**FUND SNAPSHOTs**

**PERFORMANCE**

<table>
<thead>
<tr>
<th>Fund Inception</th>
<th>1 Month</th>
<th>3 Month</th>
<th>1 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/5/18</td>
<td>-2.87%</td>
<td>-29.54%</td>
<td>90.42%</td>
<td></td>
</tr>
<tr>
<td>25/11/2017</td>
<td>-20.39%</td>
<td>-9.12%</td>
<td>518.64%</td>
<td>31.27%*</td>
</tr>
<tr>
<td>31/03/19</td>
<td>-6.14%</td>
<td>-40.53%</td>
<td>283.46%</td>
<td>40.95%*</td>
</tr>
</tbody>
</table>

**PERFORMANCE**

<table>
<thead>
<tr>
<th>1 Month</th>
<th>3 Month</th>
<th>1 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>C20</td>
<td>-22.2%</td>
<td>-16.36%</td>
<td>38.43%</td>
</tr>
<tr>
<td>Top 20 Equally Weighted</td>
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<td>-27.57%</td>
<td>60.24%</td>
</tr>
<tr>
<td>Bitcoin</td>
<td>-6.14%</td>
<td>-40.53%</td>
<td>283.46%</td>
</tr>
</tbody>
</table>

**FUND COMPOSITION**

- **Equity Investments (95.79%)**
- **Liquidity Pool (4.08%)**
- **Listed Tokens (0.13%)**

**CRYPTO INDEX**

**PERFORMANCE**

<table>
<thead>
<tr>
<th>1 Month</th>
<th>3 Month</th>
<th>1 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>C10</td>
<td>-25.47%</td>
<td>-16.58%</td>
<td>496.89%</td>
</tr>
<tr>
<td>Top 10 Equally Weighted</td>
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<td>-16.58%</td>
<td>496.89%</td>
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<tr>
<td>Bitcoin</td>
<td>-6.14%</td>
<td>-40.53%</td>
<td>283.46%</td>
</tr>
</tbody>
</table>

**PERFORMANCE**

<table>
<thead>
<tr>
<th>1 Month</th>
<th>3 Month</th>
<th>1 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBA Fund</td>
<td>-2.87%</td>
<td>-29.54%</td>
<td>90.42%</td>
</tr>
<tr>
<td>BTC Benchmark</td>
<td>2.67%</td>
<td>-40.53%</td>
<td>201.51%</td>
</tr>
</tbody>
</table>

**FUND COMPOSITION**

- **BTC 98.50%**
- **Options Value (1.50%)**

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*Annualized rates*
Another exciting quarter has come and gone and despite the turmoil experienced in crypto markets after mid-May, the Invictus Capital suite of funds has continued to offer investors exceptional returns, with the Hyperion VC (IHF), Margin Lending (IML) and Crypto10 Hedged (C10) Funds all shooting the lights out. AUM is still ticking up, with an average of $145 million under management over June. Hyperion has continued to astound, and we are incredibly proud of the performance of the underlying portfolio that now firmly places the fund within the top tiers of global venture capital fund performance.

Whilst markets are currently taking a breather during the Northern Hemisphere’s summer, it is important to take stock of where we stand following the record-breaking run-up witnessed over the prior six months and recognize that a period of consolidation in the wake of a wave of regulatory uncertainty is likely a healthy market development. Our funds are primarily medium- to long-term investment vehicles, with Crypto10 (C10) & Bitcoin Alpha (IBA) offering downside protection for periods just like this (with C10 up over the quarter, and both funds having outperformed their benchmarks). This offers peace of mind to investors who have doubts about where prices may move next, & during short-lived volatility helps prevent investors panicking and walking away from ultimately good investments that were entered into on a long-term conviction for crypto’s trajectory.

On top of commendable fund performance, we’ve continued to rapidly expand our business, with the incorporation of the Invictus Alpha entity — our trading arm — within the Invictus family. Invictus Alpha is a separate registered entity, with assets entirely ring-fenced and operations segregated from our fund’s operations. We hope to continue to realize synergies between the two companies in order to ultimately benefit our investors.

Alongside this business expansion, the roll out of innovative features for our Investor Platform continued, including greater functionality for the Invictus Wallet and the launch of the first-phase of the Invictus Yield Vault in partnership with Invictus Alpha — with a retail-centric offering in the works. Also planned for release in the coming months is an Android and iOS Invictus Capital app, allowing you to keep track of your investments and interact with the platform securely via your smartphone.

What follows is our most comprehensive quarterly report yet, which includes detailed company updates, comprehensive macroeconomic and crypto market analysis, fund-specific commentary as well as details about how our community token, ICAP, is performing.

We hope that you enjoy the report.
2.2 High level fund performance

Our funds offered commendable performance in a quarter marked by heightened volatility and extreme fear in the Bitcoin and broader cryptoasset market. The simple average return across our suite of seven funds was 9.85% for the quarter, which is equivalent to an annualized return of 45.61%.

The quarter’s admirable returns were largely driven by the incredible performance of the Hyperion VC Fund (IHF), led predominantly by Hyperion’s largest investment to date, Quantfury. The company’s net profit for both 2019 and 2020 in addition to its consistent and exponential growth in trade volumes and global user base has culminated in Invictus Capital revaluing the next-generation trading app to better reflect its intrinsic value. The net asset value (NAV) of IHF as a result appreciated 89.92% for the quarter.

Gold Plus (IGP) and Emerging Markets Solar (EMS), our other alternative investment funds rose 4.86%, and 4.16% respectively. Invictus Capital’s team’s efficiency and effectiveness in implementing arbitrage opportunities was a driving factor in IGP experiencing superior returns relative to its benchmark despite a quarter that saw some volatility in gold markets. EMS’s returns over the quarter were boosted as a result of the rand moderately strengthening against the dollar, in addition to the appreciating value of the IML token that represents a significant portion of the fund.

The performance of our Crypto10 Hedged (C10) and Margin Lending (IML) funds are not to be ignored. Despite the crypto market experiencing its largest ever notional correction this past quarter, C10, using its dynamic cash hedging mechanism to limit the loss of capital, increased by 4.99%. While IML, our leader in risk-adjusted returns, continued to post steady returns, achieving an annualized return of 15.42% due in part to the team implementing alternative yield-generation trading strategies in the face of relatively subdued USD interest rates in the quarter’s last weeks.

The company’s remaining two crypto funds, namely Crypto20 (C20) and Bitcoin Alpha (IBA) were the only two funds to report negative performance, respectively depreciating 9.12% and 29.54% — notably however, IBA outperformed its benchmark over the quarter and C20 generated a record level of yield on the fund, outweighing management fees by a wide margin.

2.3 Invictus wallet enhancement

It was only a year ago that Invictus Capital launched a wallet fully-integrated into the Invictus Capital platform, the Invictus Wallet. Over the past quarter, we have incorporated several enhancements to the Invictus Wallet.

The first of these enhancements hands over control of transaction gas prices to our investors, allowing greater customization and limiting the occurrence of “stuck” transactions when gas prices are volatile. Investors are now able to fully customize transaction fees, ranging from slow to fastest speed and also including an option to choose a custom gas price.

The All Transactions view in the portal has also been expanded to include the history of all transactions performed by the Invictus Wallet, of which pending transactions are now also shown. Furthermore, users are presented with more advanced details and features when opening a transaction card. At the bottom of the
card, the user is shown advanced transaction details, including the nonce, gas limit, and gas price. A user can now also elect to cancel pending Invictus Wallet transactions by selecting the cancel button in a transaction card.

2.4 Invictus mobile app development

Since the launch of the new Invictus Capital Investor Portal in January 2021, 64% of our users have accessed the portal via their mobile devices. To better serve this large portion of our community, as well as to advance accessibility to our innovative investment funds, Invictus Capital is proud to announce that the development of the Invictus Capital Mobile App is fully underway!

The app will be available to both Android and iOS devices, and brings the management of Invictus investments to the palm of an investor’s hand. Preserving all functionality from the Investor Portal, investors will be able to manage their investments, send and receive cryptocurrencies, and stake Invictus fund tokens more conveniently from within the mobile app.

Stay tuned for the launch of the Invictus Mobile App in October 2021!

2.5 Invictus Yield Vault

We are thrilled to announce yet another exciting Invictus offering — the Invictus Yield Vault! The Invictus Yield Vault provides qualifying lenders a fixed reward for loaning their cryptoassets to Invictus Alpha, Invictus’ trading division, for deployment into high-yield, market-neutral strategies.

With so many investors HODLing their crypto, many unwittingly forgo the opportunity to earn additional yield by loaning out their crypto. Despite passive incomes being coveted by so many investors, many of crypto’s existing lock-up channels offer returns contingent on prevailing market volatility. During these times of suppressed crypto demand and regulatory uncertainty, APYs from the largest yield providers have plummeted. The Invictus Yield Vault was designed to address the uncertainty arising from ongoing interest rate variability. With the Yield Vault centred around Coin lenders growing their wealth securely, our competitive high interest rate terms remain fixed for the duration of the cryptoasset loan. This provides Yield Vault Coin lenders a fail-safe opportunity to enhance their returns in the wake of crypto’s most recent lull. This unique selling point has attracted hundreds of lenders to the Invictus Vault since its inception earlier this quarter.

The Yield Vault loan transaction process is incredibly straightforward. Qualifying lenders should loan Invictus Alpha at least $50,000 of their qualifying coins for a predetermined fixed loan period ranging from 3 to 18 months. The Invictus Yield Vault accepts BTC, ETH, TUSD, USDT, BUSD, DAI, and/or USDC. On top of their returned loaned cryptoassets, lenders will receive fixed interest compounded monthly and paid in-kind at the end of the loan period. The loan transaction is legally concluded when both parties sign a standard Master Simple Loan Agreement.

The loaned cryptoassets are used as collateral by Invictus Alpha to fund their market-neutral, yield-generative arbitrage trading strategies. These strategies aim to eliminate capital drawdown risks by perfectly hedging against any crypto price movements. Further, Invictus Alpha reduces counterparty risk by diversifying their arbitrage strategies across FTX, Binance, Huobi, Bitfinex and Okex, amongst other exchanges.
To attain and safeguard market leader status, we are constantly innovating and optimizing the Vault offering. We believe that our highly competitive fixed rates and swelling number of loans will allow the Invictus Yield Vault to be a key driver in Invictus Alpha’s and our lenders’ financial growth. Currently the offer is restricted to those providing a minimum loan valued at $50,000 — due primarily to the administrative burden of implementing these custom agreements. However there is good news for Invictus community members who do not currently qualify for the offering: pending any potential legal hurdles, automation of the Vault investment process — currently on our tech team’s roadmap — will enable us to offer this service more widely, in keeping with the Invictus ethos of democratizing investment access.

For more insight and comparison of the Invictus Yield Vault’s rates against our competitors’, see our recent article. If you qualify, are interested, or want to find out more about this offering, please visit the Yield Vault’s landing page and complete the required information to have our sales team get in touch.

