

# ALTERED STATE MACHINE RESEARCH INITIATION

March 16, 2022

# UPTRENND

## Initiating Research



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Alpha Sigma Capital

**MAY 12, 2020** - Uptrennd ("1UP" or "the company") is a social media platform that looks to create a platform that puts the users first. Uptrennd is a relatively new project, but has seen strong growth in its beta phase.

### OVERVIEW

Uptrennd is a new social media platform that wants to give the power back to its users. The company has four foundational pillars which help guide its vision: Freedom of Speech, Data Security, Equality of Opportunity and Distribution of Wealth. Uptrennd promises that they will never sell user data without permission. Additionally, the company will share ~80% of all advertising revenue generated on the platform with the community of users. The platform utilizes a point system to reward users.

### POINT UTILITIES

1. **Level-Up** - The higher your level, the more points you earn per upvote. Each subsequent level earns you more points per upvote.
2. **Purchase** - Advertisement placement in the sidebar, boost posters, and promoted articles/videos
3. **The Marketplace** - Members can buy and sell goods & services with points earned on the platform. There will be a general marketplace and a personal store.
4. **Create a Community** - All users can create a community for 100 points. Communities can be public, private, or paid subscription.
5. **Cash out** - Community members can exchange your points for 1UP tokens. 1UP tokens can then be sold on a third party exchange for cash.

Users can earn points by:

Upvotes	Reposting	Contests
Daily Login Bonus	On-Site Purchase	Donations
Deposit Tokens	Referral Codes	Promoted Media

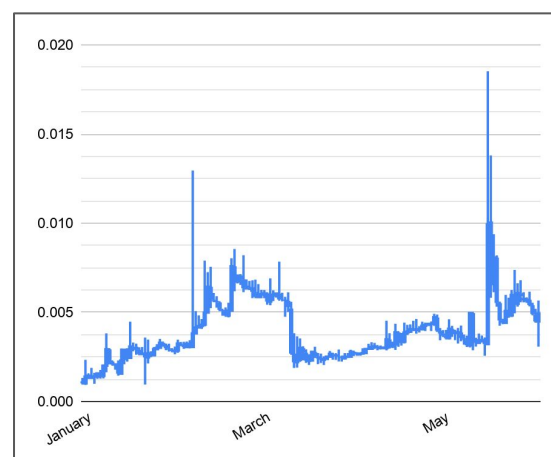
### TOKEN DATA

1UP is a utility token for use with the Uptrennd platform for boosting posts, purchasing ads, leveling up accounts, etc. Unlike many blockchain projects, Uptrennd's management decided not to have an ICO. Since there was no ICO there is no distribution chart for the tokens. Below is some basic data on the Uptrennd token (1UP):

<b>Total Token Supply</b>	998,687,526
<b>Circulating Supply</b>	83,149,706
<b>Percentage in Circulation</b>	8.32%
<b>Ticker</b>	1UP
<b>Market Cap</b>	\$256,403
<b>Token Price</b>	\$0.003543
<b>24-Hour Volume</b>	\$19,846.08

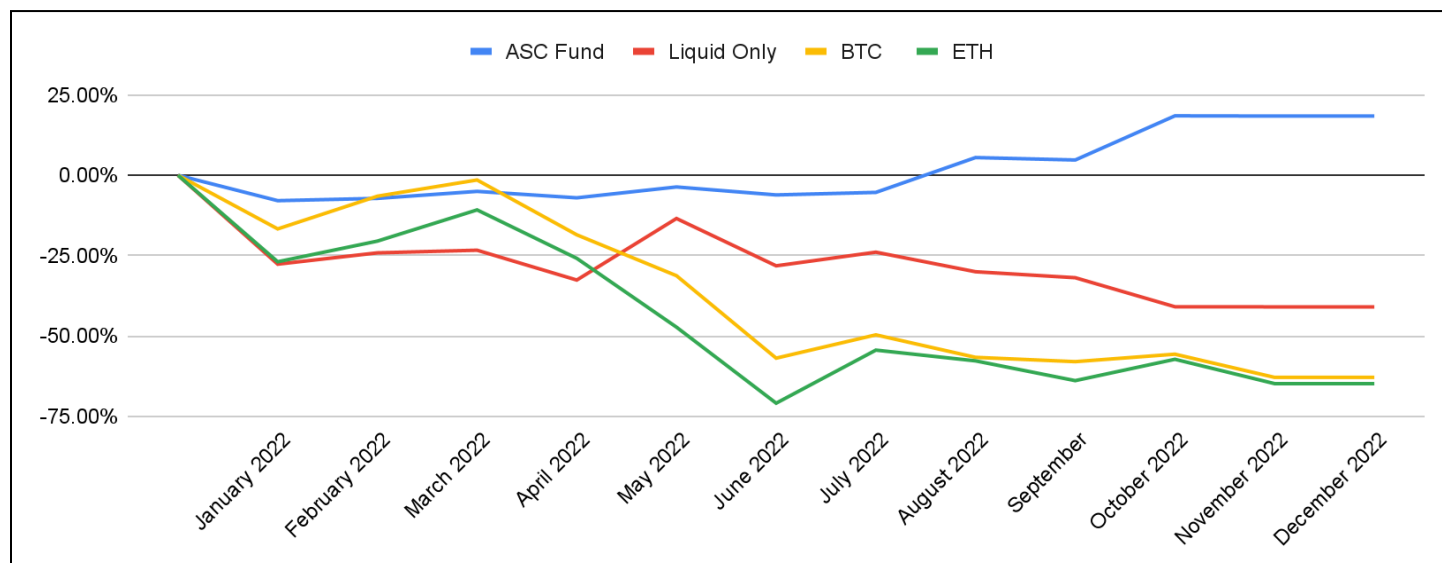
Sources: Coinmarketcap.com as of 5/12/2020

### PRICE CHART



Sources: Coinmarketcap.com as of 6/4/2020

## 2022 - A Year In Review



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	YTD
<b>ASC Fund</b>	-7.90%	0.77%	2.35%	-2.11%	3.63%	-2.57%	0.84%	11.44%	-0.72%	13.11%	-0.06%	18.42%
<b>Liquid Only</b>	-27.64%	4.86%	1.08%	-12.09%	28.38%	-17.00%	5.91%	-8.07%	-5.58%	-13.25%	-0.06%	-40.88%
<b>BTC</b>	-16.68%	12.21%	5.39%	-17.30%	-15.60%	-37.28%	16.80%	-13.88%	-3.09%	5.53%	-16.26%	-62.84%
<b>ETH</b>	-26.89%	8.78%	12.20%	-16.88%	-28.84%	-44.79%	56.62%	-7.33%	-14.53%	18.37%	-17.70%	-64.79%

To Our Limited Partners,

Alpha Sigma Capital ("ASC") strongly believes that blockchain technology holds amazing promise to meaningfully change society in a positive and more equitable fashion. Although in its nascent stages, it has seemed to garner largely negative attention from the media, traditional finance, and regulators. One would be hard pressed to find someone not a little bruised and bloodied following the price action of this year; the cries of detractors about fraud and the death of blockchain are emboldened, but the stories of its untimely demise have been greatly exaggerated.

From the first week of January 2022 the chaos began, ultimately culminating in the downfall of FTX and the subsequent arrest of Sam Bankman-Fried ("SBF") on December 12, 2022; what a poignant end to a volatile year. The mind blowing amount of fraud, poor-decision-making, and macro headwinds lead to one of the most unfortunate wealth destructions in recent history, with approximately \$1.3 trillion wiped from the digital asset market capitalization since the beginning of the year. As the Federal Reserve ("Fed") began raising interest rates and market narratives dried up, the bull run that started in 2020 from the COVID-19 economic crash seemed to have come to a screeching halt.

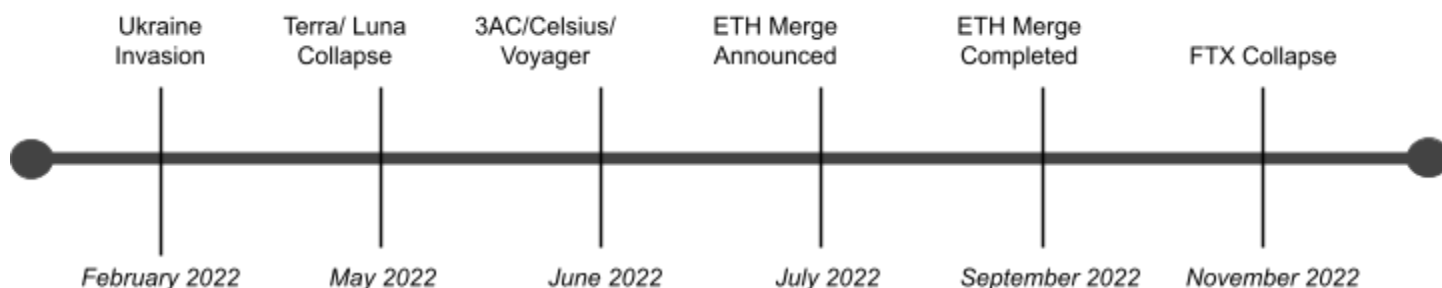
This was a tough year for believers in digital assets, but Alpha Sigma Capital was able to stick to a disciplined and thoughtful approach to managing the portfolio, which allowed us to far outperform ETH and BTC benchmarks. We see ourselves as pragmatic contrarians who are simply executing arbitrage upon the opinions and opportunities created by market participants.

This year, the digital asset sector and its participants endured a plethora of systematic risk. Excess leverage, counterparty risk and failure, and the widespread contagion were all merely prominent factors in the backdrop of a rising-rate environment, following a decade-long period of zero-interest rate policies.

A confluence of fraud, excess leverage, and macro headwinds helped propel 2022 into the history books as one of the worst years for the digital asset space. Industry heroes are now villains as the emperors revealed they had no clothes. Market participants were left reeling financially, tending to bruised egos in the face of the realization that Sam Bankman-Fried and his FTX empire is and was a complete fraud. This is a story as old as the tale of Icarus, played out again and again, when individuals with no morals or ethics see opportunities within nascent and often misunderstood or poorly regulated markets and take advantage of them at the expense of others.

