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Alpha Capital
Management

Private Offering Memorandum
(For Retail Investors)

FEB 2022

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Investment Objectives & Policies

Key Investment Objectives

The fund aims to achieve the following objectives:

Objective Type	Benchmark	Rationale
Primary	Altcoin 100 Index (ALT100*)	Beat ALT every month: The fund takes positions heavily dominated in altcoins. No coin is given more than 17% weightage due to risk control measures.
Secondary	Bitcoin (BTC)	Beat BTC over 6 months: Outperforming BTC will take time during those periods where Bitcoin dominance rises and altcoins in general bleed against BTC.

Performance Communication Policy

In order to increase transparency and boost investor confidence, the firm will be uploading the latest NAV of the fund every Sunday on the below provided link.

- Update Time - 06:30 AM UTC
- Update URL - <https://www.thealphainvestor.com/investor-center> (link for **live results**)

Investors will also be getting a detailed performance report at the 3rd of every subsequent month-end. This report will contain – the risk/return characteristics of the fund, upgradation/editions to the trading system, important policy updates, fund manager’s views on the recent performance etc.

Investment Strategy

The **Alpha Growth Fund** (AGF) was launched on 16th July 2021. It has the following characteristics:

Particulars	Details
Allowed Asset Classes	Cryptocurrencies
Trade Direction	Long only
Human Involvement	0% in decision making* 100% in trade execution
Investable Factors	Momentum (in special market conditions: mean reversion as well)
Fund Universe	Top 100 coins by CMC (with a few exceptions listed further below)
Trade Frequency	Daily Rebalancing

Decision – Arrival Time	12:00 AM UTC 12:15 AM UTC
Allocation Policy	99.5%: coins prompted by algorithm
	0.5%: BNB coin (reduces trading fees)

Subscription Policy

- Investors subscribing to the fund need to send funds to the firm’s account details provided below and they compulsorily need to have their own crypto account at any cryptocurrency exchange in order to avoid taxation issues.
- The investor can then transfer the cryptocurrency in the form of any cryptocurrency (preferably BUSD – low fees, fast speed) to the firm’s account.
- The firm has provided its BUSD receiving address below. Investors may transfer funds once the investor confirms subscribing to the firm’s services.
- The same investor address which was used by the investor to send the funds shall be used by the firm while transferring the funds back to the investor.

Retail Subscription Limits –

Limit Type	Amount
Minimum	\$1,000 – initial; \$250 – subsequent
Maximum	Max of (1 BTC or \$50,000)

Performance Calculation Policy

The fund’s returns will be computed monthly – starting on first trading day and ending on last trading day of the month. As a result, management fees and subscription fees (if applicable) will be calculated and deducted at month-ends only i.e., after generating P&L.

Procedure to send funds to the firm

After obtaining **prior confirmation** from the firm about the validity of the below address, investors can transfer the funds in form of any cryptocurrency. The firm has provided the receiving address of “BUSD” coin below. It is a stablecoin with low transfer cost and high confirmation speed:

Particulars	Details
Cryptocurrency Name	BUSD
Receiving Network	BSC [Binance Smart Chain (BEP20)]
Receiving Address	0xbe1c74ee17524a110b8ae8cd26dc5e9719445d5a

Important Note:

- The investor bears all kinds of transfer risk i.e., sending to the wrong address or using the wrong network, technical issue in exchange's network. Tokens sent in any incorrect way will get lost forever and cannot be recovered in any way.
- Investors who are transferring cryptocurrencies for the first time and are unsure of the process are advised to seek help from the firm to avoid any unforeseen issues.

Distribution Policy

The investors are entitled to make a request for withdrawal of funds any day. The funds will be credited back to the source account of the investors **within 24 hours** of making the request.

Under extra-ordinary circumstances outside the control of the firm like when the Exchange itself is down due to technical issues, there can be a delay in sending the funds back to the investor account. Rest assured, as soon as the issue (outside the control of the firm) gets resolved, the funds will be credited back within 24 hours.