### 2.6 SolStreet.finance

We are delighted to announce our strategic seed investment into a new and promising Solana-based non-custodial asset management protocol. SolStreet aligns with the Invictus vision to democratize access to investment opportunities, and our internal teams have been providing incubation and support in an effort to make the project an overwhelming success. The platform, soon to be in early Alpha on Solana devnet, provides anybody the opportunity to create and raise investment into their own investment fund or to simply invest into others strategies — and Invictus will be the first major cryptoasset manager on the platform. By being hosted on the lightning-quick Solana blockchain, the protocol promises to solve the scalability and performance issues that have hampered previous attempts at successfully creating similar protocols. More broadly, the project aims to encourage and reward responsible investing and help eliminate many of the issues plaguing Wall Street and the wider traditional asset management industry that often lead to investors getting a poor deal. To get involved in the Alpha testing and learn more, read the Medium announcement [here](#) or sign up for the newsletter [here](#).
The ICAP token is aimed at supporting investment returns and helping to facilitate growth in AUM and Invictus Capital’s earnings by leveraging the power of community involvement. The program rewards investors with ICAP tokens when they stake their Invictus investments for predetermined amounts of time. ICAP tokens derive their value from 10.5% of Invictus management and performance fee revenues being allocated to purchasing these tokens from the open market and removing them from supply (buy-and-burn). The program has continued to attract staking inflows over the quarter, and has managed to continue to boost investment returns on the Invictus platform, despite a decline in ICAP prices.

Tumultuous conditions in crypto markets, significantly smaller buy-and-burn contributions, and selling by major holders all contributed to a notable decline in ICAP prices over the quarter, ending down around 40% to around $6. However, the quarter wasn’t all poor, as the trajectory for user growth steepens, the ICAP token continues to become more widely distributed amongst an ever-growing investor community that is generating growing fee revenue. Over the coming months, a large Hyperion Fund (IHF) performance fee contribution bodes exceptionally well for buying pressure emanating from buy-and-burns.

Over the quarter 7,391.4 ICAP tokens were burnt at an average price of $7.426 via buy-and-burns. Buy-and-burn revenue was greatest in May, as crypto fund AUM soared along with IML returns the month prior (buy-and-burns are performed using the prior month’s fee revenues). However, more tokens were burnt in June as a result of a lower ICAP price. At the same time, inflation continued, with the net token supply increase of 73,624 recorded as a result of 81,015 ICAP being distributed. This is down significantly from the first quarter’s net issuance of 107,730 ICAP.

IHF fees remained the largest contributor to buy-and-burns over the quarter, but to a lesser extent than in the previous quarter. Whilst
IHF contributes the largest portion of fees, IHF holders are also the largest beneficiaries of staking rewards, with around 60% of the value of all staked tokens.

3.2 ICAP treasury and governance

The quarter has also seen the total assets held by the ICAP treasury (accruing from early withdrawal penalties) swell to around $45,000. This represents a sizable sum, and offers the opportunity for productive allocation to ICAP-enhancing governance proposals. It is with this in light that we plan to roll out a simple governance protocol over the next few months. The voting procedure will be inclusive of ICAP ecosystem participants who have not, or are unwilling to claim their ICAP rewards; nor will it prejudice those who are contributing liquidity to the ongoing liquidity mining program.

*Includes new IHF valuation of $0.4705*
3.3 Outlook

Buy-and-burn contributions are set to pick up significantly over the next year on the back of a large IHF performance fee being earned. This IHF buy-and-burn contribution will be spread over 9 months following the receipt of South African Reserve Bank (SARB) approval for the repatriation of funds following the sale of Ovex (see section 5.1 covering Hyperion for more details) — with this 9-month period chosen to maximise the number of tokens burnt and provide consistent demand over a longer timeframe. This will represent a massive estimated $44,433 contribution to ICAP buy-and-burns per month, just from Hyperion’s second quarter performance fee. Should SARB approval be received in July, the total buy-and-burn for the month equates to a whopping $58,782, by far the largest to date. These buy-and-burn contributions bode exceptionally well for the ICAP price over the coming months. Buy-and-burns will exclude the Hyperion Fund’s performance fee until SARB approval is received.

Whilst the numbers of ICAP being issued over coming months will continue to decline, a notable pickup in prices would easily improve the yields on offer via staking — helping to drive AUM and fee revenue growth as part of a virtuous cycle.

Virtuous cycle for ICAP price

*After July 2021 buy-and-burn revenue only reflects the guaranteed burn revenue from the IHF performance fee, and buy-and-burn revenue assumes that SARB approval for the sale of IHF’s Ovex stake is received in July.*
4.1 Global macro commentary

4.1.1 Introduction

The second quarter has continued to see global equity indices rise in unison, with the S&P500 breaching a series of all-time highs as the US market continues to outperform the world at large, assisted by resurgent tech stocks. While the trajectory for equities as a whole was much the same as it has been since the depths of the March 2020 meltdown, conditions are quite different now, with longer-term bond yields having retraced in a signal of weakening longer-term growth expectations and a growing belief that central banks might need to tighten monetary policy too early for the market’s liking — with this made likelier by the shockingly high US April inflation reading. This has seen the popular set of reflationary trades fall out of favor. Pandemic hedges and growth companies have again begun to outperform at the expense of companies that would thrive under a full reopening as the Delta variant, vaccine shortages, and vaccine hesitancy all combine to threaten the forecasted economic recovery. Uncertainty thrives, and it remains unclear whether the market has moved too far in discounting these reflationary trades.

Market expectations have shifted on steep inflation readings in the US — outpacing even analysts’ high forecasts — that have increased the probability of the Fed needing to hike rates too early for the market’s liking due to rampant inflationary pressure. This has been exacerbated by a hawkish shift in tone from the Fed, and a bond market that is appearing to signal the long-term path for growth.

Source: Bloomberg.com
has deteriorated (despite these signals being far from clear). Much hangs on the path for fiscal policies, as well as whether the Fed will view potentially persistent high unemployment as a structural issue caused by skills mismatches (implying interest rates can rise while unemployment remains elevated), or one that can be tackled with continued loose monetary policy (with the Fed accepting elevated levels of inflation as a necessary consequence of supporting job creation through low rates).

The former would likely bode poorly for valuations in most asset classes — crypto included. The latter would likely see assets like gold, crypto, and equities perform well, at least in nominal terms, while bonds would crater. In an ideal world, unemployment would come down and inflation would rise but remain under control — the basis for the reflationary trades targeting value stocks that have recently fallen out of favour. However, should coming data points raise the likelihood of the reflationary outcome, reflationary trades are likely to see a revival in popularity amongst rising bond yields. This outcome should not be discounted considering the expected volatility in economic statistics during unprecedented pandemic conditions — many coming off all-time lows.

What follows is aimed at presenting a full picture of the current market dynamics so as to grant the reader greater insight into the market’s turbulence in response to news and data unfolding over the coming months.

4.1.2 Reflationary trades fall out of favor

Whilst earlier in the year markets were beginning to question the logic of the so-called reflationary set of trades that bank on growth picking up rapidly alongside elevated but mild inflation, the second quarter saw the proverbial penny drop, with the spread of the Delta variant and the reintroduction of pandemic restrictions in many regions causing the widespread abandonment of positioning that would thrive under an inflationary growth scenario, as year-on-year US inflation spiked to 4.8% alongside the pickup in economic activity. This move has been exacerbated by an (arguably necessary) hawkish shift amongst central banks, including the Fed, and fading prospects for blockbuster fiscal stimulus in the US, Europe, or China; although another Biden stimulus deal focused on infrastructure does seem likely to pass.

These conditions have seen capital flow into the relative safety of medium- and long-term bonds, with longer-term bond yields reversing almost all of the previous quarter’s market-spoaking rise, but are now deemed to be moving too far in the other direction.

It may be no coincidence that yields peaked in April just as the central bank-driven expansion of the monetary base began to slow — associated with poorer performance on the riskier fringes of the

Source: Board of Governors of the Federal Reserve System
market, as exhibited by the minor pullbacks in commodities, or the larger corrections in crypto assets. However, there are effects running in the opposite direction that mean looking too deeply into this channel might be a mistake.

This yield reversal has also perversely helped prop up equity valuations, despite being linked to weaker growth prospects, as yields are important inputs for many popular equity valuation models. Growth assets, like tech stocks, have been the main beneficiaries, as the market is now more willing to pay for growth now on the expectation that growth will be scarce in the future. Value assets that would thrive under a rapid return to normality have suffered over the second quarter, with much of the rotation since the November “Vaccine Day” now having been erased.

Interestingly, while growth doubts have continued to creep in, those who maintain that record-high equity valuations are fair despite a fallout of conviction in the reflationary narrative might find solace in the fact that performance has largely tracked earnings results and forecasts (which remain overwhelmingly bullish).
4.1.3 Can reflationary trades still prevail?

Whilst those with doubts over the pace of the recovery implied by the reflationary narrative would have felt vindicated by the past quarter’s moves in bond yields, as short-term yields spiked on a hawkish pivot from the US Federal Reserve but longer-term yields actually dipped. This saw the yield curve flatten amongst relatively stable inflation expectations (typically a bearish signal). The prevailing narrative goes that this decline in longer-term yields is not because of any decline in rate hike expectations (as exhibited by the front-end of the curve), but because of weaker expectations for economic growth.

While these theories are supported by economic theory, the data points (such as on inflation and unemployment) driving this new narrative can hardly be deemed reliable because the global economy is moving from an unprecedented standstill into a seemingly full-blown economic boom, with base effects wreaking havoc on the usefulness of any data points viewed in isolation.

Adding additional uncertainty to the equation is the fact that there are technical factors in both the bond and stock markets that in the short term may be countering the fundamental forces at play that will win out in time. One important example is the rapidly-declining balance that the US Treasury holds in the emergency relief fund allocated last year. As the bonds that funded this balance come due and are not reissued, the supply of bonds in the market is being constrained — placing upwards pressure on yields and amplifying the impact of any monetary policy interventions.

4.1.4 COVID-19 risks

There also remain risks in the opposite direction — with COVID-19 mutations threatening a sustained return to deflationary lockdown conditions. As long as major population centers in the developing world remain unvaccinated, COVID-19 has relatively free rein to continue mutating. A significant risk is that vaccine-resistant strains become dominant and send us back to square one. Other risks include insufficient vaccine uptake amongst populations that fail to bring about herd immunity. However, for simplicity’s sake, the
baseline for the analysis that follows will be that vaccines continue to be effective and uptake adequate to eliminate the pandemic’s acute impact over the course of the year in the developed world and China, with the developing world continuing to suffer a larger, but also-fading impact.

4.1.5 Inflation: will it prove transitory?

The Federal Reserve continues to maintain that inflationary pressures currently coursing through the market are likely to be relatively short-lived — indicating their reluctance to raise rates hurriedly. It is important to recognize that the Fed is cornered into saying this, even if they believe inflation will erupt, as by doing so they would certainly provoke a massive stock market correction that may hamper the economy’s ability to even generate inflation.

In the short term, there is no doubt that inflation is being elevated by reopening bottlenecks — with Purchasing Manager surveys globally indicating large order backlogs and container shipping rates at all-time highs as pent-up demand is released in a torrent as economies reopen. As conditions normalize in the coming months, these cost pressures can be expected to abate.

Going forward there are multitudes of factors working in different directions whose interplay will eventually determine inflation’s path, and ultimately the path for Fed policy.

World Container Index - Assessed by Drewry $ per 40 ft container

Source: Drewry

4.1.5.1 Fiscal stimulus

The key regions to watch here are China and the US. The Biden regime, with control of both Congress and the Senate, is likely to continue their spending spree. A large infrastructure bill is currently going through the political machine and likely to find eventual passage. The quality of US infrastructure lags developed economy peers and is ripe for investment, however, any additional demand generated via this channel will prove to be inflationary at first as it pushes employment demand upward alongside commodity prices. In the longer term, efficiency improvements enabled by better infrastructure can be expected to hold back inflation somewhat by expanding the country’s productive capacity, though this is dependent on where and how efficiently the stimulus is directed.
In China, the government has made it clear that excessive stimulus will be avoided at all costs, keeping the outlook for global demand in check and supporting a deflationary narrative (despite strangely pumping out record levels of steel at present). However, should economic conditions in the country deteriorate significantly, all bets are off and excessive stimulus may be forthcoming. This Chinese dynamic is likely to act as somewhat of an automatic stabilizer — lowering the risk for outright deflation as well as runaway inflation.