Having extensive experience in traditional financial markets and a background in derivatives, our team at ASC has always felt that risk-management was imperative to our fund. A mentor of one of our team member's used to opine about how the gains will take care of themselves if you have an edge and can properly manage risk. Risk-management is paramount; and although raging bull markets can cause an inclination to relax these policies, we held strident and true. Regardless of our beliefs about the success of certain companies and business models, we actively managed our risk exposure on the liquid side; price action is truth. We also saw that most "tokens" might go the way of the dodo bird, or at least become the equivalent of Starbucks points. The team also focused on investing in private equity including equity in companies planning to go public. Although the IPO market wasn't robust in 2022, the idea was that "blockchain is here to stay", and digital assets will most likely move to become a security, commodity, or maintain utility status. We needed to use prudent risk management while still staying true to the blockchain economy thesis. Price is a data reflection of market participants' emotions and sentiment. We could see a chasm was to hit and took precautionary moves to weather the storm. As famed investor Jesse Livermore once quipped, "markets are never wrong; opinions are." ASC has abided by and adhered to this notion in our investment approach.

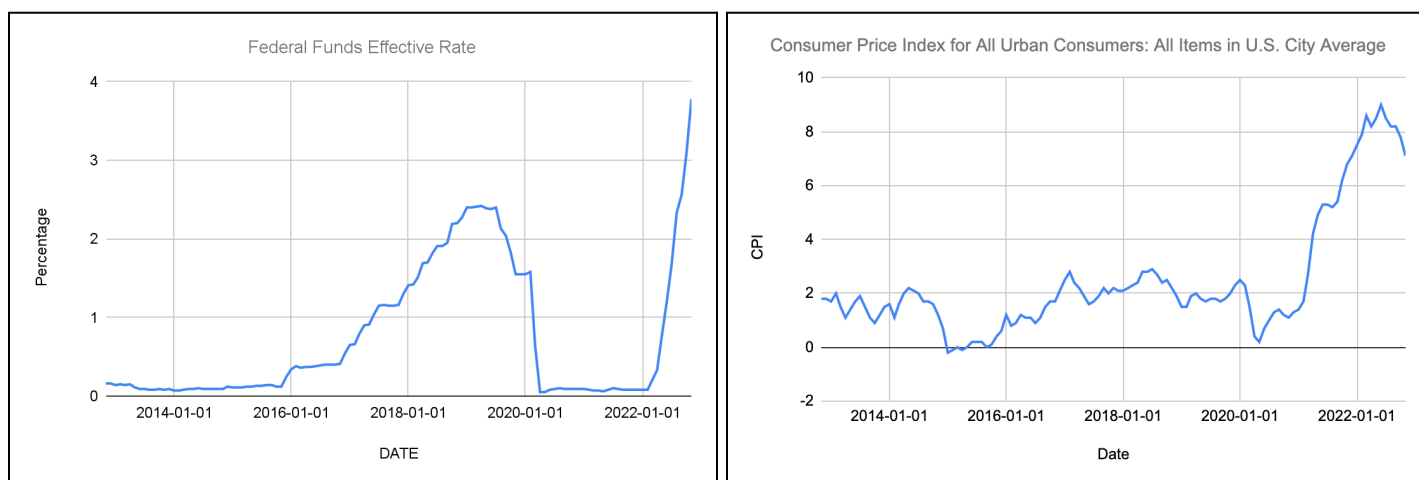
### 2022 Event Highlights



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The year started off volatile with Bitcoin (“BTC”) declining -16.70% and Ethereum (“ETH”) falling -26.95%; but, there were signs brewing prior to January 1st. Cryptocurrency markets had seemed to run out of steam as narratives dried up and liquidity had peaked. Many analysts saw the new year as a catalyst to reinvigorate the market, but they were rudely awoken by a sell-off in the first week of 2022. Although market participants were jolted by the first month of the year’s price action, they were not deterred and many began crowding around the same ideas in search of alpha. William Faulkner once said that “in writing, you must kill all your darlings;” we find this to be quite an apt saying that would fit the events that unfolded throughout 2022.

Although Alpha Sigma Capital is primarily focused on the digital asset space, the broad macroeconomic picture came to the forefront this year. In its fight against inflation, the Federal Reserve had to end its low-interest rate policy that has been strongly in place since the 2008 financial crisis. Typically, risk assets do not fare well in a rising rate environment due to the higher cost of lending; this was only compounded further by the velocity at which the Fed raised rates. As it became clear that over a decade of easy money policy was coming to an end, volatility ticked higher in risk assets, including digital assets and cryptocurrency; investors began to fear that the Fed was moving too fast and could force the economy into a recession.



Source: USt Louis Fed - fred.stlouisfed.org - as of 12/13/2022

## Ukraine Invasion

Following a build up in tensions and what was largely believed to be saber-rattling from Putin, markets were shaken globally as Russia began its invasion of Ukraine on February 24, 2022. The side effects of this declaration of war were felt broadly and swiftly across the global macroeconomic landscape. The price of oil exploded from around \$76 at the beginning of January, to a price of over \$120 per barrel following the invasion, before coming back down. Additionally, the war has caused the largest refugee crisis in Europe since World War II. Beyond impacting immigration and roiling energy markets, there have been secondary impacts which have negatively impacted global food supply chains. Unfortunately, this has led to a grim situation for many countries dependent on those exports.

Although many of the ancillary effects of the war did not directly affect digital assets, all risk assets saw a sell-off following the initial invasion. It does not seem likely that the tension is over and it is possible that the war may intensify, brewing into a geopolitical headwind that affects asset prices globally. The war in Ukraine is just one factor that contributed to our hedging strategy throughout the remainder of the year, as there were many uncertainties surrounding the crisis.

### TRADE HIGHLIGHT - ETH Put Protection

Following the overall market narrative diminishing prior to the start of the year, in combination with the dramatic sell-off seen in January, the Portfolio Manager and Investment Committee made the decision to be hedged throughout the remainder of the year. The Portfolio manager and Investment Committee used a proprietary risk-model to determine the overall portfolio Beta to ETH and then hedged that accordingly using defined risk tools such as options. These ETH put trades helped to offset losses in alternative ("alt") coins as we exited the market over the course of the year. This strategic move allowed the fund, overall and on the liquid side, to outperform the market.

What led the team to make these investment decisions included the recognition of a palpable sense of bullish optimism. The idealistic sentiment that was noticed across conferences, discords, and individual meetings set off our contrarian sensors. For instance, at the BTC Miami conference we attended, many digital asset companies were celebrating, as if their success would never end. Furthermore, the amount of people that traveled to these conferences who weren't necessarily involved in cryptocurrency, as anything other than an individual investor, was further worrying. We also noticed that few other funds were actively hedging, and it was not a part of the discussion.

Following discussions with several of our trading partners and desks, our team realized that there was a complete blind spot in the market; our conviction on protecting the portfolio from volatility was only further strengthened. In the face of overwhelming macroeconomic headwinds, the absence of real mass-adoption, and a lack of a regulatory framework, we continued to be hedged. Although we did not know it exactly at the time, we quickly came to learn that our decision to remain sufficiently hedged was imperative and successful, validating our internal process.

### Terra Network / LUNA

Terra Network TerraUSD and the Luna Token rose to prominence during the 2022 bull run and quickly became "market darlings" before being hit by a breathtaking \$60 billion wipeout that brought digital asset markets reeling.

Although the risks that were inherent to the Terra Network and Anchor Lending protocol were not hidden, most funds calculated the risk as a tail event and ignored it completely or improperly hedged it. As a result, many funds did not survive. This was a classic example of how risk management and proper due diligence could be lost in the fever pitch of gains and FOMO.

There were several components that led to the Terra disaster. To start, the Terra Network consists of the LUNA token, which powers the Terra Blockchain. The native stablecoin of the Terra Network is TerraUSD

(UST). In an effort to incentivize the adoption of the Terra blockchain, the Anchor Protocol, which was deemed the money-market for the Terra Blockchain, seduced traders, hedge-funds, and amateurs alike, with their unsustainable yields of 20% on UST. This unsustainable yield helped to create a concentration risk on the Anchor platform.

Although the stated goal of this whole loss-leader exercise was to increase the utility and widespread adoption of the Terra ecosystem, ASC was very skeptical. We viewed the aggregated components of the Terra ecosystem as concerning, and adjusted our sentiment on the surrounding market. Our apprehension was appropriate; prior to the collapse, it was easy to see that an extreme concentration of 75% of the entire UST supply was locked in the Anchor Protocol (approximately \$14 billion at the time). When the peg of UST and USD broke, the algorithmic stablecoin induced, what has been dubbed, a “death spiral” and the asset cratered more than 99%. The collapse of Terra and its sister token wiped out almost an estimated half-a-trillion USD from the cryptocurrency markets and shook the industry, causing cascading widespread failures within the system that continue to reverberate through the industry today.

#### **TRADE HIGHLIGHT - Altered State Machine FPOF**

One of the best trades we made this year involved our Altered State Machine (ASTO) position: locked ASTO tokens. In May, following the collapse of Terra/Luna, although we had done extremely well at protecting ourselves from the calamity, we were still exposed to additional risk on the liquid side as well as through tokens that were not yet fully unlocked.

One such position was Altered State Machine tokens. These tokens were originally purchased for \$50,000 USD as part of the seed round; and, in April, when the token went live, the position was trading at around \$1.4 Million USD (prior to the Terra/Luna collapse). We felt it was imperative that we capture some of those gains. Our portfolio management team went to our various trading desks seeking a bespoke options contract.

After several refusals, one of our trading desk representatives offered the fund a structured product called a Forward-Price Offset (“FPOF”). The proposed FPOF is and was essentially a non-recourse loan denominated in ASTO that allowed us to share in any possible upside beyond certain thresholds. We evaluated the opportunity and decided to execute it, thus bringing in \$900,000 USD right away and being able to retain some of the upside if the price were to appreciate above the strike at the time of execution.

Approximately 1 week after placing the trade, the next market crisis began to rear its ugly head, solidifying the trade as an excellent decision. This was only further backed as the year progressed and the ASTO token further depreciated with the majority of alt coins. This trade netted the fund a realized gain of over 1700%.

