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Batonics AB

BUSINESS
DEVELOPMENT
PACK

2022

ABOUT Batonics

Batonics is an Investment Company Building its First Multi-Strategy Fund

Capitalizing on the current turbulence, we are crafting an investment product with an apparatus of broad sourcing and multi-asset execution that employs the deeptech expertise and industry outsider mindset of its team.

Philosophy and Thesis for Batonics' Five Pillar Fund (MAGDA)

ABSTRACT

In this document, we state the philosophy behind the prospective fund, and how the five pillars that constitute the thesis emerges.
This document can be used in the groundworks for the coming stages of developing the product. The following needs to be distilled:

- **Strategy:** Deciding the broader themed decisions

- **Tactics:** Process of how tactical decisions are conceived (allocation, re-allocation, liquidation, auditing requirements, profit distribution, minimum hold periods before reallocation, etc.). I.e., the underlying scouting and selection processes

- **Internal Procedures:** Detailed process on how tactical decisions are executed, and the checkpoints they must go through (reports, approvals, risk management checks, sign offs, legal/compliance, etc.)

These points are quantitative exercises, some of which need to be done, and some that may be requested by the seed-investor as evidence for the diligence of the philosophy and thesis.

PHILOSOPHY

I will use the term ‘landscape’ as an abstract to communicate the philosophy and its opportunities. A good way of manifesting this term into a more defined and perhaps quantifiable image, is through the term ’capital topology’. Capital topology means how capital is distributed along the ‘allocation parameter landscape’. Examples of parameters are geographies and asset classes. Topological models are often used in engineering sciences to visualize changes in multi variables, making it easier to notice depressions and peaks. In investment, such variables often correspond to opportunities, and can also help us see gradients and other phenomena that are not easily detected otherwise.

As of mid-2022, the economic landscape is changing at a rapid pace – granted, a statement that has almost always been true. But the current pace of change renders it an anomalistic phenomenon, that is potentially conceiving an array of opportunities. Evidence for the ‘extraordinary’ rate of change is discussed in the nether subtopic ‘Notes on Methodology’

As these winds (or macro currents) pick up momentum, the topology of the investment landscape (the distribution of capital across the territory of all assets) will be morphing and taking new forms. The final topology of capital distribution across various asset classes, liquidity spectrums, geographic areas, and base currencies, will be significantly different.

A big part of the change is caused by macro currents.

These include:

M.1. Changing Interest Rate Environment

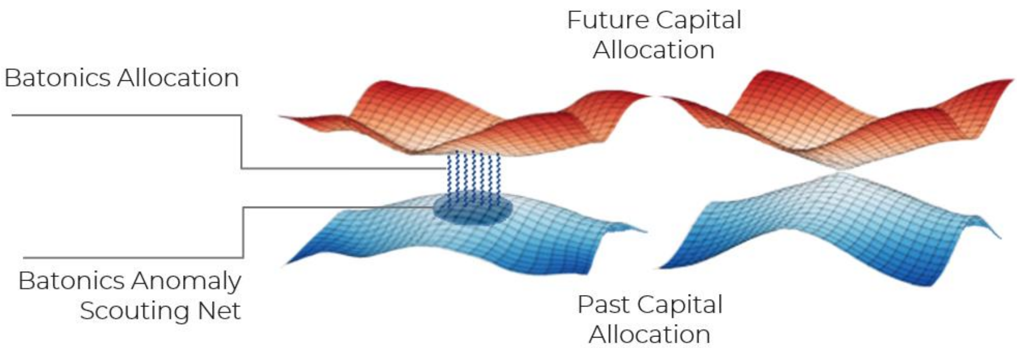
M.2. De-Globalization: Tectonics of New Economic Blocs

The war in Ukraine was a catalytic event increasing the polarity of the world. I say catalytic because it was already deemed inevitable by the rise of China as a counterpart superpower. There is a semi-consensus that sovereign nations and alliances are raising their guards. Sovereign security in vital resources and industries is causing a rush of onshoring, or friend-shoring. The outlines of new geopolitical polars, plus an equivalent of a 'neutral bloc'.

M.3. Reserve Currency Risks
Associated with M2., several macro changes relate to alliances or blocs guarding their assets from manipulation, due to the seat of the USD as the reserve currency. These may include pegging of certain prices to the yuan, alternative global payment systems, piling on the yuan by treasuries, etc.

A major component of how assets are priced today relates to money supply, (particularly USD supply), and the security that lays within the USD supply. If this changes, even if not wholly by the unseating of the USD, it will be a gradual yet strong repricing force for most asset classes.