**4.1.5.2 Maturing Chinese economy**

While Chinese fiscal policy is unlikely to contribute massively to inflation, the experience of the last few decades — with breakneck growth of Chinese manufacturing capacity essentially exporting deflation to the rest of the world — is unlikely to be a driving factor going forward. This is because the Chinese economy is maturing, with the government actively eschewing export-led growth in favor of a more consumer-centric economy.

Relatedly, anti-globalization efforts may prompt elevated inflationary pressure as potential gains from trade are left on the table. Recent trade tensions between the US and China, amongst others, as well as the realization prompted by the pandemic that you cannot always rely on trade between allies, have driven a desire towards self-sufficiency amongst countries — even if this comes at the expense of efficiency.

**4.1.5.3 Savings dynamics**

Research into the effects on consumer spending behavior after previous pandemics suggests a desire to save more — potentially prompted by a need to replenish spent savings, or heightened risk aversion in the wake of a life-changing experience.
to the level of COVID restrictions and the resulting profitability of regional businesses. As the reopening continues, earnings opportunities will improve, and so will wage offers and employment.

The US unemployment rate currently stands at 5.9% with 9.5 million unemployed, admirable considering the 14.8% peak last April. While at first glance the 9 million job openings seem they could quickly bring unemployment close to zero and drive rapid inflation, this is not the case. Even during the best of times there are always job openings — either companies trying their luck offering below-market wages, new positions becoming available as companies grow, or simply as part of the natural churn amongst employees as people change jobs for any number of regular reasons. The figure is unlikely to fall far below its historic average after last year’s once-in-a-lifetime shock. Furthermore, unemployment will be pressured by more work-seekers entering or re-entering the market as employment conditions improve and stimulus check savings run low. These are arguments from the labor market against inflation.

The full picture as to how the pandemic will have changed employment dynamics has yet to emerge. One potential impact would be to prompt a wave of early retirements (in addition to the morbid fact that COVID deaths shrink the labor supply) and improve the bargaining power of labor over capital — driving wage-price inflation and declining returns to capital (implying weaker equity valuations and a potential breakdown of the most optimistic reflationary narratives).

The Fed is unique amongst central banks in that it has a dual mandate of keeping inflation low and stable, while ensuring full employment. Thus the Fed’s views as to what level of employment is achievable will be important in shaping inflationary outcomes, and there is great potential for a misstep in either direction (bringing on deflation or excessive inflation).

### 4.1.5.5 Demographics

In the longer term generational change presents a wildcard. One partial explanation for the persistent malaise in inflation since the global financial crisis is that aging populations in the developed world are altering consumption dynamics in a deflationary direction. This argument makes sense when you consider that the greatest level of consumption — the purchase of houses, cars, and household goods — takes place relatively early in adult life, and peaks whilst building families. The struggles millennials have faced in moving in this direction would have compounded the effect.

However, this dynamic may be turning on its head as the proportion of the very old in society grows. This cohort of society tends to present significant healthcare budgetary challenges, and present a significant drag on countries’ healthcare systems. Furthermore, care of the elderly is incredibly labor intensive and presents a potential...
trigger for the end of decades of wage stagnation. These factors may ultimately prove inflationary and present a key risk that may not yet be accurately accounted for by market participants.

4.1.5.6 Environmental concerns and technological progress

Another explanation for low levels of inflation in recent years is that technological progress has driven down the costs of production and led to declining prices for consumers and simultaneously hidden some deflation in the form of quality, greater variety, and feature improvements. Much of these advances have come at ecological expense. The growing drive to decarbonize energy use is likely to continue gaining steam.

This drive, while ultimately positive for society and economic outcomes in the ultra-long run, presents initial inflationary pressures. These are likely to come in the form of carbon taxes and greater government investment into renewables (both directly and via subsidies) where production capacity to meet this flood of demand is still lacking. Additionally, some early retirement of fossil fuel power generation, and poorer financing conditions for low-cost but polluting industrial and energy projects can be expected. All of these factors are inflationary in both the short and medium term, and pose some risk to the growth outlook.

4.1.6 Conclusion

Ultimately, the future path for the global economy will only become obvious in hindsight. In the interim, we only have the opportunity to speculate on all of the uncertainties at play, and to come to our own conclusions as to how the future will unfold. Anybody who claims to know with certainty how even one of the above dynamics will unfold is unlikely to be somebody you want to take advice from, however, the odds seem stacked towards higher inflation being realized — regardless of how strong or weak growth proves to be.

This should ultimately be a positive for inflation hedges like gold, or Bitcoin, over the longer term. The former is likely to thrive in a stagflationary environment (low growth, high inflation), whilst the latter would thrive under a higher-inflation, high-growth environment that reflationary trades position for. However, too much inflation would not be good for crypto, as it would prompt hawkish intervention from central banks.

4.2 Traditional asset class blitz

4.2.1 Equities

- Continued to perform well in line with improving earnings despite doubts about the reflation trades growing.
- Growth equities outperformed value, reversing the trend of the prior 6 months.
- US continues to outperform as a result of their flagship tech stocks’ dominant industry position.
4.2.2 Bonds

- Longer-term growth doubts prompt resurgent bond demand as yield curves flatten.
- Short-term yields rise with inflation fears, more hawkish Fed.
- Low deviation in returns across bonds signals moves largely driven by monetary policy, with the signals produced muddied by short-term technical factors.
- **Invictus IML Fund** continues to outclass any mainstream bond investment.

4.2.3 Foreign Exchange

- US dollar is driving global forex markets.
- Dollar first weakened significantly as longer-term yields fell and inflation fears rose.
- Later erased most of the quarter’s gains with the Fed’s hawkish shift.
- Chinese yuan moved away from the politically sensitive level of 7/USD.
- **Rand strengthens** significantly on the back of surging commodity export prices, helping EMS achieve stellar 4.16% quarterly returns (17.7% APY).
4.2.4 Commodities

• Bottlenecks and surging demand continued to drive industrials upward.
• Gold rose as weaker dollar and declining longer-term yields boosted relative attractiveness, outlook remains solid and presents favorable risk to reward.
• Record Chinese steelmaking output drove iron ore prices to all-time highs.
• Oil rose on reopening demand, US “driving season” and continued strict OPEC production quotas.

4.3 Cryptoasset market commentary

4.3.1 Introduction

Opening on the back of six consecutive positive months for price action, the second quarter was a game of two halves. The first was a continuation of the unrelenting bull market conditions with which we had all become familiar: a cadence of new all-time highs, shallow dips bought up by an insatiable bid, and any hint of negative news shrugged off as the market hushed the bears.

When Bitcoin was sold off sharply mid-April, attention turned to altcoins, led by Ethereum which broke beyond $3,000, and then $4,000 just a week later. However, this time, Bitcoin had failed to set new highs, and when its support failed, the market experienced its largest ever notional correction, although less severe than previous pullbacks in percentage terms. The range bound conditions which have persisted since have been sobering for crypto investors, who are now afforded a quieter market to assess the damage and review the clues that may have foretold the abrupt pullback. The key question remains, is this a mid-cycle correction, or is the bull market over?

But first, what changed? Although the market was patently bullish, high funding rates and futures premia — indicative of a highly leveraged environment — combined with a volley of negative news and FUD (fear, uncertainty, and doubt) contributed to a sudden and dramatic end to the run. Perhaps the most familiar dark cloud of them all, regulatory news out of China, continued to weigh heavily on the market into the quarter’s end.

The friend and foe of crypto, Elon Musk, had his part to play when he highlighted the unsustainable nature of much of Bitcoin’s mining energy. Halting Bitcoin investments for his electric vehicles, the Techno King of Tesla’s change in heart re-ignited Bitcoin’s energy debate, the substance of which seems critical to the overall mission of widespread cryptocurrency adoption. This sentiment was likely partly to blame for China’s June mining crackdown, which saw all of the country’s mining operations forced to relocate, with the hashrate (a measure of computing power dedicated to Bitcoin mining) plummeting and causing a 28% decline in mining difficulty — the largest ever. Already in April, a flooding accident in a Xinjiang coal mine brought...
the extent of the network’s reliance on coal power, and China, to light, causing one-third of Bitcoin’s computing power to go offline. This confirmed the protagonists’ suspicions, raising not just energy, but centralization concerns. Although clearly having shocked the price in the short term (as mining profitability spikes and Chinese miners are forced to sell Bitcoin to cover relocation costs), the increased awareness and ongoing exodus of miners from China is likely long-term bullish, as it forces miners to relocate, increasing the network’s decentralization and decreasing vulnerability to government intervention.

![Bitcoin's notable decline in hashrate](image)

As covered in the previous quarterly report, the Coinbase direct listing was a highly anticipated event, and a milestone for the cryptoverse. However, the listing ultimately turned out to be a sell-the-news event, as Bitcoin failed to continue its momentum above the $60,000 level despite Bitcoin having garnered significant mainstream attention. Coinbase’s stock (with the unmistakable COIN ticker) also struggled to gather positive momentum as shareholders cashed in on a $100 billion valuation, overwhelming the buy side and causing the stock to drop 20% in its first few days of trading.

Later in the quarter, Tesla sold roughly 10% of its Bitcoin, stress testing liquidity while proving that it could be done without moving the market. Of course, no single event, government agency, nor individual should be pinned as the scapegoat for the downtrend, but the convergence of several factors, including others not mentioned, were a focal point for market participants to take profits.

Having peaked at a $2.577 trillion market capitalization, over $1 trillion in value was lost by May’s low, with prices consolidating in a narrowing range since.

![Total crypto market capitalization since 2020](image)

Despite recent events weighing heaviest on our collective psychology, the underlying trend of value drivers in the space remains firmly up and to the right. By analyzing key developments and the most influential market participants, the following sections aim to explore the probable trajectories of the crypto market.
4.3.2 Crypto going mainstream

The level of crypto adoption is observably increasing on a macro scale as a growing number of people see the sector as a hedge against an unsustainable and inflationary balance of monetary and fiscal policy. As traditional financial institutions continue to lose relevance in the eyes of the masses, accelerated by the disintermediating force of the internet, the doors have been opened for consumers to disrupt the existing power structures which were assumed infallible by previous generations. As Bitcoin matures and crypto offerings expand, more people are adopting Bitcoin as the gateway instrument to catalyze their financial independence. Michael Sonnenshein, CEO of Grayscale Investments, agrees that cryptoassets are a viable tool to hedge against inflation and currency debasement while presenting superior risk-adjusted expected returns. This trend remains intact so long as crypto remains in the adoption cycle and the macroeconomic paradigm of inflation remains.

Over the next 25 years, Cerulli Associates estimates that in the US over $68 trillion of generational wealth will be transferred by 45 million households. Millennials and Gen Z’s are positioned as the key benefactors and — rather than investing solely in traditional assets like bonds and stocks — it’s likely that the crypto market will begin to see a rising average investor portfolio allocation. Demographically speaking, the youth have always been more open to cryptoassets, seeing not only the bullish case but also a viable opportunity through which they may help achieve economic prosperity. Even the NYSE chairman, Jeffrey Sprecher, admits that millennials trust Bitcoin more than fiat currency.

In terms of the total number of users worldwide, crypto adoption is already outpacing that of the internet in 1997. The paradigm shift remains in its infancy, with less than 5% of the global population on board. Global Macro Investor’s Raoul Paul estimates that at the current rate of exponential growth, the number of crypto users will breach one billion by the end of 2023. Combined with greater crypto portfolio allocations amongst the young, this trend implies a momentous redistribution of wealth.