### **3AC / Celsius / Voyager Collapse**

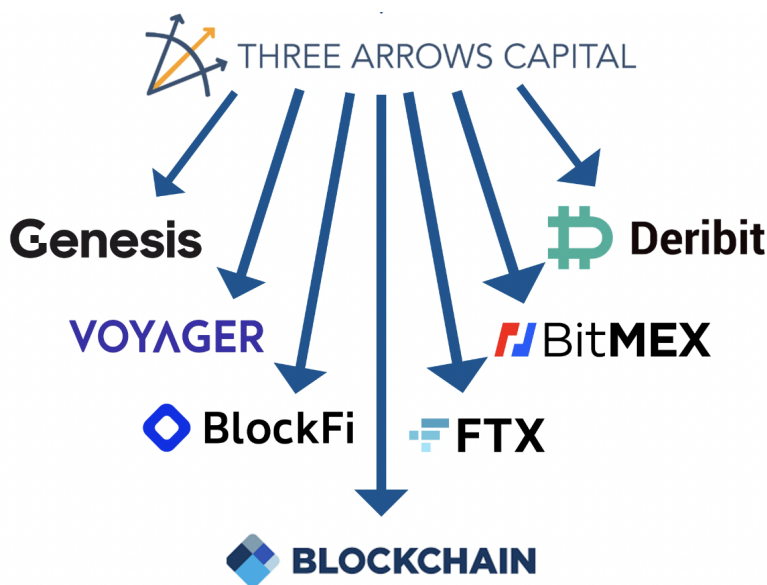
Following the collapse of the Terra ecosystem, the markets were shaken. However, after several weeks, the dust was appearing to settle when rumors about the next market implosion began to surface.

Three Arrows Capital (“3AC”) was a supposed hedge fund superstar that took down the market following a month of relative calm after the Terra collapse. Earlier in 2022 3AC had managed as much as 10 billion dollars, but what was not fully known yet was the extensive interconnectedness of counterparties within the crypto industry. 3AC had taken loans out from every desk and fund in town, in turn using that money to invest in risky projects, including the Terra Ecosystem (LUNA, UST).

Following the collapse of the Terra Ecosystem, their counterparties began to make margin calls which 3AC could not meet and the next credit crypto crisis began as bankruptcies and contagion began to spread throughout the market. Soon retail darlings such as Celsius and Voyager Digital would soon find themselves swept up into the crisis.

Celsius Network had positioned itself as the solution to “unbank yourself”. The company pressed the message of transparency and community; and in the end, it was neither transparent nor acting in the best interest of its community. Voyager had positioned themselves in a similar manner and were in direct competition with Celsius for yield customers.

In both cases, poor business practices and poor business models, combined with high-risk leverage use, due diligence failure, and lack of diversification led to a further market calamity. The confluence of events that started with the collapse of the Terra ecosystem spread further into both the retail and institutional side of the business, compounding the pains from a month prior, further eroding sentiment and liquidity.



Source: CNBC as of 7/12/2022

Alpha Sigma Capital had been covering Celsius Network from an investment and a research perspective since early 2020, and the fund decided to distance itself in the early summer of 2021 after assessing the risks of the company. The Q1 2021 update to our Celsius Network Research piece highlighted risks due to competitive forces stealing market share. In the face of those competitive forces, management decided to

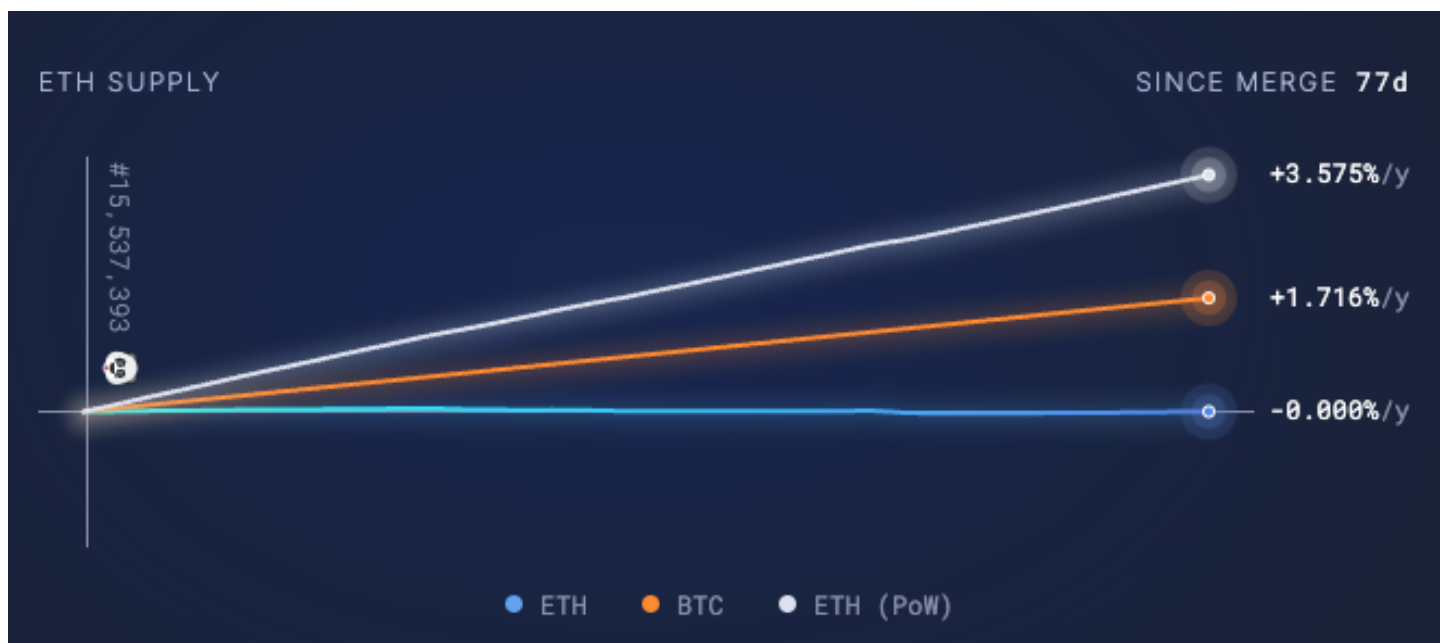
take a large amount of unnecessary risk either to maintain or attempt to grow their market share. Unfortunately, this strategy was unsuccessful.

## ETH Merge

On September 15, 2022, the Ethereum community successfully completed its transition from a proof-of-work to proof-of-stake consensus mechanism. The Merge and transition of ETH to ETH 2.0 is one of the most considerable moments in the history of cryptocurrencies. The upgrade to ETH 2.0 will permit the global decentralized system of smart contracts to revolutionize in speed, security, and reliability.

As network adoption grows on Ethereum's L1, as well as the L2s that are deploying and gaining market share such as Polygon, the overall burn rate will go further negative making ETH deflationary, which in turn should provide upward price pressure on ETH or at the very least a solid price floor.

Overall, this will be accretive to blockchain adoption because the move to ETH 2.0 brings many advantages including increased energy efficiency, increased scalability, and increased transaction speed. The market found renewed optimism when the ETH 2.0 merge was first announced in July, allowing the market to find a temporary bottom. Although we recognized the long-term positives with the transition to ETH 2.0, ASC felt that the excitement became baked-in prior to the merge and the price appreciation that it brought with it would soon fade away. As can be seen in the chart seen below, ETH is close to going deflationary following the merge, which should be a tailwind for ETH going forward.



Source: Ultrasound.money as of 12/1/2022

## FTX Fraud

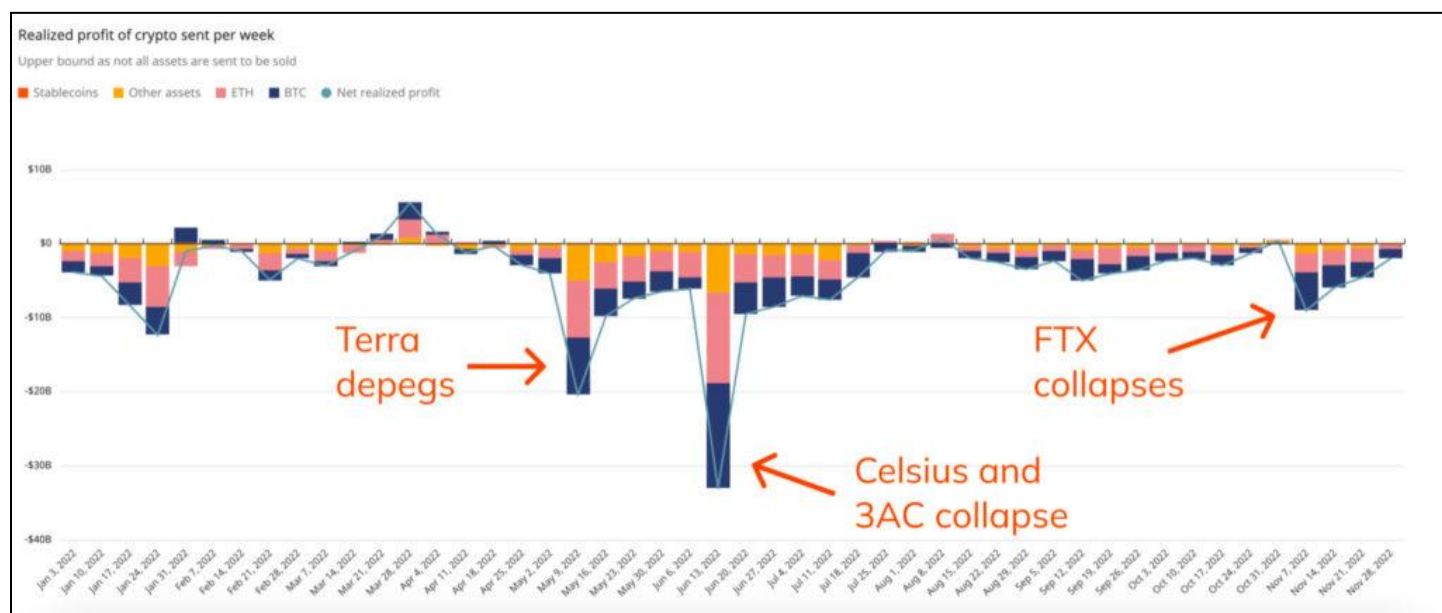
What started as a seemingly innocuous weekend twitter exchange between Binance CEO, Changpeng "CZ" Zhao and (now Former) FTX CEO Sam Bankman-Fried quickly devolved into the digital assets space's biggest crisis. The unfolding of this story and his fall from grace has been nothing short of breathtaking. The full extent of the fraud and obfuscation is not yet known, but what is clear is that there are going to be consequences in the form of harsh regulation coming in the foreseeable future. We are not here to speculate on what exactly happened at FTX because this in itself could be a 10 page research piece; however, it strains credulity to believe that there was no illegal and unethical behavior based on the news that we have seen and heard.

