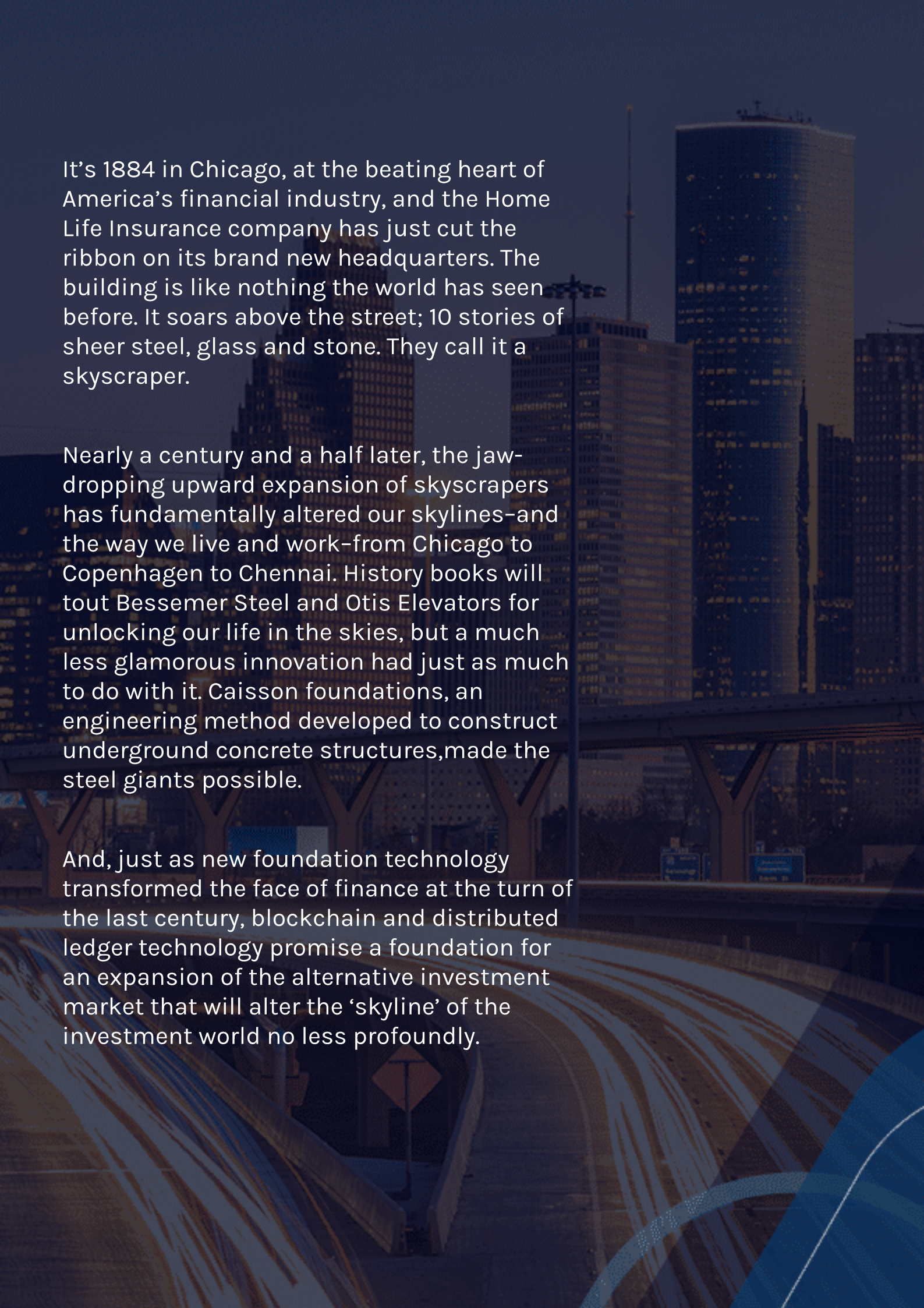


Alternative Investments on the Blockchain

A New Foundation for the Investment Revolution



It's 1884 in Chicago, at the beating heart of America's financial industry, and the Home Life Insurance company has just cut the ribbon on its brand new headquarters. The building is like nothing the world has seen before. It soars above the street; 10 stories of sheer steel, glass and stone. They call it a skyscraper.

