model, etc:

- low risk/low return vs opportunistic investments;
- liquid, extensively covered by analytic assets vs unique and complex assets, requiring deep expertise;
- long investment horizon/evergreen funds vs short term "flip over" projects;
- generating cash and paying dividends vs appreciating event-driven projects with delayed harvest stage;
- properties serving pro-cyclical industries (luxury retail, 5* hotels etc) vs ones serving defensive industries (hospitals, schools, senior houses etc).

Real estate sector and national economy are tightly related and affect each other. Corporate and individual financing often rely on real estate assets as a collateral. Sharp decline in assets value effects borrowing and spending on a large scale and can be a factor provoking financial instability nationwide. At the same time lack of capital inflow into real estate and infrastructure at the time of massive urban growth can lead to disruptions and inefficiencies of city operations. Therefore, development of securitization on real estate capital markets is crucial for increasing economic stability in general[2].

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[1] Cohen & Steers Global Real Estate Securities Strategy. Investment commentary June 2018

[2] For example, Japan faced this problem in 2010s and reacted with creating "Committee on Real Estate Investment Market Strategy". The goal was to "re-examine real estate investment market as a key intermediate channel of capital from such angles as "debt and equity," "short-term funds and medium- to long-term funds" and "domestic funds and overseas funds" with respect to public and private sector challenges and countermeasures, along with also studying securitization techniques, challenges in taxation and accounting. Report of the Committee on Real

Last, but not the least, real estate industry today is much **more dynamic and affected by innovations** than ever before. Technology advancement, social, demographic and life style changes, urbanization and environment challenges are the key drivers:

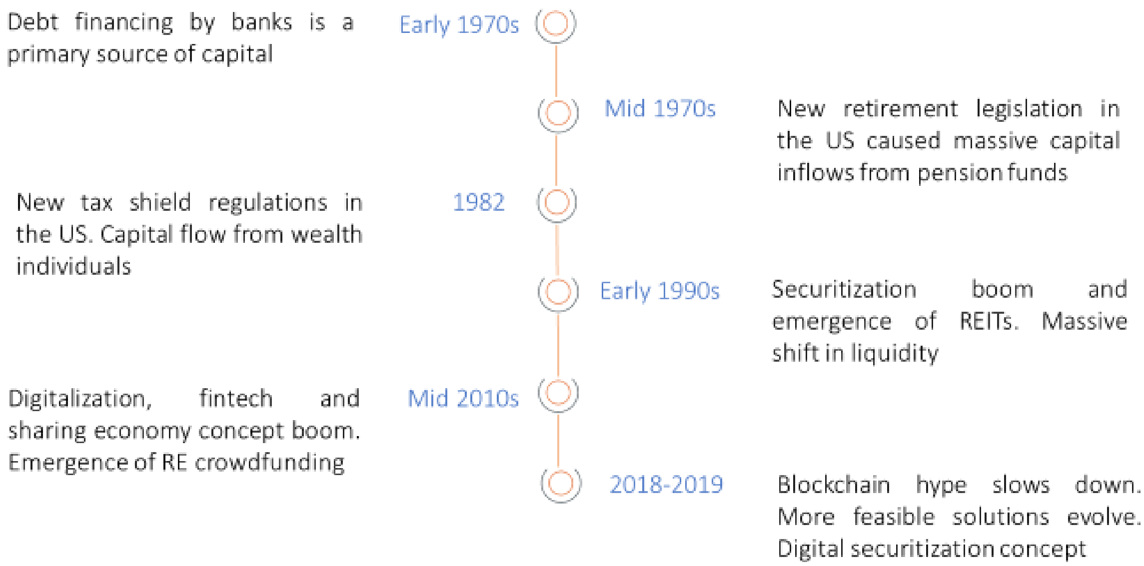
- Massive change in shopping behavior from brick and mortar to online created demand for advanced logistics facilities;
- Properties re-conception projects are developed for obsolete assets (e.g. some shopping malls, old business centers and hotels). As a result, new event-driven investment strategies appear;
- Due to evolution of data storage from on-site facilities to the cloud, a new real estate asset class emerged – data centers. Investing into innovative concepts entails high level risks and reward. Rapid advancement of a certain technology can take over the market and create a lucrative investment target. However, emergence of a new technology can make the previous one obsolete even quicker;
- IoT and AI give a lot of opportunities to make homes and public spaces more agile, safe and comfortable. Increase in construction costs is outweighed by decrease in operational costs and higher expected returns;
- Sharing economy trend drives development of previously unknown concepts of co-working and co-living, community building and resources sharing;
- Sustainability becomes a new value driver on real estate market: “green premium” and “brown discount” can already be traces in transactions;
- Growing urbanization requires cities to become “smart”. The innovation process is driven bottom up by private companies, which in turn require more agile and diverse fundraising instruments.

Financial innovation is a natural element of this vibrant ecosystem. Real estate fundraisers and investors require more efficient, customizable and transparent instruments. This is where CRESTO team is exploring opportunities and creates values.