The fallout has left the industry in complete disarray as trust was completely lost. Market participants are now left scared and paranoid at all of their previously trusted counterparties. It is understandable and easy to assume in the face of what happened that everyone is a fraud, but we will withhold judgment, yet remain cautious.

Although we did have respect for some of these crypto Icarus characters, we did not necessarily buy all that they shoveled. Regardless of what we believed, we were disciplined in our approach to counterparty risk and were constantly examining where we had exposure. One of the most important strategies that ASC employs, is that we do not hold assets on any exchange unless actively trading. This risk-averse approach allowed us to exit the market very quickly, as our assets were held via our custodians where we are in control of the keys. We were also very particular with our use of leverage, only utilizing a small percentage of the fund's total AUM. We had succeeded in generating outsized returns since inception and protected ourselves on the downside, there was no reason to increase our risk in a market that was teetering. Alpha Sigma was offered 10x on our account holdings of ETH and BTC, and flatly turned it down. Besides the market's early signs of struggle, we recognized the volatility in digital assets combined with euphoria was seriously troubling to our contrarian DNA.

On December 12, 2022 news broke that Sam Bankman-Fried was arrested in the Bahamas at the behest of the US government. On December 13, 2022, the charges were unsealed, alleging a litany of fraud and securities violations. This process will take years to play out in the courts and the media, but it starts to give some form of closure, as the public was growing outraged as SBF walked around free.

According to chainalysis, although this may have been the proverbial straw that broke the industries back it was not the most damaging as far as realized losses from market participants. The extent of the contagion is not yet fully understood and may not be realized for months to come. Ancillary effects including, lack of trust, credibility, fleeing capital, and harsher regulations will be hard to necessarily quantify, but it will reverberate through the industry for several years to come. However, the industry needs to build out a more regulated infrastructure if the digital asset space is going to continue to exist and grow. This is now apparent more than ever.



Source: Chainanalysis as of 12/16/2022

## Policy / Regulatory

As we close the books for 2022 and begin to position ourselves for 2023, it is important to probe our theses; we continue to analyze how events that unfolded over the past year affect the regulatory landscape and timeline going forward. The FTX collapse has sparked a massive regulatory response and is likely to push forward regulatory changes by federal agencies and lawmakers. The United States Department of Justice and the United States Securities and Exchange Commission, among other agencies, have launched or expanded investigations into FTX; but many policymakers believe that the scrutiny surrounding FTX is only the beginning of a deeper discussion surrounding the regulatory ecosystem of the digital asset industry and its participants.

### Historic Digital Asset Regulation

Three United States Regulators, including the Commodity Futures Trading Commission (CFTC), the Financial Crimes Enforcement Network (FinCEN), and the Securities & Exchange Commission (SEC), have taken a lead in regulating the digital asset industry.

The CFTC has declared that virtual currency falls within the meaning of a commodity. Pursuant to Title 7 U.S.C § 13a-1 the CFTC has standing to seek injunctive relief and other forms of relief related to misleading advice and the fraudulent schemes and misappropriation of virtual currencies by defendants.

FinCEN has issued guidance clarifying the applicability of the regulations implemented in the Bank Secrecy Act to actors within the digital asset space. Under the Bank Secrecy Act, FinCEN requires Money Services Businesses (MSBs) to register with the agency. An MSB is a legal term used by financial regulators to describe businesses that transmit or convert money, and it encompasses more than just banks. In addressing the application of the agency's regulations to the virtual currency industry, the agency has stated that Users are not considered MSBs under FinCEN's regulations; such activity by a User does not fit within the definition of "money transmission services" under the Bank Secrecy Act. However, Exchangers

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and Administrators (excluding banks) are required to register as MSBs and are subject to FinCEN's registration, reporting, and recordkeeping requirements.

The SEC has issued limited regulatory guidance pertaining to the digital asset space. Chairman of the SEC Gary Gensler has taken the stance that the United States already has all of the laws needed to regulate the space, including 4 major federal statutes: the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. In applying the Howey framework to digital assets and digital instruments to determine whether types of digital assets constitute an investment contract for purposes of the Security Act, the SEC found that cryptocurrencies Bitcoin and Ether were not securities, but that most tokens issued in initial coin offerings (ICOs) would likely be regarded as securities. The SEC determined that DAO tokens were securities and the gift of a token would constitute a security if the seller received some form of value. Through the Munchie Order, the SEC rejected the dichotomy between security tokens and utility tokens and rejected the idea that utility tokens would always be considered non-securities. Instead, the SEC determined that the issue of whether a token would be deemed a security required an assessment of the economic realities underlying the transaction in question. The SEC has welcomed the request for no-action, interpretive, and exemptive letters from individuals or entities who are not certain whether a specific product, service, or action would constitute a violation of the federal securities law. Digital assets that are found to be securities must register with the Securities & Exchange Commission, unless an exemption is available to the individual or entity.

The Office of the Comptroller of the Currency (OCC) has also taken a stance and offered guidance on the digital asset space in its issuance of Interpretive Letters 1170, 1172, and 1174. The OCC concluded in its Interpretive Letter 1170 that providing cryptocurrency custody services is a permissible form of traditional banking activity that banks are authorized to perform via electronic means. In Interpretive Letter 1172, the OCC concluded that banks are permitted to hold deposits that serve as reserves for stablecoins that are backed on a 1:1 basis by a single fiat currency and held in hosted wallets. Lastly, Interpretive Letter 1174 concluded that banks may buy, sell, and issue stablecoins to facilitate payments. The interpretive letters declared that it was permissible for banks to engage in such activities, provided that they could demonstrate that such entities had controls and measures in place to conduct such activities in safe manners.

### Policy & Regulation: Looking Ahead

The digital asset industry and its United States regulators can be said to have been in a cold war for the last several years. Copious new cryptocurrencies and digital asset-related projects have launched and the United States agencies culpable have attempted to keep up. What is problematic is that regulators have had no view into many of the major digital asset projects that have crumbled this year, including Celsius, Three Arrows, Luna, and, recently, FTX. The assessment of this issue, among others, carries enormous weight and has led to the demand for more clearly defined, clearly communicated regulation around the digital asset industry. What is on the regulatory horizon is far from certain and there are several theories about how United States regulators will legally approach the FTX contagion and digital asset industry overall.

Many analysts have compared the collapse of FTX to the Enron Scandal and the failure of Lehman Brothers at the peak of the 2008 financial crisis; and, many individuals are concerned or confident, depending on the stance taken, that we will see the pattern that Washington followed post Enron and the Financial Crisis of 2008, which included tighter restrictions and regulatory oversight. History seems to repeat itself, but the

implementation of tighter controls within the digital asset industry will be mixed and messy. In this wild west for regulators, many questions remain on how regulators will pursue regulating the digital asset industry, which policymakers will take the lead in policing the digital asset space, and how the industry will evolve as a consequence of regulatory influence.

Our society and the broader digital economy has been in a multiyear period of complete policy chaos due to the advance of superior technology. Whether you consider cryptocurrency, blockchain, or other forms of forefront technologies to be superior, it is evident that these technological products have surfaced without extensive utility. However, as we see more use cases deployed for these technologies, for instance in the financial services sector and the like, greater application will have a moderating effect on policy choices. But, we are not there quite yet; and, we most likely won't be there to see this effect for quite some time.

In this period of policy chaos, in part sparked by the FTX implosion, many United States enforcement branches are determining the most robust and strategic regulatory framework for the digital asset industry moving forward. Though many individuals question which agencies will dominate or augment control over the industry, we believe that it will likely be a coordinated effort by multiple agencies. There is plenty of capacity and ability for multiple agencies to contribute to the regulatory landscape of the digital asset industry. We can reasonably anticipate a collegial effort by United States agencies, including the SEC, CFTC, and FinCEN to accelerate the regulation of the digital asset space.

Chairman of the SEC Gary Gensler has a free hand, with a substantial amount of pressure on the courts to concur with his decision regarding regulatory policy. Since the house is so evenly distributed, it leaves open a considerable opportunity for some onerous middle ground bill to come to fruition. It is likely that we will see the passing of a stringent bill with rigorous reporting demands and registration requirements for both past and present entities involved in the digital asset space. Mr. Gensler has reiterated that nowhere else in finance do we allow a singular entity to control all aspects of a financial transaction; and, we think that he will continue to put forth this notion in legally separating functions and entities or custody from financial transaction platforms. In the case of FTX, if the assets of the platform were beyond the reach of the company, a different result would have likely ensued. Mr. Gensler has an abundance of pressure to steer the regulation of the digital asset industry and he knows that if the SEC does not emerge as a moderator that the entire reputation of the agency is at risk following the harsh downfall of FTX and consequential spread of the cryptocurrency contagion throughout the cryptocurrency and financial sectors.

As a result of regulation, the cryptocurrency industry will indubitably evolve. A possible evolutionary theory of the cryptocurrency industry involves a splintering effect as a result of rigid domestic regulation. If rigorous regulation is implemented in the United States relating to digital asset custody, transactions, and broader enveloping involvement, it is likely that we may see digital asset operation exclusively in jurisdictions outside of United States territory where such activity is more loosely permitted. We may come to see a set of digital assets or tokens that are United States "clean" or permitted and other digital assets or tokens that are not U.S. "clean" and thus permitted to be traded elsewhere. This theory of governance would come with challenges, though, including the ability to trace these assets from unregulated jurisdictions to regulated territory, among many other problems and concerns.

## Conclusion - 2023 Outlook

Walt Whitman once stated that “to die is different from what any one supposed, and luckier.” This is a sentiment which many digital asset market participants would most likely concur following the events of the past year. All is not lost, however, as opportunistic well-positioned institutions will pick up the pieces and find a path forward. This is human nature; capitalism incarneth.

The macro-economic picture became a headwind for digital asset markets in 2022. Inflation continued to slam US consumers and businesses throughout 2022, continuing a trend that began in 2021. This forced the Fed to raise the federal funds rate and risk assets, across the board, saw softening prices. This seems to be abating as we turn the corner into 2023 with the Fed acknowledging that a slow down in the pace of the raises is necessary. Many pundits still see a recession on the horizon and thus a path that requires the Fed to completely reverse course, although this may not be until 2024. As markets adjust to the new normal, the economy will begin to fade into the background as an impediment against risk asset growth.