Nearly a century and a half later, the jaw-dropping upward expansion of skyscrapers has fundamentally altered our skylines—and the way we live and work—from Chicago to Copenhagen to Chennai. History books will tout Bessemer Steel and Otis Elevators for unlocking our life in the skies, but a much less glamorous innovation had just as much to do with it. Caisson foundations, an engineering method developed to construct underground concrete structures, made the steel giants possible.

And, just as new foundation technology transformed the face of finance at the turn of the last century, blockchain and distributed ledger technology promise a foundation for an expansion of the alternative investment market that will alter the 'skyline' of the investment world no less profoundly.

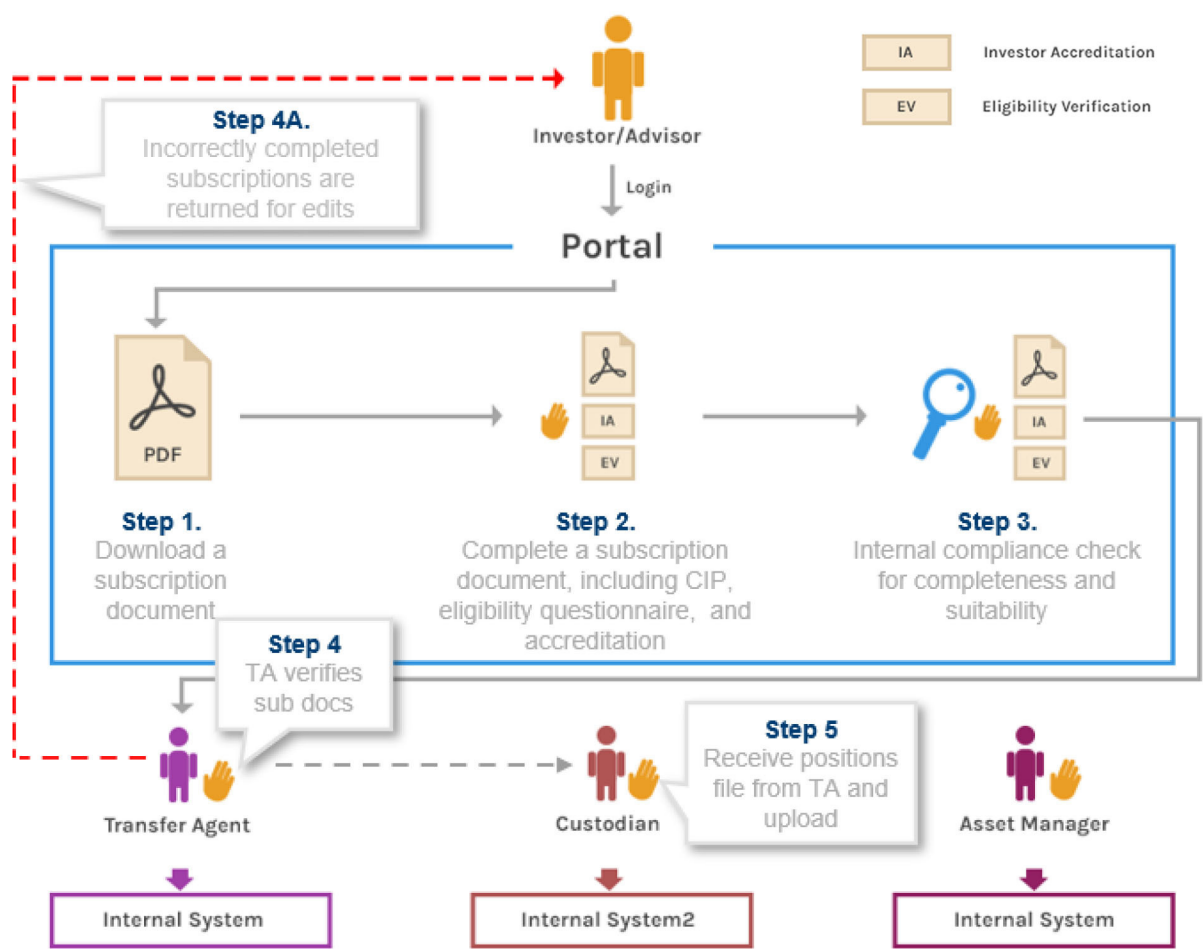
TODAY'S ALTERNATIVES MARKET IS SELF-LIMITING, AND THE CRACKS ARE SHOWING

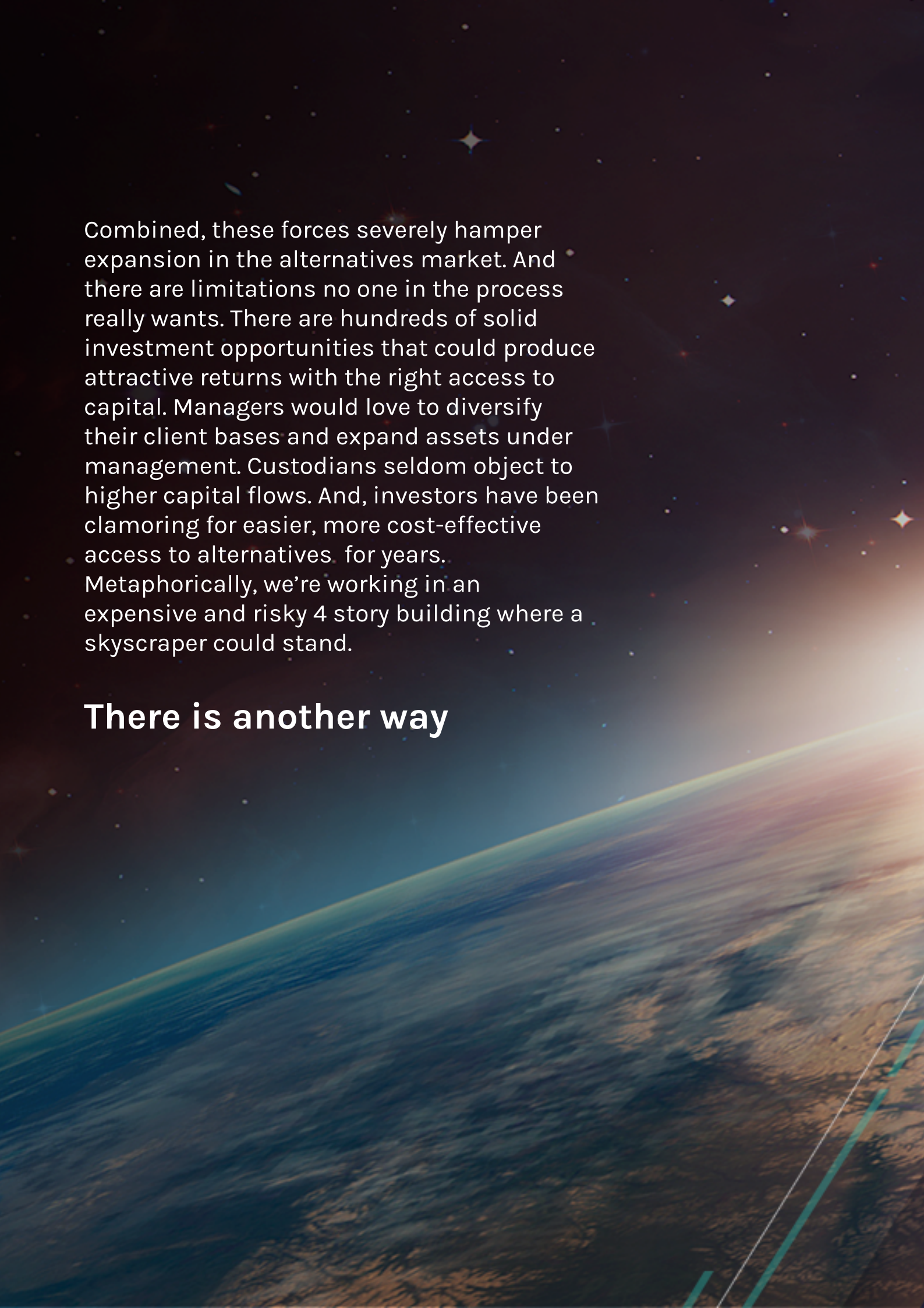
The foundation for today's alternative investment market is the subscription agreement - a contract between an investor and an issuer of securities. These massive, complicated, bespoke legal documents are, for all intensive purposes, the only thing that ties all the parties together. The investor, the financial advisor, the asset manager, the custodian, the fund administrator and the issuer each contribute to the final artifact and then each maintain an instance of the agreement in their records. Needless to say, this is a costly and time-consuming way of doing things, with a myriad of opportunities for human error.