Estate Investment Market Strategy: Chair - Kohtaro TAMURA Attorney-at-Law Ushijima & Partners; Vice-Chair - Atsuo AKAI Managing Director Morgan Stanley MUFG Securities Co., Ltd

2.2 Real Estate Capital Markets

In order to understand current situation and predict future trends in commercial real estate financing, it is important to understand, how the capital raising instruments have evolved over the time:



Today the real estate capital market is split into major segments – public and private. They are quite far apart from each other, creating a certain fundraising gap for private companies willing to scale. This gap gave ground for alternative hybrid instruments. Some major features of all those market elements are covered below.

Public real estate market gained its power 1990's. commercial real estate market liquidity was boosted by "securitization revolution". Until now major players here are public real estate investment trusts (REITs), which raise equity capital from both retail and institutional investors.

Going public allows to reach out to a whole new universe of investors and boost growth. REITs stocks have always been a desirable investment tool. REITs' shares are normally traded with a premium higher than in other industries' cases.

REITs stock have multiple advantages for buy side. It is thoroughly liquid, offering low entrance barrier, continuously priced and thus closely tracking changes in net asset value. It is extensively covered by analytics, thus being a good instrument for unsophisticated investors.

However, shares of public REITs generate only a moderate yield. They are not the most efficient way of portfolio diversification. Shares price is initially defined by net value of underlying assets plus liquidity premium. But once traded on secondary market, REITs stock correlates a lot with S&P500, thus losing its diversification advantage.

From the fundraiser's point of view, IPO is a very cumbersome and expensive procedure, which heavily affects all sides of the business. It can expose a company to unpredictable market forces and public scrutiny. Another factor against IPO for private companies exposing strategic roadmap to competitors.

Private equity real estate is predominantly financed by large institutional investors, rather than by retail investors or small companies. Three major reasons for it:

- Private placements have normally long investment horizon and are held to maturity. Early exit is complicated and entails a huge discount to net asset value (liquidity discount). Pension funds, insurance companies, endowments successfully use long term investment strategy for decades. Exactly the opposite for retail investors and smaller institutions; they often require more flexible cash flows and cannot afford locking capital in private placements;
- Private real estate players tend to build long term relations with a limited number of institutional investors. Dealing with hundreds and thousands of individuals is not efficient: it raises operational costs, leads to more information disclosure and prolongates a fundraising campaign;
- Entrance barrier into private real estate market is high for individuals and small corporates.

Alternative types of securities[3] - hybrid investment instruments: non-traded Real Estate Investment Trusts (REITs), private REITs, Tenants-in-Common (TICs). Most of these securities are not sold to retail investors and have very limited demand from accredited investors due to a number of drawbacks:

- being a long-term investment tool, they lack transparency and create and illusion of low price volatility. Securities prices are not being updated and do not reflect changes in net asset values of their underlying portfolios. This creates a loophole for information distortion by sponsors, issuers and brokers, who might mislead unsophisticated investors;
- high intermediary fees create a significant conflict of interests, incentivizing brokers to sell as many shares as possible, regardless of individual’s financial objectives;
- there is no control over debt/equity ratio of private companies. Inability to pay dividends from FFO (funds from operations) could be hidden though paying dividends from debt.

As a result, secondary market for trading alternative securities was never given a way by authorities in order to protect unsophisticated investors and financial sanity in general.

[3] In capital markets industry the whole real estate asset class is considered to be an alternative investment instrument, while traditional instruments are stocks, fixed income securities and money market. In this whitepaper term “alternative investment instrument” is used for the more rare and complicated types of securities in real estate market.

3. Security Token Offering

Security Token Offering (STO) is the next milestone in capital markets evolution. Security token is customizable and can replicate in detail all types of traditional public and private investment instruments. In other words, security token is a digital security. Through obtaining additional features it becomes a more advanced fundraising instrument.

There are two potential scenarios of how STO can evolve and integrate into capital markets:

- traditional stock exchanges remain the price driving instruments; only transaction settlement part is shifted to blockchain;
- crypto exchanges get authorization to trade security tokens; tokens pricing has low correlation with S&P500.

It is not yet clear which way things will go. But undoubtly blockchain technology and STO concept are going to advance capital markets.

Long term, some fundamental ratios for real estate investment market can be affected by STO: Shift of cost/liquidity & price/risk balance. As a result, **weighted average cost of capital (WACC) will adjust.**

3.1. STO Values for Real Estate Market

Values relevant for all participants:

- Liquidity. Security token secondary trading is not taking place yet neither on qualified security exchanges, nor on traditional exchanges. However, there has been positive dynamic in this direction in a number of countries, including the US, Switzerland, Germany, Singapore, Philippines, Japan, Malta, Estonia etc. Even though STO ecosystem and regulations are still at their early stage, formation of secondary market is taking place.

