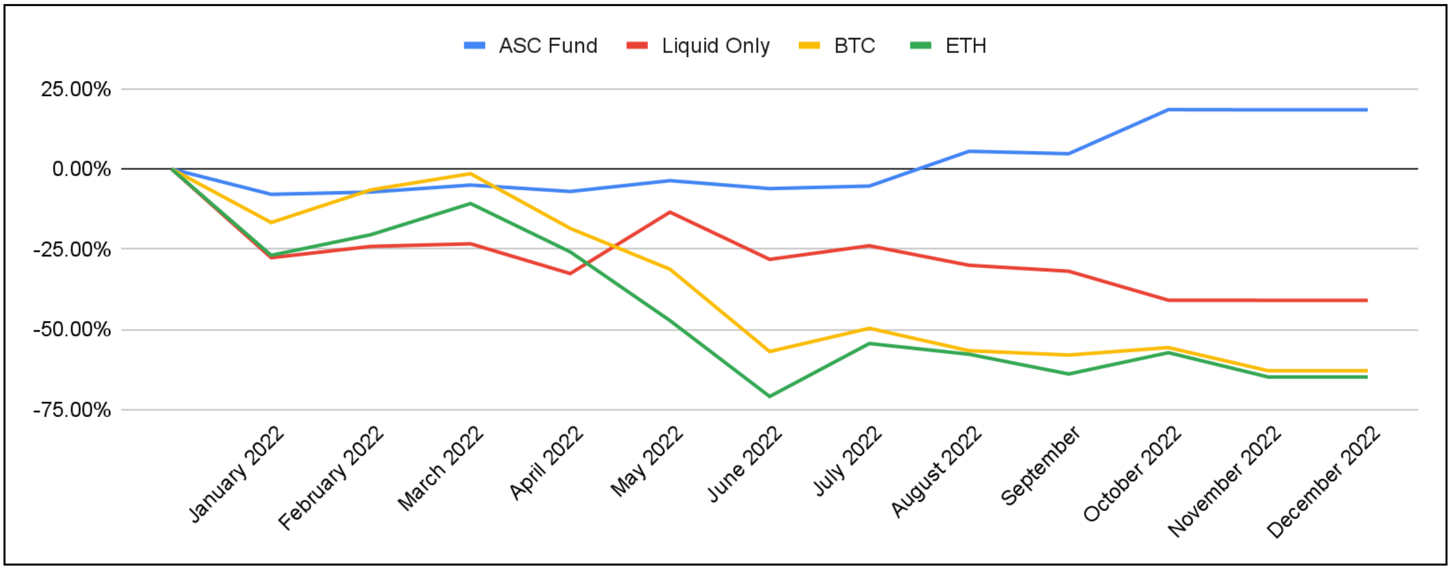
2022 - A Year In Review



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	YTD
ASC Fund	-7.90%	0.77%	2.35%	-2.11%	3.63%	-2.57%	0.84%	11.44%	-0.72%	13.11%	-0.06%	18.42%
Liquid Only	-27.64%	4.86%	1.08%	-12.09%	28.38%	-17.00%	5.91%	-8.07%	-5.58%	-13.25%	-0.06%	-40.88%
BTC	-16.68%	12.21%	5.39%	-17.30%	-15.60%	-37.28%	16.80%	-13.88%	-3.09%	5.53%	-16.26%	-62.84%
ETH	-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.