Like the slab foundations that supported most buildings before the 1880s, subscription agreements require a disproportionate investment of time and resources for the stakeholder they support. Slab foundations are essentially a pad of stone, cement or other base material spread out over the entire footprint of a building. Depending on soil type, slab foundations could support as many as 6 stories, but most buildings became unstable above 3 or 4 floors. In proportion to the area it supported, the material for a slab foundation was a pricey proposition. Similarly, the current system of essentially paper documents (we'll discuss later how 'electronic' and 'automation' innovations in this space have been largely surface-level) maintained and periodically reconciled by individual stakeholders requires an investment of administrative time and legal fees out of step with both the largely untapped addressable market, and the stakeholder value it has the potential to create

And the process is prone to some of the same drawbacks as the old slab foundations. Any inconsistency in the soil, any seismic activity and a slab foundation cracks. Today's alternative investments encounter so much friction across their lifecycles, and are exposed to so much risk from human error that it's no wonder everyone from fund administrators to custodian and asset managers spend so much of their time and resources preventing metaphorical cracks. A single subscription contract is exposed to 'seismic' forces from initiation through exit: It starts with the gathering and verification of investor information, the legal reviews of bespoke terms and conditions, and the reconciliation necessitated by each and every capital call, distribution or payment of management fees.

Current state of the alternative marketplace operational ecosystem






Combined, these forces severely hamper expansion in the alternatives market. And there are limitations no one in the process really wants. There are hundreds of solid investment opportunities that could produce attractive returns with the right access to capital. Managers would love to diversify their client bases and expand assets under management. Custodians seldom object to higher capital flows. And, investors have been clamoring for easier, more cost-effective access to alternatives for years.

Metaphorically, we're working in an expensive and risky 4 story building where a skyscraper could stand.

There is another way

A BEDROCK FOUNDATION FOR THE ALTERNATIVES REVOLUTION



Like the caisson foundations sunk into the bedrock below Chicago's famously shifty clay soil, digitized securities utilizing smart contracts and recordkeeping on the blockchain create an immutable single record of all investor information, contract terms, and lifecycle data. Instead of maintaining and reconciling records separately, each party taps into that bedrock information.

And, like the foundations that enabled those world-changing skyscrapers 150 years ago in Chicago, smart contracts and the blockchain hold the keys to an expansion of the alternative investments market and its upsides for all involved.

ISSUERS:

Utilizing more advanced technology issuers can access a vastly expanded pool of potential investors at a lower cost for their growing ventures.

ADMINISTRATORS AND TRANSFER AGENTS:

Alternative investments on the blockchain have the potential to expand the role of fund administrators and transfer agents. Instead of gathering, verifying, and reconciling information, they can focus on the strategic work of operational and financial controls, reporting, and transparency.

CUSTODIANS:

Digitized securities recorded on the secure distributed ledger, reduce operational costs, enabling them to expand assets under custody for the benefit of their clients and end investors.