It is no secret that the prevailing climate in Bitcoin’s adoption cycle eclipses that of any previous leg — it’s become more than just the inflated sentiment and emotion associated with previous bull runs, with compelling developments in blockchain technology, an armada of competing developers, and an abundance of institutional funding now present. In a short number of years, the revolution has proven its momentum can no longer be ignored, regardless of the jurisdiction one operates in.

As previously mentioned, Tesla made historic moves earlier this year with their accumulation of Bitcoin and announcement of accepting Bitcoin payments, which crypto proponents hailed as a bellwether of
further institutional adoption of Bitcoin not only as a treasury asset, but for payments. However, this turned sour when Musk announced the suspension of Bitcoin payments, citing sustainability concerns. His mention of energy efficiency shifted the narrative in favor of proof of stake and less energy-intensive blockchains. Although untimely for the price action, sustainability is a necessary conversation for the long-term viability of the ecosystem.

One man who has bet everything but the kitchen sink on Bitcoin over the long-term is Michael Saylor, CEO of MicroStrategy, who continued in his unwavering bullishness. Partly in response to the energy debate that the Techno King sparked, Saylor convened the first meeting and establishment of the Bitcoin Mining Council (BMC). The BMC’s self-declared mandate is “to promote transparency, share best practices, and educate the public on the benefits of Bitcoin and Bitcoin mining”. To the relief of many, the council proudly announced that the Bitcoin mining electricity mix was 56% sustainable in Q2 2021. It must be noted, however, that the methodology which was used to arrive at this figure is disputed by some, but it does signal a step in the right direction.

Boldly, MicroStrategy sought to take on $500 million of debt to buy Bitcoin, receiving over $1.6 billion in orders in under 24 hours, with significant uptake from numerous hedge funds, illustrating ongoing institutional interest in Bitcoin. Saylor went on to announce the purchase of a further 13,000 Bitcoins, adding to the record amounts the company already owned and placing them well at the top of the leaderboard as the largest institutional holder of the cryptoasset with over 105,000 Bitcoin.

While it’s no surprise that controversial tech giants took the initiative in firing up the Bitcoin bandwagon, it’s the interest of investment professionals like Ray Dalio who have shown that Bitcoin’s influence is permeating beyond tech circles. The billionaire investor and co-chief investment officer of the world’s largest hedge fund, Bridgewater Associates, openly admitted he personally owns Bitcoin and premeditatively stated that he would prefer holding it over bonds in an inflationary scenario. With the Fed recently seeming to turn towards a less accommodative stance in response to budding inflation, this scenario may soon become reality.

Palpably, this reality has breached the national front as El Salvador made worldwide headlines in becoming the first country to make Bitcoin legal tender. Effective from 7 September, citizens can look forward to each receiving $30 in Bitcoin, amounting to $192 million worth of Bitcoin, airdropped straight to their wallets as they sign up. Such an event may have previously been considered unbelievable, yet Paraguayan Congressman Carlitos Rejala showed no hesitation in introducing the Paraguayan Bitcoin bill to follow suit. Both countries intend to use excess natural energy resources to carry the crypto mining burden and silence any sustainability maximalists.

4.3.3 On-chain indicators: can this be the bottom?

Regardless of these long-term drivers that make adoption seem inevitable, Bitcoin and cryptoassets still have to contend with extreme levels of volatility. This is owing in part to the general lack of understanding of what exactly is different this time around. We currently find ourselves far from the all-time highs of April, and it becomes prudent to ask whether, in the absence of any black swans, no further steep downturn can be expected? This would make current price levels an excellent buying opportunity.

We refer back to the closely-followed stock-to-flow (S2F) model, which measures the value of scarce commodities, to provide some
rudimentary analysis. Historically, the S2F model has been used to evaluate the current stock of a ‘store of value’ commodity against the quantity of supply that is added each period, with a higher ratio indicating increasing scarcity. The model currently suggests that Bitcoin is currently the most undervalued it has been since Bitcoin’s infancy in 2010.

On-chain evidence also suggests that a growing number of investors, institutional and retail, are taking this opportunity to accumulate and dollar cost average their way into the market in anticipation of all-time highs that many perceive to be an inevitability rather than a speculative product of hope and hunch.

A prime example of this behavior is exhibited amongst seasoned Bitcoin investors on-chain. The graph (below) shows the transition of long-term holders’ net Bitcoin positioning. This metric was first introduced by Adamant Capital, with a positive value illustrating that there is a net increase in BTC positions held by long-term investors. Following the reduction of net positions (selling) throughout the run-up, we see that a net positive change in positions (buying) returned mid-June, supporting the notion that long-term allocations to the dominant cryptoasset that essentially lock up supply for the medium-term continue to be made. In addition, the amount of Bitcoin held on exchanges have hit a 6-month low, signalling little near-term selling intent from long-term investors.

4.3.4 Barriers to entry

Thus far we’ve catered predominantly to the voice of the long-term bull, however, it is vitally important to consider and understand the obstacles standing in the way of broader adoption and investment in the short and medium term. When looking at the past, investors are often led by example — unwilling to allocate significant capital until perceivably more informed and often only after accredited investors have blazed the trail, thereby inducing a more stable and predictable market.
A survey conducted by PWC highlighted some of the insights of traditional hedge funds which are yet to take on crypto exposure. Ultimately, the funds commonly agree that regulatory uncertainty poses the greatest barrier to entry. After this, client sentiment and reputational risk contribute to reluctance to invest into cryptoassets which arguably lie outside the scope of many investment mandates. Simply put, many institutional professionals don’t have enough knowledge on the matter and prefer not to allow a component of chance to embezzle its way into their decision-making process. Another significant barrier is the underdeveloped infrastructure and narrow availability of necessary services (including custody and fund administration) which are currently offered.

Even so, the average percentage of AUM invested in cryptoassets amongst survey participants is 3%, with 86% who are currently invested confirming the intention to increase capital allocation to the asset class by the end of 2021, while the latter 14% plan to maintain the same allocation, passing up the option to reduce exposure. The graph below summarizes the sentiment preventing further adoption. Interestingly, the arguments challenging the fundamentals of cryptoassets, such as whether they are intrinsically valuable and if the current market is in a bubble, are no longer the main concerns, illustrating a growing understanding of the asset class as a whole.

The depth and resilience of these barriers can be summed up as a function of the maturity of the crypto market, with the key takeaway being that many of these obstacles — acting as a great barrier in the way of crypto becoming ubiquitous to the financial system of tomorrow — are set to change in time. Laws and regulations can be proposed, voted upon, and enforced or amended in a matter of a few weeks in some jurisdictions. One outward contention that can be made is that with every regulatory breakthrough in one area, a ripple effect can be expected to follow. The momentum inherent in the price action of Bitcoin due to the bandwagon effect, or FOMO, can almost be extrapolated to the regulatory environment. A prime example is the time it took El Salvador to pass the bill to make Bitcoin legal tender, compared to Paraguay’s subsequent implementation.

4.3.5 Regulatory evolution

As previously mentioned, regulatory uncertainty remains the number one concern for the sector. Regulators and governments have had an inconsistent stance regarding the correct laws and procedures that
should be enforced in crypto markets, even differing with regard to the definition of Bitcoin. The unforgiving volatility of the crypto market, and the widespread nature of scams and dishonest market behaviour, mean that even many of the most bullish Bitcoiners agree that some level of regulation is required.

Gary Gensler, chairman of the SEC and an academic with blockchain expertise, contends that the current system in place is missing a vital component and that there is a need for greater investor protection. Every decade there are technological developments that necessitate updated rules which pivot towards the goal of eliminating market manipulation. With that in mind, Gensler has stated “It’s important that the SEC remains technology-neutral and adheres to their core principles of protecting investors’ capital formation and maintaining market efficiency” and that the SEC will be working with Congress to implement some protection against fraud, manipulation and to perpetuate the integrity of exchanges. Furthermore, the SEC is currently allocating significant time and resources towards the drivers of risk, drivers of value, and climate risks in the crypto space.

According to Gensler, at this point in time Bitcoin doesn’t have that investor protection, which evidently proves to be a significant obstacle for both retail and institutional involvement. Fortunately, numerous countries are exploring the potential for CBDCs (Central Bank Digital Currency) to expand on the progress of blockchain technology — with China likely to be the first to implement one widely following pilot projects in recent years. Considerable progress has been made, with economic efficiency improvements likely to follow in a CBDC introduction’s wake as the elimination of some intermediaries reduces the cost of maintaining the payments system and transacting. However, CBDCs — essentially just digital fiat — are plagued by the same centralization and political risks as fiat currencies.

4.3.6 Institutional involvement

When trying to determine the level of endorsement of a certain technology, much can be ascertained by looking at the industry leaders. BlackRock stands as the world’s largest asset manager with around $9 trillion in AUM. As opposed to a neutral outlook, the managing director, Rick Rieder, reveals that the “technology has evolved and regulations have evolved to the point where a number of people feel it [Bitcoin] should be part of the portfolio.” Without giving too much away, the Chief Investment Officer of global fixed income goes on to admit that BlackRock has started to ‘dabble’ with Bitcoin investment. While no exact percentage was revealed, even a small allocation of $9 trillion would make a tremendous difference.

With that notion in mind, Germany has set forward a courageous effort in support of the widespread acceptance of crypto. With the passing of law towards the end of this quarter, Germany has enabled over 4,000 investment funds to allocate up to 20% of their total AUM to bitcoin and other crypto assets. Considering that the total value of the assets under control by these institutions is around $2.2 trillion, this equates to roughly $415 billion of potential inflows into crypto assets.

Both of these events provide a strong underpinning for the long-term potential of the wider crypto market. It is more conducive to the sustainability of growth to have a small contribution from everyone, rather than a large contribution from only a few. It is worth mentioning that such a transfer of wealth won’t happen overnight and that many of the investment funds may still be wary to invest. Nonetheless, it is still a large step in the right direction, and opens up the door for other institutions and sovereign states to follow suit.

But in the longer term, the significance of potential new crypto allocations is realistic as PWC found that 64% of survey respondents
would actively accelerate investment in digital assets or at the very least consider changing their approach and significantly advance participation if the main barriers to entry were to be removed (the perceived largest barrier to entry amongst survey participants is regulation). Another survey by Nickel Digital Asset Management looked at institutional investors and wealth managers from the UK, US, France, Germany, and Dubai found similar results, in which 82% of institutional investors expect to increase cryptoasset exposure by 2023. As displayed, most crypto funds are relatively small with less than $10 million in AUM. However, a more comprehensive amalgamation of supporting services such as administrators, auditors and custody solutions would fundamentally contribute to a more favorable investment environment and help grow these funds out of their infancy.

As the crypto industry continues to grow, more stock market participation can be expected to further encourage adoption and cement cryptoassets’ place at the table. This integration is breaking out into the mainstream with monumental public listings such as the Coinbase IPO, and now the providers of the USDC stablecoin, Circle, announcing their intention to go public. The Circle SPAC (Special Purpose Acquisition Vehicle) listing is a first for any crypto company and estimates suggest a staggering $4.5 billion post-deal valuation. These developments have seen Michael Novogratz, CEO of Galaxy Digital Holdings Ltd., opine that a critical mass of institutional engagement has been reached this year.