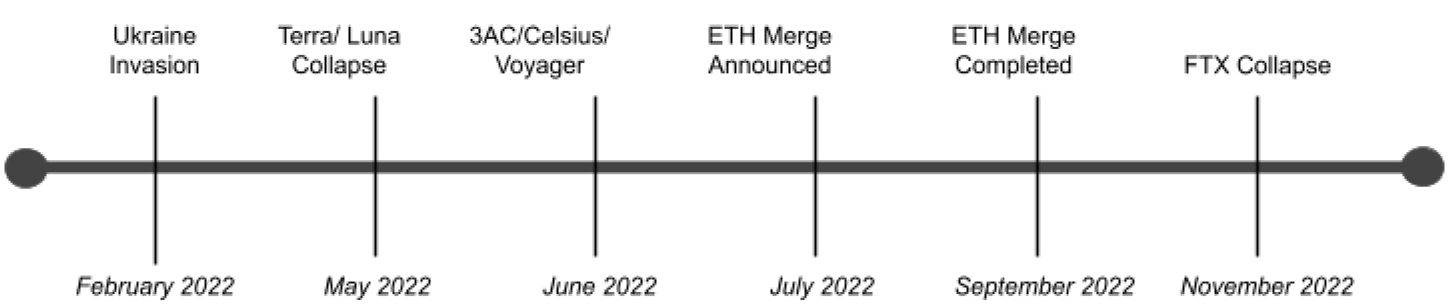
This was a tough year for believers in digital assets, but Alpha Sigma Capital was able to stick to a disciplined and thoughtful approach to managing the portfolio, which allowed us to far outperform ETH and BTC benchmarks. We see ourselves as pragmatic contrarians who are simply executing arbitrage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

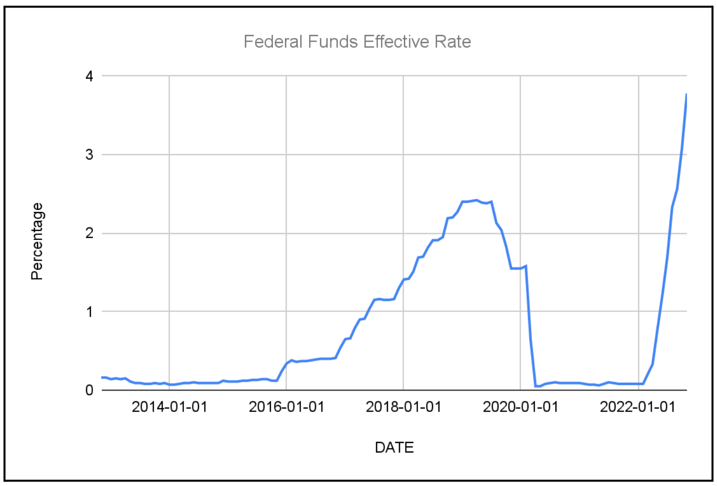
Having extensive experience in traditional financial markets and a background in derivatives, our team at ASC has always felt that risk-management was imperative to our fund. A mentor of one of our team member's used to opine about how the gains will take care of themselves if you have an edge and can 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.

