

**Apex Token Inc.**  
Apex Token Fund 1

March 23, 2018



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World's First Tokenized Fund Of Funds

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White Paper

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## Executive Summary

In this white paper, we introduce Apex Token Fund I (the “Fund”), the world’s first crypto focused, tokenized Fund of Funds (“FOF”) investment vehicle. A FOF is an investment strategy that holds a portfolio of other investment funds rather than investing directly in the underlying assets. In this case, the FOF structure provides investors access to a diversified portfolio of top investment strategies being executed by world class crypto hedge funds. The diversification of fund strategies is designed to mitigate risk while maximizing returns in the rapidly growing blockchain markets.

Ownership of the Fund will be represented by APEX tokens (“APEX”), an ERC20 token on the Ethereum blockchain. Tokenizing the Fund allows investments to be immediately re-sellable to non-U.S. Persons following the initial issuance, whereas typical hedge funds require a multi-year lockup period. Furthermore, this tokenized fund structure democratizes access to investments that previously required substantial capital commitments, and makes these funds accessible to the average investor.

The Fund expects to liquidate investments on a date between twenty four and thirty six months after the initial distribution of APEX tokens. After the Fund’s assets are liquidated, investors can redeem their APEX tokens for their proportional value of the Fund’s final assets. After each APEX token is exchanged for its commensurate value, it will be taken out of circulation.

Participation in the Fund is scheduled to begin with a presale in January 2018 followed by a public sale in the first or second quarter of 2018.

## Apex Token Fund Of Funds Advantages

- **Re-sellable:** No lock up period. Tokens are immediately re-sellable following the initial issuance to non-U.S. Persons.
- **Diversified Exposure:** Broad exposure to a diverse set of strategies.
- **Diligence:** Due diligence on new investments is done by each individual fund manager.
- **Oversight:** Each fund manager carefully monitors and adjusts their strategy as the market evolves.
- **Custodianship:** Ownership of APEX tokens gives you exposure to top performing cryptocurrencies and trading strategies in the space without having to manage a portfolio of different assets.

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# 1 Introduction

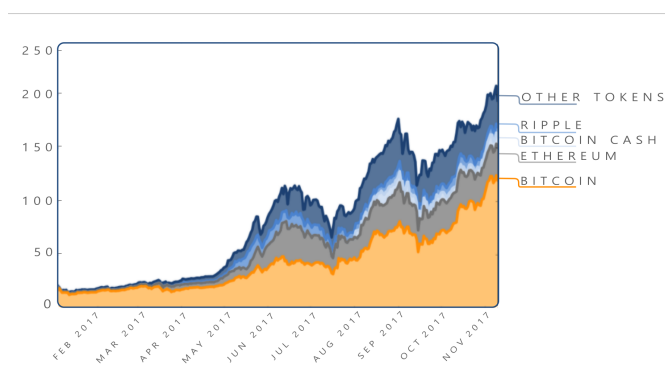
## 1.1 The Rapidly Evolving Blockchain Ecosystem

We believe a new era has emerged where unique digital assets enabled by blockchain technology are unlocking economic value at an unprecedented pace. This nine year old technology is still in its infancy and today it powers a global infrastructure of applications and tokens that hold \$400 billion USD in assets<sup>1</sup>. As a point of reference, the internet was publicly available in 1989 and nine years later routers ran at 256kbs/s<sup>2</sup> while America Online was mailing out CDs to get users connected.

Blockchain's future potential coupled with its exponential growth in capital gains and accessibility have opened the floodgates to investors and innovators in recent years. Virtually any cryptoasset bought and held by a tech-savvy investor between 2013 and 2017 realized substantial gains as the market value grew by 40,000%<sup>3</sup>. In addition to posting profits, technological advances have made the space more stable, accessible and relevant to the public at large. These changes have led titans in Venture Capital<sup>4</sup>, Technology<sup>56</sup>, Banking<sup>78</sup>, and Global Financial Stability<sup>9</sup> to publicly praise blockchain and invest time and money in the space. This has culminated in 90+ hedge funds<sup>10</sup> and 200+ cryptoassets<sup>11</sup> coming online in 2017.

This rapidly evolving market is making it harder for independent crypto investors to realize consistent substantial gains. Active investors find themselves competing with advanced algorithms and data rooms afforded by new hedge funds. Meanwhile, buy and hold investors are overwhelmed by the accelerating rate of new technology and tokens to analyze. In theory, this problem may be solved by investing in a crypto-focused hedge fund, but investors are confronted with four major problems:

1. **High Cost of Entry:** Investing in a hedge fund typically requires large minimum investments (in the millions).
2. **Lockup Periods:** Hedge funds typically need time to execute their strategies, meaning investor funds are locked up for several years.
3. **Asymmetric Information:** It is hard to vet the quality of hedge funds as the landscape is complex and many funds are too young to post historical performance.
4. **Volatility and Risk:** Funds typically implement a specific thesis that offers sizable returns, but a single thesis may be subject to volatility and risk.