A subset of traditional financial institutions are gradually improving current offerings, motivated by growing user demand. One impressive example is VISA’s crypto-linked card service racking up over $1 billion worth of crypto card transactions in the last 6 months from their 400,000 users. The table below shows that many of the banking behemoths have openly announced the addition of crypto offerings with the potential for further improvements to the services in the future. While many banks still err on the side of conservatism, big names like JPMorgan Chase, Goldman Sachs, Morgan Stanley, and Bank of America have taken the initiative to explore the profitable opportunity that lies within the crypto trading environment. In aid of meeting the demand for the newly added services, JPMorgan is hiring for over 70 blockchain-related positions, with knowledge and experience in cryptoassets. Similarly, Fidelity Digital is increasing their workforce by over 100 to meet the growing institutional demand. Other big institutional players like Wells Fargo Wealth & Investment Management, which manages around $2 trillion in assets, have also evolved their crypto stance with the announcement of a new cryptoasset investment platform for qualified investors. While many institutions don’t currently offer any crypto-related services, there’s certainly no shortage of them in the pipeline.

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Conversely, we see that many other institutions remain firmly rooted in the current status quo until further notice. This includes the CEO of HSBC stating that he has no plans to launch virtual currency investments. However, if the regulatory environment evolves in favor of crypto, these institutions would probably be forced to reconsider their stance on crypto service offerings, lest they fall behind the competition. Mathew McDermott, Global Head of Digital Assets at Goldman Sachs, explains that client demand is one of the main driving forces behind the new crypto offerings. Instead of relying on a highly paid research team and CEO experience to decide the verdict, it’s about simply giving the people what they want.

Lastly, there’s been widespread institutional involvement among the largest Chinese banks, however in this case working against crypto bulls. This was demonstrated by a Beijing-based software maker being shut down by China’s central bank for alleged crypto trading in violation of the nationwide clampdown. The order to cancel the company’s business registration painfully exhibits that the government may be serious about eradicating the risks of cryptoassets contributing to financial instability. In fact, the deputy governor of the People’s Bank of China warrants that cryptoassets issued by private institutions have become speculative weapons that fundamentally compromise financial security and social integrity.

While these actions have created significant bearish Bitcoin sentiment, it is worth emphasizing that China still remains bullish on the technology as a whole, with significant government funding towards blockchain and AI developments. The nation preferably wants to introduce the people to the crypto space through an instrument that they can control, unlike Bitcoin. In pursuit of this, the country’s CBDC, the digital yuan, is the closest to being ready for launch amongst global nations. The CBDC already boasts over 10 million eligible participating users.

Considering blockchain technology developments, several institutional investors have publicly embraced Decentralized Finance (DeFi). With the widespread adoption of crypto, institutions are aware of the disintermediating threat of DeFi and are looking at ways to participate. With self-executing transactions and non-custodial protocols, there is always an attractive level of certainty and control.

### 4.3.7 Polygon — Ethereum’s layer 2 solution within DeFi

The broader cryptoasset ecosystem provides promise to investors in the form of DeFi — mostly built on the Ethereum network. The potential value accrual of DeFi suggests substantial upside potential for not only DeFi applications themselves, but Ethereum and third-party layer 2 solutions like Polygon (formally known as Matic). While Bitcoin and Ethereum are layer 1 blockchains that act as the settlement layer for all transactions on the network, layer 2s are overlaying frameworks built on top of the underlying blockchain.
Ethereum in its current form can only process about 15 transactions per second, culminating in several existential issues such as slow transaction speeds, and extremely high gas (transaction) fees as a result of network congestion — average transaction fees spiked to over $70 in May. And while it is hoped that Ethereum 2.0 will improve scalability and reduce gas fees, it will be some time until the upgrade is complete. During periods of network congestion, high gas fees make interacting with Ethereum DeFi prohibitively expensive for all but very large transactions, pricing out the smaller participants the industry is touted to serve. The Ethereum blockchain therefore needs alternative solutions today.

This is where layer 2 solutions come into play; these solutions get built on top of the base chain/layer in order to improve on scalability. Layer 2s, while benefiting from the security of the main chain (Ethereum) offer ways of increasing transaction speeds and scalability, processing thousands of transactions per second, which is key if Ethereum is to achieve mass-market adoption.

By far the standout performer over the last quarter in the layer 2 arena is Polygon, an interoperability and scaling protocol and framework for building and connecting Ethereum-compatible blockchains. The protocol is exploring and leveraging various scalability solutions and technologies (Optimistic Rollups, Matic Plasma, ZK-Rollups) in addition to standalone chains (Sidechains, Enterprise Chains, Matic PoS Chains) to achieve its objective of launching interoperable blockchains.

Following its mainnet launching last year, the Polygon ecosystem has gained significant traction among new and established projects and users. Currently, Polygon hosts $8bn of assets on their network and has seen uptake from some of the biggest DeFi projects in the space, including SushiSwap, 1inch, Aave, and Curve. The project has also grasped the attention of billionaire Mark Cuban, serial entrepreneur and a recent crypto enthusiast, and hopes to onboard highly-anticipated projects like EasyFi, Aavegotchi, and Cometh. Notably, there seems to be a strong network effect taking place further bolstering the Polygon ecosystem and seeing it surge ahead of competitors as large projects rush to join. This network effect was certainly behind Polygon-native DEX Quickswap’s allocation of about $5m (~3% of its total Quick token supply) to reward Aave users on Polygon, helping to further incentivize users to migrate to QuickSwap’s chain and drive trade volumes.

Dubbed “Ethereum’s Internet of Blockchains”, Polygon is doing a great job adding additional scalability to Ethereum and improving interoperability between blockchains. Furthermore, by decreasing gas fees and improving user experience, it has provided a timely solution, helping to democratize access to DeFi beyond the initial cohort of early adopters. And if Ethereum DeFi is ever to reach its full potential then solutions provided by the likes of Polygon will be required to scale the network in combination with Ethereum 2.0.

Invictus remains steadfast in its migration of all blockchain transactions to the Polygon layer 2 blockchain to reduce transaction costs for investors. The significant undertaking from a backend and blockchain engineering perspective is expected to be complete early in the fourth quarter.
Fund Reports
5.1.1 Venture commentary

The rise of the crypto ecosystem has brought with it the promise of new opportunities for the Venture Capital (VC) and Private Equity (PE) markets across the globe. Traditional VCs have begun to diversify their holdings into the emerging asset class at an unprecedented rate, with a plethora of new funds consistently launching to take advantage of the asymmetric returns that have formed as a result of the most recent bull run. Little spurs growth for an industry more than investor interest, and the crypto market has been receiving this in abundance. Watching the recent Austrian Grand Prix was a true eye-opener as to how big crypto has become over the past year, with crypto-centric advertising spread across both the track and F1 cars. All over the world, crypto products and services have been thrust into the spotlight. It is surreal to see just how fast this technology is spreading into the mainstream.

In the previous quarterly report we spoke about the unique phenomenon of price being a leading indicator for startup growth within the crypto asset class. With renewed bullish sentiment kickstarting a fresh crypto rally towards the backend of 2020, we have witnessed a resounding uptick in new investors entering the market. Given the paltry, and in some cases negative yields on bonds, cash and other traditional asset classes, investors have been allocating capital to asset classes that have the ability to generate returns an order of magnitude higher than their counterparts. The crypto market has certainly been a beneficiary of these yield-seeking tactics by investors, and with this, a new wave of startups have emerged.

Due to the specific nature of combining both capital and expertise, VC is coveted as a powerful means to drive global innovation, job creation and macroeconomic growth. The largest companies in the world have all required some form of financing in order for them to scale and become a meaningful contributor to society. VC allows for the visionaries and entrepreneurs to achieve their desired end goals and thereby further optimize the sector in which they operate. This kind of innovation for an emerging sector such as DLT/Blockchain is an invaluable contributor to the continued growth of the market. Within the blockchain sector lies a number of sub-categories, all of which aim to complement one another and further strengthen the ecosystem in which they serve. The table below shows some of the sub-categories and startups that facilitate this ecosystem. Each new startup that emerges adds further efficiencies to the sector and creates a compounding value effect for the industry as a whole. This further entices new businesses and customers to enter the market and valuable scaling to take place.

Categories by business model

![Categories by business model](source: Coinshares Research)
With each bull cycle the crypto market goes through, another fresh wave of VC funding enters the space as startup activity gets reignited. We saw a surge in funding rounds concluded throughout the 2017/18 bull market, with VCs setting record investment numbers at the time exceeding $7 billion. 2021 however, is shaping out to be the biggest year on record thus far. According to Pitchbook data, the first 6 months of this year garnered over $17 billion in VC funding, already eclipsing all previous years combined. Andreessen Horowitz, one of the largest and most prolific VC firms in the world, having invested in startups like Facebook and Instagram, has recently raised over $2.2 billion for their third crypto-focused VC fund. “The size of this fund speaks to the size of the opportunity before us: crypto is not only the future of finance but, as with the internet in the early days, is poised to transform all aspects of our lives,” commented Katie Haun, a partner at Andreessen. One sector in particular that has seen an immense amount of value accrue within the blockchain sphere has been Decentralized Finance (DeFi) protocols.

Decentralized finance and VC

Every few decades it seems that an inflection point is reached and economic models for businesses tend to evolve. Until the mid-90s, the business world functioned primarily from centralized models whereby companies would maximize shareholder value through the sale of goods and services they created within their corporate structure. With the advent of the internet, companies were able to broaden their customer reach and optimize their product targeting in a way they could never have achieved in the past. Industry, market, and consumer data were all of a sudden used to enhance operations and allowed for companies to scale incredibly quickly. This paved the way for many businesses to migrate from a centralized economy to what can be referred to as a platform economy. Think of businesses like Uber, Facebook, Amazon, and AirBnB. Titans of their industry yet they own no cars, content, stock, or property respectively. These platforms generate value from their contributors, stakeholders, and end consumers, creating a mutually beneficial platform and 2-way incentivized business model.

The success of these platforms, however, still relies on centralized entities controlling their ultimate fate. Decentralized Finance can be seen as a further evolution of these platforms, and the latest inflection point for business model evolution. The concept of DeFi need not relate specifically to the finance sector here, but ultimately the ability for any decentralized protocol to autonomously run a business economy without the need for any centralized entity conveying ultimate control. Instead, it is the users of the protocol who are ultimately responsible for its success, an incredibly valuable proposition.

Source: PitchBook

Venture capital investments into the crypto Industry

Source: PitchBook
The potential for alpha generation continues to be the driving force behind capital being deployed in crypto startups, both from specialized blockchain VCs and their traditional mainstream counterparts. Blockchain-focused venture capital has shown to outpace traditional private equity returns on nearly all time frames according to Cointelegraph's Blockchain Venture Capital Report. These outsized returns, coupled with the fact that many of these investments are uncorrelated with the main cryptoasset market, provide an incredibly attractive investment opportunity for VC funds.

Over the past 2 years, and specifically the last year, DeFi platforms have grown immensely in size. Total Value Locked (TVL) across a range of DeFi projects amounted to over $88 billion at its peak in 2021, according to Defi Pulse. This is more than 80x the TVL of the year prior. TVL measures the sum of cryptoassets locked up in protocols that aim to replicate basic traditional financial services such as lending and trading. This booming phenomenon has caught the attention not just from its users, but a new crop of VC firms looking to fund the next big thing. According to Pitchbook data, VC investors have backed 72 DeFi startups this year, and the list keeps growing. Investors seem confident that these applications stand a good chance of rewiring the financial system over the longer term. At the current pace that capital is flowing into the blockchain industry, coupled with immense talent and drive from technologists and entrepreneurs alike, we can be certain that this sector is poised for rampant growth over the coming years.