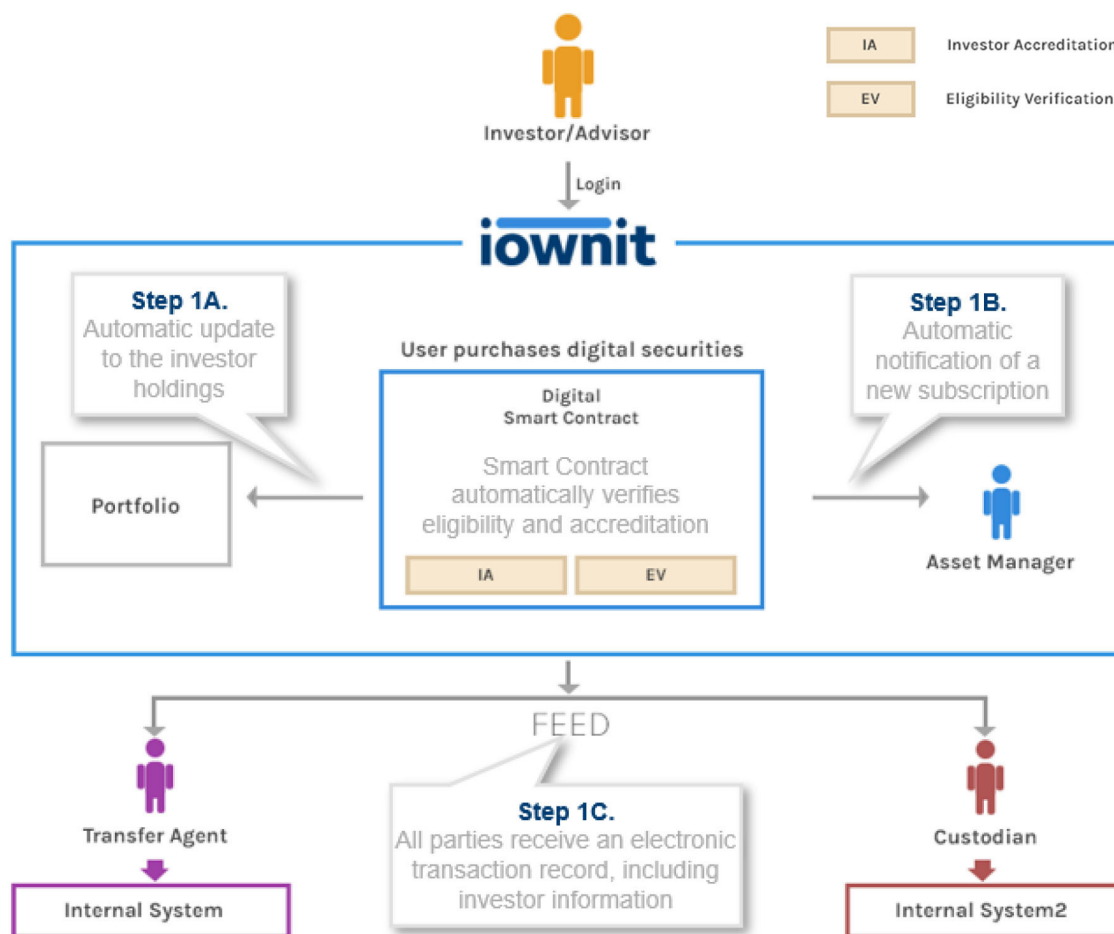
FINANCIAL ADVISORS:

Advisors benefit from multiple opportunities for diversification, reduced costs, and increased simplicity. They can offer alternatives to more investors, diversifying their client's investments, and improve the quality of their service.

INVESTORS:

For investors, alternatives on the blockchain reduce the complexity and cost that have kept many purchasers out of the market, as well as unlock coveted access to broad diversification and early-growth returns.

Future state of product lifecycle using blockchain technology.



VALUE FOR EVERY PLAYER, ACROSS THE LIFECYCLE

Let's take a deeper look at how the differences play out across the lifecycle of an investment for each of the parties involved.