- Cross border capital flow. Geographic diversification can help real estate investors to hedge market risks, political and currency risks. However, due to high transaction and information costs it is not always viable to invest abroad. The growing security tokens ecosystem can mitigate these problems, giving investors access to multiple markets with diverse return/risks equilibriums. Decentralized resources of transaction information can create more transparency and credibility, thus allowing overseas investors to make educated decisions. This is especially important for emerging markets players, struggling to win trust of foreign investors. On the other hand, fund managers from mature economies are constantly looking into emerging markets offering higher yield. However, opaque nature of these opportunities hinders investment decisions.

- Cost and time efficiency. The underwriting and governance process are automated, meaning that less parties/intermediaries need to be involved. Participants not adding value to the process but rather speculating on access to certain information (which is a big issue alternative real estate market), should be eliminated.

There is obviously a reason why there are so many counterparties in securitizing process: the system is designed to prevent conflicts of interests, eliminate loopholes for malpractices, create reliable benchmark for the market. Thus, unsophisticated investors are protected and guided. Blockchain technology due to its embedded attributes provides an opportunity to achieve the same and even higher level of transparency, reliability and security without involving all the counterparties.

- More flexibility in refinancing process due to cutting middlemen costs and creating multiple pools of capital from investors with diverse requirements.

Values for Fundraisers

- Access to new sources of capital – small and medium institutional investors, qualified individual investors and potentially in future – whole range or retail investors. This creates opportunities to reduce funding costs and fasten the process;
- Diversification of funding sources helps to reduce dependence on large and powerful investors and gain more bargaining power;
- Alternative exit strategy for shareholders;
- Alternative debt financing instrument with less restrictive covenants in comparison to a bank loan.

Values for Investors

- New investment instruments with more diverse risk and return profiles;
- Access to private market opportunities with higher yield for minor corporates and individual investors, which they didn’t have before;
- Addressing more specific requirements of different investor classes due to flexibility in securities structuring. For example, sustainability trend drives “green” building business projects in developed economies. High quality and environment friendly buildings incur higher construction costs but are expected to generate higher yield and return. Many investors would be scared off by financial uncertainty of the new concept and prefer to go with a safer and proven developments. However, there is a growing class of impact investors who are willing to undertake extra risk and invest in such projects. Doing so by means of digital securities is more efficient and simple.

3.2. STO as an alternative to IPO

Currently real estate asset managers and developers have an option of scaling through issuing and trading shares. Benefits and drawbacks of an IPO were mentioned above. IPO is not an easy solution at all. Every year a few public REITs get delisted.

STO can become a much more feasible alternative of raising equity:

- Lower issuance costs and shorter timeframe;
- Automated governance process allows to avoid additional costs related to dealing with multiple shareholders;
- Less information disclosure (prospectus only) allows to keep competitive advantage;
- Digital securities can be traded 24/7 on crypto exchanges and delinked from traditional S&P500exchanges (one of the scenarios anticipated by STO community);
- Security tokens have potential to boost cross border capital flow through trading on global crypto exchanges rather then being bound to national exchanges;
- In case if company decides to go private again, delisting procedure would be much easier and less costly in comparison to the same process on public exchanges;
- STO can be a first "trial" step before going for IPO.

3.3. STO for Private Real Estate Market

Private market can benefit from STO twofold. Firstly – similar process automation and optimizations. But more important – blockchain technology can efficiently address problems of alternative investment instruments, mention in section 2 of this whitepaper. A quick recap on those drawbacks:

- Low transparency + conflict of interest -> loopholes for deceiving investors;
- High fees based on sales volume -> highly incentivized brokers target their campaigns at non-sophisticated investors -> risk of loss, unaffordable for regular individual -> secondary market is banned by authorities -> no liquidity.

If securities of private real estate companies are issued in form of security tokens, the following essential changes are possible:

- Lower middlemen fees drive out wrong incentives for brokers. Those who have valuable skills and knowledge will still be in demand, but more as consultants and advisors;
- Malicious players will be driven out of market as they would not be able to conceal unfeasibility of their capital structure;
- Disclosure requirements and dynamic trading will boost more accurate and frequent updates on underlying assets value;

- All forms of derivatives and their trading mechanisms can be issued in for of security tokens and operated automatically based on terms encoded into smart contract.

As a result, the real estate market can get an investment instrument with middle risk/return balance for investing into event-driven non-core assets (refurbishment, change od concept etc).

4. Market response to STO

4.1. Traditional Exchanges' Response to STO

Not only crypto exchanges, but also traditional stock exchanges and financial institutions demonstrated meaningful progress in developing the product and obtaining necessary licenses to permit trading of security tokens. Just a few examples:

- Coinbase secured a set of licenses through acquisitions of three financial institutions (Venovate Marketplace Inc, Keystone Capital Corp, and Digital Wealth LLC) – alternative trading system license, broker-dealer license and registered investment advisor license. This package makes them all set for trading security tokens;
- Templum received ATS license through acquiring Liquid M Capital;
- tZero has been heavily invested by a private equity company, clearly playing a major role in their future fundraising plans;
- Six Swiss exchange is building an end-to-end infrastructure for digital asset trading;
- Australian stock exchange is developing their own blockchain, i.e. "permissioned blockchain", to tokenize securities for the equity market in Australia;
- Malta stock exchange is partnering with Neufund.org in order to provide compliant marketplace compliant with EU regulations for secondary trading of security tokens;
- London stock exchange is going to use its platforms - Turquoise and Nivaura – to issue tokenized equities of a UK based company "20|30" in full compliance with the regulations of UK's Financial Conduct Authority.