**Market Cap In Billions.** The rapid growth in market value is shared by many cryptocurrencies.

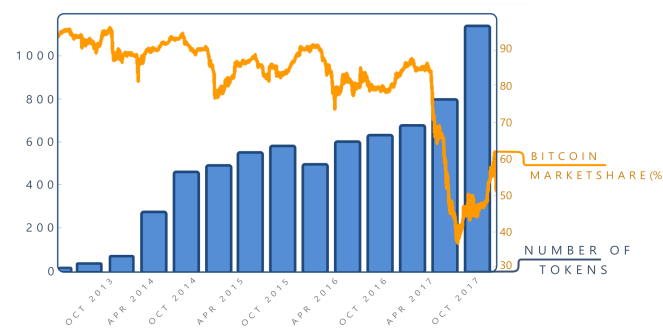
This landscape delivers returns to investors with the most money and asymmetric knowledge. Investors who can afford to lock large sums of money in multiple diverse hedge funds can realize substantial gains while further mitigating the risk that comes from a single investment. In this white paper, we describe a first of its kind investment vehicle that changes this landscape by offering exposure to a collection of the world's best crypto-focused hedge funds without requiring investors to lockup large sums of capital, collect large amounts of data, or exhaustively interview and select the best fund managers.

## 1.2 Apex Overview

Apex Token is excited to introduce Apex Token Fund I, a tokenized FOF investment vehicle, with assets managed by a diverse selection of the top performing crypto-focused hedge funds. This new financial instrument is immediately resellable to non-U.S. Persons following the initial issuance and provides exposure to top trading strategies executed by the world's leading crypto hedge funds and blockchain thought leaders.

The Apex Token team has over twenty five years of collective experience working in crypto ventures focused on investing, technology and data. Our team has created a crypto-hedge fund, actively participated in open source blockchain development, and helped bring distributed technology to Fortune 100 and 500 companies. Along the way, we amassed a proprietary data room and analysis platform (Neuro.AI) that allows us to identify a diverse set of the most promising strategies in the cryptoasset market. Each strategy is then matched with a top hedge fund that specializes in its execution. The resulting collection of hedge



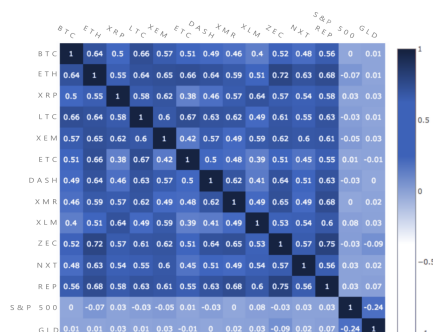


**Bitcoin Marketshare And CryptoCurrency Count.** A growing market of alternative cryptocurrencies make up 40% of the market cap in 2017

funds represents Apex Token Fund I.

Fractional ownership of the Fund will be represented by a fixed supply of APEX tokens registered on the Ethereum blockchain. Representing the Fund with a token allows individual hedge funds to maintain their lockup periods, while investors can freely trade their assets, because APEX tokens are immediately re-sellable to non-U.S. Persons following the initial issuance. We believe other advantages of tokenizing the investment on a blockchain include cost savings from operational efficiencies, transparency of interests, and best in class security.

To aid in fair market pricing and transparency, Apex Token plans to issue quarterly reports describing the Fund's performance and will publish those reports on a blockchain for secure and public access. These quarterly reports will allow the market to place a fair value on APEX tokens as they are traded in advance of their redemption on the fund liquidation date. The Fund's assets are scheduled to be liquidated on a date between twenty four and thirty six months after token issuance. After the assets are liquidated, investors can exchange their APEX tokens for their proportional value of the final Fund assets. After each APEX token is exchanged for assets, it will be taken out of circulation.