The image below is an example of a topological model. It is not representative in scale or shape, but rather used to illustrate the meaning of topology change:



In our parallel, the two horizontal axes represent the 'allocation dimensions', such as geography and asset classes classified by risk grade. The third dimension connotates capital. In reality, the allocation topology has more than three dimensions and cannot be visualized as easily, but for simplicity purposes, the shift between 'the past' (red) and 'the future' (blue) capital allocation topology directs us to where most capital shifts, aka deltas, will take place.

This abstract does not claim that we know what the final capital distribution topology will be. It does however claim that to get from the current topology to the next stable phase topology, there will be much turbulence and volatility, which will reward business organisms that are most able to react and adjust so that any macro or temporary current can act as a tailwind. In other words, the landscape rewards size through the Economy of Scale in stable environments and currents, while rewarding the Economy of Agility in fast moving, turbulent environments.

Investment, especially illiquid ones, and those that have strict long-term strategies with tedious bureaucratic processes to change, and investments that are entrenched in one asset class, or several asset classes that exhibit same reactionary dynamics, are left with no exit, while ravaged by the storm. The same 'Disadvantage of Entrenchment' applies to geographic focus.

NOTES ON METHODOLOGY

The essence of the thesis stems from the philosophy, where the philosophy is a combination of macro currents, and how these interplay with market conditions. Some of the statements that lie in the foundation can be backed quantitatively through data:

- Rate of current monetary tightening in comparison to the past 50 years

- Current resilience in sovereign treasuries and large banks to a potential liquidity halt from the reserve banks, i.e., default risk

- Rate of onshoring/friend-shoring of vital industries and supply chains of vital resources

- Indicative figures of the size of illiquid asset allocation of the biggest asset managers in comparison to the past 20 years. This gives an indication on how difficult reallocation can be, and the large advantage small/agile players can have

- Saturation and crowdedness stats: For the geo-bridging pillar, data can be sourced to quantify the gap between overinvested and underinvested geo-bridges. By geo-bridges, I do not mean purely geographies, but the connections (products) between assets in certain geographies, and corresponding prospective investors.
  A good example of a data indicator of over- and under-saturation is comparative data between 'productified' investment opportunities, such as liquid securities and total economic size (the percentage of securitization / market capitalization of national indices to total GDP)

- Rate of increase in usage of non-USD as reserve currencies

- Dependency analysis: How much of the asset class pricing in the past 10 years was dependent on stimulus and easy liquidity (VC is a good example). This is important when considering how asset classes are reshuffled in market size, with dividend generating asset classes taking a leap forward

BATONICS’ FIVE PILLARS

M A G D A

Multi-asset
The investment product should not be focused on a singular asset or limited to several asset classes that - all in all - are expected to exhibit the same reactionary dynamics in response to macro stimuli.

Agility
The investment product should not dictate a fixed weighting in asset classes that cannot be adjusted periodically to adapt to the shifting landscape. It can however have a fixed weighting in the liquid / illiquid taxonomy

Geo-bridging
The investment product should not dictate a geographic region, as that invites the same entrenchment jeopardy. But furthermore, it should focus on underinvested ‘geo-bridging products’ i.e., products that provide otherwise less accessible asset pipelines to and from certain geographies.

Deeptech
The investment product should leverage the founder’s deeptech and engineering background. Possible leverages can include:

- Marketing: Branding the fund/product, this will appeal to FO and HNWs with a tech tilt

- Content level - Having the capacity to judge on early-stage tech companies within the team

- Decision making level - Using deeptech in investment decision-making, not necessarily a quant model, but employing STEM more than traditional investment houses

- Changing VC dynamics - Success has for the past 10 years been defined in a very forward looking way, in the terms of what the next fundraise will value the asset at. This - in a tightened money supply ecosystem - is not set to stay. While early stages will never be able to value itself according to revenues solely, it'll be a valuation based on the path to profitability rather than pure growth.

Macro-Asymmetry

The investment product should not base its strategy or its allocation decisions (on an instrument or macro level) to research, statistics, or back testing where the sample size is more than 50% comprised of the last 10 years. This is directly derived from the philosophical thesis betting on an anomalous asymmetry in the coming decade.

Structural Flexibility*

This is the most lenient pillar. The investment product should not have a legal structure that is highly restrictive.