FOR THE ISSUER

	Current State Slab Foundation	Future State Bedrock Foundation
Current State Slab Foundation	<ul style="list-style-type: none">• Lawyers create a lengthy, complex, bespoke investment agreement• Cost and time to process necessitate a high minimum investment	<ul style="list-style-type: none">• Issuers create smart investment contracts that capture core elements of a financial instrument.• Investors acquire digital securities in a manner more consistent with the way investments are done in the public markets.
Life Cycle Events (capital calls, distributions, fees, reconciliation)	<ul style="list-style-type: none">• Every lifecycle event, e.g. capital call, tender offer or distribution, is handled through a multitude of files, emails, and interactions between multiple parties.	<ul style="list-style-type: none">• Smart investment contracts are used to manage an electronic execution of lifecycle events, enabling timely compliance and accuracy while minimizing manual interventions.
Exit/Liquidity	<ul style="list-style-type: none">• Cost & complexity dictate long time horizons and low liquidity	<ul style="list-style-type: none">• Digital securities offer new avenues for liquidity through secondary market trading or securitized lending.

FOR THE FUND ADMINISTRATOR

	Current State Slab Foundation	Future State Bedrock Foundation
Current State Slab Foundation	<ul style="list-style-type: none">• Responsible for gathering and certifying investor details & qualification data ('not in good order' return & correction cycle)• Long onboarding times for new clients due to bespoke documents and complex requirements.• Each agreement includes bespoke terms & conditions, which translates into significant effort to support operationally	<ul style="list-style-type: none">• Expanded capital pool as more investors become cost-effective potential subscribers• Verified investor details stored on blockchain for instant access• Standardized terms reduce burden on legal/admin
Life Cycle Events (capital calls, distributions, fees, reconciliation)	<ul style="list-style-type: none">• Any life cycle event entails manual update to records, PLUS reconciliation with records held with each other party• Multiple records essentially serve as a (rather shaky) check on errors/discrepancies	<ul style="list-style-type: none">• Reconciliation, with its associated time and cost, essentially becomes a thing of the past
Exit/Liquidity	<ul style="list-style-type: none">• Alternatives can only feasibly be offered as long-term investments to those able to hold them through extended life cycles	<ul style="list-style-type: none">• Secondary markets and other liquidity options make investments viable for a broader investor pool

FOR THE CUSTODIAN

	Current State Slab Foundation	Future State Bedrock Foundation
Current State Slab Foundation	<ul style="list-style-type: none">• Multiple rounds of document exchange and verification with fund administrator	<ul style="list-style-type: none">• SEC/FINRA registration reduces risk profile on alternative instruments• Standardized terms, and the removal of human error failure points through blockchain technology further mitigates risk
Life Cycle Events (capital calls, distributions, fees, reconciliation)	<ul style="list-style-type: none">• Costs for reconciliation and administration accrued across the long life-cycles of alternatives reduce profitability	<ul style="list-style-type: none">• Lower life cycle costs open the market for an expanded pool of capital
Exit/Liquidity	<ul style="list-style-type: none">• Liquidity requirements limit diversification into alternativess	<ul style="list-style-type: none">• Better diversification into alternatives without compromising their role to provide liquidity

FOR THE FINANCIAL ADVISOR / ASSET MANAGER

	Current State Slab Foundation	Future State Bedrock Foundation
Current State Slab Foundation	<ul style="list-style-type: none">• Sourcing deals requires reviewing complex, bespoke terms and requirements in order to match clients to opportunities• High minimums, and a costly, time-consuming process mean that offering alternatives is only financially viable with a few top clients	<ul style="list-style-type: none">• Standardized terms, distributed ledger with immutable records and simplified process makes offering alternatives more cost effective• Lower transaction costs and better liquidity options allow managers to present diversification into alternatives as an attractive strategy for a vastly expanded pool of clients
Life Cycle Events (capital calls, distributions, fees, reconciliation)	<ul style="list-style-type: none">• Maintaining accurate records for clients entails manual reconciliation with both fund administrator and custodian (even when nothing has changed)	<ul style="list-style-type: none">• Digital Ledger Technology provides fully automated accurate, real-time reporting, with no need for reconciliation
Exit/Liquidity	<ul style="list-style-type: none">• Alternatives are only a good fit for clients who need very little liquidity over long investment terms	<ul style="list-style-type: none">• Digitized securities allow liquidity options for alternatives, making them a viable offering for a more diverse set of clients

