

Collective2 Holdings LLC
Business Plan
Executive Summary

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Introduction

Collective2 Holdings LLC (“C2”) provides software and services which attempts to find, sell, and manage trading “alpha.”

Alpha is the life-blood of the asset management industry. Despite the size of the asset-management industry (over \$100 *trillion* dollars of assets under management across the world) there is a shortage of alpha, as hedge funds, mutual funds, sovereign-wealth funds, private-equity firms, CTAs, and actively-managed ETFs — as well as individual investors — compete to locate and control alpha.

One could argue that alpha is, as a commodity, more precious than oil, gold, or diamonds — considering the amount of assets which require it, and considering the amount of effort made to find and deploy it.

The problem with alpha is that — unlike oil, gold, or diamonds — it does not exist in a physical place, and it cannot be mined with drills and pick-axes. The problem with alpha is that it exists in the brains of human beings — the people who compete against each other to make the smartest investment decisions, or the engineers who build computer software to do the same.

Entry into this world of “alpha-generation” is restricted. Traditionally, alpha-generation and asset management has been the province of the economic and intellectual elites. A typical hedge-fund manager attends one of a small set of universities, builds a resume within a small set of firms, and lives in one of only a few cities. The traditional alpha-generator is richly compensated (salaries of \$1 million are common; managers of successful funds can earn billions). Often compensation lags performance rates by several years (or *ex post* seems mathematically uncorrelated to performance).

The most serious problem with alpha, however, is that it is fleeting. Alpha exists in a person (or a computer program) for only a moment in time, and then stops existing. To take further the analogy of alpha as a commodity, one can imagine a world in which pockets of petroleum exist underground, are finally located at great expense and peril, and then move around, or vanish suddenly, just as drilling begins!

The phenomenon of a hedge-fund performing well for several years, and then suddenly doing terribly; or of a computerized trading strategy beating the market for many months, and then suddenly blowing up, is by now familiar enough to require little comment. However, this phenomenon should not be surprising. The “market” is not a static thing, frozen in amber. It is a ever-changing, ever-evolving set of interconnections between people and software and information, with participants attempting to game and outplay each other. Thus strategies that “work” in one moment in time are unlikely to work forever.

Let us now summarize both the opportunity and problem with the alpha-generating industry:

- Alpha is precious. Over \$100 trillion dollars of assets under management require alpha.
- Entry into the alpha-generation industry is restricted.
- Participants in the alpha-generation industry are richly compensated in a way that does not seem commensurate with performance.
- Alpha-generators (human or machine) have limited lifetimes.

In other words, this is an industry is ripe for technology-enabled creative destruction.

Core business: collective2.com

C2's main business is the operation of collective2.com, an internet web site that allows people to sell trading strategies, trading algorithms, and money-management acumen to the public. To say it another way, collective2.com is a marketplace where people can buy or sell alpha.

Collective2 acts as a trusted, objective auditor of trading results for thousands of trading strategies. People can “shop” for trading strategies that meet their criteria (trading style, or asset class), can compare historical performance, and - once they find a strategy or set of strategies they like - can have those strategies automatically traded in their own brokerage account.

Depending on one’s perspective, this business either allows consumers to “build their own hedge fund,” or (from the frightened perspective of current market incumbents) disintermediates the traditional alpha-generation industry by doing an end-run around the incumbents’ choke-hold on alpha sourcing and distribution.



C2 runs collective2.com, an open, crowd-sourced marketplace for buying and selling *alpha*.

The business model of collective2.com consists of three income streams:¹

1. **Listing Fee.** Strategy Managers pay a Listing Fee to have their strategy tracked and offered on collective2.com.
2. **Subscription Fee.** Strategy Managers set their own monthly subscription price, which is charged to each subscriber. C2 collects the fee from the subscriber and retains a portion of it before remitting the remainder to the Strategy Manager.
3. **AutoTrade Fee.** C2 charges a separate fee to allow a strategy to be automated within a brokerage account. The nature of this fee varies, depending on asset class or local regulations. While sometimes the fee is transactional (a fee per trade), or is charged to the broker executing the trade, most often the fee is in the form of a flat monthly license fee charged to a strategy subscriber.