4.2. Legal response

Upon realizing speculative nature of ICOs, allowing almost anyone to raise funds easily and resulting in numerous scams, regulators across the world duly reacted. Legal treatment of token issuance is yet unclear and constantly evolving. Multiple jurisdictions are involved, compounding the complexity even more. Nevertheless, a positive trend is being witnessed in most countries regarding authorities' response to token economy initiatives.

CRESTO is currently choosing the country for entity incorporation. The choice of jurisdiction is driven by a few factors:

- Relatively developed legal system in regard to coin offering and actively continuing to evolve;
- Authorities' recognition of future potential of blockchain technology in financial industry and willingness to have first-mover competitive advantage by supporting innovators.
- Adequate regulations allowing compliant companies to efficiently progress. Eliminating opportunities for unregulated actions and scams is equally important;
- Jurisdiction with long history, trusted by international community;
- Attractive taxation regime.

Considering the above criteria, Switzerland seems to be a very attractive place for crypto fintech entrepreneurs. Being on the edge of financial innovations, Swiss authorities are naturally favoring development of token economy. Lastly, in comparison to a number of geographies with similar strategy, Switzerland has a long history of being an attractive financial center, globally recognized and appreciated.

Therefore, CRESTO considers Switzerland as a prime location for company registration.

5. Security Token Offering vs Initial Coin Offering

Security token is profoundly different from utility token, and should be regarded as **an upgraded version of off-chain securities rather than an improved version of utility tokens.**

However, there is currently quite a lot of confusion regarding the two concepts – ICO and STO. It would be practical to point out some differentiations between the two types of tokens.

5.1 Drawbacks of ICO

Blockchain technology at early stages was spotted by many as a potential tool for solving a few impediments in private real estate market. The most often mentioned ones were liquidity, cross-border capital flow and lower entrance barriers for investors . A number of startups came up with the concept of raising funds through ICO with further investing into real estate assets. Unfortunately, the industry failed to deliver expected results. Many startups have raised substantial funds, but never moved to next stages of property investment cycle. Major reasons for that being:

- The tokens generated during ICOs were sold to investors before the purchase of assets, in many cases – before the investment strategy was even defined. Instead of being directly correlated to NAV, which defines and stabilizes token price, tokens issued during ICOs followed the fluctuation of Bitcoin, Ether and other crypto assets.

- Utility tokens, as they were defined in order to avoid securities regulations, did not comply with any legal requirements and existing financing framework, and soon were challenged by the authorities in many countries.

- Speculative nature of ICOs drove institutional investors away, which never allowed ICOs to become a credible fundraising tool on traditional financial market.
- Most of early stage ICOs for real estate were run predominantly by tech teams, lacking on business and financial focus. Real estate asset class, as any other type of investment, requires deep industry knowledge and experience, professional network and understanding of macro trends. Technology is a tool for implementing business strategy and financial structuring.

5.2. Security Tokens vs Utility Tokens

These fundamental differences between security and utility tokens are not exclusive for real estate, but are generally the same for all industries exposed to capital markets:

Security Token	Utility Token
Represents securities (stocks, bonds etc) of an existing asset portfolio or an operating company, which (in most cases) already raised capital in traditional ways	Represents future access to not yet existing product / service / portfolio. High risk profile fundraisers see it as an alternative to more mature (and as a result – expensive and restrictive) VC financing
Pays regular dividends, as an operating company or portfolio is generating cashflow already at the time of securitization (alternative scenarios are possible)	Dividend payments are not common, as no cash is being generated
Token value appreciates due to increase in net asset value over time (given the investment strategy is successful)	Subject to extreme volatility; appreciation is driven by crypto community expectations; valuation mechanisms are non-existent
Compliant with existing financial regulations	Unregulated
Programmed as a digital form of traditional securities and derivatives (stocks, bonds, futures, equities, swaps, forwards etc). Maintain all attributes of traditional shares (fixed in smart contract, execution automated), e.g. dividend payment, waterfall fee structure, voting rights, hurdle rate etc.	A new form of value representation, non-compliant with existing financial framework and attempting to “disrupt” it
Investors are subject to KYC/AML procedures	High risk of being misused for illegal capital flows

6. Target Real Estate Assets

Due diligence of an STO originator and real estate asset needs to be as rigorous as in traditional market. To qualify for digital securitization, an asset portfolio needs to satisfy certain legal and economic criteria. The below list is not exhaustive:

- Asset pool managed by industry professionals with proven track record;

- Assets backed up by solid business plan and financial projections presented in private placement memorandum;
- Generating stable cashflow or with feasible short-term plan of generating cashflow;
- Core/core+ assets in strategic locations with potential of mid/long term value appreciation;
- Event-driven properties with potential of high value growth in short term;
- Assets with history of data allowing to quantify credit risk (delayed rental payments, credit standing of the debtor, etc.);
- Minimum transaction size (except for trial rounds of STO) is expected to be USD 100 million. Alternatives of pooling originators into multi-seller models can be explored.