FOR THE INVESTOR

	Current State Slab Foundation	Future State Bedrock Foundation
Current State Slab Foundation	<ul style="list-style-type: none">• Qualification information must be provided (and verified/ corrected) with each individual investment• High minimums exclude many qualified investors and prevent effective diversification	<ul style="list-style-type: none">• Can be SEC/FINRA registered• Standardized terms and conditions reduce transaction cost (legal and administrative)• Basic information (including verified certification documents) stored for use across investments
Life Cycle Events (capital calls, distributions, fees, reconciliation)	<ul style="list-style-type: none">• Any change (additional investment, distribution, even just paying management fees) requires manual reconciliation of agreement documents	<ul style="list-style-type: none">• Accurate, reconciled information available in real time.
Exit/Liquidity	<ul style="list-style-type: none">• No secondary market for alternatives• Limited options for liquidity overall• Higher returns depend on long-term, high dollar commitments to individual investments	<ul style="list-style-type: none">• Alternatives issued as SEC/ FINRA registered digital securities opens up the possibility of secondary markets• Dramatically expanded access to alternatives means more investors benefit from early-stage growth returns

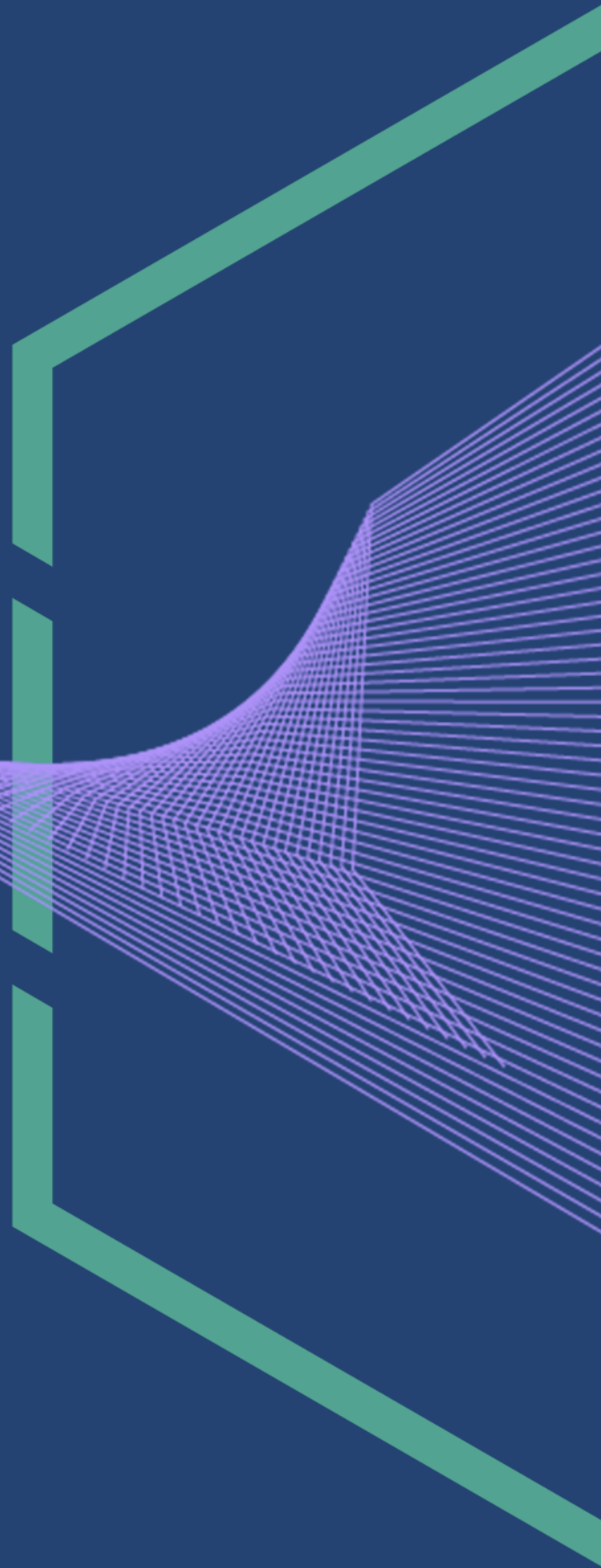
Automation vs. Transformation

Now, some will argue recent innovations, particularly automation technology and introduction of e-signature solutions, have already produced dramatic improvements across the lifecycle of an alternative investment. Yes and no.