Network effects

In industry after industry, technology has enabled new market entrants to beat traditional incumbents. The most interesting of these stories involve new business models that enjoy strong network effects. (A “network effect” is a phenomenon in which a business becomes more useful — and more valuable to consumers — as more people use it.)

Businesses with strong network effects are often winner-take-all affairs. As more people join the network, its usefulness grows, and it becomes harder for new entrants — even well-capitalized ones — to compete with the network “winner.”

We believe that the opportunity before C2 is of this category.

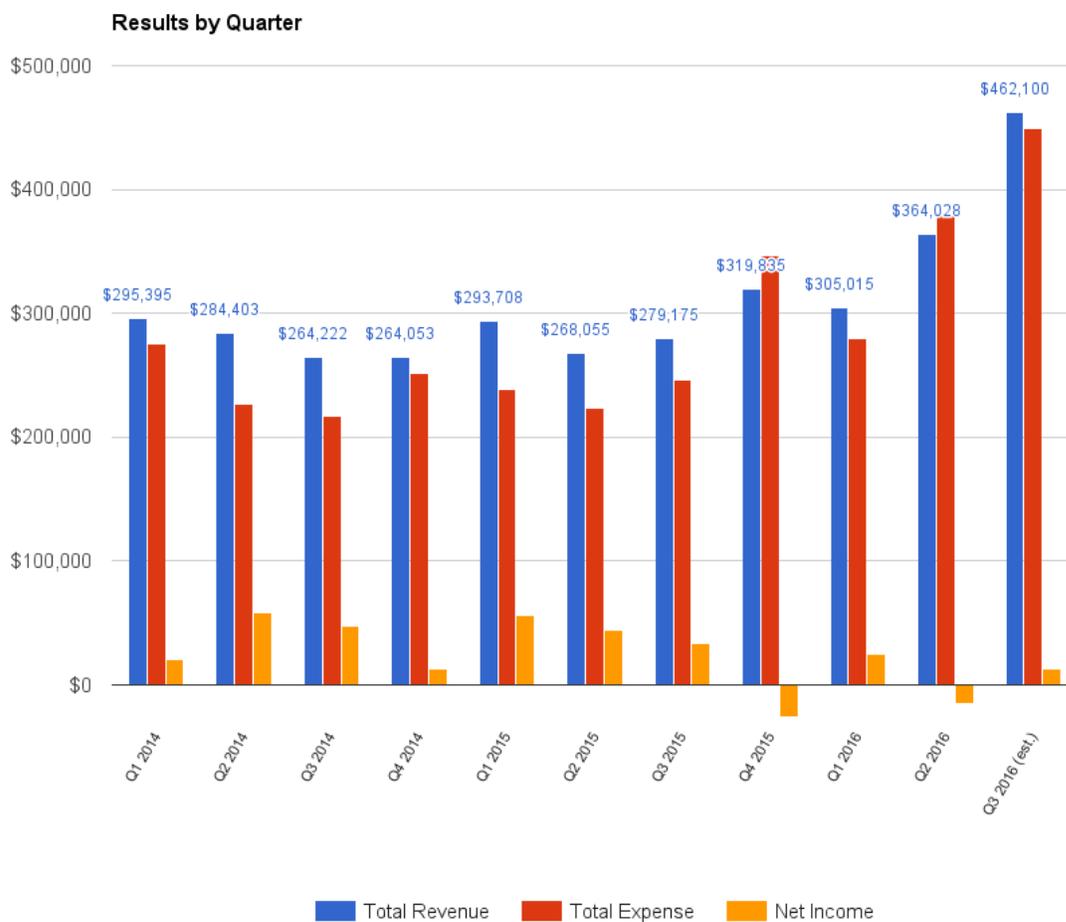
To summarize C2’s business model in a single sentence: C2 runs an internet marketplace where people can buy and sell alpha.

The reason this business benefits from network effects should be obvious: as more people come to our marketplace to buy alpha, the marketplace becomes more valuable to sellers of alpha. As more sellers of alpha are attracted to the marketplace’s growing number of buyers, it attracts more buyers, creating a virtuous circle of cause and effect.

¹ The Company is currently not profitable. There is no assurance as to whether the Company will be profitable or earn revenues or whether the Company will be able to meet its operating expenses and debt service, if any.