**180 Day Cryptocurrency Correlation Matrix.** While tokens show low correlations with gold and the S&P 500, they are highly correlated with each other. Data from 180 days ending November 17, 2017, source: <https://www.sifrddata.com/cryptocurrency-correlation-matrix/>

## 2 Apex Token Fund I

### 2.1 Fund Strategy

Our primary objective in building the portfolio for the Fund is to apply risk management principles by diversifying investments in an effort to reduce volatility. Public data shows that cryptocurrencies have a low correlation with more traditional investments such as gold and the S&P 500, but they tend to be highly correlated with each other<sup>12</sup>. This means buying and holding a large collection of tokens does not translate to reduced volatility because when a token goes up or down it is likely that the other tokens are moving in the same direction. However, in our experience professionally executing various strategies in the crypto space, we have amassed a proprietary data set that reveals several trading strategies with low correlations, and therefore diverse. For example, trades based on sentiment analysis can yield different results than trades based on quantitative market analysis under the same market conditions.

We also believe that strategies can be combined to provide upside in a variety of different market conditions. Our data indicates that two major factors, momentum and sentiment, influence the behavior of crypto markets, resulting in four distinct market conditions. Cryptocurrencies can be in a bull or bear run, while the market can be certain or uncertain. The level of certainty can be driven by internal factors (forks, alliances, etc.) as well as external factors (unclear regulation, enterprise adoption, etc). Each resulting market condition (Bull/Bear

	<b>Bull</b>	<b>Bear</b>
<b>Certain</b>	Multiple compelling projects release ERC20 tokens, crypto community reacts positively, underlying asset (ETH) trades in a bullish direction	Markets overheat and pull back yet BTC CoreDevs publish a well received BIP, IMF speaks about crypto in positive tone.
<b>Uncertain</b>	Institutional investors begin to signal market entry, a BTC hardfork is signalled and slated, Ethereum community has not pushed a meaningful update recently.	Regulatory action is being signalled and publically planned causing markets to recede. VC investment slows in the space.

Examples of events associated with different cryptocurrency market conditions.

+ Certain/Uncertain) is accompanied by an optimal set of strategies to participate in upside. For example, buy and hold is a strong strategy in a bull-certain market, while arbitrage can perform significantly better in a bear-uncertain market. We have created an “All-Cycle Bellwether” combination of strategies that seeks to provide maximum upside in all market conditions.

Our team’s experience managing a highly successful crypto-focused hedge fund gives us a unique insight into selecting a carefully curated portfolio of hedge funds. Our extensive network of professional investors in the space has given us the ability to pair each strategy with a fund that is executing each approach at the highest level.

Fund manager selection criteria involves due diligence around the manager’s previous background, motivation, differentiated approach, founder market fit, track-record-to-date, and returns relative to the market. After pairing the various strategies we have outlined above with the most appropriate manager to execute this strategy, we solidify our Fund allocation. We believe the end result will be a diverse portfolio of the most effective strategies, executed by the most capable fund managers. The FOF is simply a capital deployment vehicle over the underlying funds, each of which are free to actively pursue their chosen trading strategy.

We will release announcements as funds are added to our portfolio.

## 2.2 Technology And Security

Our primary goal is to use technology that keeps our investor’s assets secure, liquid and transparent. The Fund will use the most tested, stable and understood

Strategy	Primary Fund Strategy
Buy/Hold (Concentrated)	Large investments in a small number of high potential assets
Buy/Hold (Diverse)	Investments in many assets diversified on market cap and sector
Sentiment	Active trading on industry and sector news, trends, and industry relationships
Quantative	Active trading using technical analysis on price movements and history
Arbitrage	Trading based on price discrepancies from inefficient markets.
Token Sales	Early-stage token sale investing in industry leading projects
Venture/ Active	Deep technical analysis and active involvement in early stage projects

Projected sample of strategies that will comprise Apex Token's Fund of Funds. Please see the Appendix for more information on different trading strategies.

blockchain application to date: the token application. The token application is what keeps the \$400 billion USD crypto asset ecosystem secure and we are taking every precaution to ensure that it safely and predictably manages APEX tokens.

Our APEX token application is deliberately designed to be simple, reliable, and resistant to malicious actors. It will be managed by a standard, well-tested, ERC-20 smart contract audited by Zeppelin Solutions<sup>13</sup>, a world class blockchain security firm that has audited contracts securing \$450 million in token sales, including Brave, Augur and Golem. This contract will then be deployed to the Ethereum network. Ethereum was chosen for its track record, user base, mining infrastructure, security, and development tools. We will use reasonable best efforts and follow established practices to ensure that APEX tokens are created, distributed, maintained and redeemed in a clear, transparent and secure way.