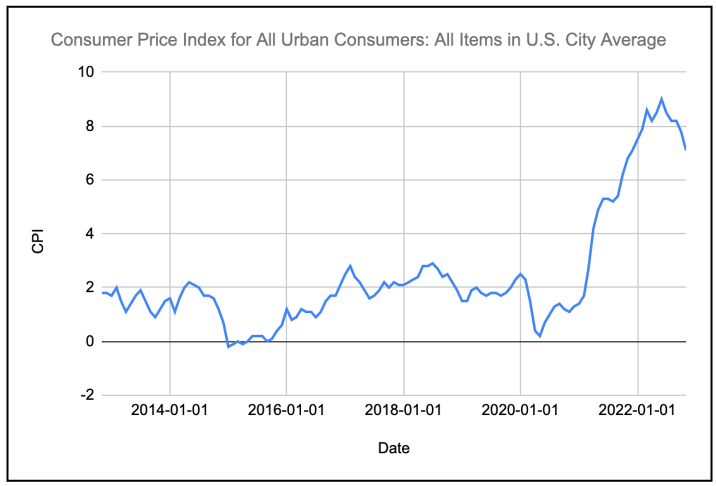
2022 Event Highlights



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

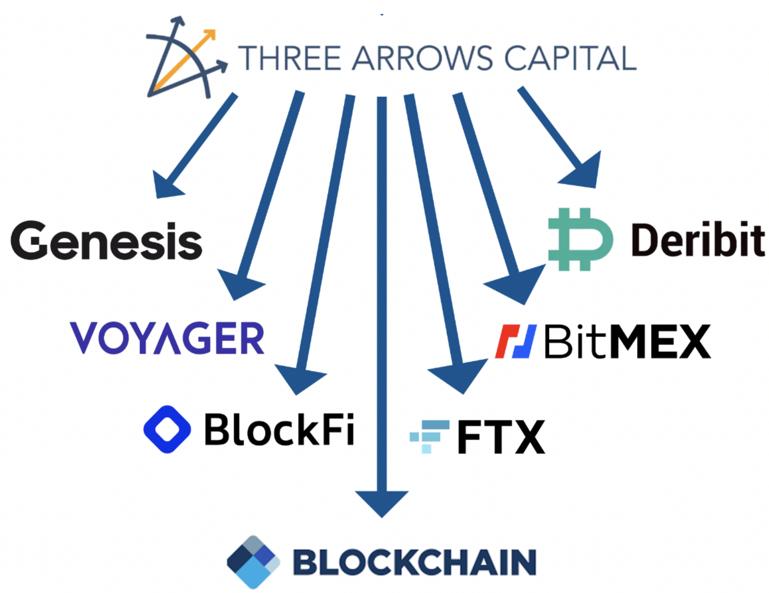
Following the collapse of the Terra ecosystem, the markets were shaken. However, after several weeks, the dust was appearing to settle when rumors about the next market implosion began to surface.

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

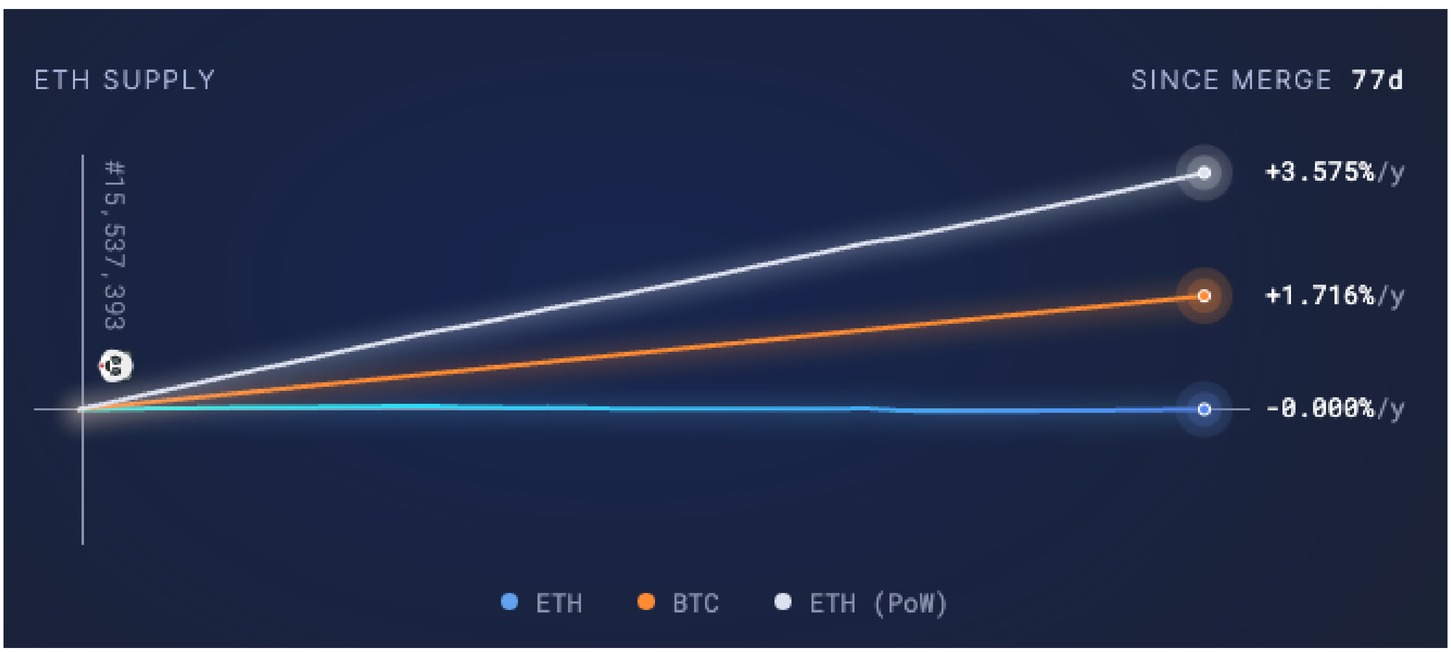
Alpha Sigma Capital had been covering Celsius Network from an investment and a research perspective since early 2020, and the fund decided to distance itself in the early summer of 2021 after assessing the risks of the company. The Q1 2021 update to our Celsius Network Research piece highlighted risks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