### VC-backed DeFi companies proliferate

Source: #Hashed

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According to cryptofundresearch.com data, the current number of blockchain-focused VC funds outstrips the number of specialist hedge funds. This can largely be attributed to the growth prospects of this emerging industry, along with the decorrelation of the secondary market. The potential for achieving multiples on your ROI when investing in a high-growth sector startup is significantly higher than other sectors that have seen their growth rates taper or mature. Hedge funds on the other hand will primarily invest in digital
assets that have already been founded and created a foothold in the secondary market post their initial high-growth phase. The return profiles are therefore vastly skewed in favor of startup investing, much like the tech boom in the 90s. One thing is for certain, no matter what growth trends you look at in the blockchain sector, they are all pointing in one direction.

The close of the second quarter marked the 3rd anniversary of the Hyperion Fund. It has been an exciting time for both the investors, and us at Invictus Capital, as we embarked on a world’s first in terms of fund design. Given the restrictive fund mandates that exist across the traditional asset management industry, most retail investment funds are currently unable to allocate a portion of their portfolio to digital assets. This will change in time as regulatory frameworks catch up. As it stands, however, in order to gain exposure to this burgeoning asset class, retail investors need to access the market directly themselves. As a result, a large number of hedge funds and venture capital funds that focus exclusively on actively managing digital asset exposure have emerged.

These funds are typically only accessible to qualified investors and institutions and generally bar retail participation. Amongst the key benefits of the Hyperion Fund, and the rest of the funds available via the Invictus Capital platform, is that they allow for individuals to not only gain the benefits of liquidity, but also to acquire exposure to illiquid venture capital opportunities within the blockchain sector. Venture capital by nature is a long-term investment, however, investors often need to access capital for various reasons. Instead of locking up your funds for 10 years, IHF token holders are able to freely add to their investment, or disinvest as they please, an immensely valuable attribute.

5.1.2 Hyperion Fund overview

The Hyperion Fund is renowned as the world’s first tokenized venture capital fund. The team at Invictus Capital has democratized an asset class that was previously only accessible to qualified investors or institutions. Through fractional tokenization, fund participants are able to gain custom exposure to early-stage investments in the field of blockchain technology. Launched in June 2018, the fund has proven to be a huge success over the years, providing investors with a sound return profile and secondary market liquidity.

5.1.2.1 Secondary market trading

IHF tokens currently have their primary centralized exchange listing on HitBTC, with total trade volumes in the region of 17 million IHF for H1. This excludes the liquidity located on the decentralized exchange, Uniswap, which provides an alternate means to trade your
IHF. The token price is generally bound to the Net Asset Value (NAV) price per token that Invictus Capital calculates on a quarterly basis, which is made available on the website. The IHF token may, however, trade at a discount or premium to the NAV price, based on supply and demand dynamics. For a large part of 2021, the IHF token has traded within a relatively tight band around the fund NAV price. This bodes well for token holders who have held their tokens since fund inception, as they have the opportunity to realize a fair return on their investment. In some cases, the token has traded at a premium to NAV, which indicates that prospective investors are generally bullish on the underlying portfolio and its longer-term prospects.

5.1.2.2 IHF staking

On the 1st of January 2021, the ICAP rewards program was launched by Invictus Capital. This allows for long-term IHF token holders to put their tokens to use and earn an additional yield for staking their fund tokens for predetermined amounts of time. It has been a pleasure to see that most of the Hyperion investor community has taken part in this initiative, with over 60% of all IHF tokens (74 million) being staked for periods of up to one year. Venture capital should be considered a long-term investment by traditional standards, generating value from its portfolio companies as their visions come to fruition over the years. It may therefore be worthwhile for token holders who have not already staked their IHF tokens, to take a look at the ICAP rewards program and assess for themselves as to whether it is a good fit for their long-term strategy. For more information, please see the ICAP webpage.

5.1.2.3 Company valuation methodology

Valuing any company, whether it is a startup that is pre-revenue or a large publicly listed company, can be a tough exercise. It is certainly not an exact science and is often relative at best. An investor not only has a number of valuation methodologies to choose from, but each method requires a number of subjective assumptions to make that can greatly alter the final valuation.

Valuations for early-stage or startup companies can be even more challenging as there is often no reliable financial data to draw conclusions from. Market forces will often play a key role in determining a startup’s valuation. Factors such as supply and demand for capital within the sector (which is often inextricably tied to sector growth rates), quality of the founding team, and the unique selling point of the product or service. It will also be about finding a balance between the risk tolerance and ownership desires of the investor, coupled with the founding team maintaining a meaningful equity stake to stay incentivized and motivated. For startups, the
Hyperion Fund will generally aim to receive a stake of 10-25% of any investment made.

When valuing a company that has financially matured since the seed round and has accumulated some financial data, valuation methodologies become more quantitative than qualitative by nature. The most common valuation methods include the Discounted Cash Flow (DCF), the Multiples, and the Comparables analysis. The

$$DCF = \frac{CF_1}{(1 + r)^1} + \frac{CF_2}{(1 + r)^2} + \cdots + \frac{CF_n}{(1 + r)^n}$$

DCF method aims to forecast future cash flows generated by the company. The more data available the more reliable the valuation can be. The analysis will extrapolate future cash flows into the future and discount them to the present value at a specified required rate of return. This can be tricky as both the growth rate of future cash flows, and the discount rate applied, can greatly alter the final valuation.

It is therefore best to combine a number of different valuation methods and determine some middle ground between them all. Ascertaining some comparable company multiples and applying them to the company at hand can assist in finding a valuation to settle on. Calculating equity multiples such as Price/Earnings, Dividend Yield, Price/Sales, or enterprise value (EV) multiples such as EV/Revenue and EV/EBITDA are common. These can then be compared to industry standards for the stage and sector of the business.

There are a vast number of methods to use, all of which cannot be covered in this report. The method to use ultimately depends on the business being valued and the unique attributes of the business environment and growth trajectory. For private companies, there is no secondary market to trade shares as in the case with publicly listed companies. It is therefore incredibly difficult to make an exit at the desired valuation for a private company as your bargaining power is greatly reduced. It is therefore common to add discounts to the valuation for both lack of marketability and lack of control in the case of minority stakes.

For Hyperion, we are aware that the IHF token holders would like to have the highest valuation possible for each of the underlying portfolio companies. It is also in the best interest of Invictus Capital to have high valuations as our fees are largely driven by these valuations. We do however firmly stand by our fiduciary responsibility to maintain unbiased valuations, and always aim to value a company at a price that we can reasonably expect to receive in a secondary market sale. The team is not in the business of over-valuing companies as this can greatly reduce the integrity of the fund and therefore the NAV.

5.1.3 Performance

Since the Hyperion Fund inception in June 2018, the fund has returned over 6x for its token holders, an achievement that we at Invictus Capital are incredibly proud of. This quarter saw some major events happen across our portfolio companies, including an exit, an impairment, and a revaluation. The portfolio companies are in an incredibly strong position moving forward and we have the utmost confidence that there will be significant growth still to come in the future. Total IHF return since inception equates to 515%. The IHF token currently has a NAV of $0.4705, representing an appreciation of 89.9% for the quarter.
5.1.3.1 Quantfury revaluation

Quantfury has continued to amaze us. Since their launch at the end of 2018, they have realized consistent growth in both their trade volumes and global user base. In keeping with responsible valuation methodologies, the team at Invictus Capital patiently waited until we had enough data to comfortably revalue the portfolio’s biggest investment to date. Given Quantfury’s exceptional net profits for 2019 and 2020, coupled with their exponential growth rates across all metrics continuing into 2021, we can safely revalue the company to a valuation that is more aligned with their intrinsic value. We are unable to publicly disclose the market valuation at this time, however, we can say that there is significant room for further upside in the near future. Well done to Quantfury and the team!

5.1.3.2 OVEX sale agreement

During the second quarter, Invictus Capital was able to negotiate a sale agreement between Ovex and the Hyperion Fund. This is an incredibly exciting milestone for the Fund, as this marks the first exit deal signed by the Fund since its inception in 2018. It is important to note that to make a successful exit in venture capital is incredibly difficult unless the company in question conducts an IPO or gets acquired. Sales of privately-held equity are generally quite rare and are often accompanied by large discounts and rigorous negotiation. We are very happy to announce that the Hyperion Fund signed a sale agreement that valued Ovex at our target valuation as per the Q1 report. Consideration for the sale was agreed to be made in a combination of both cash and locked Serum (SRM) tokens. The portion of SRM tokens will unlock linearly over a 6 year period, with the cash portion being made available upfront. The Hyperion Fund will therefore take on the exposure of 539,063 SRM tokens, which
will be sold on a monthly basis, as they unlock, for liquidity needs in the form of either fees and/or buy-and-burns. The Ovex team has requested that the total deal size and valuation remain confidential.

Due to Ovex being domiciled in South Africa, local exchange control laws apply. The relevant authority is the South African Reserve Bank (SARB) and the exit deal is subject to its approval. We expect a response from the regulatory authorities in the coming weeks and anticipate a favorable outcome. Once approved, the deal will be finalized and the Fund will receive consideration. Only after consideration is received, will the relevant buy-and-burns for both ICAP and Hyperion start to take place. Currently Ovex is valued in the Hyperion Fund as per the sale agreement, the NAV will therefore reflect the live value of SRM in the Fund on a daily basis. We wish Ovex well in their future endeavours, and we are incredibly happy to have been a part of their enormous success story in South Africa.

5.1.3.3 Cryptobuyer impairment

It was with great sadness in March that we learned of the passing of Jorge Farias, Cryptobuyer CEO, founder, and respected leader in the Latin American blockchain community. The Cryptobuyer team was on the cusp of launching their fiat integration with their new exchange, Cryptobuyer PRO, before the untimely passing occurred. The team was put in a difficult position after his passing and are currently needing to reassess Cryptobuyer’s future as a going concern. Given the makeup of the shareholding of the business, the future is currently uncertain, and it may take some time before the estate of Jorge is wrapped up, and a vision going forward becomes clear. During this time, the Hyperion Fund will be removing the value of the investment from the NAV to ensure that nothing is overvalued. Hyperion has engaged legal consultants in the region who are currently in correspondence with the remaining shareholders. Based on the outcome of these communications, the team at Hyperion may or may not revalue the position to its original value. The Cryptobuyer position was not significantly large relative to the rest of the Hyperion portfolio, and therefore the impairment does not have a considerable impact on the NAV. We will keep our community informed on any developments that arise out of the matter.

5.1.3.4 Buy-and-burn announcement

Due to the sale of Ovex and the pending influx of liquidity into the Hyperion Fund, we are proud to announce that the Hyperion Fund will be committing a total of $1,085,392 to buy-and-burns. $500,000 will be allocated from the upfront cash component received and will be used for buy-and-burns within 3 months, with the remaining $585,392 being allocated over the following 12 months to provide consistent price support to the IHF orderbook. This buy-and-burn allocation will ensure that the IHF token NAV will receive sufficient price support in order to validate the new IHF token NAV of $0.47.

The mandate of the Hyperion Fund is to allocate 50% of all realized returns to buy-and-burns, once the fund has achieved a Net Asset Value in excess of $30 million. Since the fund has now exceeded this threshold, 50% of all realized returns will be allocated to purchasing tokens off the open market and removing them from circulation. The recent inflow of liquidity will first be allocated to settling outstanding liabilities and fee accruals that the fund had carried over from previous quarters. The remaining liquidity in the form of cash and SRM tokens was valued as at 30 June 2021, of which 50% has been allocated towards buy-and-burns. Even though a large performance fee has accrued to the Hyperion Fund this quarter, Invictus Capital has committed to first ensuring that our loyal investors receive their
allocation of the returns, before Invictus Capital receives their full portion of the latest fees. All realized returns going forward will therefore be split 50/50 between buy-and-burns, and paying down the fee accrual on the fund. It is important to note that buy-and-burns will start to be conducted only once the South African Reserve bank has given approval for the repatriation of funds from the sale of Ovex, which is expected to occur in the coming weeks. This is a standard regulatory procedure in any country with foreign exchange controls.