One of the flawed trends in the emerging STO community is wiliness to securitize non-investable assets. CRESTO does NOT intend to securitize properties in own use of companies and individuals, because:

- they are not designed to generate value for external investors (e.g. an apartment which is owner's prime residence);
- cannot be used as collateral: in current legal framework it is close to impossible to sell off a residential property to compensate investors.

7. Fundraisers Perspective: Business Cases

There are multiple types of fundraisers on private real estate market with different objectives. They can raise both equity and debt capital through STO, maintaining regular capital structure. Some features of three potential business cases are described below: real estate private equity company, for a non-traded real estate investment trust and for a private developer.

7.1. Real Estate Private Equity

One of the key success drivers for real estate private equity firms is ability to source a lucrative deal and have the funds disposable immediately in order to close it. Therefore, PE firm, when raising a new fund, forms the pool of committed equity capital even before a target real estate asset is defined. Once an opportunity is spotted, funds committed by limited partners have to be at disposal. It means that hundreds of millions of USD need to be transferred within a few weeks or even days. The capital raised for another fund cannot be employed.

Therefore, when running an STO for private equity firms, CRESTO will adopt a similar framework: a feasible amount of committed funds will be secured. Institutional investors will be the major source of equity capital.

PE Funds normally do not pay out dividends. Instead a big paycheck comes when the fund is liquidated. The reasons are asset appreciation strategy and long investment horizon. Therefore, security tokens should be structured accordingly: appreciation vs dividend payment. In most cases, a lockup period will be necessary, as in the first few years cashflow can be negative.

Private equity firm normally adopts flexible strategy towards their assets and can deviate from initial plan if the market conditions urge to do so. This kind of change however needs to be approved by limited partners. Therefore, voting rights should be also embedded into the smart contract.

On the other hand, the value of the tokens should reflect the stage of the fund. Token price will greatly change during the fund's lifecycle – fundraising, investment, management and harvesting stages. It does not necessarily have to be the same token throughout the whole cycle. Token exchange can be done. As long as token value is growing as the fund gets more mature, investors will be incentivized to do the exchange.

Debt STO for a private equity company can be structured differently. If a PE firm has a portfolio of cashflow generating assets with low or zero leverage ratio, they can be used as collateral for raising senior or mezzanine debt. Security tokens in this case can be structured as corporate bonds. Refinancing of existing debt can be also done through STO.

Incentive system for general partner in a private equity firm is quite complicated. In short – it includes fixed management fee, performance fee (distributed through the so called waterfall system), hurdle rate, above which the percentage of performance fees increases. Complexity of fee structure and lack of transparency sometimes become a concern of private equity investors. Terms defined and programmed in smart contract are executed in automated and transparent manner, thus potentially mitigating this tension.

7.2. Private Real Estate Investment Trust

Unlike other private investment entities, Real estate investment trust is a tax instrument above all: income generated by REITs is tax exempt on corporate level. Only personal income tax is paid by investors on dividends received.

REITs have to distribute 90% of their profits as dividends on a regular basis. Therefore, those instruments are more suitable for investors seeking for stable cashflow.

Security tokens can be programmed accordingly. Based on the terms embedded in smart contract dividends and personal income tax will be automatically paid.

Normally a REIT will define their investment strategy and should not deviate regardless of market conditions and circumstances. Due to the dividend payment structure, REITs are looking for fully-leased, stabilized properties with no repositioning or renovation requirements, as opposed to private equity companies

Fee structure is simpler: management team are paid salaries and bonuses.

7.3. Real Estate Developers

Traditionally, real estate developers resort to bank loans for launching new projects. Their cost of capital heavily depends on market cyclicality. Therefore, in times of recession, construction industry is one of the first to slow down.

Developers could potentially take advantage of cyclicality and lower construction costs, if they had alternative sources of capital from growth strategy investors. In fact, many retail investors practice this approach by buying off-plan properties cheap (when developers are desperate to complete projects) and selling them later, once the market recovers and demand drives prices up. But this source of capital is very fragmented; individuals often compete, fostering speculation and chaos on the market.