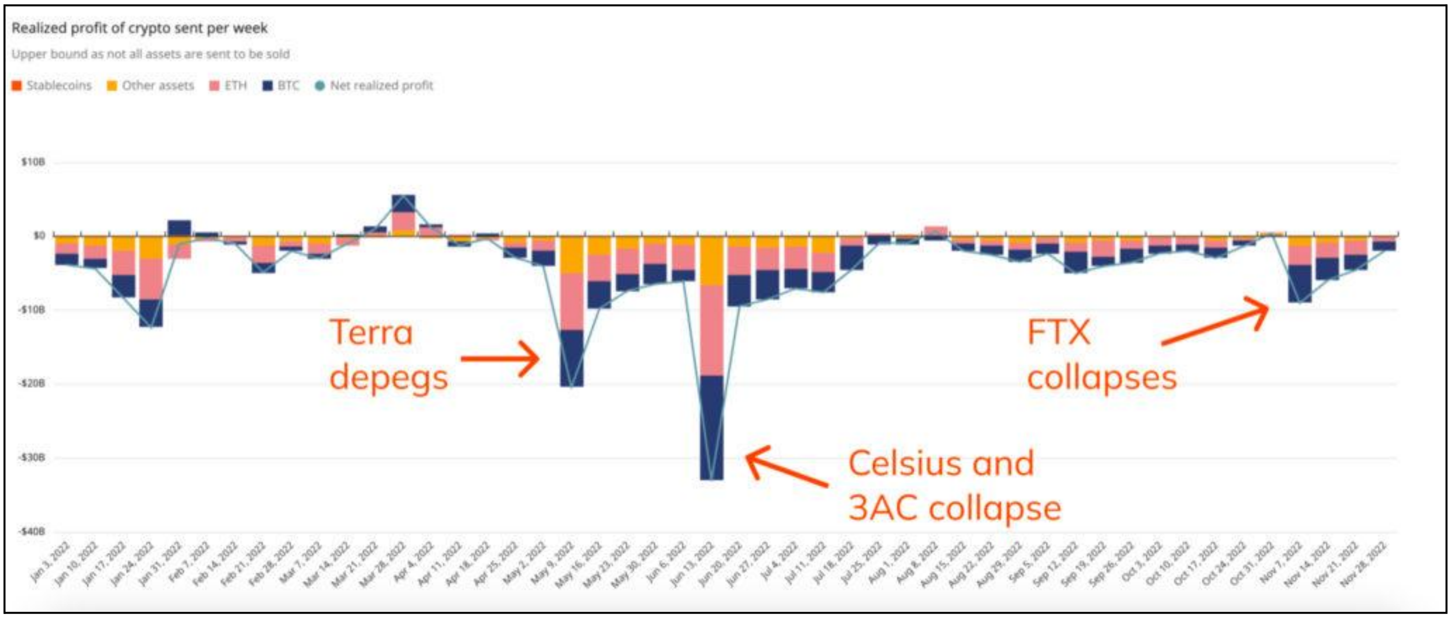
What started as a seemingly innocuous weekend twitter exchange between Binance CEO, Changpeng "CZ" Zhao and (now Former) FTX CEO Sam Bankman-Fried quickly devolved into the digital assets space's biggest crisis. The unfolding of this story and his fall from grace has been nothing short of breathtaking. 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 chainanalysis, 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.

<u>Historic Digital Asset Regulation</u>
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

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 Munchee 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.

<u>Policy & Regulation: Looking Ahead</u>

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

Wes Levitt

Enzo Villani | Nick Birnbaum | Wes Levitt, CFA | Jason Giesler

Sandra Ditore | SE Kanaval

Sandra Ditore | Jordana Cohen | Steve Kanaval

Appendix 1

Private Portfolio Company Overview

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

DISCLOSURE

PLEASE READ THE PRIVATE PLACEMENT MEMORANDUM FOR RISKS AND DISCLOSURES

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