Throughout 2020 a number of buy-and-burn events took place. The purpose of the buy-and-burn is to distribute value back to token holders and allow fund participants to realize a fair value for their holding should they wish to exit their position. This is conducted in the same manner as share buybacks which are done in the traditional equity markets as an alternative to dividend payouts. The buy-and-burn activity will inextricably tie the IHF token value to the Net Asset Value per token that the Invictus Capital team calculates on a quarterly basis. A total of $268,531 was used in 2020 to conduct buy-and-burns which resulted in a total of 3,189,917 tokens being purchased and then burnt, reducing the total circulating supply. Due to these tokens being purchased below the prevailing token NAV, an additional $166,685 worth of value was captured for long-term token holders. For further information on the buy and burn mechanics, please see the Hyperion section of the annexure.

5.1.4 Outlook

The second quarter of 2021 marked the greatest Hyperion NAV increase to date. The fund has returned in excess of 6 times its starting valuation since inception on 1 June 2018. This is incredible performance and is certainly outperforming most of the traditional venture capital funds across the globe. The fund over the past 3 years has seen its fair share of portfolio company impairments, however, this is exceptionally common amongst VC funds and is ultimately the nature of startup financing. Roughly 10% of traditional VC fund investments account for 90% of the ultimate fund returns. In the case of Hyperion, we have made 1 exit at a significant multiple to our original contribution, and have 2 remaining portfolio companies, both of which have already appreciated in multiples of their original valuation. With the upcoming buy and burn, the IHF token price is poised for rampant appreciation towards the new NAV of $0.47. The large performance fees accrued to Invictus Capital due to the increased NAV, will also translate to large buy-and-burns for the ICAP token over the coming months, which should drive the ICAP token performance for IHF investors who have staked their tokens. Altogether it has been an incredibly successful quarter for Hyperion, and the future looks good for our remaining portfolio companies.

5.1.5 Hyperion portfolio company updates

Quantfury

You will struggle to find a company that has achieved such a massive amount of growth in such a short space of time as Quantfury. After launching at the very end of 2018, in two and a half years, the team has managed to scale their business into a highly profitable entity, facilitating billions of dollars in trade volume on a monthly basis. Trade volumes throughout the quarter were setting records yet again, reaching nearly $14 billion per month.

The native Quantfury token, QTF, was listed on Bitfinex on the 26th May. This is an incredible milestone for the company, as the larger Quantfury community are now able to purchase QTF tokens directly off the secondary market and share in the success story of
Quantfury. For more information on the QTF token, please see the token [website](#), or visit the QTF Token Telegram [chat](#).

Finally, the much anticipated Quantfury web version has now gone live! Quantfurians are now able to not only have access to global markets at their fingertips via the trading app, but are now able to trade directly from the web app as well. To sign up for the web version, please see the Quantfury website [here](#).

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**syntropy**

Syntropy is another one of Hyperion’s portfolio companies that has been growing immensely. One need not look further than the Jobs portal on their newly revamped [website](#) so get an indication as to just how healthy this company is. Throughout the quarter, as their tech development matured, the team began a gradual release process with the initial launch of [Syntropy Stack](#) and the [DARP Genesis Node Event](#), which allowed for initial developer adoption and the genesis of a global routing intelligence network.

Upon launch, Syntropy Stack gained rapid developer traction coming only from organic reach. They now have over 2,000 developers actively using Syntropy Stack. With the recent hiring of [Jeff Lacouture](#) as their Chief Revenue Officer, Syntropy is preparing a global marketing push to drive the next phase of adoption for their tech solutions that will give everyone a simple and efficient way to use their network.

The Genesis Node Event validated Syntropy’s DARP protocol in a live, public Internet environment, proving it can produce an unprecedented number of optimizations across the Internet, improving around 70% of total routes. Growth over the next six to twelve months will prove an order of magnitude higher than anything they have experienced before. The technology is maturing fast, and the first large sales cycles are already in progress.

The team at Syntropy has also released their much-anticipated [tokenomics](#) for the NOIA token, the fuel that drives the network economy. For anyone interested in taking part as an early adopter of this revolutionary technology, it is highly advisable to take a look at this article. For further updates, please also read the [mid-year update](#) from their CEO, Domas Povilauskas.
5.2.1 C20 in review

<table>
<thead>
<tr>
<th></th>
<th>C20 Fund</th>
<th>Top 20 (equally weighted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized returns</td>
<td>31.27%</td>
<td>38.42%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.97</td>
<td>0.99</td>
</tr>
<tr>
<td>Sharpe ratio</td>
<td>0.78</td>
<td>0.83</td>
</tr>
<tr>
<td>Max drawdown</td>
<td>93.23%</td>
<td>89.19%</td>
</tr>
<tr>
<td>Fund launch date</td>
<td></td>
<td>25 November 2017</td>
</tr>
<tr>
<td>Management fees</td>
<td></td>
<td>0.5% p.a.</td>
</tr>
<tr>
<td>Investment currencies</td>
<td></td>
<td>BTC, ETH, USDT, TUSD, BUSD, DASH</td>
</tr>
</tbody>
</table>

After opening the quarter with a token value of $3.29, Crypto20 continued on its path of exponential returns in April and May, peaking at a value of $6.03 on May 10. This marked a run-up of 83% on top of the 221% rise registered in Q1. While many market participants were unable to match the pace of the altcoin market, Crypto20 investors were able to capture an outsized share of the crypto boom. Contrary to this upside, the bearish conditions which followed erased the quarter’s gains, eventually closing out June at $2.98 per token, 9% down for the quarter.

Offsetting this drawdown, the continued scaling of the fund’s futures strategies, along with the high margin lending rates for cryptoassets and USD in the leveraged market environment, earned the fund an additional $1,160,694 — an almost 4x improvement from Q1 and over twelve times the quarter’s management fee, strengthening the case for investors to gain broad market exposure through C20. The returns were especially lucrative due to the surge in demand for additional capital, as the heightened lending market activity enabled the fund’s automated margin lending software to capture significant returns. In the wake of the market’s downturn, the fund was able to scale more exposure into futures positions while basis rates were extremely low, and in some cases negative (some futures were in backwardation, trading at a discount to the spot price). This not only locks in the discount but enables the fund to free up additional capital to earn yield.

C20 was able to gain significant outperformance over the benchmark — an equally weighted top 20 index, as well as Bitcoin. While C20 lost 9%, Bitcoin lost 41% and the benchmark lost 16% to see the quarter through. This was due to the rebalancing methodology which was evidently valuable in the highly volatile market. By capping each individual asset at 10% of the fund’s overall exposure at the weekly rebalance, profits are effectively taken on the week’s outperformers.
and redistributed throughout the remainder of the portfolio. This was critical as the cyclical price increases for various altcoin sectors could be captured whilst allowing the fund to mitigate exposure. Dogecoin, the standout performer which arguably needs a y-axis of its own, continued to defy all expectations, posting a 372% increase for the quarter. Alongside the satirical memecoin, the other positive performers were Solana (+83%), Ethereum (+19%), Cardano (+16%), Vechain (+4%), and Binance Coin (+0.4%). On the other hand, Filecoin (-68%), Terra (-65%), and Polkadot (-56%) saw the largest drawdowns. C20 was able to outperform 20 of the 27 assets that formed part of the fund throughout the quarter.

5.2.2 Portfolio movements

The high volatility of the bull market, along with the ever-increasing competitiveness for top 20 spots by market cap, saw the replacement of 4 assets by the quarter’s end. Polygon (MATIC) found its way into the top 10, a welcome sight for investors who now have exposure to layer-2 scaling technology. The broader market’s recognition of Polygon’s value aligns with Invictus’ ongoing development on Polygon which ultimately aims to evolve the investment experience for our community.

Although not a first-time fund constituent, Ethereum Classic’s return was unexpected by many. After gaining favor as a “cheaper Ethereum” on popular retail apps like Robinhood, the Ethereum fork continues to garner attention, with Grayscale’s Ethereum Classic Trust now holding over $600 million.

The holding amounts per asset and equivalent US dollar value at the end of the quarter can be seen in the following table. Further details can be found in the annexure.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rank (Q2 Movement)</th>
<th>Amount</th>
<th>$ Equivalent as at 30/06/2021</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>BTC</td>
<td>1(-)</td>
<td>142.63</td>
<td>4,992,395</td>
<td>8.91</td>
</tr>
<tr>
<td>ETH</td>
<td>2(-)</td>
<td>3,115.79</td>
<td>7,071,158</td>
<td>12.62</td>
</tr>
<tr>
<td>BNB</td>
<td>3(-)</td>
<td>17,876.94</td>
<td>5,407,027</td>
<td>9.65</td>
</tr>
<tr>
<td>ADA</td>
<td>4(-)</td>
<td>3,899,801.07</td>
<td>5,373,408</td>
<td>9.59</td>
</tr>
<tr>
<td>DOGE</td>
<td>5(▲ 9)</td>
<td>20,166,942.28</td>
<td>5,098,854</td>
<td>9.10</td>
</tr>
<tr>
<td>DOT</td>
<td>6(▼ 1)</td>
<td>233,465.51</td>
<td>3,793,323</td>
<td>6.77</td>
</tr>
</tbody>
</table>

Sources: Invictus Capital, CoinMarketCap (top 20, Bitcoin data)

Over the past year, C20 has outperformed the benchmark by 172% (516% vs. 343% for the benchmark, while Bitcoin grew 282%), with a far-superior Sharpe ratio (2.40 vs 2.14), showing that the fund strategy has managed volatility in a superior manner and has recently had a preferable risk-reward structure to an equally-weighted portfolio.
As we aimed to convey in the crypto market commentary, the outlook remains as strong as ever over the medium- to long-term, while the current market conditions are more challenging to predict with as much conviction over the short-term. The fund’s composition continues to mature towards being diversely exposed to the key sectors which crypto pundits are most optimistic about, covering the dominant verticals of the ecosystem. The fund’s longer-term holders are well acquainted with the upside that this dynamic fund mandate can deliver, although no parabolic rise should be expected without downside risk. While the continued scaling of the fund’s operational improvements is expected to keep delivering additional upside, the lion’s share of the fund’s success remains bound to the capital appreciation for which digital assets are known best.