While it's undeniable systems that populate and/or update information across documents save significant time.

They are still fundamentally automating changes to a paper document – and only one of several instances of the paper document at that. Yes, we may be able to sign contracts on our computers rather than printing and faxing (though there's still a distressing amount of this in the alternatives market) but what we are signing is still essentially an electronic piece of paper. None of these improvements represent authentic innovation to the structure of the alternative investments market or the process by which these instruments are initiated, executed, and maintained through their long life cycle.

Smart contracts and distributed ledgers on the blockchain, and the platforms growing up to support and enable them—represent just such an authentic innovation.



GROWING THE PIE : COULD BLOCKCHAIN 10X THE ALTERNATIVES MARKET?

Yes, smart contracts and distributed ledgers mitigate risk for issuers and fund administrators.

Fewer touch points equal fewer opportunities for human error. The ability to process investments and manage lifecycle events electronically enables lower minimums. And lower cost to initiate and manage deals will open more efficient access to capital across a broader investor pool, mitigating concentration risk.

Yes, blockchain technology enables diversification for investors.

Asset managers and advisors will finally be able to offer authentic, broad diversification to more clients, not to mention attracting an expanded and diversified pool of investors for their own practices.

But more than anything, this equation is about opportunity cost.

Distributed ledgers and smart contracts have the potential to dramatically expand the consumption of alternatives. Reduced initiation and lifecycle costs, risk mitigation and expanded liquidity options mean alternatives can be responsibly (and cost-effectively) offered with lower minimum investments to a much bigger pool of investors. More investors means bigger capital flows and better returns all along the value chain.

The real question is not whether early adoption is worth the cost, but what do players in the alternative investment market stand to miss out on should they stick with their metaphorical slab foundations and delay making the investment to adopt the next-gen approach that will enable a potentially 10x expansion of their most lucrative asset classes?

Given trends of the past decade toward later IPOs and companies taken out of the market through private equity acquisitions, the majority of growth-stage returns are now accruing to private equity markets. Investors have been chomping at the bit for a bite at those returns for years. Savvy asset managers, fund administrators and custodians would have spurred the expansion long ago if the process itself weren't so complex, costly and time intensive. At this stage, even major policy makers and regulators are focused on how best to open access to alternatives beyond the 10% of accredited investors who currently participate in the market.

There is a distinct first-mover advantage in the adoption of smart contracts and distributed ledger technology. The architects who successfully (and safely) lifted our lives into the skies 150 years ago are household names today.

But really, this is about a sea change. **What was once novel will become the standard—a must-have for any serious player in the market.** And those with deeper expertise, a proven track record and the foundation for further innovation, will reap the benefit of the revolution, increasing the consumption of alternatives.

Contact Us

Would you like to see a demo of the iownit platform's features & benefits, including Advisor Dashboards, E-subscription documents, and custom client onboarding?

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About iownit or iownit capital & markets inc

Our purpose is to unblock the potential and possibilities of the alternative investment marketplace for investors through innovation, technology, and market expertise. Driven by our vision to create a modern financial operating infrastructure & marketplace for investing in alternatives, our user-friendly blockchain-based technology solutions have been designed to bring about true digital transformation for our clients. Our customizable and turnkey technology solutions enable broadened access and facilitate greater investor participation by allowing asset managers, custodians, transfer agents, RIA's, broker-dealers and investors to participate in the alternative investment marketplace with ease, securely & efficiently while staying compliant.

About IOICM

IOI Capital & Markets (IOICM), SEC-registered ATS and FINRA member broker-dealer. Our purpose is to unblock the potential and possibilities of the alternative investment marketplace for investors through innovation, technology, and market expertise. iownit, IOICM's affiliate, delivers user-friendly blockchain-based technology solutions to enable broadened access and facilitate greater investor participation. We partner with asset managers, custodians, transfer agents, RIA's, broker-dealers who support investors with products & services in alternatives.

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