Alpha Sigma Capital has performed exceptionally well throughout the bull and bear markets and has continued to execute our investment strategy effectively to protect and grow LP capital. Our focus in 2023 will be to continue our approach to investing and risk management, which has proved successful in bull and bear markets. Although the exact flavor is still unknown, ASC expects regulations to come to fruition and is preparing for all eventualities. With blockchain technology and the digital asset space still in their relative infancy, we will continue to seek companies delivering real world use cases and to pursue asymmetrical return opportunities for our LPs.

## 2023 Predictions:

1. Web3 infrastructure including decentralization of networks will continue. Real world use cases working currently such as decentralized cloud services that are 90% cheaper and more secure than current cloud duopolies will grow.
2. Regulations and the financial establishment will enter the markets. Many institutions have already begun, including Fidelity, Blackrock, Man Group, and JPMorgan.
  - *We are supportive of the use of blockchain technology to provide transparency in digital assets and also in all asset classes, providing a new layer of financial transparency across all markets.*
3. Security tokenization will become more prevalent. The private markets will become more liquid.
  - *Real-world assets and regulated markets such as real-estate will be first.*
4. Another crypto-company of massive size will fail. It will most likely be an exchange that fails, possibly through a concentrated effort to clean up the industry by regulators and governments across the world.
  - *We will continue to measure counterparty risk and adhere to our strict risk management policies.*
5. DeFi platforms with delegated nodes and KYC will flourish. Financial products, small business lending, financing, AI, Insurance and supply chain industries will start to utilize DeFi technology to create ecosystems for transactions, tracking and reporting.

- *Origintrail, Goldfinch, and others are holdings and we are continuing to develop this strategy.*
- 6. NFTs will become utility and gaming focused. The use case for NFTs in tokenized gaming systems will see web 2.0 gaming companies adopt the technology.
  - *Breshna, Splinterlands, Xset, Clarity Games, and Wire Network are examples of ASC portfolio companies building the infrastructure to support this trend.*
- 7. Web 2.5 will be the way to mass adoption. A digital identity / wallet with username and password credentials and encrypted entitlement will become the stepping stone for private and custody digital wallets that replace centralized platforms and co-mingling of capital (i.e. solution to FTX, Celsius, and Voyager losing customer funds).
  - *Wire Network has developed and executed on this already.*
- 8. Blockchain and Web3 companies will go public in order to maintain transparency and gain access to the public markets.
  - *We have exposure through NYIAX, Gryphon Digital Mining, and Vemanti Group.*
- 9. Bitcoin will increase in value.
- 10. Wallets and use cases for Web3 will continue to increase inline with Internet adoption rates of the 1990s.

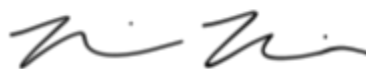
We see blockchain technology continually evolving. ASC sees that a middle of the road approach not necessarily the utopia dreamed of in the Bitcoin white paper and not the centralized model we live in now but a transitional period - is more applicable. This falls in line with the realistic expectations Alpha Sigma Capital has used to approach the markets since inception. Blockchain and Web3 technology remains at the core of our investment thesis and the events of this year bore fruit for our pragmatic multi-asset, multi-strategy approach to digital asset investing.

**Thank you,**

**The Alpha Sigma Capital Team**



Enzo Villani



Nick Birnbaum



Wes Levitt, CFA



Jason Giesler



Sandra Ditore



Jordana Cohen



Steve Kanaval

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## Appendix 1

### Private Portfolio Company Overview

Company	Sector	Website	Type
ASM	Gaming/Entertainment	<a href="https://www.alteredstatemachine.xyz/">https://www.alteredstatemachine.xyz/</a>	Private Sale/Seed (Token)
BMAQ	Infrastructure	<a href="http://www.bmacgroup.io">www.bmacgroup.io</a>	Sponsor Shares
Breshna	Gaming/Entertainment	<a href="https://breshna.io/">https://breshna.io/</a>	Seed Equity / Token Private Sale
Decentraland	Gaming/Entertainment	<a href="https://decentraland.org/">https://decentraland.org/</a>	NFT Land Deed (Token)
Defy Trends	Infrastructure	<a href="https://www.defytrends.io/">https://www.defytrends.io/</a>	Private Sale/Seed (Token)
DLTX	Infrastructure	<a href="https://www.dltx.com/">https://www.dltx.com/</a>	Promissory Note (Token/Interest)
Emirex	Finance	<a href="https://emirex.com/">https://emirex.com/</a>	Private Sale (Token) / SAFE (Equity)
Gryphon	Infrastructure	<a href="https://gryphondigitalmining.com/">https://gryphondigitalmining.com/</a>	Convertible Unsecured Debentures and Warrants
Inferno	Gaming/Entertainment	<a href="https://www.infernoverse.com/">https://www.infernoverse.com/</a>	Private Sale/Seed (Token)
JAG Industrial	Infrastructure	<a href="http://www.jagindustrials.com">www.jagindustrials.com</a>	Equipment Financing Agreement
Montis	Finance	<a href="https://www.montis.digital/about">https://www.montis.digital/about</a>	SAFE (Equity)
NYIAX	Infrastructure	<a href="https://www.nyiax.com/">https://www.nyiax.com/</a>	Convertible Notes (Equity)
OriginTrail	Infrastructure	<a href="https://origintrail.io/">https://origintrail.io/</a>	Purchase Agreement (Token) / Convertible Note (Equity)
Perk	Infrastructure	<a href="https://perkprotocol.com/">https://perkprotocol.com/</a>	Private Sale/Seed (Token)
Rainmaker	Gaming/Entertainment	<a href="https://rainmaker.com/">https://rainmaker.com/</a>	Private Sale/Seed (Token)
Rair Technologies	Infrastructure	<a href="http://rair.tech/">http://rair.tech/</a>	Private Sale/Seed (Token)
Secure Digital	Finance	<a href="https://sdm.co/">https://sdm.co/</a>	Stock Purchase Agreement. Class "A" Common (Equity)
Splinterlands	Gaming	<a href="https://splinterlands.com/">https://splinterlands.com/</a>	Private Sale/Seed (Token)
Path Crypto	Finance	<a href="https://www.pathcrypto.com/">https://www.pathcrypto.com/</a>	Series A (Equity) + Preferred Series A (Equity)
Venkman Holdings	Gaming/Entertainment	<a href="https://www.venkmanholdings.com/">https://www.venkmanholdings.com/</a>	SAFE (Equity)
Vemanti	Finance	<a href="https://www.vemanti.com/">https://www.vemanti.com/</a>	PIPE (Public Equity)
Voltage	Finance	<a href="https://voltage.finance/">https://voltage.finance/</a>	Private Sale/Seed (Token)
Wire	Infrastructure	<a href="https://wire.network/">https://wire.network/</a>	Private Sale/Seed (Token)
Xset	Gaming/Entertainment	<a href="https://xset.com/">https://xset.com/</a>	Series A (Equity)

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## **DISCLOSURE**

### **PLEASE READ THE PRIVATE PLACEMENT MEMORANDUM FOR RISKS AND DISCLOSURES**

This letter and research is for informational use only. This is not investment advice. Other than disclosures relating to Alpha Sigma Capital this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates, and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate.

Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. The price of crypto assets may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur, fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, company white paper, pitchbook and any other sources. While Alpha Sigma Capital has obtained data, statistics and information from sources it believes to be reliable, Alpha Sigma Capital does not perform an audit or seek independent verification of any of the data, statistics, and information it receives.

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Crypto and/or digital currencies involve substantial risk, are speculative in nature and may not perform as expected. Many digital currency platforms are not subject to regulatory supervision, unlike regulated exchanges. Some platforms may commingle customer assets in shared accounts and provide inadequate custody, which may affect whether or how investors can withdraw their currency and/or subject them to money laundering. Digital currencies may be vulnerable to hacks and cyber fraud as well as significant volatility and price swings.

## VALUATION

Although there is not a large amount of publicly available information on small blockchain projects to create traditional valuation models, there are several metrics to value Uptrennd on including CPM (cost per thousand impressions), and value/user.

The current price of the Uptrennd token (IUP) as of writing is \$0.003453, therefore on Uptrennd you can purchase 1,000 views for \$0.3453 which equates to a CPM of \$0.3453. Looking at comparative CPM Google is the only one close at \$2.85 while Twitter, Instagram and Facebook are significantly higher<sup>1</sup>. This means that on a comparative analysis of CPMs, Uptrennd's token could be between \$0.028 and \$0.09 or approximately 7x-25x higher than current prices listed above (\$0.003453).

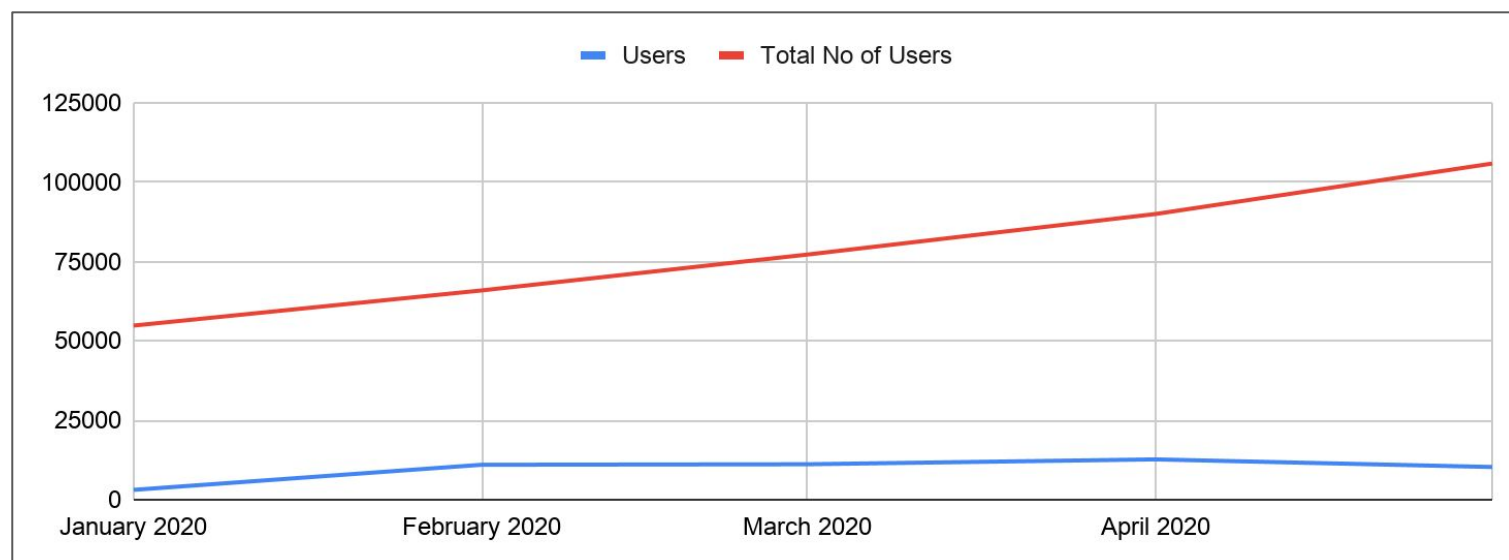
	Uptrennd	Google	Twitter	Instagram	Facebook
<b>CPM (Cost per 1000 Impressions)</b>	\$0.3453	\$2.85	\$5.76	\$6.70	\$9.10
<b>Percentage Above Uptrennd Cost</b>	N/A	725.37%	1568.11%	1840.34%	2535.39%

