



Prospectus | AVCF

# **Avareum**

# **Cash Flow Fund**



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## Investment Objective

The Avareum Cash Flow Fund's goal seeks to provide a cash flow generated to an investor suitable for the bear market.

## Fees and Expenses

This table describes the fees and expenses that you may pay if you buy, hold or sell shares of the Fund. Investors may pay other fees, such as gas fees.

**Fund Operating Expenses (Expenses that you pay as a percentage of the value of your investment)**

|                              |      |
|------------------------------|------|
| Management fee <sup>1</sup>  | 2%   |
| Performance fee <sup>2</sup> | 10%  |
| Front-end fee <sup>3</sup>   | 3%   |
| Other fee <sup>4</sup>       | 0.5% |

- (1) **"Management Fees"** are charges 2% annually from the investment.
- (2) **"Performance Fees"** are charges that are taken if a fund's investment return is better than a specified level or benchmark. Avareum charges 10% from the investment profit by using High-Water Mark<sup>5</sup> to indicate the measurement position.
- (3) **"Front-end Fee"** are charges 3% from the initial deposit when purchasing shares.
- (4) **"Other Expenses"** are estimates based on the expenses the Fund expects to incur per subscription and redemption, for example, gas fee.
- (5) **"High-Water Mark"** is the highest peak in value that an investment fund or account has reached.

## Performance fee calculation

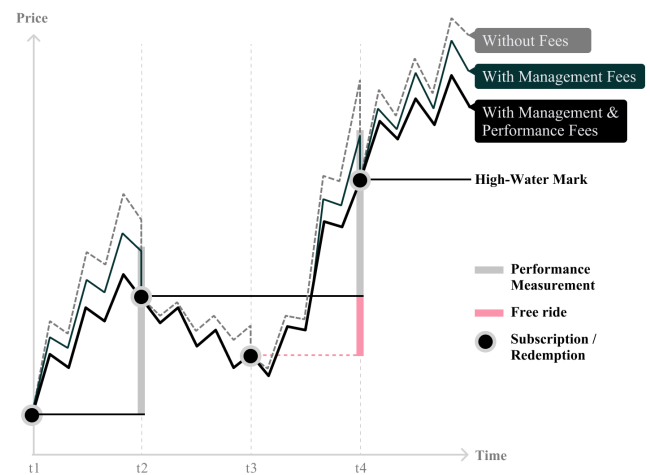


Figure 1: This chart illustrates the fund performance with and without fees, where t1, t2, t3, and t4 mark the points of subscription and redemption.

**t1** is the starting point where your money starts to invest in the protocol.

**t2** is the time your investment starts to gain some profit. We will calculate performance fees based on the increasing capital gain.

**t3** is the period where your investment losses in equity compared to t2. You don't have to pay for the performance fees which means a free ride.

**t4** is where your investment earns the highest profit. We will calculate the performance fees based on the High-Water Mark. Therefore, we will calculate the investment profit compared between t2 and t4.

## Calculation example

This example is intended to help you compare the cost of investing in the Fund. This example assumes that you invest \$100,000 in the Fund for the time periods indicated and then sell all of your Shares at the end of those periods. The example also assumes that your investment has a 20% return compounded each year and that the Fund's operating expenses remain at current levels.

Although your actual costs may be higher or lower, your costs, based on these assumptions, would be:



|                 |                 |
|-----------------|-----------------|
| Initial Deposit | \$100,000       |
| Front-End Fee   | \$3,000         |
| <b>Invest</b>   | <b>\$97,000</b> |

|                                      | 1 Year       | 3 Years      |
|--------------------------------------|--------------|--------------|
| No fees                              | \$118,280.94 | \$175,873.65 |
| With Management fees                 | \$115,915.32 | \$165,530.87 |
| With Management and Performance fees | \$114,023.78 | \$157,558.88 |

## Expected Return

The return of the Fund is estimated for 15-30% per year that comes from;

1. **Cash Flow** from option premium.
2. **Capital Gain** from selling crypto higher than buy-in price.

## Principal Investment Strategies

The Avareum Cash Flow Fund is a diversified portfolio that primarily invests in crypto options chosen for their fundamental properties. The fund may make any size investment in crypto options. Under typical circumstances, the fund will invest at least 70% of its assets' value in Bitcoin options. Any future adjustment to the 70 percent policy will be communicated to investors at least 30 days in advance.