❖ **Liquidation Procedure:**

- Once the investor makes a request for withdrawal and the firm confirms receipt of the request, the firm will liquidate investor's shares at the same day's trade closing time (12:00 AM UTC or 05:30 AM IST) i.e., closing NAV price of the day.
- The fund will deduct the applicable performance fees for the month using FIFO (First-in, First-Out) accounting methodology and finalise the withdrawable amount net of fees.
- At this stage, the investor needs to send their receiving cryptocurrency address to the firm using which the firm will send the funds back to the investor's cryptocurrency wallet.
- The amount received by the investor (post deduction of cryptocurrency network/transfer fees) will be their final liquidation amount.

Frequency of Entry & Exit Policy

The firm has established an entry & exit policy to limit the frequency with which an investor can deposit/withdraw funds in/out of the Alpha Growth Fund (AGF). Since there are no charges for entering and exiting the AGF, this policy became necessary to not only protect the investor from panic selling the stake at market corrections but also to ease the operational pressure on the firm. The below table describe the limits regarding the frequency and severity of entries and exits an investor can perform in a given time period –

Type	\$ Amount	Frequency
Deposit	(See subscription limits mentioned above)	Once per month
Withdrawal	Minimum (50%*Start Capital, 100%*Total Profits)	Once per month

Firm Offering – Alpha Growth Fund

Introduction

The AGF algorithm tracks and trades only in Top 100 cryptocurrencies (excluding stablecoins, Bitcoin's derivative coins, coins not listed on Binance) by market capitalization and its decision making is 100% systematic in nature i.e., no human intervention at all. Under extreme market conditions – example in case of a government ban, the fund manager might be forced to override the system and exit the positions before closing time in order to contain the risk.

Algorithm Upgradation

The algorithms employed by the Alpha Growth Fund undergo periodic maintenance and upgradations from time to time. Each upgrade is a significant improvement over the previous version and impacts the trading style of the fund in a major way. As a result, the upgradations have been properly documented for investor analysis:

Algorithm Version	Deployment Date	Type of change
1.1	2 nd August 2021	Risk reduction – Stop buying under extreme scenario using moving averages.
1.2	5 th August 2021	Risk reduction – Slow down buying under extreme scenario by using daily average altcoin returns.
1.3	7 th August 2021	Risk reduction – Setting up proprietary rules on individual cryptocurrencies to improve predictive power of returns.
1.4	10 th August 2021	Risk reduction – Upgrade in position sizing model to account for risk in individual positions.
1.5	14 th August 2021	Return improvement – Improving predictive power of the model by leveraging the concept of mean reversion.
1.6	16 th August 2021	Return improvement – Significant improvement in model returns especially during bear markets.
2.0	27 th August 2021	Return improvement – Change in position sizing model to give more weights to past winners, less to past losers.
2.1	4 th September 2021	Return improvement – Improvement in the mean reversion algorithm to pick better suited coins.
2.2	19 th September 2021	Enhancement in results calc. tool – incorporated the impact of slippage costs and found ways to limit the cost.
2.3	1 st October 2021	Risk reduction – Change in how algorithm reacts to extreme drops by studying historical drop data.
3.0	22 nd October 2021	Risk reduction + Return improvement – Major change in how algo calculates max. permissible weight per coin.

Live Results

AGF PERFORMANCE HISTORY				
VER	Month	AGF	BTC	ALT100
4.0	Jan'22	-2.95%	-19.65%	-29.89%
3.5	Dec'21	-12.10%	-18.42%	-11.01%
3.2	Nov'21	51.39%	-6.45%	-17.47%
3.0	Oct'21	34.90%	48.69%	8.19%
2.2	Sep'21	-15.14%	-11.75%	-26.38%
1.6	Aug'21	36.20%	12.37%	16.87%

[Updated results: <https://www.thealphainvestor.com/investor-center> || ALT100* = Altcoin 100 Index created from averaging Top 100 altcoin returns (excluding stablecoins, Bitcoin's derivative coins, coins not listed on Binance)]

❖ Trade Execution Policy:

- Slippage costs are one of the most expensive and most ignored costs by firms around the world. The algorithm is built to capture more of “momentum factor” than the “mean-reversion factor”. Theoretically, this would directly result in higher slippage costs.
- Since cryptocurrencies are extremely volatile instruments, untimely execution can result in astonishingly high slippage costs for the fund. For the fund, there is a difference of 15 minutes between trade decision & trade execution time. This would unavoidably result in slippage cost/benefit in terms of bid-ask spread cost and price volatility.
- After considering multiple factors (including AUM, pair volatility, trading spread, price impact, opportunity cost etc.), the firm targets 1 month daily average slippage cost of $\leq 0.075\%$ per day and currently follows the below execution policy:

Slippage Cost	Order Type
Less than 0.05%	Market Order
More than 0.05%	Limit Order*

[*If the limit order is not filled within 1 minute of placing the order, the existing limit order will be replaced with a new one, or in some rare cases will be replaced with a market order.]

