

Chatsworth Securities

Documents & Conversations

May 1, 2017

I was introduced to Chatsworth Securities around March 15 by former Transcend Capital principle, Mike DeNio, who left Transcend this year to join Chatsworth.

Over the past 6 weeks, I have held multiple phone calls with Mike DeNio, Lee Gerkin, and Tim Sullivan. Lee is a managing partner in the firm. (See www.chatsworthgroup.com under “Company – Our Team”.) Tim joined Chatsworth recently, and is the primary contact I would be dealing with.

Why Chatsworth? Our primary objective in OmniFunds is to secure a high valuation for acquisition. The only acquisition that has occurred so far that I am aware of is FutureAdvisor, which was acquired for \$153m by BlackRock Securities. This is a good *initial* target.

While we will likely gain institutional interest over time as the result of building clients and making contacts, the leverage provided by a firm like Chatsworth could save us many months and potentially, better-position the product. The documents listed below have been provided over the course of the past 30 days.

March 30 – Discussion Topics. In this document, they outline general topics to explore regarding the Robo Advisor concept as well as the creation of Active ETFs - another type of product we could create with our technology.

April 18 – Detailed Proposal. After demonstrating OmniFunds’ advantage in the marketplace, Chatsworth sent this proposal which outlines their involvement over 6 months in two phases. Phase I is primarily about Strategy – understanding OmniFunds and helping us position. Phase II is primarily about finding the right Strategic (or acquisition) Partner.

April 24 – Fee Structure. The next logical thing to find out is what Chatsworth would charge for these services. The Fee Structure has two parts – an initial 6 months consulting contract composed of two phases, followed by participation (“success fee”) in any deals they find.

April 25 – Phone Call. I visited with them about the documents and how they could add value to our company. This recording is available in the blog. Investors provided some good feedback on the call, and I forwarded some of the questions to them.

April 29 – Engagement Letter. In the Engagement Letter, their involvement and commitments are better defined. I noted that the percentage involvement or “success fee” remains largely undefined. Lee said the way they work is to find a partner and work until a deal is defined, after which, we would agree on a split depending on the complexity and value of the deal.

Chatsworth is an established firm that has the potential to significantly leverage us into the institutional space. As Lee says, “Funds are sold, not bought.” In other words, anything like OmniFunds must be promoted. I will continue talking to Chatsworth to clarify terms as begin promoting the 506c offering. I agree with investors that more definition around milestones and fees is desirable, and will continue to work towards that understanding. - *Ed Downs*

March 30 – Discussion Topics

“Attached please find a summary of some key areas where we believe we can provide significant expertise and assistance in the process of developing your OmniFunds business as well as projects like The OmniFunds Lab.

This is primarily in outline form to provide a framework for our discussions. I am sure there are items or areas that I did not specifically include but that will become part of our talks. I welcome your thoughts and suggestions as this should be a working document. – Tim Sullivan”

[Download document](#)

Nirvana Systems/OmniFunds Strategic Positioning and Business Development Strategy Overview March 2017

This document is intended to identify areas where Chatsworth Securities believes it can provide insight and assistance in the strategic and operational development of OmniFunds and related strategies/platforms in development by Nirvana Systems. This should be a framework for discussion as Nirvana Systems/OmniFunds considers options for the development of its business strategy.

Market background, education and analysis

1. ETFs
 - a. How do they work?
 - b. State of the ETF market
2. Asset managers
 - a. Adapting to change - slowly
3. Financial advisors
 - a. Fee based, cost and performance sensitive
4. Quant/Robo advisors – gaining traction

Product analysis, development and structuring

1. OmniFunds strategy and related product extensions
2. “The Lab”

Business development strategy – distribution, positioning, building brand and scale

1. Independent or Strategic Partnership(s)?
 - a. If Strategic Partnership, exclusive or diverse?
2. Business “direction” – may define separate “directions” for different lines of business (OmniFunds and “The Lab”)
 - a. ETF sub-advisor
 - b. ETF strategist
 - c. Robo-advisor
 - d. Proprietary advisor platform

April 18 – Detailed Proposal

“Attached please find our proposal document for our discussion tomorrow.

We believe this provides a sense of how we would direct our efforts going forward understanding several things will need to be determined that may impact our role over time. – Tim”

[Download document](#)

The Proposal is broken down into four “phases” or objectives:

I. Analysis, strategy, defining the product and investment case

II. Strategic Partners and Service Providers

III. Implementation

IV. Growth, expansion and further development.

Note that these phases are not equivalent to the two numbered phases in the Engagement Letter sent 4/29 (covered later), which is broken down by fees as opposed to objectives.

Intelligent Fund Management, LLC Discussion

OmniFunds and related products: Strategy and Business Development April 2017

The asset management industry has experienced significant fundamental changes during the past several years. As a result, asset management companies have been changing their strategies, investment products and product mix in order to adapt to these changes.