Building this network took 15 years

No overnight success story, this. It has taken C2 fifteen years to “figure out” this business and achieve product-market fit, to build the several critical technologies that allow broker-agnostic performance-tracking and automated trading, to reach a *modus vivendi* with regulators and a regulatory system in which open-sourced alpha and automated trading was not initially foreseen.²



Revenue and Net Income³

² The Company has a limited operating history. There can be no assurance that the Company will be able to successfully implement its business plan or achieve or sustain profitable operations.

³ Financial results and projections were prepared by the Company's Manager. Projections are based on certain assumptions which may prove to be inaccurate and which are subject to future conditions which may be beyond the control of the Company. There is no assurance that the results that may be illustrated in financial projections would in fact be realized by the Company.

We grew our marketplace from zero, insuring a sufficient number of buyers and sellers, until the marketplace reached critical mass. We followed a strategy similar to that of OpenTable, whose value proposition to early restaurant owners has been summarized by a venture capitalist as “come for the tool, stay for the network.” I.E. Just as OpenTable attracted restaurant owners by offering table-management software (and only later promised a new stream of customers), C2 has done something similar, offering to alpha-producers services such as performance tracking, subscription management, and backtesting software; with the much-later promise of assistance finding subscribers to their alpha.

Adjacent businesses

Our customer-facing web site, collective2.com, is, in our view, a small beachhead to a much larger opportunity.

We believe that control of a world-wide, open, crowd-sourced platform for alpha measurement and discovery gives C2 unique competitive advantages, and allows it entry into more profitable, and larger, competitive spaces:

ScoutAlpha

ScoutAlpha is a Commodity Trading Advisor (operated by subsidiary C2 Financial Technology LLC). It is a CFTC-registered, NFA-member firm that offers managed futures accounts to investors.

We believe that managed account services offer a larger market opportunity than do-it-yourself trading. We believe C2 is uniquely positioned to manage assets, due to our ability to control an evergreen library of alpha-generating strategies directly at their source — a library which constantly replenishes itself, and to which we have full and inexpensive access.

In addition, our ability to bring significant amounts of managed assets to Strategy Developers makes our C2 platform even more attractive to these alpha-generators -- i.e. not only can their strategies be deployed against self-managed do-it-yourself trading accounts; they can also be deployed against a much larger base of managed assets. This growth of assets under management will in turn attract better-quality strategies, and then more assets.

ScoutAlpha currently offers one human-curated investment product (in which a human asset manager selects the best C2 strategies, and blends them together with proprietary automated risk controls).

Electorate

In Q1 2017 ScoutAlpha will begin offering a second product, code-named Electorate, which uses sophisticated data-mining to determine market-sentiment based on the the entire universe of thousands of C2 trading strategies, running in real-time, together, simultaneously.

Performance of this method during early testing has been promising. We believe that C2 is one of the few firms in the world that has the ability to assemble and manage such a product.

AutoTradePro

AutoTradePro is a software-as-a-service (SaaS) product. It is an alpha-discovery and alpha-management platform for CTAs, hedge funds, and other money-managers.

Using our experience building the main collective2.com web site, and offering ScoutAlpha products to investors, we have built AutoTradePro, which we are targeting at smaller money-management firms. The platform allows managers to “apply” a set of Collective2 strategies (acquired through the C2 platform) to their own assets under management, in exchange for a portion of the management fee and performance fee charged by the firm to its customers.

Again, the strategic attractiveness of such an offering seems clear: by offering a set of alpha-generating strategies to asset managers through our unique distribution platform, we make the C2 platform still more attractive to those alpha-generators, which in turn attracts more of them, and of better quality. The virtuous circle returns.

Another way of looking at AutoTradePro is this: it allows C2 to leverage *other firms' AUM* to make C2 a more attractive platform for alpha creators.

C2 Broker

In Q1 2018, we plan to begin monetizing transaction flow through our network. Thus, in addition to the flat technology license fee which we currently charge, we will also begin to charge per-trade or per-share transaction fees on securities products.