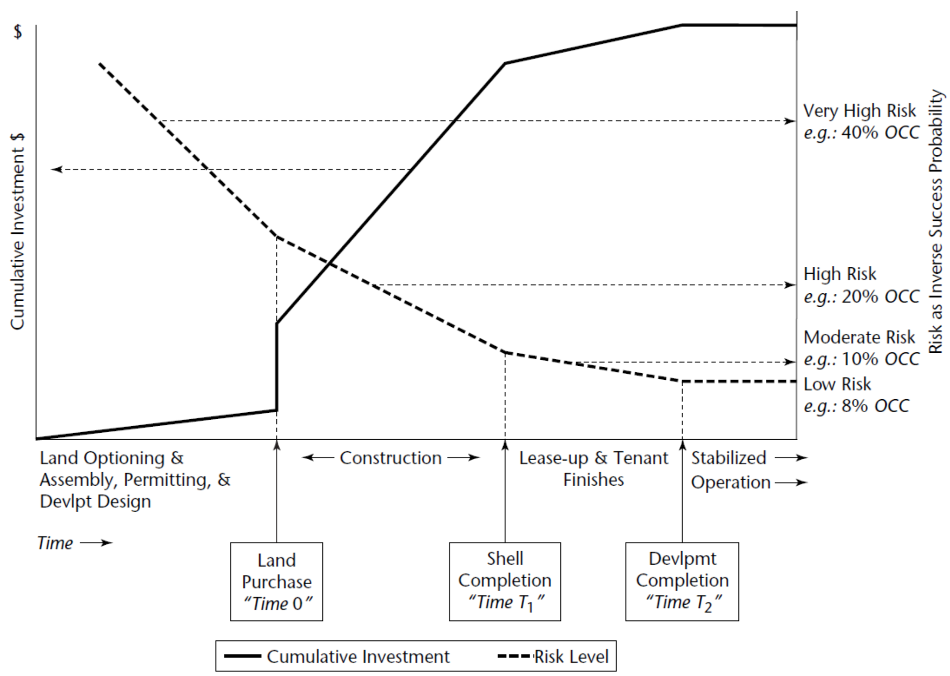
Agile nature of security tokens could serve well to cover this timing gap. Programmed accordingly, they fit well midterm asset appreciation strategy.

Another consideration could be pooling those fragmented individual investors into multi-buyer model.

Development business, apart from its high cyclicality, has some more unique features.

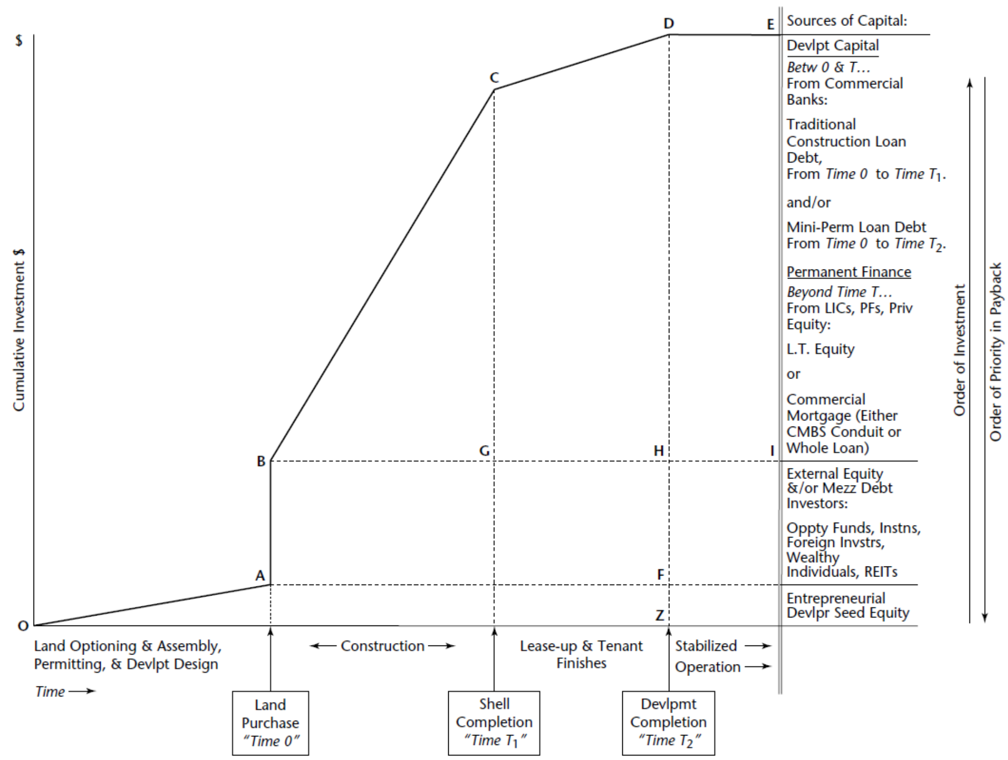
- Cash outflow for the project is unevenly spread in time;
- Debt financing is dominating, while equity financing is not common;
- Debt financing is split into multiple loans with different interest rates and seniorities. This is due to huge variations in risk levels among different construction stages.