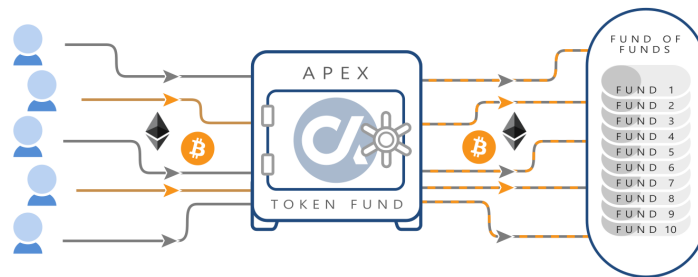
Private keys controlling the APEX token smart contract and the Fund's assets under management will be separated and kept in geographically-distributed cold storage systems and recovered for use only with a quorum of employees present. The smart contract will have pausing and safe upgrade mechanisms in place to protect investors in the event that a vulnerability or a defect is discovered in the solidity compiler, the Ethereum Virtual Machine, or the smart contract itself. Notably, because the Fund's assets will not be directly held by the APEX token smart contract, even in the event of a malfunction or vulnerability, investors' funds will be safe and the Ethereum blockchain's immutable history will help enable Apex Token to identify and reverse any malfeasance.

### 2.3 Fund Mechanics And Token Lifecycle

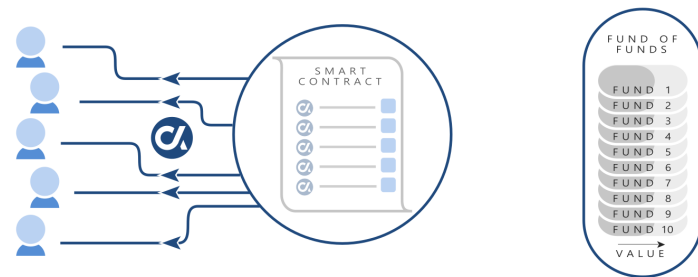
The Fund will be represented by a fixed number of APEX tokens, each of which represents a proportional ownership of the underlying assets of the Fund. After the initial investments are collected for the Fund, Apex Token will distribute APEX

tokens to each investor in an amount that represents their fractional ownership of the Fund. Details about investment collection and token distributions are found in the next section.

APEX tokens are re-sellable to non-U.S. Persons after they are distributed to the initial purchasers. They can be bought and sold on any properly authorized exchange that chooses to list them, and they can also be exchanged directly through peer to peer transactions. While Apex Token plans to release quarterly reports on the Fund's performance, it is up to the parties involved in an exchange to determine the market value of an APEX token.



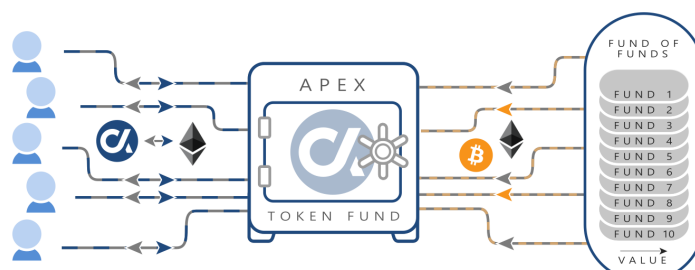
**Phase 1.** Investors send BTC or ETH to the Fund's wallet. Each transaction is publicly recorded on its respective blockchain. Once funding has closed, these assets will be invested across five to ten crypto-focused hedge funds.



**Phase 2.** APEX tokens will be distributed to the wallet addresses of the subscribers from phase 1. These tokens are liquid on the day of distribution and the location of all tokens can be monitored on the Ethereum blockchain.



**Phase 3.** APEX tokens can be freely traded between investors on the Ethereum blockchain. Apex Token plans to publish quarterly reports on the Fund's performance to aid in fair market valuation of APEX tokens on the market.



**Phase 4.** Phase 4: The Fund's assets will be liquidated, which is scheduled to be on a date between twenty four and thirty six months after issuance of APEX tokens. The Fund plans to provide a thirty day written notice that the Fund will be liquidated. Following the liquidation of the Fund, the holders of APEX tokens will then be able to exchange their APEX tokens for their fractional interest of the Fund assets' value. Following such exchange, the APEX tokens will no longer be outstanding.

Every time an APEX token is exchanged, the transaction is recorded on the Ethereum blockchain. This allows Apex Token to track the location of all APEX tokens without major administrative overhead costs. In addition to recording transactions, the contents of the smart contract are public, which provides investors transparency around how many tokens are in circulation and how many addresses are in possession of these tokens.

The Company plans to provide a thirty day notice that the Fund will be liquidated. Liquidation will likely occur in a window between twenty four and thirty six months after APEX tokens are issued. After the assets are liquidated, investors can exchange their APEX tokens for their proportional value of the final Fund's

assets. After an APEX token is exchanged, it will be taken out of circulation and will no longer be outstanding.