During a cryptocurrency sideways or bear market, our investment adviser searches for cash flow by investing in crypto options. We examine crypto fundamentals in order to identify attractive underlying crypto for our options strategies.

Some prominent cryptocurrencies, such as Bitcoin and Ethereum, have intrinsic value and are widely regarded as intriguing alternative investments. Investors that hold these

cryptos during a sideways or bear market have a high volatility risk, asset risk, and the expectation for the asset price to rise is limited. Instead of retaining such cryptos in our portfolio, we choose to hold options positions in those cryptos with leverage but not exceeding 2x in order to receive the option premium as a cash flow for our portfolio.

## The fund's investing program is divided into two scenarios.

**First**, the cash position phase, when the crypto market is uncertain and the underlying crypto is not undervalued, we will sell put options to profit from our investments.

**Second**, the crypto position phase, when the underlying crypto is undervalued or trading at a significant discount, we either will hold those cryptos in our portfolio and open buy and sell call options to profit from our investments.



Figure 2: Cycle of position

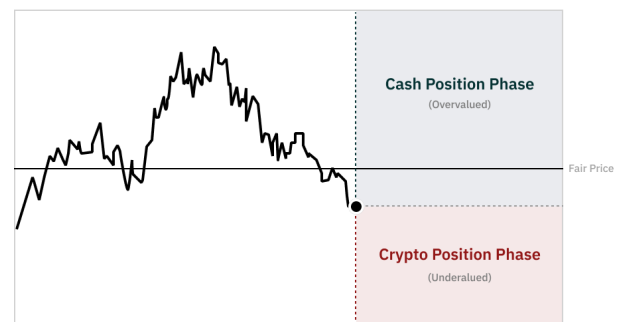


Figure 3: Position switching zone



## 1) Cash Position Phase

If the underlying crypto does not drop to a significant discount level, we will sell put options at a discount strike price and receive a premium in full. On the other hand, if the underlying crypto falls to a level defined by our investment advisor as an undervalued price level, we will exercise options and hold cryptos at that undervalued price level, transitioning our position to the crypto position phase.

### Scenarios Examples

The current market price of Bitcoin is \$21,000, and our discounted price of Bitcoin is \$15,000. For one month, we will sell Bitcoin put options with a strike price of \$15,000. If the price of Bitcoin is greater than \$15,000 at the time of expiration, the portfolio will get a monthly premium of 1.7 percent, or about 20 percent annually. If the Bitcoin price is at or lower than \$15,000 at the time of expiration, we will receive a 1.7 percent monthly premium, exercise the options, and hold the Bitcoin at a discounted price level of \$15,000 and switch to the crypto position phase.

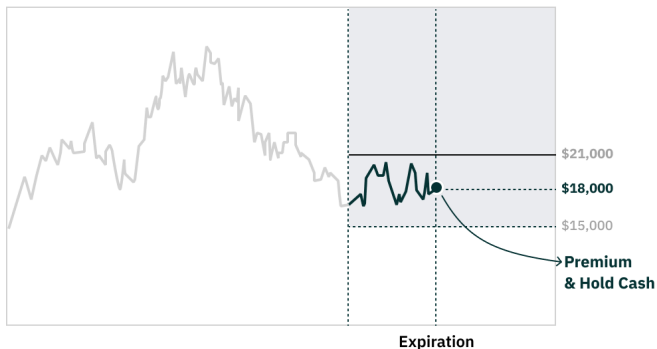


Figure 4: Short Put Position: Market price > Strike price at an expiration date

## 2) Crypto Position Phase

If the underlying crypto falls to a significant discount level, we will either hold cryptos in our portfolio with partially hedging, buy call options to achieve capital gains while limiting potential losses, or sell call options at a fair strike price to receive a premium in full. If, on the other hand, the underlying crypto price rises to a strike level, we will exercise options and sell our crypto position for cash, shifting our position to the cash position phase.

### Scenarios Examples

Bitcoin's current market price is \$13,000, while our fair price is \$17,000. We will sell Bitcoin call options with a strike price of \$17,000 for one month. If the price of Bitcoin is less than \$17,000 at the time of expiration, the portfolio will get a 1.7 percent monthly premium, or nearly 20 percent annually. If the Bitcoin price is at or above \$17,000 at the time of expiration, we will earn a monthly premium of 1.7 percent, exercise the options, sell all Bitcoin positions at \$17,000, and enter the cash position phase.