- Month-end daily average of slippage cost of $\leq 0.075\%$ would be considered a success. Investors would be receiving a slippage cost report incurred during the trading period in the month-end report in order for them to analyse the effectiveness of the fund policy.

Backtesting The Strategy

The firm has calculated the below mentioned results by back-testing the algorithm. Method of backtesting along with its limitations have been listed below.

Backtesting parameters:

Parameter	Value
Test Universe	Top 100 (as of June 2021)
Start Date	1 st January 2018
End Date	30 th June 2021

❖ Backtesting limitation and addressal:

- Ideally, the fund would take the latest Top 100 list every time the algorithm rebalances i.e., daily. This was not possible in backtesting due to constraints such as enormous data collection and lack of extremely high computing power to run the backtest on all of the data.
- As a result, the firm backtested the algorithm on Top 100 cryptocurrencies as of 30/06/2021. This means the universe is having those coins which had survived over the last 3.5 years in order to reach the Top 100 list. However, this also means that the universe missed investing in those coins which reflected strong momentum for certain periods but are now not present in this list. It is unknown how the positives will weigh against the negatives in this case.
- In order to address this limitation upto an extent, the firm calculated backtesting results on different samples from the universe (Sample derivations have been explained below):

Backtesting Results –

Measured Variables	Algorithm Version 3.0				Bitcoin (BTC)	Altcoin 50 Index (ALT50)
	All Data Universe	Random - Average	Random - Bottom 5% (Case 1)	Random - Bottom 5% (Case 2)		
Average Monthly Return	53.84%	44.64%	29.74%	30.32%	04.91%	10.48%
Median Monthly Return	20.48%	17.91%	10.81%	12.83%	-01.65%	01.02%
Worst 5% Monthly Return	-15.78%	-16.94%	-20.06%	-18.00%	-37.72%	-39.69%
Best Monthly Return	302.14%	295.01%	190.79%	235.97%	60.16%	100.29%
Worst Monthly Return	-18.08%	-19.19%	-23.49%	-21.30%	-38.29%	-40.07%
Maximum Drawdown	-20.85%	-24.46%	-32.07%	-27.45%	-72.09%	-78.25%
Worst 5% Drawdown	-18.49%	-20.95%	-26.45%	-23.59%	-69.02%	-73.72%
Drawdown Duration*	02.77	03.82	08.53	05.46	16.17m	26.83m
Worst Daily Return	-17.73%	-18.99%	-25.62%	-19.23%	-35.19%	-41.17%
1 Day NP. VaR (Alpha 99%)**	-10.63%	-10.10%	-10.88%	-09.31%	-10.45%	-12.78%
1 Day Deviation	05.43%	05.03%	05.46%	04.23%	03.89%	04.46%
Worst 5% Daily Returns	-08.47%	-08.10%	-08.54%	-07.87%	-08.88%	-10.72%
Average Churn Rate	25.32%	25.44%	26.97%	26.56%	---	---
Winning %	55.34%	53.68%	50.85%	52.26%	53.17%	58.97%

[*Drawdown Duration is computed in months; **NP.Var = Non-Parametric Value-at-Risk]

The above backtesting results have been computed after taking the following assumptions:

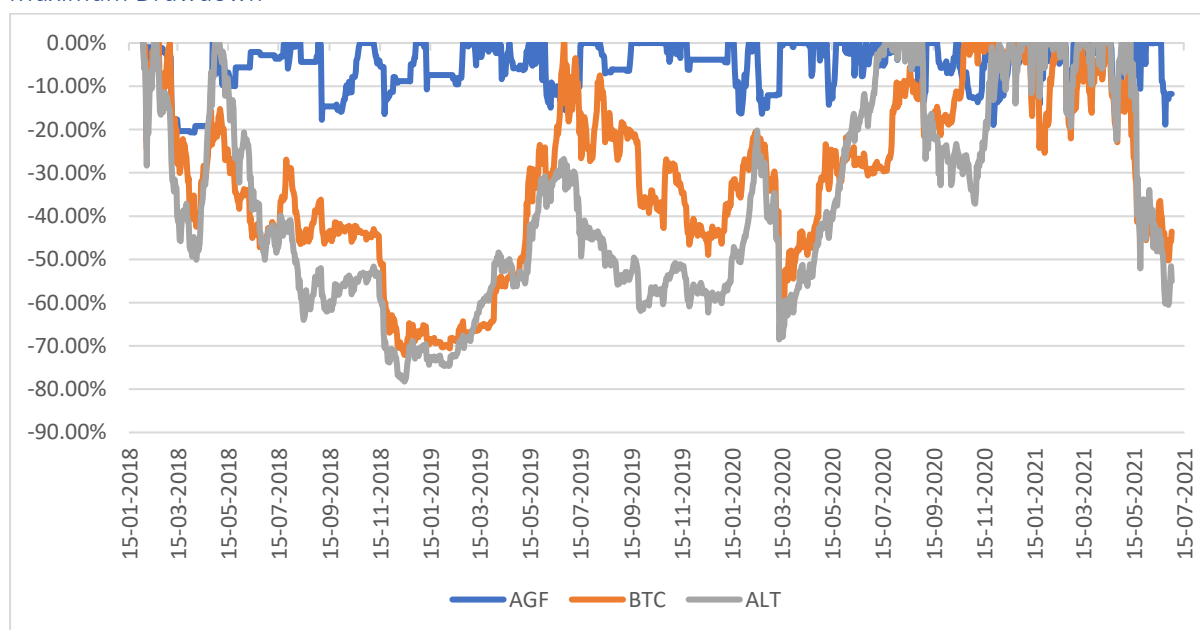
Type	Cost	Rationale
Trading Fees	0.075% per transaction	Binance charges maker/taker fees of 0.075% per transaction.
Slippage Costs	0.075% per transaction	Estimated slippage costs using one-month real data.

However, the backtesting results do not take into account: Effect of performance fees or management fees deduction at month-ends.

❖ Backtesting Samples Explained:

- All Data Results: Complete Top-100 crypto universe
- Random Universe: Performed 100 tests with randomised selection of coins (probability of pickup b/w 60-100%). Therefore, there were 60-100 coins selected randomly for each test:
 - Random – Average: Took average of all 100 random tests.
 - Random – Bottom 5% (Case 1): For each measured variable, averaged the bottom 5% values from the total of 100 values.
 - Random – Bottom 5% (Case 2): Ranked all 100 tests based on their Sortino ratios, filtered for the 5 worst test results and calculated the average of these 5 tests to compute their measured variables. (Better representation than Case 1)

Maximum Drawdown –



Maximum Drawdown for AGF has been calculated by averaging daily returns from the 100 random tests. As a result, maximum drawdown for AGF comes out to be 22.86% (2.01% higher than the maximum drawdown of All Data Universe sample).

Risk Factors and Special Considerations

There is a substantial risk of sustaining losses in the aforementioned investments. There is some kind of risk in every kind of investment, but there is especially a very high risk in investing and trading in cryptocurrencies. Therefore, only those prospective investors who have the requisite knowledge and are financially secure should consider investing in the fund.

The fund relies on each investor to obtain independent qualified investment and tax advice before purchasing the subscription. The firm has also outlined various risks below for the investor.

Note: Do not consider this as an exhaustive list –

Market Risk

Market risk is the risk arising from change in investment value of the position. The price of cryptocurrencies is solely governed by the forces of demand and supply. In case the demand for cryptocurrencies reduces, it can have **severe impact on its pricing** since these cryptocurrencies do not have any underlying asset value in general.

The firm's algorithms deal majorly in altcoins which are a lot more volatile than Bitcoin. Bitcoin itself is a very risky cryptocurrency although it is considered as the safest amongst all other cryptocurrencies by some.

Bitcoin has largely faced 3 bear markets since its inception. These bear markets were accompanied with more than 80% drawdowns in every case. Altcoins as well, bleed worse than Bitcoin through bear markets, with some even dropping more than 95% and not recovering for several years.

Operational Risk

Since cryptocurrencies are still relatively new, there are many issues which still need to be solved and pose a threat to the investors.