The APEX tokens may only be offered, sold, resold or otherwise transferred to non-U.S. Persons (as defined in Regulation S under the Securities Act of 1933, as amended ('Regulation S')) in an offshore transaction (as defined in Regulation S) and may only be offered, sold, resold or otherwise transferred in full compliance with all applicable foreign laws ("Transfer Restriction"). As a condition precedent to any transfer of any of the APEX tokens, the any initial purchaser (and any subsequent holder) shall require that any subsequent purchaser, holder, or transferee of APEX tokens covenant not to offer, sell, resell, or otherwise transfer the APEX tokens to any U.S. Persons and to comply with the Transfer Restriction (the "Transfer Prerequisite"). Any action that is in violation of the Transfer Restriction and the Transfer Prerequisite shall be void ab initio.

## 2.4 Investments And Token Allocations

There will be three investment rounds for the Fund: (i) a **private presale** beginning on January 1st, 2018, (ii) a **public presale** beginning on March 1st, 2018, and (iii) a **public sale** in late March 2018. The initial cost of an APEX token will be \$1.00 USD with discounts of 25% in the private presale and 15% available in the public presale. The public presale will be hosted on the TokenSoft.io ("TokenSoft") platform. We are working with TokenSoft to leverage their history and experience managing transparent and secure token sales.

Apex Token will not to collect administrative or performance fees from investors or token holders after APEX tokens are distributed as we believe that once you own as asset you should own all of it. While traditional funds typically charge an annual management fee of 2% plus an additional 20% based on performance to cover administrative and overhead costs, Apex Token will cover all cost with a single upfront fee. When compared to two-and-twenty, this model results in larger fees being paid at the time of fund inception, but lower overall fees and higher overall value for investors over the life of a fund that delivers consistent returns<sup>14</sup>. Upfront fees are more favorable for investors over the long run because they are only charged on initial investments while two-and-twenty fees are charged annually and take a percentage of the initial investment plus any gains made along the way.

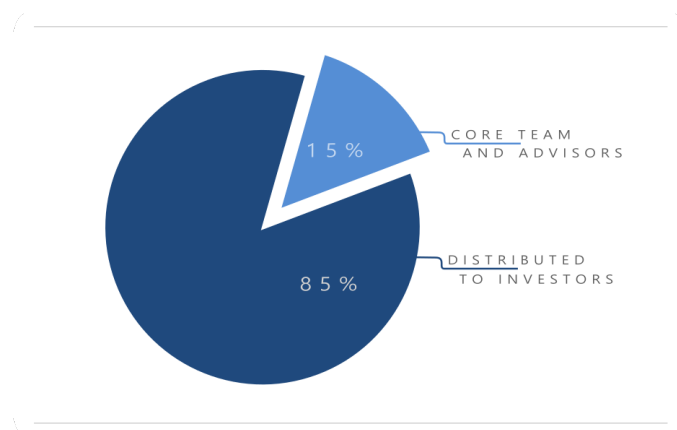
The passive nature of the fund coupled with efficiencies from using blockchain allow Apex token to calculate and collect the full cost of the fund up front.

Apex Token will set aside and reserve funds from all three token sale rounds to cover administrative and management costs throughout the lifetime of the Fund. The total reserve set aside to manage the Fund is \$3.0 million dollars and will cover legal fees, administrative costs, token offering costs, development, external security audits, and general marketing expenses. These funds will not go towards team's salaries, nor will they be invested in the Fund's assets. In the event the soft cap of \$25mm is not reached, and capital is redistributed to investors, this \$3mm operational fee will not be repaid to investors, as it will go directly to operational costs. In addition to the management fee, the fund will also reserve 15% of tokens to align incentives on fund performance. This structure provides better returns to investors than a two and twenty fee structure within twenty four months regardless of whether the fund hits the \$25 million soft cap and each token represents \$0.68 of value at launch or the fund hits the \$100 million hard cap and each token represents \$0.82 of value at launch.

	Private Presale	Public Presale	Public Sale	Total
<b>Tokens Sold (MM)</b>	3.0	10.0	89.0	102.0
<b>Token Sale Price</b>	\$0.75	\$0.85	\$1.0	-
<b>Funds Raised (MM)</b>	\$2.25	\$8.5	\$89.0	\$99.75
<b>Funds For Operations (MM)</b>	\$1.0	\$1.0	\$1.0	\$3.0
<b>Funds Invested (MM)</b>	\$1.25	\$7.5	\$88.0	\$96.75
<b>Core Team Tokens (MM)<sup>†</sup></b>	0.45	1.5	13.35	15.3
<b>Issued Tokens (MM)</b>	3.45	11.5	102.35	117.3
<b>Launch Value per Token</b>	-	-	-	\$0.82

<sup>†</sup>Core team tokens are subject to a 1 year lock up period. Token economics assuming hard cap of \$100MM is achieved.