We anticipate this will be a two-step process: first, in 2018, we plan to become a broker-dealer under FINRA oversight, which will allow us to charge transaction fees to the brokers carrying the accounts of C2 customers. Later, in either late 2019 or early 2020, if customer volume has grown as planned, we will explore the possibility of carrying our own accounts and thus keeping still more transactional revenue. In the financial projections which accompany this document, we

do not include this second phase as part of our projected revenue (nor as part of our projected expenses).

Bootstrapped for fifteen years

As mentioned earlier, we've been a "startup" for fifteen years. During this time:

- We have attracted 96,000 registered users.
- We have aggregated over \$50 million dollars of AUM "connected to" the C2 Platform.⁴
- We have tracked the performance of over 22,000 trading strategies

In order to achieve the results listed above, we have raised the following amount of capital from outside investors:

- \$0

Although the typography is meant in a spirit of fun, there's a serious point behind it. We treat capital as if it were precious (because it is). Unlike some of the more famous startups from Silicon Valley, our operations are decidedly unglamorous. Most radically, we have no corporate offices. This allows us to hire economically from anywhere in the world, and to avoid competing for talent with cash-flush Bay Area startups. Today we have ten "C2 People" scattered across four time zones. C2 People generally work from their homes, and use technology to collaborate and communicate with other C2 People.

We call them C2 People — not C2 employees — because we have an aversion to headcount, and we try to avoid empire building. We attempt to keep personnel relationships flexible, working with contractors for non-core activities (and indeed the activities we regard as "core" are limited). Although we pay our C2 People well (whether as contractors or employees), we try to structure compensation creatively, insuring that motivations between person and company stay aligned.

⁴ We measure the Net Liquidation Value of all brokerage accounts to which our software can send orders (for customers who "follow" a strategy), or can "read" orders (for customers who serve as "leaders.") The sum of this Net Liquidation Value is the AUM that is "connected to" the C2 Platform. This data was accurate as of September 2016.

Collective2.com web site revenue and year-over-year (YOY) change*

	June 2015	July 2015	YOY	Aug 2015	YOY	Sept 2015	YOY	Oct 2015	YOY	Nov 2015	YOY	Dec 2015	YOY
AutoTrade License Revenue	\$14,376	\$11,484	+382.7%	\$11,982	+302.2%	\$10,791	+288.4%	\$16,454	+206.6%	\$14,261	+193.1%	\$14,371	+122.5%
Listing Fee Revenue	\$12,272	\$12,497	(-8.4%)	\$11,010	+0.2%	\$13,143	+6.4%	\$13,767	(-1.9%)	\$9,695	+4.7%	\$11,960	+5.6%
Subscription Fee Revenue	\$44,690	\$45,966	(-12.4%)	\$48,664	(-1.5%)	\$49,824	+17.8%	\$61,864	+48.3%	\$67,656	+57.4%	\$67,098	+48.4%
Collective2.com Revenue	\$71,338	\$69,947		\$71,656		\$73,758		\$92,085		\$91,612		\$93,429	

	Jan 2016	YOY	Feb 2016	YOY	Mar 2016	YOY	Apr 2016	YOY	May 2016	YOY	Jun 2016	YOY	Jul 2016	YOY
AutoTrade License Revenue	\$12,669	+146.0%	\$13,564	+90.2%	\$17,724	+88.4%	\$20,703	+86.9%	\$20,700	+97.1%	\$23,570	+64.0%	\$22,572	+96.6%
Listing Fee Revenue	\$15,861	+7.7%	\$14,305	+17.1%	\$17,100	+30.4%	\$13,136	+1.7%	\$14,724	+24.0%	\$16,075	+31.0%	\$14,896	+19.2%
Subscription Fee Revenue	\$62,476	+19.9%	\$56,812	+7.5%	\$67,088	+22.3%	\$68,462	+34.9%	\$71,466	+62.8%	\$90,133	+101.7%	\$95,008	+106.7%
Collective2.com Revenue	\$91,006		\$84,681		\$101,912		\$102,301		\$106,890		\$129,778		\$132,476	+89.4%

	August 2016	YOY	Sep 2016	YOY
AutoTrade License Revenue	\$24,952	+96.6%	\$27,363	+156.1%
Listing Fee Revenue	\$108,934	+123.8%	\$111,979	+124.7%
Subscription Fee Revenue	\$15,402	+39.9%	\$17,671	+34.5%
Collective2.com Revenue	\$149,288	+108.3%	\$157,013	+112.8%

* Financial results were prepared by the Company's Manager. These results have not been audited, and may prove to be inaccurate. In addition, there is no assurance as to whether the Company will be profitable or will continue to earn revenues.