Below is some illustration of cash outflow / level of risk / cost of debt dynamics[4]:



[4] Commercial Real Estate Analysis and Investments, Second Edition. David M. Geltner, Norman G. Miller, Jim Clayton, Piet Eichholtz

Financing each stage is done by different types of investors, as reflected in the graph below[5]:



Security tokens can be efficiently used to reflect peculiarities of each investment stage and mitigate fragmentation issue. Digital securities are not aimed to fully substitute traditional ways of financing, but to add diversity and flexibility for parties involved. Some examples:

- Digital corporate bonds with different maturities and durations;
- Digital security with features of peer to peer lending;
- Equity shares with adequate dividend payment regime or no dividends distribution at all. Can represent equity of the whole development company or of an SPV holding one particular project.

8. CRESTO.IO

8.1. How CRESTO.IO is Different from Other Players

CRESTO team do not really see other startups working on STO solutions as competitors. At this nascent stage our concern is not competition, but rather proving feasibility of STO to fundraisers, figuring out the way to be compliant with jurisdictions involved and earning trust of investors. The business opportunity is enormous, but it can be lost or delayed due to malaise practices of some players. This should be prevented by responsible community.

[5] Ibid.

A few conceptual differences of CRESTO's approach.

- Accents in CRESTO business model are put differently. The challenge is not to raise funds but to spot lucrative investment opportunities. Therefore, at early stage of CRESTO we put maximum effort on crafting our solution for fundraisers;
- Objective is to integrate into existing financial framework, not to disrupt it. Proven and widely accepted fundraising instruments are borrowed and converted into digital form;
- Industry expertise is a key driver for success. Therefore, CRESTO solution is crafted specifically for commercial real estate and not for any other industries;
- As a startup CRESTO is looking to be financed by VC rather than through token offering. Funds received from professional investors give more credibility to an early stage venture.

8.2. CRESTO.IO Team

Core Team

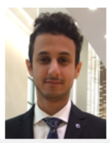
Mariia Kutkina

Above 10 years of experience in commercial real estate markets in UAE, Spain & Russia

Above 8 years of entrepreneurial experience, 2 startups successfully launched

IESE / CEIBS MBA

Business Strategy



Mobin Arablou

8 years of experiences in software development (Machine learning, Blockchain, App development)

White Hat Hacker

Holds degrees in computer engineering, computer science and electronics & biotechnology

Technology

Jon Ruzikulov

Co-Founder & CTO at OBORCHAIN
Blockchain enthusiast and developer

15 years of software development experience. Information security professional

Computer Science Lecturer at a University and PhD candidate

Technology

Advisors

Carles Vergara

Associate professor of finance at IESE Business school

PhD in Business Administration (Finance and Real Estate) from the University of California, Berkeley

Financial engineer in hedge fund and investment backing

Finance and Due Diligence

Brian Bian

Above 7 years of experience in real estate investments, development projects & asset management

Co-founder of Vnet blockchain project for real estate

CEIBS MBA & CFA level 3

Finance and Due Diligence

9. STO Process Stepwise

1) Originator registers on CRESTO.IO and submits the following information and documents:

- on legal status of the company (legal name and form, jurisdiction, information on shareholders etc.);
- on financial status of the company (P&L, balance sheet);
- on legal representatives authorized to act on CRESTO platform on behalf of the originator.

2) CRESTO team jointly with partners conducts due diligence of the originator: assessment of credibility, legal and financial standings, track record, professional reputation, potential risks etc.

3) Once step 2 is successfully completed, originator submits request for STO in a form of term sheet with the following details:

- type of securities (debt/equity), maturity;
- information on the assets (legal, financial, technical);
- structure and strategy of fund, investment objective, tenure;
- projected yield and ROI;
- jurisdiction: SPV domicile, regulations applicable to STO;
- financial structure of asset acquisition (equity vs debt, sources of capital apart from STO);
- investment terms: min and max offering, redemption and lockup period etc.;
- cash distribution: priority of interest / dividend payments;
- fee structure: general partner's incentives, loan servicing fee etc.;
- voting rights;
- risk factors.

4) CRESTO team jointly with partners evaluates the STO request. If the STO request is approved by CRESTO, the originator received Issuance Proposal with the following details:

- deal structure;
- investor qualification;
- currencies (crypto and/or fiat) used between all participants;
- list of documents required for STO;
- opening and closing dates of STO;
- filing expenses paid to authorities;
- expected legal and other expenses in favor of external services providers;
- detailed description of all procedures: SVP registration, prospectus filing, pre-sale roadshow and open sale marketing campaign, etc.;
- CRESO fee structure.

5) If Originator accepts proposal from CRESTO, Private Placement Memorandum is created (based on the terms agreed in originator's term sheet and CRESTO's proposal).

6) CRESTO jointly with partners (legal, tax) proceed with all the necessary registrations with financial authorities. Originator commits to provide all necessary documents and cover all related expenses for third parties and governmental authorities.

7) In parallel a Roadshow is run (similar to investment banking industry practice): investors' interest to the securities helps to define tokens valuation; preliminary pool of institutional investors and accredited HNVI is formed.