APEX token allocations.

## 2.5 Token Redemption

The Fund has a finite lifespan that is likely to be twenty four to thirty six months at which time all fund assets will be liquidated into ETH. Apex Token intends to announce the final value of assets at the conclusion of the Fund in at least three public channels that may include our website, community Slack channels, and quarterly performance reports. The Fund plans to provide a thirty day written notice of the fund liquidation date. On that date, the Fund will liquidate the value of the underlying fund holdings, and store them in a secure wallet (see Security section). APEX token holders will then be able to redeem their tokens for the commensurate value of the tokens worth in the Fund.

NOTE: Apex Token will perform know your customer ("KYC") and anti-money laundering ("AML") through TokenSoft (the same KYC/AML processes for buying tokens) upon APEX token redemption. Subsequent transferees will also be required to comply with applicable KYC and AML requirements.

## 3 Apex Token

The Apex Token team has over twenty five years of collective experience working in crypto ventures focused on investing, technology and data. Our team has created a crypto-hedge fund, actively participated in open source blockchain development, and helped bring distributed technology to Fortune 100 and 500 companies. Along the way, we amassed a proprietary data room and analysis

platform (Neuro.AI) that allows us to identify a diverse set of the most promising strategies in the cryptoasset market.

### 3.1 Team



**Christopher  
Keshian**

Christopher Keshian is a Managing Partner at the blockchain asset hedge fund Neural Capital. He has been a leading innovator in the blockchain ecosystem for five years acting as an advisor to various organizations including BTC Media and Hashed Health, and was the co-founder and former CEO of one of the first fiat gateways onto Ethereum..

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Ari Nazir is a Managing Partner at the blockchain asset hedge fund Neural Capital where he created the Neural.AI, a trading platform built on machine learning, semiotics and social media analytics. Prior to Neural Capital, Ari served on the National Economic Council at the White House advising on asset based investments, worked in finance at HSBC bank, and advised blockchain financing enterprises.



**Ari Nazir**



**Zain  
Allarakhia**

Zain Allarakhia has an extensive background in building software for Fintech. He is a former engineer at Plain and Braintree. He also co-founded Instavest (Ycombinator 15).

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Matt Smith, Lead Engineer at Gem, is an experienced software engineer and architect with four years of experience working with blockchain networks and smart contracts and many more in distributed systems and secure programming.



**Matt Smith**

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**Scott Hoch**

Scott Hoch is a seasoned software engineer, entrepreneur and former experimental physicist. He served as the solutions engineer at Gem helping enterprises learn about in deploy blockchain solutions. He is currently the VP of engineering at Duco.

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Andrew Ballinger has worked in digital marketing for both Fortune 500 companies and startups. Andrew became interested in Blockchain, Crypto Assets, and Digital Currencies as a student at USC.



**Andrew Ballinger**

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### 3.2 Advisors



**Alex Leverington**

Alex Leverington is a veteran of the blockchain community starting as a core developer of the Ethereum Foundation where he built the Ethereum P2P protocol. He was an architect on Golem, Lunyr and Stremr.

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Saul Hudson is a blockchain communications specialist working with and advising several financial and investment startups. Formerly, he was the CEO of Call42 Communications where he works with and advises several blockchain projects. Formerly, he was the general manager of the Americas for Reuters News.



**Saul Hudson**

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**Eric Meltzer**

Eric Meltzer is a partner at InBlockchain where he oversees blockchain investments and technology development. Prior to InBlockchain Eric was a product designer for at The Open Company for five years.

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Dr. James Canton is a leading global futurist, author and entrepreneur. He is the CEO at the Institute for Global Futures where he has advises companies on future trends in technology and harnessing innovation. Prior to this he was at Apple on the original Mac team.



**Dr. James Canton**



**Rick Marini**

Rick Marini is a world-renowned tech entrepreneur with three successful exits. He is the Founder & Managing Partner of Protocol Ventures, the first fund of funds focused on crypto assets. He is also an angel investor in fifty tech companies including Snapchat, Reddit, AngelList, Opendoor and many more.

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## 4 Conclusion

Blockchain technology has unlocked technological capabilities and vast amounts of wealth over a short period of time. This growth is attracting attention, which creates a network effect that further drives market evolution. This rapidly iterating cycle will leave independent investors in the dust as more sophisticated trading strategies are only available to those with large amounts of capital or information asymmetry. We believe the best way to tackle this problem is with a tokenized FOF that democratizes access to these strategies.