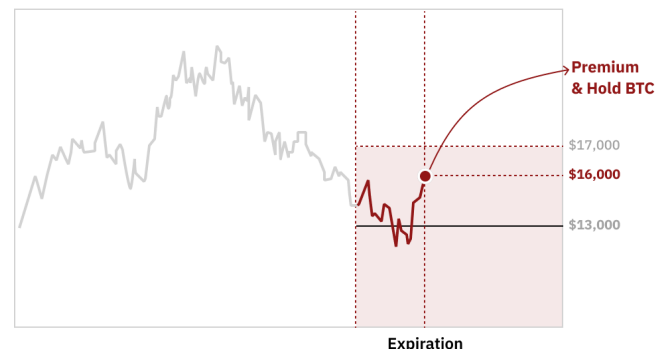


Figure 6: Short Call Position: Market price < Strike price at an expiration date

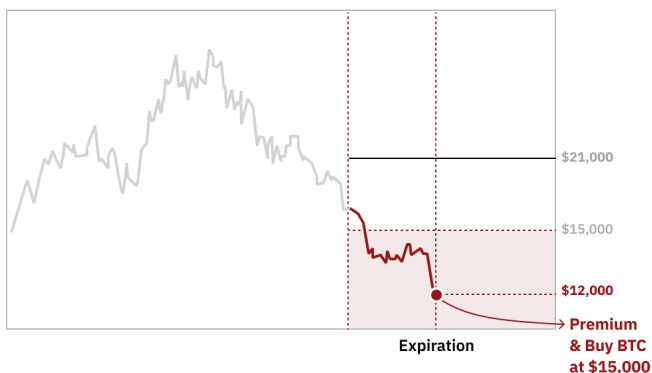


Figure 5: Sport Put Position: Market price < Strike price at an expiration date

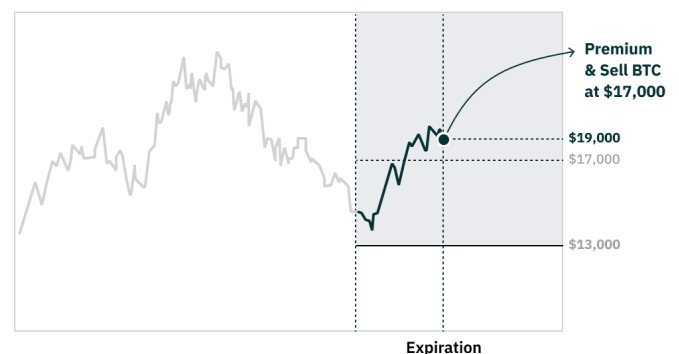


Figure 7: Short Call Position: Market price > Strike price at an expiration date



### 3) Rationale And Analysis Approaches

The Avareum Cash Flow Fund's philosophy is to produce cash flow during the crypto winter. Holding good cryptos during a bear market is a fantastic long-term investment, but in the near term, we want a portfolio return while opening the door to holding cryptos at a discount price.

The investment adviser largely adopts a fundamental investment approach in selecting assets for the Fund, emphasizing variables such as the selection of what the investment adviser believes are cryptos of high-quality projects with compelling potential for long-term capital growth. To discover appealing prospects, the basic investment approach blends "top-down" macroeconomic analysis and investment theme development with "bottom-up" crypto research. The "top-down" method often takes into account specific macroeconomic aspects in order to create a strategic framework for cryptocurrency selection and discounted price level. Global GDP levels and direction, interest rates, inflationary and deflationary dynamics, employment, fiscal and monetary policy, currency movements, credit conditions, demographic changes, and the global cryptos landscape are all key elements.

The investment adviser does a bottom-up study to identify specific cryptos with high growth potential. The investment adviser evaluates and selects cryptos based on attributes that may include, but are not limited to, market capitalization; tokenomics; real-world adoption; distribution; appealing fundamentals; excellent management team; commitment to token holders' interests; current income.