Sources: Uptrennd, Coinmarketcap.com, smallbusiness.chron.com

We used a second variable in our valuation analysis that determines enterprise value based on a Value Per User basis. When reviewing the c number of current Uptrennd users (105,345) divided by the market capitalization of the company the valuation is approximately ~\$2.56 per user. This is relatively low compared to other social networks, whereas Facebook's value per user is approximately \$158 based on an equity market capitalization divided by the number of users on the platform. We understand that tokens are not equity, but based on the advertising model and tokenomics of Uptrend, there is a similar correlation between CPM pricing and the equity value per user calculation. In any case, there is a large discrepancy between the valuation in both circumstances.

Below is a chart of the monthly user growth throughout 2020. The chart shows strong user growth, up 95.28% YTD (starting at 54,874), surpassing 100,000 users in May. Recently the company announced that in may they were on-boarding an average of 1000 new users per a day.

## MONTHLY NEW USER GROWTH



Source: Uptrennd.com

Faris, Stephanie. 2019. *What is a typical CPM?* retrieved from <https://smallbusiness.chron.com/typical-cpm-74763.html>

It is important to note that currently Uptrennd is a web 2.0 platform. Management wrote in their white paper that, “after Uptrennd builds a strong user base and sustainability, a large upgrade to be a fully decentralized and on-chain platform will occur”. While this transition occurs Uptrennd will also transfer from a central storage to a decentralized IPFS storage system for video, data, and media.

## COMPETITION

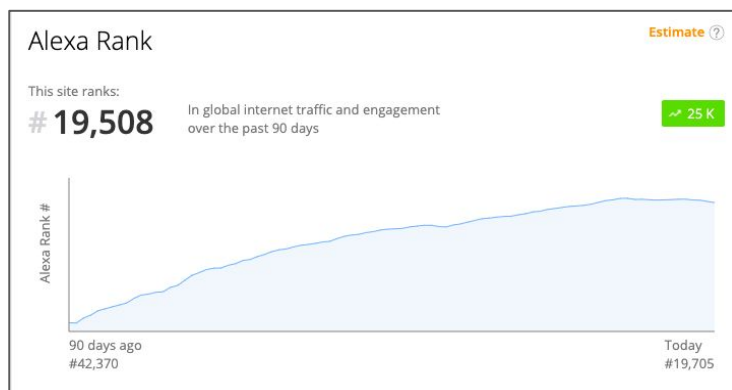
Uptrennd is not the first social media platform to utilize blockchain technology. Steemit, the most well known social media platform project in the blockchain space had a big head start prior to the drama that unfolded in 2020 which resulted in the creation of HIVE. Below is a comparison of a few competitors:

	Uptrennd	Steemit	Hive	Sociall	Sapien
<b>Market Cap</b>	\$256,403	\$62,431,826	\$93,420,522	\$133,255	\$374,858
<b>Symbol</b>	1UP	STEEM	HIVE	SCL	SPN
<b>CMC Rank</b>	#1236	#81	#63	#1118	#1394
<b>Founded</b>	2019	2016	2020	2017	2016
<b>Country</b>	Canada	United States	United States	Australia	United States
<b>Alexa Global Rank</b>	19,508	19,166	125,666	400,373	120,352
<b>Avg Time on Site</b>	18:51	2:45	1:31	3:20	4:30
<b>Page views/visitor</b>	21	2.2	2.1	5.2	4.1

Source: Uptrennd.com, Coinmarketcap.com, Alexa Web Data

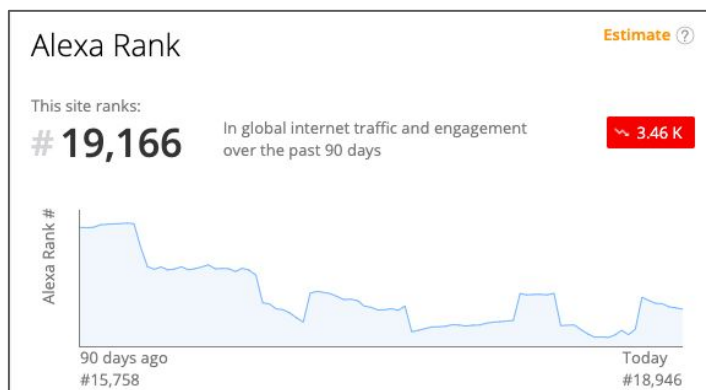
Taking a look at Alexa Web data, it is clear from the trends below that Uptrennd has been moving in the right direction while former blockchain social leader Steem is trending downwards. Uptrennd offers users a unique value proposition and the internet trend data reflects that.

### Uptrennd



Source: Alexa Web Data

### Steemit



Based upon the Alexa trends and their rate in user grow, if the company can maintain this level of growth and popularity through the end of the year the platform will boast well over 1 million users. This will be a substantial boost to the revenue generated by the company from advertisements and paid posts.

## TOKENOMICS

On January 1st, 2019, the circulating Uptrennd (1UP) token supply at launch was less than 1.5 million tokens. The tokens are brought into the circulating supply when a user exchanges points earned on Uptrennd into 1UP tokens. The company is taking steps to limit the circulating supply of tokens. The company plans on using 80% of advertising revenue to buy back tokens from third party exchanges. Uptrennd also uses points within their platform for users to level up, promote a post, or spend in the marketplace. These point utilities will also reduce the amount of tokens generated.

As previously mentioned, Uptrennd is currently a web 2.0 platform. When the company makes the transition to an on-chain platform any tokens not in circulating supply will be burnt. Following the burning 1UP tokens will be mined or generated.

The company has also committed to make the 1UP token a deflationary token. Similar to bitcoin, Uptrennd will have a halving event every time 100 million tokens are sold. When the halving occurs it becomes twice as difficult to earn 1UP tokens. The halving helps to increase scarcity and slow down the generation of tokens. Currently, there are over 900 million tokens in cold-storage, and less than 100 million tokens in the circulating supply. This means 1 upvote = 1 token. The company anticipates to cross 100 million within the next two weeks. Once there is 100 million in circulating supply, the power of one upvote will drop from 1 to 0.45. Below is a table showing the breakdown of this concept:

Cold Storage	Circulating Supply											
		0	100	200	300	400	500	600	700	800	900	990
	1000	1.000										
	900	0.900	0.45									
	800	0.800	0.40	0.267								
	700	0.700	0.35	0.233	0.175							
	600	0.600	0.300	0.200	0.150	0.120						
	500	0.500	0.300	0.167	0.125	0.100	0.083					
	400	0.400	0.250	0.133	0.100	0.080	0.067	0.057				
	300	0.300	0.150	0.100	0.075	0.060	0.050	0.043	0.038			
	200	0.200	0.100	0.067	0.050	0.040	0.033	0.029	0.025	0.022		
	100	0.100	0.050	0.033	0.025	0.020	0.017	0.014	0.013	0.011	0.010	
	10	0.010	0.005	0.003	0.003	0.002	0.002	0.001	0.001	0.001	0.001	0.001

Source: Uptrennd.com

## TEAM

Uptrennd is led by CEO and Founder Jeff Kideikis. Jeff has successfully created some of the largest crypto communities and in the world. He is the founder of "Cryptocurrency Investing", which is largely regarded as the best crypto facebook crypto group in the world, runs "The Bitcoin and Crypto Podcast", a top-10 global crypto podcast, and works on "The Crypto App", which has over one million downloads.

Uptrennd is an incubated program of Mousebelt Accelerator, the only full-service blockchain accelerator in the world and has the team of Block5 as advisors. Uptrennd has a team of 11 full time employees and a total of 80 people working to advance the project forward through 3-5 hours of daily volunteerism.

## **OPPORTUNITIES**

There are many opportunities for Uptrennd to expand and continue to grow its user base. The company is currently on a web 2.0 platform, moving to a decentralized platform will boost the company's profile. Additionally, the recent fight over Steem with TRON founder Justin Sun provides an opportunity for a new platform to step up and away from the ongoing battle. The company also has the opportunity to build a DAO similar to Hive. Lastly, the company says its nearing completion of a mobile app which could increase users and user retention.

## **RISKS**

Uptrennd is still currently in its beta phase, and although the token has functions the platform itself is still currently a web 2.0 application. There may be issues when changing over to a blockchain based application in the future. Competition is another risk that should be mentioned. Although the company has had a strong start in terms of user growth, it will need to continue to grow and improve the platform in order to keep up with competitors. The company is also at risk of cyber attacks which could expose user data or cause a loss of crypto assets.

## **CONCLUSION**

Taking into consideration everything discussed above, Uptrennd is a very interesting blockchain project that presents several very interesting opportunities:

- CPM valuation shows room for growth
- Passionate management team
- Strong user growth of 95.28% YTD
- Opportune time amidst Steem/Justin Sun hostile takeover drama
- Upcoming mobile app launch

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*The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, company white paper, pitchbook and any other sources. While Alpha Sigma Capital has obtained data, statistics and information from sources it believes to be reliable, Alpha Sigma Capital does not perform an audit or seek independent verification of any of the data, statistics, and information it receives.*

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# ALTERED STATE MACHINE

Research Initiation

Nick Birnbaum, Portfolio Manager

Abdullah Kanoo, Analyst



www.alphasigma.fund

**MARCH 16, 2022** - Altered State Machine ("ASM" or "the Company") is a blockchain technology company creating a platform for the creation and training of AI Agents with NFTs.