In this white paper, we have outlined our thesis that the best avenue to diversify a portfolio in the cryptoasset space is by diversifying investment strategies and fund managers. Furthermore, we believe we have the technology, data, and experience to balance these strategies in a portfolio that maximizes exposure to the most promising strategies while hedging risk over many market conditions. We believe our network and experience in the blockchain community will allow us to pair each strategy with a best in class hedge fund that specializes in its execution. We believe that this strategy is the most efficient way to track the growth of cryptoassets market as a whole.

## 5 Appendix

### 5.1 Crypto Asset Ecosystem

Over the past eight years, the total value of cryptoassets has ballooned from zero to \$400 billion USD. While Bitcoin currently holds the lion's share of this value, it is also the oldest and other newer tokens have claimed forty percent (40%) of the market cap in 2017. These newer digital assets are staking their claim to different sectors in the world of decentralized applications and there is a lot of value that has yet to be unlocked. In this section, we give a brief introduction to the cryptoasset and technology landscape.

#### 5.1.1 What Are Cryptoassets?

A cryptoasset is a unique digital object that allows software systems to operate without a trusted central governing body. We call such systems decentralized applications, and they replace the role of a central authority with game theory and economic incentives that shape the behavior of users. The economic incentives are typically in the form of a cryptoasset, rather than a fiat currency.

For example, in 2008 Satoshi Nakamoto designed a decentralized currency and accounting application that allowed people anywhere in the world to pay each other without a central trusted bank or government overseeing the transactions. This system works without any regulation because of cryptography and a well-designed incentive structure revolving around Bitcoins. Other examples of decentralized applications include distributed supercomputer platforms: (Ethereum, Golem), file storage (Filecoin, Sia), prediction markets (Gnosis, Augur, Hivemind), global remittances for individuals (Stellar), global settlements for enterprise (Ripple), and a host of other use cases both niche (gaming micropayments) and enormous (loans and credit rating).

#### 5.1.2 Cryptoassets Are Diverse

The cryptoasset ecosystem is diverse and there are many ways to categorize them from a technological perspective. However, for the purposes of this document, we will focus on three major categories of cryptoassets from the perspective of an investor: **platform assets**, **application assets**, and **proxy assets**.

**Platform assets** power decentralized applications that can be used to create other decentralized applications. For example, Ethereum is a decentralized ap-

plication that software engineers can use to create their own cryptoassets or decentralized applications. The creators and users of these applications must pay the maintainers of Ethereum's blockchain to host and run their applications. The value of a platform asset largely determined by the number and size of applications it hosts and runs. Other examples of platform applications include Bitcoin and Stellar.

**Application assets** are used to establish the rights or responsibilities of users in a decentralized application. For example, Augur is a crowdsourced prediction market built on Ethereum. Participation in a given prediction market is limited to users who hold Augur's token (REP). The value of an application asset is typically tied to the number of users who want to participate in the distributed application it powers. Other examples of Application assets include Sia and Golem.

**Proxy assets** are digital objects that are created and tracked in a decentralized platform and represent ownership of some external asset. For example, the DGX token is a digital asset created by the Digix corporation on the Ethereum platform. The Digix corporation maintains a reserve of gold and guarantees it will exchange one gram of gold per DGX token to any DGX holder who wishes to redeem it. The value of a proxy asset relies both on the value of the asset it is tied to, and trust in the issuer of the asset to honor the exchange. The APEX token is a proxy asset representing a stake in the performance of a diversified portfolio containing a selection of the world's best cryptoasset hedge funds.

This categorization of cryptoassets is especially useful for traders as the growth and value characteristics of platform, application, and proxy assets are highly divergent. As such they must be approached with different strategies, as we will discuss in the next section.

## 5.2 Trading Cryptoassets

### 5.2.1 Strategies For Trading Cryptoassets

As in traditional financial markets, there are many strategies used to realize profits from trading cryptoassets. These strategies require different skill sets and knowledge bases, and are successful for different types of assets, on different time scales, and in different market conditions. The different behaviors of these strategies result in low correlations between their performance which is an important part of how Apex Token will architect the Fund's portfolio. The following is a

brief examination of several strategies ordered by time scale to illustrate that point.

A familiar strategy that operates on a short timescale is arbitrage, buying and selling the same asset on different platforms for a different price and profiting from the difference. There are more complicated versions of this strategy including triangular arbitrage which involves three assets, and geolocation arbitrage that takes advantages of geographic differences in exchange rates. Succeeding with this strategy requires having a robust automated trading system with an extensive data room and proprietary algorithms that detect price anomalies quickly and react with the correct trades at the correct volumes.