8) Once STO is duly registered and approved, digital securities are issued on CRESTO platform. CRESTO jointly with a marketing partner starts the fundraising campaign for pre-sale and crowd sale: investors pool defined during the roadshow receive an offer; reaching out to accredited investors through leveraging own and partners' crypto communities; PR and SMM campaigns; bounty program; listing on calendars and rating websites etc.

9) Interested investor registers on CRESTO platform, fills in company/personal data and submits necessary documents. KYC/AML procedure is performed by CTRESTO jointly with a qualified partner (e.g. a commercial bank). If investor is approved, digital wallet is created on his dashboard.

10) Investment transactions are processed on CRESTO platform:

a) by now the private placement memorandum on STO is signed off by originator and published on CRESTO;
b) Investment contract template is published on CRESTO. This is the contract between Originator and Investor. It is automatically generated based on 3 documents generated by now: Term Sheet, Issuance Proposal, Private placement memorandum;
c) Investor, once happy with the Investment contract, goes into his/her dashboard and completes the investment transaction:
    - Electronically signs the investment contract,
    - transfers the money (bitcoin or ether from his digital wallet; alternatively – USD or EUR from his bank account) to CRESTO;
    - receives the security tokens to his digital wallet.
d) Originator receives the funds in form of crypto or fiat currency (according to Issuance Proposal).

Alternative scenario: funds received from investors are kept on escrow account until the minimum required capital is raised. Once the target is achieved – funds are transferred to originator, STO is successfully complete. If target is not achieved – security tokens are bought back from investors and funds are returned. STO is cancelled.

10. CRESTO.IO Fee Structure

When developing the business model and fee structure, CRSTO team put close attention to alignment of all parties' interests and prevention of conflict of interests. This is currently a weak spot of many real estate crowdfunding models: wrong incentive for a platform leads to onboarding poor investment opportunities.

CRESTO concentrates on sourcing great investment opportunities and developing relations with the right originators – credible, with solid track record of delivering profits to investors. If an investment opportunity is indeed attractive and transparent, it won't be left without attention of investors from both traditional or crypto space. Given the current global market cycle, the challenge is not to find the capital but to find the asset. CRESTO aligns their incentives accordingly.

The principles of fee structure were borrowed from investment banking industry. As was mentioned before, the goal is to seamlessly integrate into traditional capital markets and to avoid renumeration concepts driven by technology rather than market logic.

The following fee structure is a general framework. Terms may slightly vary (especially for the first STOs run on CRESTO).

- **Setup fee**. Covers the costs of legal and tax services (provided by external partners); offshore SPV (special purpose vehicle) setup. Fixed amount, paid upfront.
- **Due diligence fee**. Covers the costs of originator and asset due diligence performed by CRESTO team and external partners. This fee may be introduced on later stage, once a few STOs are successfully run. The size of the fee will be defined by market demand. DD Fee is designed to filter out low quality/non-investable projects on very early stage and optimize team's workload.
- **Underwriting fee. A few alternatives:**
    - A percentage of the funds raised (1%). More feasible on the early stage, when first few STOs are run;
    - Gross spread (similar to investment banking IPO fee structure). CRESTO purchases the issued securities and pays out the proceeds minus gross spread (5-7%) to the issuer. Payments of proceeds are done in a few tranches, as tokens sales continue. This concept is more feasible at later stage, when the whole ecosystem is more stable and value driving forces become clearer.
    - Combinations of the above models.
- **Management fee.** Defined as a percentage of securities market capitalization average per quarter. Paid quarterly.

11. Technology aspects

11.1. CRESTO.IO Platform Functionality

Very general functions of CRESTO platform are:

- Onboard & accept accredited investors adhering to the regulatory standards (KYC, AML);

- Accept capital contribution from investors in fiat and crypto currencies;
- Transfer security tokens to the investors' digital wallet;
- Reflect all relevant information and upload documents on originator's and investor's dashboards;
- Distribute the dividends / profits to the investors' digital wallet in crypto currency or to bank account in fiat currency;
- Report compliance requirements with all regulators involved or have regulator's node in the system allowing them to track deals at any time.

11.2. Tokens Security and Governance

In the event of lost private wallet keys or theft of security tokens there is a security feature programmatically added to smart contracts, whereby investors who have lost access to their shares would be able to contact CRESTO and have their shares frozen (this prevents the stolen/lost shares to be traded on any exchange), and then have the shares reissued.

KYC and AML steps are added to the sign-up process, thus providing an additional layer of security. However, to reissue shares the originator's authorized individual and 3 of the CRESTO team members must sign the smart contract reissue function, which has a multisignature feature. This security feature provides stability to the ecosystem and the platform in general and serves as a deterrence to attacks and bad players. Old shares which are frozen shall be deleted from the Smart Contract.

Due to the inherent safety of multisignature function, this process will be added to every Security Token Offering. Because 3 of CRESTO team members and the originator must sign on the process, this will significantly reduce hacks and bad players affecting the system. In the unlikely event that a wallet private key of the members or asset owners is lost or stolen, other members will be able to replace the public wallet address and restore their full account privileges.