Chatsworth Securities believes we can provide insight and assistance in the strategic and operational development of OmniFunds and related strategies/platforms designed by Intelligent Fund Management, LLC (“IFM”) and Nirvana Systems.

Our focus will be on the market with respect to (1) the investor groups to target and (2) the product structures and/or platforms that will enable OmniFunds to most successfully penetrate these markets and the respective investor groups.

The biggest mistake is to structure the investment product believing the market will come to you, or structure the product and then look for the market. It is essential to have a clear understanding of the market/target investors groups and structure the investment product in the context of them.

In other words, it is important to focus on the compelling advantages of the investment product being developed while at the same time taking into consideration the target investors’ needs and how to most successfully access the various investor groups (institutional, high net worth, retail, pension fund, endowment etc). By analyzing the characteristics of how to most successfully access investor groups with regard to product structure and platform, you can then develop the information and establish the criteria to fine-tune the investment product for the various platforms and investor groups.

We view this as a multi-phase process broadly encompassing 1) strategy and planning; 2) determination of strategic partner(s) and necessary service provider relationships; 3) execution of business strategies; 4) review, analysis and a adjustment to feedback, market conditions and opportunities, and 5) continuing business and product development.

We see our role as being actively engaged with the IFM team in all phases; analysis, strategy, product development, marketing, execution and continuing business development as well as introducing and evaluating potential strategic partners and service providers as required to successfully implement the business strategies.

April 24 – Fee Structure

“We look forward to discussing this with you. Hopefully, this is agreeable. If so, we think the next step should be to meet with you and your colleagues in Austin. – Lee Gerkin”

Chatsworth shared their fee structure in this document.

[Download document](#)

There are two main points:

1. Consulting Fees – designed to cover their planning and strategic work and initial marketing (Phases I and II).
2. Success Fees – designed to cover their involvement to get us connected to a large partner, who could also potentially be an acquiring firm.

Chatsworth Securities
Presentation for OmniFunds
April 24, 2017

This presentation on Fee Structure is a supplement to the Intelligent Fund Management, LLC, Addendum sent on April 15, 2017.

Fee Structure

I. Consulting fees:

- \$15,000 per month for the first, second and third months.
- \$12,500 per month for the fourth, fifth and sixth months.

During this time, Chatsworth will work closely with OmniFunds with respect to the following:

- (a) Position the Robo Advisor product, and other OmniFunds products, to develop successful revenue models which will include, but not be limited to, the following: advising on enhancements for Robo Advisor that will improve marketability, developing products and/or strategic relationships that will result in increasing assets under management or fee income by creating new product and marketing ideas that evolve from Robo Advisor acting as advisor or sub-advisor or through strategic partnership agreements.
- (b) Develop list of introductions with funds, asset management companies, underwriters and other parties that could help to introduce the product to the market or help OmniFunds to be considered as a strategic partner. All names and ideas will be discussed with OmniFunds before any introductions are made.
- (c) Create marketing materials as needed for each initiative.
- (d) Arrange and attend all meeting with OmniFunds.
- (e) Advise and Assist with negotiations for each initiative.

Recorded Call about the Opportunity & Proposal

After receiving the above document, I held a session with Chatsworth to review their proposal and also recorded the call:

[Video Recording of Call](#) (indexed) [Mobile Version](#)

I provided the recording to investors on the blog on April 26. I received a lot of great feedback. The most consistent question I received from investors was about the timeline and what they would do in the first 30 days, next 30 and so on.

Lee’s email response to this question:

This will involve a process. First, we need to “get under the hood” and make sure that we understand what are the most compelling features that distinguish your products others. Then we need to discuss with you the various strategies and your objectives.

Let’s discuss. - Tim

April 29 - Engagement

I asked for clarification on the “success fee” and more specifics, which resulted in their sending a draft Engagement Letter. This document has all the terms that would be in the final contract.

[Download document](#)

I discussed the Letter with them on Saturday, April 29.

I asked Lee why the Success Fee percentages were undefined, and he said the actual split would depend on the deal (transaction).

“If we were to place OmniFunds with Fidelity, for example, that would mean a higher percentage because of the time required to close a deal like that and the value of the deal to OmniFunds.”

Summary:

Chatsworth proposes charging Consulting Fees for 6 months (\$81k + travel and other expenses) and then earn a Success Fee on any transactions completed during that time or afterwards. That is, after the 6 month consulting period, they would participate in revenue or proceeds as transactions are closed, including acquisition, but would no longer charge a consulting fee.

The Engagement Letter covers any transaction IFM enters into, which makes it exclusive.

However, there is a 30-day notice for cancellation, which can be made prior to the end of the first 3 months. In that case, IFM would be free to enter into a transaction without paying Chatsworth, unless such transaction is with a party they had introduced us to.

So, it would cost us a maximum of \$45,000 to find out how much Chatsworth can help us, and if they are likely to find us the right acquisition partner from that point forward.

As I mentioned on page 1, I am continuing discussions with them as we start our process of promoting our Public Regulation D (506c) offering.

Ed Downs