## OVERVIEW

In the sea of Web3 and NFT projects one may be overlooking companies such as Altered State Machine. ASM is not just another profile picture (PFP) NFT project; Altered State Machine is truly combining AI, Machine Learning (ML), and blockchain technology in new and fascinating ways.

At the most basic level, the AI Bots in ASM are called Agents. Each Agent consists of a brain, a form, and memories. We will dive more deeply into this later on, but for now it is important to understand that this model allows creative flexibility in the utilization of Agents for different use cases. It's also not compulsory for all of these attributes to be used in every use case. Beyond the gaming utilities for ASM Agents, these AI NFTs can be used in a variety of ways, including gaming applications, financial applications, virtual assistants, metaverse contributors, among others.

ASM is not merely a project but part of a larger vision and ecosystem. ASM is interconnected (by way of the founders) with the FLUF World and Party Bears NFT project, as well as Non-Fungible Labs and Centrality. The first proof-of-concept out of the ecosystem will be a play-to-earn soccer game called AIFA.

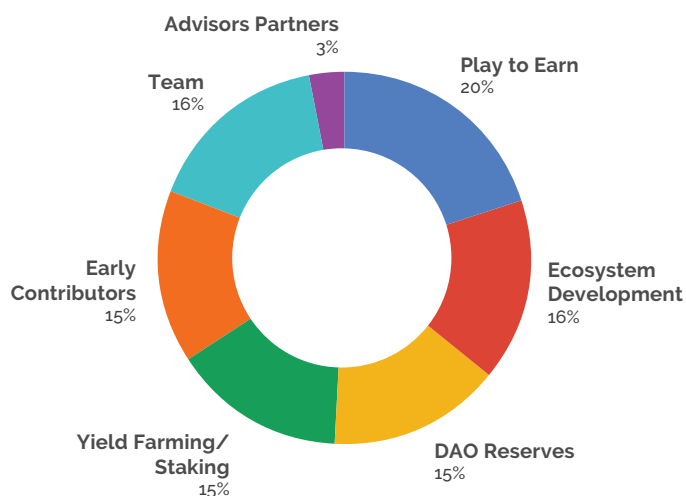
## ASM INTELLIGENCE

At the core of ASM's value proposition lies the ASM intelligence. We will briefly discuss the AI and Machine Learning aspects in this piece, but we will expand further on these elements in a subsequent research piece. ASM Brain NFTs each have a unique personality matrix, which contains the Agents "genetic code". Users can breed Brains together to create offspring that inherit elements of their matrix, passing strengths down through the generations. The memories and artwork associated with the NFTs, as well as the ML data that comprise of memories will be stored on IPFS. The ASM network ensures each Agent has ownership by making the connection between IPFS and NFTs.

Adaptability and the ability to synthetically learn will be critical for ASM bots to have a long-term relevant impact. Consequently, the developers have leveraged traditional AI and ML improvement techniques by enabling developers to set up 'gyms'; GPU powered ML training algorithms that give players' smart Agents the ability to learn and improve. A new and powerful revenue stream for developers. To successfully create a dynamic utility bot that can afford different use cases, the ASM agents use heuristic AI to replicate the brain's synapses between neurons through a

## TOKEN DATA

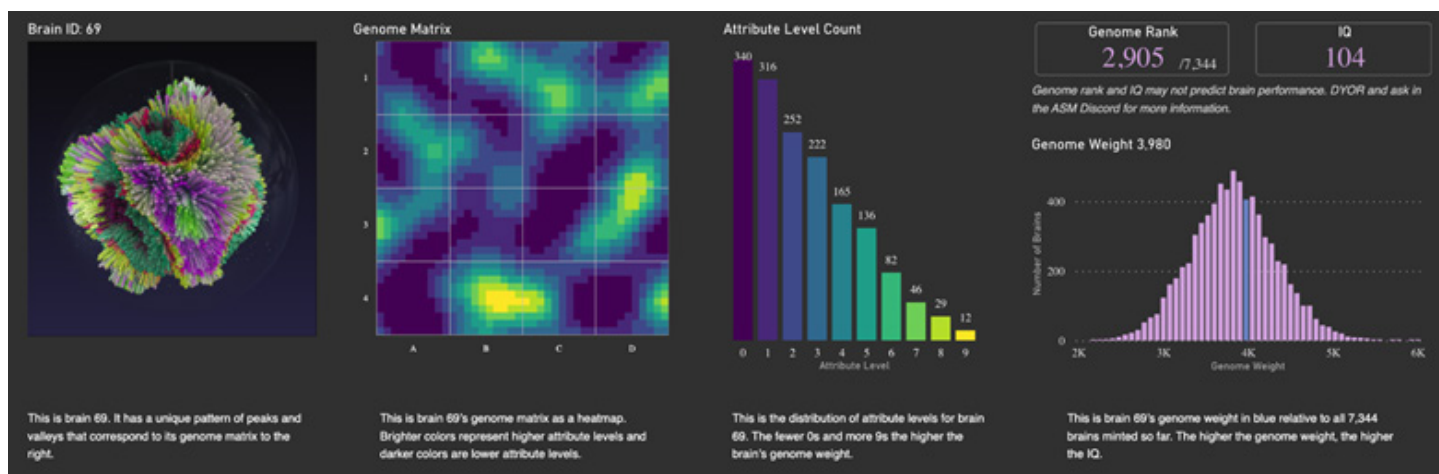
Total Token Supply	2,384,000,000
Total Circulating Supply	0
Market Cap	N/A
Token Price	N/A
24-Hour Volume	N/A
Ticker	ASTO



Sources: ASM Whitepaper as of 3/11/2022

simulation of neural networks as a mathematical formulation called backpropagation and deep learning. Each Agent has a unique neural network so specific outcomes can be differentiated based on the attributes of the Agent. Hence, the ASM Agent journey is a function of heuristics, training, and its world environment.

The ASM community is vibrant and deeply invested in the success of the project. Several members worked together to build **a great community tool for analyzing ASM Brains**. Below is a screenshot of the Alphafarm brain dashboard:



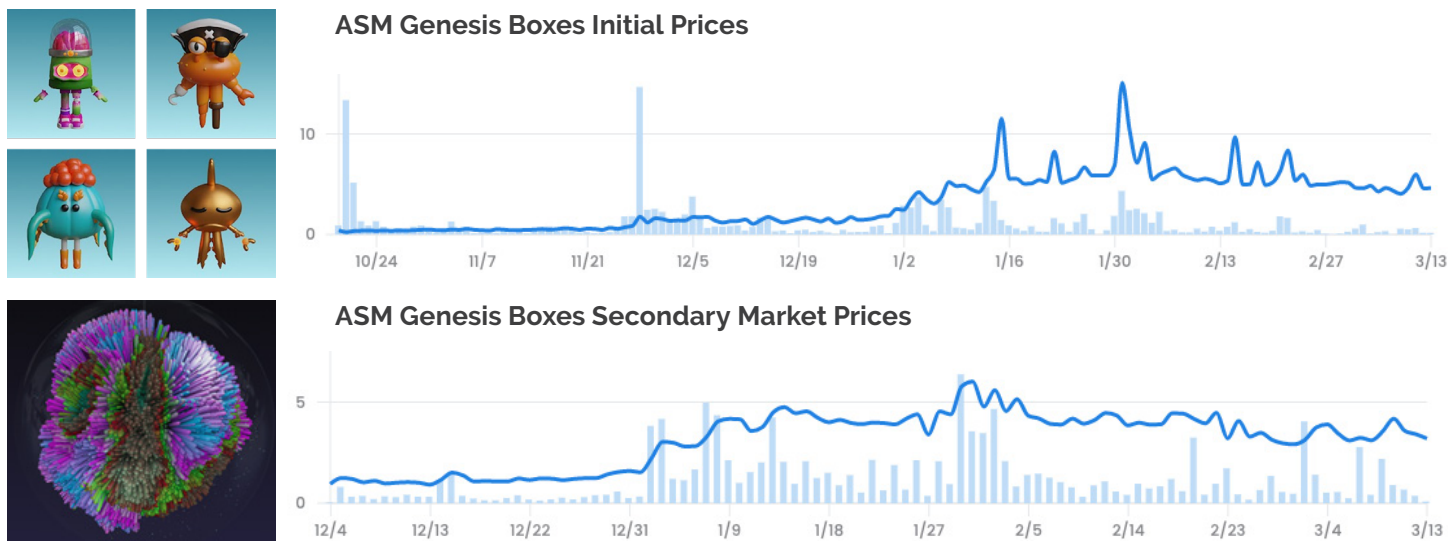
Source: <https://alphafarm.io>

## AIFA FOOTBALL

AIFA (Artificial Intelligence Football Association) Football is the first game to utilize the ASM AI brains and machine learning. This P2E game is designed to be a fun and practical way to show the true power and possibilities of Altered State Machine. Players will be able to train their brains and compete against other teams. In Q4 of 2021, ASM launched the ASM AIFA Genesis Boxes, which included 10,000 unique boxes, each with 1 unique Artificial Intelligence ASM Brain and 4 unique AIFA All-Stars. The all-stars will compete in teams of four against other teams to rise through the ranks and earn rewards. The Company has an easy-to-use dashboard, which allows users to configure certain elements of their players. Although these changes don't alter the players abilities, it allows the community to build teams around certain themes or personalize them however they see fit.

## NFTs

The Company launched the ASM Genesis Boxes in October 2021 at a mint price of 0.10. As seen here, the boxes stayed low following the initial mint before surging higher during Thanksgiving week, following the revelations that box holders would receive an airdrop of their governance token ASTO. Following the unboxing, the AIFA players and ASM brains saw a decent secondary market.