Cash-flow-positive for fifteen years (but will not remain so for long)

Because we have eschewed outside capital for over a decade, we've been required to operate our business on a cash-flow positive basis.

This is about to change. We believe the time is right to aggressively broaden the breadth and depth of C2's product offering, by aggressively growing both the core C2 business, and the adjacent businesses (ScoutAlpha, AutoTradePro, C2 Broker).

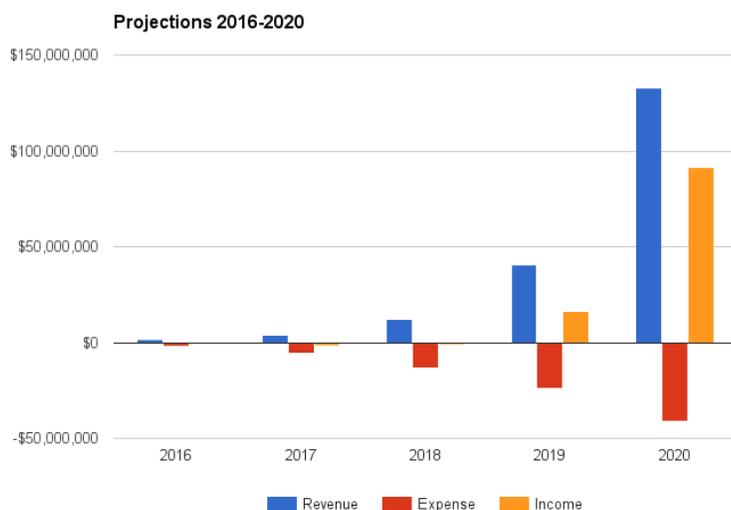
	2016	2017	2018	2019	2020
Revenue	\$1,659,814	\$3,989,225	\$12,167,922	\$40,381,323	\$132,554,681
Expense	-\$1,670,990	-\$5,437,514	-\$13,069,069	-\$23,844,059	-\$41,138,139
Income	-\$11,176	-\$1,448,289	-\$901,147	\$16,537,264	\$91,416,542

Projected Annual Results⁵

⁵ Financial projections provided may prove inaccurate. The Company is currently not profitable. There is no assurance as to whether the Company will be profitable or earn revenues or whether the Company will be able to meet its operating expenses and debt service, if any.

Use of Investment Proceeds

The company seeks to raise \$5 million dollars from investors. Our business plan anticipates that we will turn cash-flow negative for the first time in Q4 2016, and will remain so until Q4 2018. Overall, we anticipate burning \$2.7M of cash before regaining profitability at the end of 2018.⁶



The use of investment proceeds will be as follows: to grow the C2 People Team (hiring additional management, software engineering, operations, and marketing personnel); and increasing marketing spending by nearly 10X over the next 18 months.⁷

In addition, we believe that compliance, regulatory, and legal spending will increase significantly over the next 24 months, preceding by a year or more any potential increase in cash flow generated by new business operations such as ScoutAlpha, AutoTradePro, and C2 Broker.

Our goal is to make this our first and last fundraising effort. We do not anticipate seeking further capital from investors after closing this round.⁸



⁶ Financial projections were prepared by the Company's Manager. These projections are based on certain assumptions which may prove to be inaccurate and which are subject to future conditions which may be beyond the control of the Company. There is no assurance that the results that may be illustrated in financial projections would in fact be realized by the Company.

⁷ The use of proceeds may be altered. There is no assurance that the use of proceeds discussed above and in the Private Placement Memorandum will be followed. The Company's Manager will have significant discretion in applying the net proceeds. The failure of the Company's Manager to apply such funds effectively could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

⁸ The Company may be required to raise additional funds. Failure to obtain such additional capital on terms acceptable to the Company could restrict its ability to implement its growth plans. Any future offerings could result in the dilution of ownership of the Company to the Members.