



Fund guideline

Scheria fund: An entertainment fund



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INTRODUCTION

This document (the "Guideline") is to be used as a guideline with regard to the composition, calculation and maintenance of the fund. Any changes made to the Guideline are initiated by Insula. The fund is calculated and published by Insula. The name "Insula" is trademarked.

It contains the underlying principles and rules regarding the structure and operation of the Scheria Fund. Insula shall make every effort to implement the applicable regulations. Insula does not offer any explicit or tacit guarantee or assurance, neither pertaining to the results from the use of the Scheria Fund nor the Scheria Fund « value » at any certain point in time nor in any other respect. The Scheria Fund is merely calculated and published by Insula and it strives to the best of its ability to ensure the correctness of the calculation. There is no obligation for Insula – irrespective of possible obligations to issuers – to advise third parties, including investors and/or financial intermediaries, of any errors in the Scheria Fund. The publication of the Scheria Fund by Insula does not constitute a recommendation for capital investment and does not contain any assurance or opinion of Insula regarding a possible investment in a financial instrument based on this fund.



Fund guideline Context



Context

An index, or an index fund represents a trend. Coinbase Index fund was shut down in 2018 (to focus their efforts on mass adoption of crypto), but their performance is something to notice. The index included BTC, ETH, LTC, BCH. BTC top performance in 2017 was around 1300%. The index top performance was approximately 8000%. [1]

Why an Entertainment Fund?

What is the metaverse?

A definition could be "An exponentially growing virtual universe where people can create their own world how they see fit adapting experiences and knowledge from the physical world".

The metaverse could be seen as a "desire" of the gaming industry to move to a more open and free online world. The record for a Virtual land in Decentraland (a place where gamers can build whatever they want), was auctioned at 180000\$.

The gaming industry is thriving on the blockchain. Enjin performance since March 2020 is : 1,638%. Mana performance around 2000%. Both are billion market cap projects and leading the way to the metaverse.

NFT's made a spectacular performance in the first Q1 of 2021. Many NFT's were auctioned at big auction houses such as Christie's, Sotheby's. Beeple's NFT's, 3rd most valued living artist, were sold at around 60Million\$ at an auction.

Many projects such as Theta, LivePeer are blockchain streaming video platform. They made an incredible performance and are now respectively valued at \$10B and \$750M MC. Recently the Tidal music streaming platform create by Jay-Z was reportedly sold for \$350M. Video and music streaming blockchain could begin to emerge.

Clearly the entertainment industry is rising eyebrows. An exposition at The State Hermitage Museum in St Petersburg is in the making, new auctions are in the process, new aspects are emerging (streaming), and news coverage incentivize artists and sellers to interact. The demand is rising.

Insula philosophy

With the explosion of cryptocurrency in the beginning of December many projects have attract attention. Indeed some of them have more than a billion market capitalization. At insula we believe that the blockchain ecosystem is thriving and more and more projects will soon emerge. It is possible today to classify cryptocurrencies by industries and therefore apply our trading algorithm and investment strategy, Markowitz diversification, to a specified set of cryptocurrency.



Fund Guideline

Scheria Fund specification and composition



Specifications

What is the « Scheria » fund ?

The name « Scheria » comes from Homer's Odyssey. Washed on the coast of Scheria island, Odysseus managed to meet the King Alcinous with the help of her daughter, the princess Nausicaa. It was the home of the Phaeacians and the last destination of Odysseus in his 10-year journey before returning home to Ithaca. He was greeted and bring back safely to Ithaca. [2]

The Scheria fund, like Pala Fund, is a fully autonomous fund. Our investment philosophy is a computer-driven method for capitalizing on crypto markets

- The Scheria fund is a fund of Insula focused on the entertainment industry. It is solely calculated and distributed by Insula.
- The Scheria fund intends to track the price movements of a portfolio/fund of the top cryptocurrencies in the entertainment industry by market capitalization. It includes top projects from gaming, NFT's to music, videos.
- The Scheria fund is a USD price return index (?)

Composition

Selection

The Scheria fund, its initial composition as well as any ongoing adjustment are based on the following non-discretionary rules.