❖ External Operational Risks

- These include – **exchanges getting hacked** especially newer ones with weak security, exchange itself running away with investor funds etc., causing 100% loss of capital.
- Technical issues at the exchange's end causing temporary inaccessibility to user funds, funds transferred from one wallet to another but not reaching in the destination wallet due to various reasons (human error, technical difficulty) etc., causing \leq 100% loss of capital.

❖ Internal Operational Risks

- These include – inaccessibility to the core algorithms (at day end) due to reasons such as power outage, no internet, damaged software etc. Additional risks include algorithm files and software getting corrupted, human error etc.

These risks are mitigated to some extent as the firm has a policy of taking daily offline backups and weekly online backup of core files, having backup trade execution application in both mobile phone and other computer to ensure smooth handling of tasks at day close.

Legal Risk

Legal risk is also highly present in this area. Cryptocurrencies being highly unregulated in most of the countries possess a risk to the investors. India has been waiting for cryptocurrency regulations for multiple years now and it is expected that the Indian government release the regulations by January 2022.

An **outright ban** on cryptocurrencies would prove very detrimental to the investors. If a ban comes in India, it is expected that the government would provide some time for the investors to cash out of the market. Cryptocurrency prices in Indian exchanges would likely get depressed, trading at discount to foreign exchanges. This may result in highly negative returns for the whole Indian cryptocurrency community.

Fund-specific Risk

Generally, the cryptocurrency market has been seen moving in cycles:

- Phase 1 - money moving into Bitcoin and out of Altcoins. This is where altcoins lose dominance quickly as Bitcoin regains market share.
- Phase 2 - money slowly moving out of Bitcoin and into top ranking altcoins like Ethereum.
- Phase 3 - money starting to move aggressively into other mid-level altcoins as well.
- Phase 4 - final leg of the rally where micro-altcoins like Shiba-Inu or Dogecoin start their climb.
- Phase 5 - the market again starts to cool off, profits get booked. Altcoins drop more aggressively than Bitcoin causing Bitcoin to regain dominance in the markets. Money starts moving back to Bitcoin and the cycle repeats.

This is what was witnessed by the crypto market during the December 2017 and April 2021 market tops with coins like Shiba-Inu or Dogecoin multiplied rapidly.

The AGF largely trades in Altcoins. Therefore, for the fund Phase 1/5 are the worst in which **Bitcoin dominance increases**. This is where investors may witness underperformance compared to Bitcoin for a few months. Phase 1/5 is also the time where long-term entry into AGF might be the most suitable for profit-maximization. Phase 2, 3 and especially 4 are the best phases for the fund where the algorithms pick up rapidly multiplying coins. Investors would witness their wealth getting multiplied around this time.

However, the real risk exists in case we do not see Bitcoin and cryptocurrency market in general not rising back to all-time-highs. Since the firm believes we are not the best forecasters of what is going to happen, we leave this task of making decisions to the algorithms.

Fees & Expenses

Entry & Redemption Charges

As mentioned in the policy section in the starting of the document, there will be **no entry charge** of any kind that will be levied irrespective of the capital amount investors bring in. Additionally, there will be **no exit charge** of any kind that will be levied on investors irrespective of the holding period. However, there are rules regarding the frequency and severity of entries and exits an investor can perform in/out of AGF –

Type	\$ Amount	Frequency
Deposit	(See subscription limits mentioned above)	Once per month
Withdrawal	Minimum (50%*Start Capital, 100%*Total Profits)	Once per month

Performance Fees

Investors are charged the below mentioned performance fee under the following conditions –

- (i) Fund returns are positive irrespective of Bitcoin returns being positive or negative.
- (ii) The fees will be deducted only if the value of the investment exceeds the **High Watermark**.

❖ Fee Structure:

Scenario	Fees (Per Month)
Gross returns < 0%	0% of gross profits
Gross returns > 0%	20% of gross profits

Performance fees will be automatically deducted at the last trading day of the month from the investor account and the investor would be notified about the same in the month-end report.

Management Fees

The fund would be collectively charged 1% of AUM per month irrespective of the P&L. The 1% per month charge will be amortized on a daily basis based on the opening AUM for the particular day.

Disclaimer: The fund manager handling the 'Alpha Growth Fund', is not a SEBI registered investment advisor. Please consult your own financial adviser before taking any financial decision.