### Fund Structure

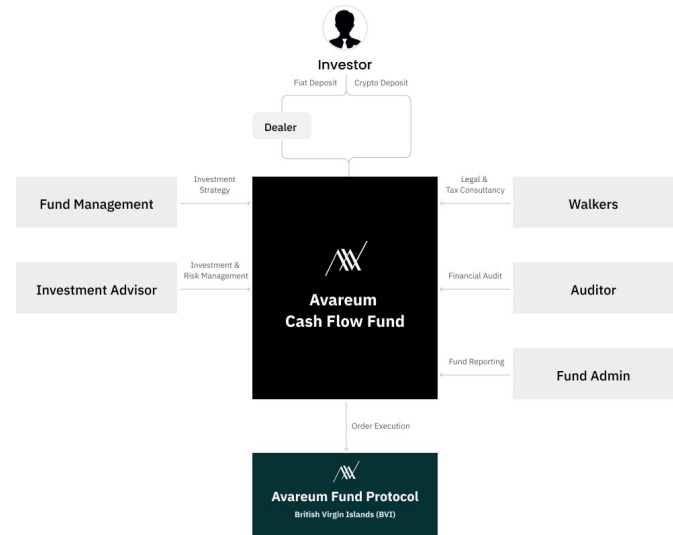


Figure 8: Fund Structure



# Performance



Figure 9: Avareum Cash Flow Fund Performance

## Fund Subscription



Figure 10: Fund Subscription

## Fund Redemption

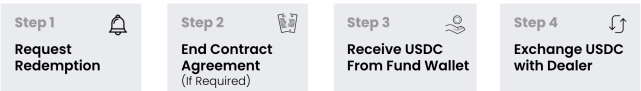


Figure 11: Fund Redemption



## Principal Investment Risks

### Risks Associated With Exchange-Rate

The proceeds of a redemption, whether its a profit or loss, will be denominated in the specified fund policy and will need to be converted back to the investor's base currency. Fluctuations in the exchange rate could adversely affect this conversion resulting in a lower than expected amount.

### Risks Associated With Market

Volatility in price of the fund components from changes in market factors such as recessions, political turmoil, changes in interest rates, natural disasters, etc. could have a material adverse effect on the value of the corresponding shares and it could lose substantially all of their value.

### Risks Associated With Counterparty

Deribit is a cryptocurrency exchange offering options, futures, and other derivatives trading for Bitcoin and Ethereum. This exchange supports most countries around the world.

Deribit offers several security features to help protect user accounts, including Cold storage keeping 99% of all crypto assets in cold storage vaults that aren't connected to the internet, Two-factor authentication allows users to enable two-factor authentication (2FA) via Google Authenticator for account login and fund withdrawal and, Withdrawal address delay: Users can set up withdrawal delays for new wallet addresses added to the account. This can help block hackers from draining your crypto balance, allowing you to cancel the withdrawal request.

Counterparty risk is referred to the risk of potential expected losses that would arise for one counterparty on account of default on or before the maturity of the derivative contract by another counterparty to such derivative contract. It is prevalent in all types of transactions when they are undertaken through a centralized counterparty or if the trades are undertaken in the over-the-counter market.

### Risks Associated With Trading Liquidity

Liquidity risk Involves risks arising from liquidity shortage in cryptocurrency spot and derivatives trading products whereby the fund is unable to sell at an appropriate time and price. Deribit can support large investment capital due to it having the biggest market share in the crypto option market with more than \$750,000 million of daily trading volume.

### Risks Associated As Options Writer

The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot affect a closing purchase transaction in order to terminate its obligation under the option and must deliver at the exercise price.

### Risks Associated With Fund Operation

Operational risk summarizes the chances and uncertainties a company faces in the course of conducting its daily business activities. It involves risks arising from inadequacy or failure of internal processes, people, and systems or from external events, including legal risk and impacts on reputation from operational risk.



## Management Team



### Niran Pravithana

Fund Manager

10+ years of expertise in the cryptocurrency and traditional financial markets as a speaker on the topics of AI, Macroeconomics, Cryptocurrency and Investment.

- Responsible for identifying fresh possibilities in the cryptocurrency market with evaluating fund strategy and overseen for Avareum and other companies under **AVA Advisory**.
- Formerly the CEO and Co-Founder of **Market Anyware**, a financial intelligence company that applies Big Data and Artificial Intelligence to investing decisions.



### Theerawat Songyot

Chief AI Scientist

8+ years of experience using natural language processing and deep reinforcement learning for asset management to develop machine learning solutions for financial businesses.

- Responsible for designing and implementing fund operation and building a connecting mechanism between fund operations and fund managers.
- Formerly Chief AI Scientist of **Market Anyware**, a financial intelligence company that applies Big Data and Artificial Intelligence to investing decisions.



### Napat Vitthayanuwat

Risk Manager

8+ years of asset management experience in the traditional financial, investing, and technology sectors.

- Responsible for discovering new coin project opportunities and providing fund strategy advice in order to maximize fund performance.
- Formerly Assistant Fund Manager at **AEC Securities**
- Formerly Senior Investment Planner at **Apple Wealth Securities**



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