Source: [Oceanbase.io](https://oceanbase.io) as of 3/11/2022 11:00am PST

## TOKENOMICS

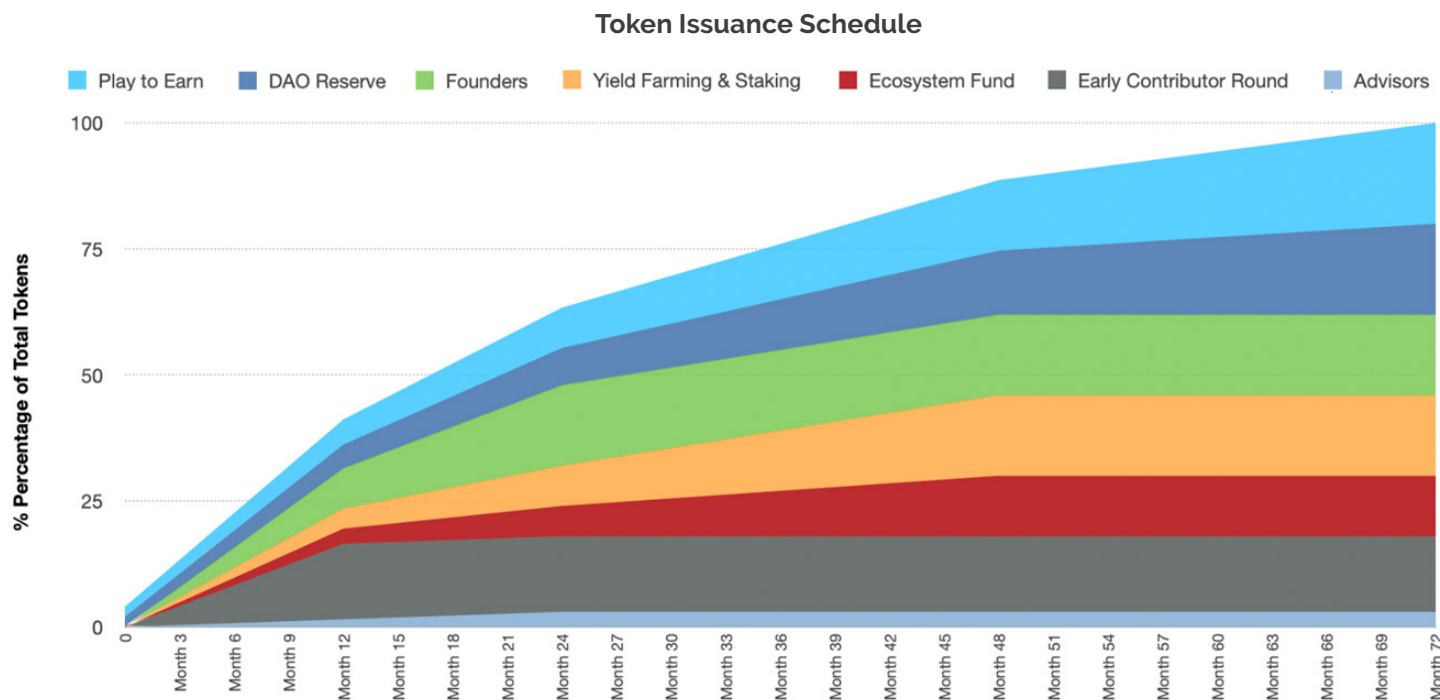
ASTO will be the governance and utility token within the Altered State Machine ecosystem. The main use is to manage the DAO and guide the ecosystem development fund (EDF) while growing the ASM ecosystem. The token has additional utility, including the creation and training of Agents. The Company is utilizing a 'Discovery Auction' which is a modified version of a Liquidity Bootstrap Auction.

**DAO Governance** - ASTO will act as the governance token for the ElderDAO, allowing the community to participate in and guide the future of the ASM ecosystem.

**Agent Creation** - The ASTO can also be used to mint and/or mine the Brain NFTs that make up Agents.

**Agent Training** - ASTO can be used to improve Agents by training its ML model at a virtual gym. Gym owners who provide GPU cloud compute and ML models, will earn ASTO in return.

The ASM team announced that 3% (71,500,000 \$ASTO) of the total token supply has been allocated for airdrops to those who hold a Genesis brain, which equates to 7,150 \$ASTO per a brain. AIFA All-star characters will also receive an airdrop; however, the exact amount and timeline of that drop has not been disclosed. Below is a graph of the token issuance schedule:



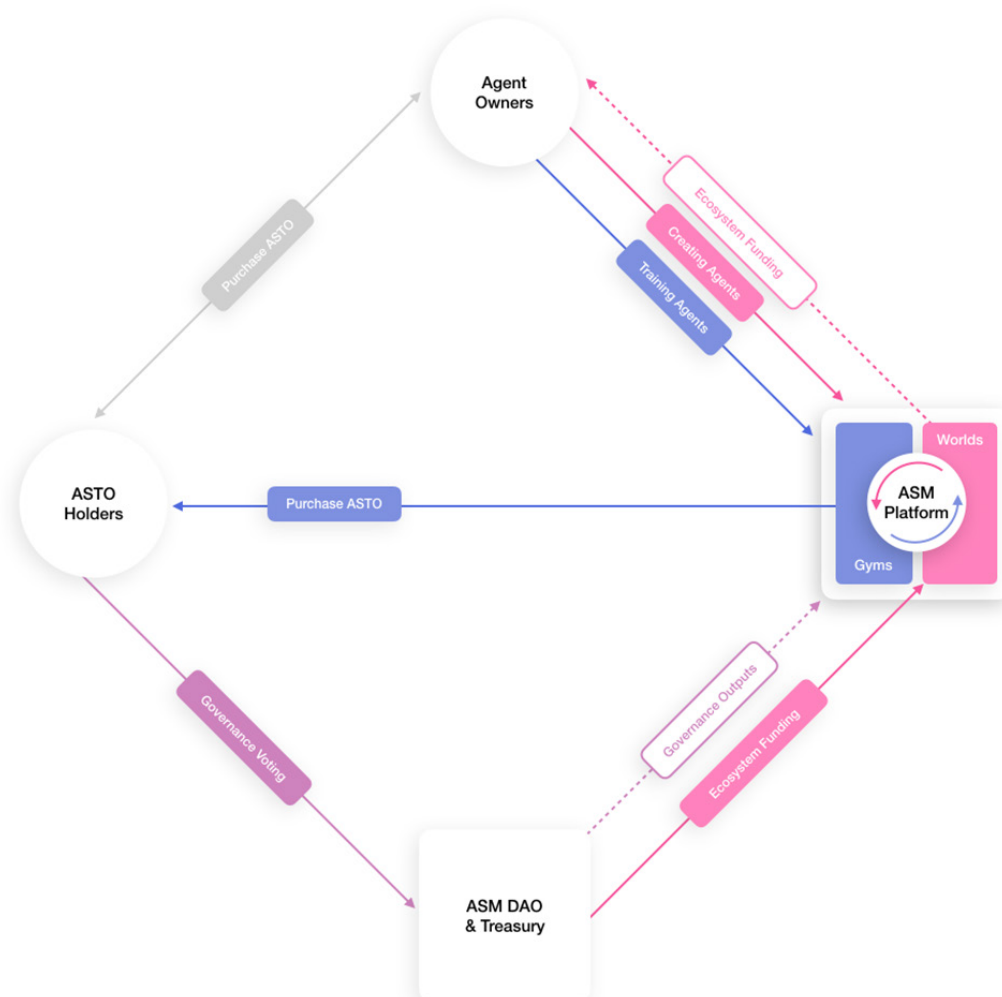
Source: Altered State Machine White Paper as of 3/11/2022

ASM will launch with a dual-dao model. The HarlanDAO will be composed of investors and advisors that comprised the prior funding rounds. The HarlanDAO will operate ASM, as the team works to build out the ElderDAO, which will then be opened to \$ASTO holders. Once the ElderDAO is established, it will continue to manage the ASM ecosystem and its development. This is a very interesting strategy especially considering issues that other ecosystems have faced having a DAO manage the initial development and strategy surrounding the ecosystem.

Altered State Machine has designed the tokenomics so that each participant within the ecosystem will be incentivized and rewarded for participating in the protocol and games. NFT Owners and World Creators, Gym owners, will all be able to earn rewards for contributing to the growth of the ASM protocol. Those who hold NFT Brains will be able to stake ASTO and 'mine' for Gen2 Brains.

The Gen2 Brains will have nearly all the same attributes of the Genesis Brains without the airdrops and functionalities, such as Hereditary AI and ASM Hivemind. Although the DAO may eventually vote to change this, the thought process was for the Genesis Brains to retain and increase in value as the ecosystem continues to grow, thus rewarding early adopters. The ASTO token will be necessary to play AIFA. The exact mechanics of AIFA's GameFi are being modeled and finalized. Below is an outline of how the tokenomics function within the ASM ecosystem:

### ASM Tokenomics Function



Source: Altered State Machine White Paper as of 3/11/2022

## FOUNDING TEAM

**David McDonald, Chief Executive Officer** - Prior to starting Altered State Machine, David has been a passionate technology leader throughout his career. He has led multiple ventures in New Zealand, Australia, and Japan. [LinkedIn >](#)

**Phil Williams, Chief Design Officer** - Phil brings his extensive experience as a veteran creative director and technology strategist with deep knowledge and across numerous industries. [LinkedIn >](#)

**Hal Smith-Stevens, Chief Technology Officer** - As CTO of Altered State Machine, Hal brings his lifelong engineering experience, where he has provided technology leadership and vision to many different projects. [LinkedIn >](#)

**Aaron McDonald** - Aaron is a board member or advisor to more than a dozen venture companies globally. He is also the founder of Centrality, a VC focused on decentralized technology. In 2018, Aaron was awarded EY Entrepreneur of the Year for the technology and emerging industries category. [LinkedIn >](#)

## CONCLUSION

Gaming is nearly a \$200 billion industry globally, while NFTs are exponentially growing as they explode into the public zeitgeist. Altered State Machine is an innovative company that intersects with several of these fast growing markets, with a truly unique value proposition. The ASM team has a grand vision with a stellar team and a history of successfully executing technology startups in nascent industries.

ASM truly democratizes the ownership of AI/ML models while also solving inference problems (enabling a model for multiple use cases). ASM will build up the first tooling internally and then decentralize it from there; the Company will be bootstrapping the game with their own centralized server and then will be permitting decentralized tools and additional applications to allow people to enter tools for training. The community is vibrant and engaged, with a highly anticipated token launch around the corner. Recently, the Altered State Machine (ASM) team formally announced their latest seed round helmed by an all star list of investors: including Coinbase Ventures, Warner Music Group, and TCG. We at Alpha Sigma Capital believe that Altered State Machine has a bright future ahead as it continues to expand its ecosystem and partnerships.

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