A slightly longer timescale trading strategy is to buy and sell assets based on how you believe other speculators will trade those same assets. A trader executing this strategy will look for signals that have predictive power over where an asset's price will move and trade accordingly. For this strategy to work, traders have to know what signals to look for and also have to detect and act on those signals before other traders do. Signals can be anything from press releases to social media sentiment to weather patterns. These strategies typically rely on massive amounts of data and advanced mathematical and social modeling.

Traders can also execute thesis-driven investments where they become deeply familiar with the technical and political landscape of a particular section of the distributed landscape. This deep knowledge leads to informed and confident decisions about which tokens are most likely to succeed in the long run. Trades then typically take the form of a longer-term buy and hold strategy.

Finally, there are strategies that require a much more hands-on approach. Investors with a deep technical and political knowledge will find a strong team with a strong idea and will coach them to an token sale and beyond. This style of investment is similar to the venture capital investments that have become ubiquitous in traditional tech markets.

There are many more strategies we could cover, but it suffices to say that there is a diverse set of strategies that can be used to successfully invest in cryptoassets. These strategies perform differently under the same market conditions can be used to create an investment portfolio that is hedged in bull and bear markets.



### 5.2.2 Cryptoasset Hedge Fund Ecosystem

After a period of explosive growth and stability for cryptoassets, veterans in both the crypto and traditional money-management ecosystems are starting to launch funds. As of this writing there are over 110 of them responsible for over \$2.2 billion USD in assets <sup>15</sup>. Each one of these organizations has their own trading philosophy, strategy and a specific expertise based on their backgrounds. For example, an investor who has used sentiment analysis to trade traditional stocks will bring their algorithms and machine learning expertise to the table while a technologist and crypto veteran will make strategic trades based on their knowledge of the ecosystem and where it is heading. These funds typically keep their strategies close to the chest making it difficult for the everyday investor to assess a given fund's strategy in this highly technical marketplace. Participation in these funds also typically requires millions of dollars in capital investments that are locked up for years. These capital requirements and lockup periods exist so funds have time to properly execute their strategy. By tokenizing investments on a blockchain, Apex Token aims to provide hedge funds the lockup period they require while simultaneously offering a liquid asset to investors.

## Notes

<sup>1</sup><https://coinmarketcap.com/charts/>

<sup>2</sup><https://ipcarrier.blogspot.com/2013/05/internet-speeds-have-grown-10x-every-5.html>

<sup>3</sup><https://coinmarketcap.com/charts/>

<sup>4</sup>"In 20 years, we'll talk about Bitcoin like we talk about the Internet today" - Marc Andreessen  
<https://www.washingtonpost.com/news/the-switch/wp/2014/05/21/marc-andreessen-in-20-years-well-talk-about-bitcoin-like-we-talk-about-the-internet-today/>

<sup>5</sup>"Bitcoin is a remarkable cryptographic achievement and the ability to create something that is not duplicable in the digital world has enormous value" - Eric Schmidt <https://www.youtube.com/watch?v=EppRJrTTKgM>

<sup>6</sup>"Bitcoin Is 'Better Than Currency'" - Bill Gates <https://www.entrepreneur.com/article/238103>

<sup>7</sup>"Bitcoin is more than just a fad" -James Gorman <http://www.businessinsider.com/bitcoin-price-morgan-stanley-james-gorman-2017-9>

<sup>8</sup>"Real dollars are at work here and warrant watching" - Goldman Sachs <https://www.coindesk.com/goldman-sachs-real-dollars-work-cryptocurrency-markets/>

<sup>9</sup>"Virtual currencies might just give existing currencies and monetary policy a run for their money." - Christine Lagarde <https://www.imf.org/en/News/Articles/2017/09/28/sp092917-central-banking-and-fintech-a-brave-new-world>

<sup>10</sup><https://themerple.com/over-90-new-cryptocurrency-oriented-hedge-funds-launched-in-2017/>

<sup>11</sup><https://www.coinschedule.com/stats.php?year=2017>

<sup>12</sup><https://arxiv.org/pdf/1706.07216.pdf>

<sup>13</sup><https://zeppelin.solutions>

<sup>14</sup><https://www.apextokenfund.com//fees>

<sup>15</sup><https://www.reuters.com/article/us-hedgefunds-bitcoin/cryptocurrency-hedge-funds-top-100-for-first-time-idUSKBN1CN2H6>