Before launching day, Insula defines the Scheria Fund Universe (see definitions). The selection of the Index Components proceeds as follows:

- Scrapping Enzyme available assets.
- Sorting projects by "industries"
- Finding projects identified as "entertainment industry"
- Top projects are selected by market capitalization.

After the selection we apply our algorithm on the specific set of cryptocurrencies.

The Markowitz optimal portfolio:

$$Markowitz_t = (\gamma \Sigma)^{-1} B f_t$$

$$x_t = \bar{M}_f(f_t) - \bar{M}_D(D_{t-} - Cx_{t-})$$

The Markowitz optimal portfolio has an optimal trade-off between risk (Σ) and expected excess return (Bf_t), leveraged to suit the agent's risk aversion (γ).

Where the matrices \bar{M}_f and \bar{M}_D are solutions to algebraic Riccati equations.



Diversification:

Markowitz offers another approach called diversification, where construction of the portfolio is made after evaluation of the overall portfolio risk instead of merely compiling portfolios from securities that each individually has attractive risk reward characteristics. Simply put, Modern Portfolio Theory is built on the idea that risk-averse investors can construct portfolios to optimize or maximize expected return for a given level of risk by simply altering the proportions of fund allocation across assets.

Modern Portfolio Theory (MPT) states that with increasing number of assets in the portfolio, the corresponding number of correlations becomes significantly larger than the number of assets and therefore the risk of the portfolio will mostly depend on covariances between assets rather than on risk of individual assets. Therefore, to reduce the overall risk of the portfolio, investment should choose assets that have little to no correlation. Hence, the essential aspect pertaining to the risk of an asset is the contribution of each asset to the risk of the aggregate portfolio.

Adjustments :

The Scheria Fund components are not meant to be changed. However the algorithm can send signals on a potential change on the composition.

Calculations frequency

Based on our theoretical support, we only use technology and quantitative methods, with 0 % discretionary intervention. Our investments are run by algorithms to allow investors to get rid of any form of bias that hinders decision making. This implies that automated signals through algorithms command trade on a low latency basis thanks to high frequency data tools. This process enables optimal price discovery across various trading venues.

Weights :

The parameters of the model are the individual weights of each asset in the portfolio, expressed in percentage terms. These constraints include no negative weights (i.e. no short positions) and a sum of weights equal to 100% (i.e. no leftover cash or leverage). Note that additional constraints can be included depending on the objectives and limitations of the fund. They are defined in advance by our algorithm and will be changed on a monthly basis.

Publication and Historical Data

All specifications and information relevant on the Scheria fund are made available on the <https://insulainvestments.com/> web page and sub-pages.

Historical data will be maintained automatically from the launch of the Scheria Fund.

Scheria Fund is the property of Insula Investment.



Fund Guideline Calculation of the Scheria Fund



Scheria Fund formula :

The Scheria fund value on a business day at the relevant time is calculated in accordance with the following formula:

$$Scheria_t = \sum_{i=1}^n x_{i,t} * p_{i,t}$$

With:

$x_{i,t}$ = Number of Shares of the Scheria fund Component i on Trading Day t

$p_{i,t}$ = Price of Scheria fund Component i on Trading Day t in USD

Accuracy and adjustments

MISCELLANEOUS

Recalculation

Insula makes the greatest possible efforts to accurately calculate and maintain its fund. However, the occurrence of errors in the Scheria Fund determination process cannot be ruled out. In such cases Insula adheres to its publicly available Correction Policy.

Market Disruption

In periods of market stress Insula calculates its indices following predefined and exhaustive arrangements set out in its publicly available Disruption Policy.



Definitions and sources



Definitions

The "**Scheria fund universe**" are cryptocurrencies that fulfill the following criteria:

- A cryptocurrency is eligible to enter the Scheria Fund Universe if it's listed by CoinMarketCap.
- A cryptocurrency is eligible to enter the Scheria Fund Universe if the project is related to the entertainment industry.

The "**Scheria fund Component**" is each cryptocurrency currently included in the fund.

Sources:

[1] : <https://datawrapper.dwcdn.net/lPPoP/1/>

[2] : <https://en.wikipedia.org/wiki/Scheria>