**This paper includes a sixth pillar, but since it is not as prioritized as the others, it is usually left out in the acronym*

OUR EDGE

Why Family Offices and High Net Worth Individuals Would Invest in Batonics

Below are four key reasons why Batonics have a competitive advantage and renders us an attractive investment option for family offices and High Net Worth Individuals:

1

SENTIMENT
The sentiment as of mid-2022 (the time of launch of the pre-seed phase of this project) is overwhelmingly negative. Most product performances in the portfolios of institutional asset owners are performing direly (note that quantitative research to back-up this statement is pending). The risk delta between established products and emerging managers, or new products, is at a minimum, increasing the likelihood for a move from established old-guard products, and experimenting with new products in some allocation and risk buckets.

2

DEEPTECH MAVERICK ADVANTAGE
There will be a significant sector of institutional investors that share our abstract on the rapidly transforming landscape. Furthermore, there will be a share of investors that in the past six to twelve months have been hurt in the ongoing turbulence. The acceptance of 'new blood', 'outsider managers', or a 'new guard' is a function of:

a) Dissatisfaction with current product performance, making 2022 a good entry point
b) How much money is kept on the sideline as the cautious environment prevails, adding pressure to invest as 2022 closes
c) How much the family office/HNW have a tradition affiliated with engineering and deeptech fields
d) Risk appetite
e) Personal chemistry/belief in the team

3

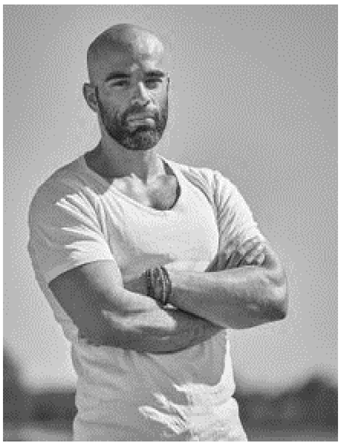
PASSIVE TO ACTIVE PORTFOLIO CHANGES
Even though multi-asset tactical funds are not novel products, their share in the collective investment funds market is very low, which is, as mentioned, due to the macro nature of the past decade where passive funds where an outstanding deal for the most part. Almost every asset class have been making money, eliminating selection stress.

A deduction from our philosophy is that this will change. In a turbulent environment, the degree of reactiveness is vital. I expect to see a rush from FOs and HNWs to correct their portfolio accordingly, increased demand on active and tactical multi-asset funds.

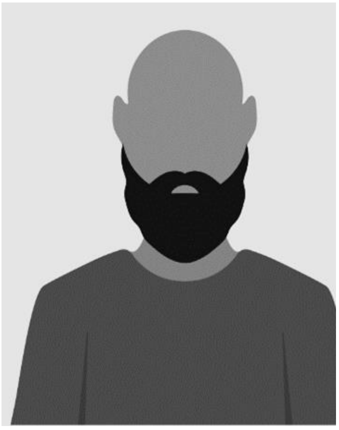
4

RISK MANAGEMENT
Assuming this philosophy is true, FOs and HNWs with traditional allocations will be taking risk management measures corresponding to four of MAGDA's five pillars: by re-assessing geographies, currencies and allocations in 'safe' asset classes and long-term passive strategies. This puts MAGDA at an advantage. Given the risky perception we may have as a first-time fund with no track record and no co-seeders, potential investors could see us a double risk management measure: first by addressing the above elements, second by being a high return / reduced risk delta in their high-risk bucket.

THE TEAM



AHMED ALNOMANY - CEO
An ex-deep tech entrepreneur, Ahmed is applying his successful engineering background and expertise to the financial industry. His past engagements include co-founder and CEO of Inkonova AB, mentor at KTH, and Entrepreneur- in-Residence at Ericsson. He holds a B.Sc in Mechanical Engineering from Iowa State University, and is a graduate of Ignite Programme for Entrepreneurial Studies from Judge business school at the University of Cambridge.



GLEN CREMER – FUND ADVISOR
A PWC qualified chartered accountant, Glen has worked as the product controller for Credit Suisse's Convertible and Quantitative Trading Desk, and Salomon Brothers' Fixed Income Arbitrage Desk. He has held front office positions as a structurer of OTC equity and corporate derivatives at UBS and DLJ in London. Glen oversees the performance and investment activity of Batonics' multi-asset fund and is the driver of a product that balances high reward areas with more traditional fund strategies.

FRIDA FERM – OPERATIONS
Business professional, Frida brings a wealth of experience to lead Batonics' operational growth and scale. She is responsible for the implementation of Batonics' high-performing start-up team, as she oversees operations to keep business on track whilst promoting company culture and vision

SEAN SUKKONIK – PR & MARKETING
Having previously studies international environment in Latvia, Sean is currently pursuing a degree in Finance at Bayes Business School in the UK. From his start-up and DeepTech fund background, Sean brings expertise in copywriting, PR and Marketing.