<table>
<thead>
<tr>
<th>Token</th>
<th>#</th>
<th>Value</th>
<th>Market Cap</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNI</td>
<td>7</td>
<td>140,132.31</td>
<td>2,672,696</td>
<td>4.77</td>
</tr>
<tr>
<td>BCH</td>
<td>8</td>
<td>4,576.64</td>
<td>2,403,746</td>
<td>4.29</td>
</tr>
<tr>
<td>SOL</td>
<td>9</td>
<td>66,490.69</td>
<td>2,375,730</td>
<td>4.24</td>
</tr>
<tr>
<td>LTC</td>
<td>10</td>
<td>16,291.55</td>
<td>2,342,111</td>
<td>4.18</td>
</tr>
<tr>
<td>LINK</td>
<td>11</td>
<td>106,199.01</td>
<td>2,061,954</td>
<td>3.68</td>
</tr>
<tr>
<td>MATIC</td>
<td>12</td>
<td>1,537,513.02</td>
<td>1,781,797</td>
<td>3.18</td>
</tr>
<tr>
<td>THETA</td>
<td>13</td>
<td>244,425.61</td>
<td>1,692,147</td>
<td>3.02</td>
</tr>
<tr>
<td>ETC</td>
<td>14</td>
<td>28,303.36</td>
<td>1,641,719</td>
<td>2.93</td>
</tr>
<tr>
<td>XLM</td>
<td>15</td>
<td>5,655,123.72</td>
<td>1,591,291</td>
<td>2.84</td>
</tr>
<tr>
<td>VET</td>
<td>16</td>
<td>15,698,860.07</td>
<td>1,423,197</td>
<td>2.54</td>
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<tr>
<td>FIL</td>
<td>17</td>
<td>20,140.29</td>
<td>1,210,277</td>
<td>2.16</td>
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<tr>
<td>TRX</td>
<td>18</td>
<td>17,458,289.55</td>
<td>1,182,262</td>
<td>2.11</td>
</tr>
<tr>
<td>XMR</td>
<td>19</td>
<td>4,376.78</td>
<td>969,343</td>
<td>1.73</td>
</tr>
<tr>
<td>EOS</td>
<td>20</td>
<td>232,593.00</td>
<td>958,136</td>
<td>1.71</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>$56,031,364</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

5.2.3 C20 outlook

Ethereum 12.01%
Polkadot 10.23%
Binance Coin 10.23%
Bitcoin 9.72%
Cardano 9.22%
Uniswap 5.53%
Litecoin 4.99%
THETA 4.65%
Chainlink 4.55%
Filecoin 4.44%
Bitcoin Cash 3.86%
Stellar 3.56%
Terra 2.80%
Dogecoin 2.61%
TRON 2.49%
VeChain 2.13%
Crypto.com Coin 2.03%
Solana 1.98%
Kusama 1.58%
FTX Token 1.43%
CRYPTO INDEX

Crypto10 Hedged
The Crypto10 Hedged fund opened the quarter at a value of $5.47 and continued to rise throughout April and into May, reaching a peak token value of $8.52 — marking a further 56% return following the fund’s 120% growth in Q1. During the bearish market conditions that followed, the fund was able to protect against downside exposure with the hedging algorithm determining cash allocations ranging between 50% and 80% during June and July. The fund closed the quarter at a token value of $5.73, up 5% while the benchmark of an equally weighted portfolio without cash hedging lost 17% as broader crypto markets cratered alongside Bitcoin’s 41% fall. This exemplified the fund’s key value proposition: diverse exposure to the top 10 cryptoassets while limiting the loss of capital and smoothing out returns. In doing so, C10 secured a third consecutive quarter of positive performance since a narrow 1% loss in Q3 of 2020, which was itself the only negative quarter of that year. Following the fund’s peak in assets under management of over $17.5 million on May 10, the subsequent price action saw the fund close with $12.8 million in assets at quarter-end.

Lending and staking activities during the quarter earned the fund an additional $34,326, covering 45% of the quarter’s management fees.

The fund’s priority to protect from capital drawdown places restraints on the lending activity since the fund’s assets can in no situation be lent out for any longer than a week due to the weekly fund rebalance. Although this results in lesser lending returns, the value conserved by the downside protection is at least an order of magnitude larger.

As is evident in the comparison between the fund and its benchmark, 14% of April’s upside was missed, until the fund’s ability to hedge market drawdown saved its investors from significant losses in the liquidation-driven drop that followed. It was during May and June that most of the outperformance over the benchmark was secured, 7% and 21% respectively. This meant that C10 recovered its position over the benchmark, with since inception outperformance now at 1.8% annualized. The fund has achieved this performance with far less volatility, as measured by the standard deviation (0.61 vs 0.94 for the benchmark). The higher Sharpe ratio (1.58 vs. 1.31 for the benchmark) proves C10’s superior returns per unit of risk. This return profile remains elusive within the cryptoasset ecosystem, where moonshots abound, but few are equipped with risk-mitigation strategies such as C10’s.
5.3.2 Portfolio movements

The losses incurred by the fund’s constituents are most evident, although three of the fund’s largest holdings posted positive performance: Ethereum (+19%), Cardano (+16%), and Binance Coin (+0.4%). Observant readers will note that two of C20’s top performers, Dogecoin and Solana, posted negative returns for C10. This is because the performance shown is measured only over the period during which the assets were in the fund. Polkadot (-56%), Bitcoin (-41%), and Chainlink (-34%) were the fund’s largest detractors over the quarter. Although 9 of the 12 assets included in the fund over the quarter posted negative returns, C10 managed to post a healthy positive return of 5%.

Two of the fund’s oldest holdings, Stellar Lumens and Chainlink, were dropped from the index over the quarter, replaced by Dogecoin and Solana. Despite its farcical history, the attention and community backing of Doge, and Elon’s ongoing interest in maximizing its base layer transaction rate, even if misguided, represent a lucrative and entertaining opportunity. In terms of actual layer-1 scalability, the rapidly growing Solana ecosystem is widely considered a probable solution to many blockchain-based financial applications at a fraction of the cost, and remarkable speed.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rank (Q2 Movement)</th>
<th>Amount</th>
<th>$ Equivalent as at 30/06/2021</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>2,542,700.12</td>
<td>2,542,700</td>
<td>19.84%</td>
<td></td>
</tr>
<tr>
<td>BTC</td>
<td>1(-)</td>
<td>42.72</td>
<td>1,499,011</td>
<td>11.62%</td>
</tr>
<tr>
<td>ETH</td>
<td>2(-)</td>
<td>715.03</td>
<td>1,625,433</td>
<td>12.6%</td>
</tr>
<tr>
<td>BNB</td>
<td>3(-)</td>
<td>5,073.79</td>
<td>1,537,712</td>
<td>11.92%</td>
</tr>
<tr>
<td>ADA</td>
<td>4(-)</td>
<td>1,109,533.66</td>
<td>1,531,261</td>
<td>11.87%</td>
</tr>
<tr>
<td>UNI</td>
<td>7(-)</td>
<td>27,592.21</td>
<td>528,911</td>
<td>4.51%</td>
</tr>
<tr>
<td>SOL</td>
<td>9(-)</td>
<td>13,104.25</td>
<td>468,280</td>
<td>3.53%</td>
</tr>
<tr>
<td>DOT</td>
<td>6(-)</td>
<td>45,876.01</td>
<td>749,505</td>
<td>2.76%</td>
</tr>
<tr>
<td>BCH</td>
<td>8(-)</td>
<td>901.41</td>
<td>474,730</td>
<td>4.13%</td>
</tr>
<tr>
<td>LTC</td>
<td>10(-)</td>
<td>3,204.66</td>
<td>461,829</td>
<td>3.77%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>$12,900,265</td>
<td>100.00</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
5.3.3 C10 outlook

C10 remains a stalwart of many Invictus investors’ portfolios, and for good reason given its track record and ability to counter the Achilles’ Heel of crypto investing: sharp drawdowns. Now firmly in the 8-figure USD range, the fund’s investment thesis is gradually coming to fruition, although the nascent stage of crypto adoption suggests that this is still just the beginning. At the quarter’s close, the fund’s 20% cash component reflected a degree of prudence from the ever-emotionless cash hedging algorithm. As the next leg of the market cycle continues to reveal itself, the fund is poised to adapt to available data and deliver healthy returns for investors confident in its thesis, and thus continues to offer a suitable vehicle for those building a crypto position in their overall portfolio. actively managing your portfolio.
CRYPTO

Bitcoin Alpha
5.4.1 IBA in review

<table>
<thead>
<tr>
<th></th>
<th>IBA Fund</th>
<th>BTC Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized returns (since inception)</td>
<td>107.52%</td>
<td>249.39%</td>
</tr>
<tr>
<td>Standard deviation:</td>
<td>0.70</td>
<td>0.78</td>
</tr>
<tr>
<td>Sharpe ratio:</td>
<td>1.39</td>
<td>1.99</td>
</tr>
<tr>
<td>Max drawdown:</td>
<td>39.99%</td>
<td>49.43%</td>
</tr>
<tr>
<td>Fund launch date:</td>
<td>13 August 2020</td>
<td></td>
</tr>
<tr>
<td>Management fees:</td>
<td>0%, performance fee only</td>
<td></td>
</tr>
<tr>
<td>Investment currencies:</td>
<td>BUSD, BTC, ETH, TUSD, USDT</td>
<td></td>
</tr>
</tbody>
</table>

Marked by extreme fear in the Bitcoin market, the quarter capped off a tumultuous few months for the largest cryptoasset by market cap; jitters in traditional markets, intensified Chinese regulatory action (including a shutdown of all mining activity), clampdowns on Binance from financial regulators in the UK, Thailand and the Cayman Islands, and environmental concerns all contributed towards the sell-off. The dramatic exodus of Bitcoin miners from China to the West caused the hash rate (a measure of computing power allocated to ensuring the security of the Bitcoin network) to plummet and subsequently resulted in the largest mining difficulty adjustment in Bitcoin’s history.

IBA succeeded in its mandate, providing investors downside protection during times of market stress while targeting 100% exposure to Bitcoin price movements at all times. Given Bitcoin’s dramatic fall during the quarter, and true to its mandate of providing downside protection, the IBA fund has outperformed its Bitcoin benchmark over the quarter, depreciating 29.54% against Bitcoin’s 40.53% tumble.

However, while outperformance was achieved, the fund did unfortunately not meet its objective in May of limiting drawdown in any month to 10% (with the Fund declining 23%, and Bitcoin falling 45%). This was due in large part to the fund realizing profits on its May put options after the initial sharp decline in the price of Bitcoin, but before the entirety of the dip had played out. The fund management team at that point deemed further downside unlikely and determined it would be prudent from a risk-reward perspective to lock in gains before a potential rebound. Performance has furthermore been hampered somewhat by the high cost of put protection during these bearish months, and limited opportunities to generate high safe yields in the latter half of the quarter.

Notably, the fund still boasts lower annualized standard deviation and max drawdown than Bitcoin since its inception. The former, a common measure of the historical volatility of an asset, illustrates that the IBA fund’s return profile remains a smoother ride for investors than pure Bitcoin exposure.
5.4.2 IBA outlook

Despite the negative headlines and Bitcoin continuing to trade in a sideways/downtrend over the past few weeks, many on-chain indicators have now reset and are starting to signal the potential for bullishness. This includes the amount of Bitcoin held on exchanges which is currently at a 6-month low. In addition, legendary investor George Soros’ investment fund has recently started trading Bitcoin — continuing the trend of institutional adoption. While the market crash in May saw the exit of numerous short-sighted investors, many stepped in to buy the dip, fully aware that these price levels are relatively cheap in the context of long-term future price expectations.

More importantly, both the issue around Bitcoin environmental sustainability and China’s outsized influence on crypto were potential long-term problems for the success of the crypto ecosystem. While there is no doubt the short-term impact is negative for prices, we, like many, expect the outcome of each to have a positive material impact on Bitcoin in the months and years to come. As has been the case in Bitcoin’s history — those who have the ability to look through the temporary sell-offs and FUD, will be the ones who benefit the most. The long-term investment case remains attractive for investors in the IBA fund.

When investing in a fund strategy such as this, investors are advised to take a longer-term outlook. No asset price rises in a straight line without experiencing downside volatility. For the cryptocurrency market — which in the grander scheme is still firmly in its early adoption phase — this is especially true, and the Fund’s value proposition is expected to continue to shine over the coming years.

Importantly, IBA incurs no management fee and only takes a performance fee on lifetime outperformance over its Bitcoin benchmark (subject to a high-water mark). This approach ensures that Invictus Capital’s interests are aligned with those of its investors, and reaffirms the company’s confidence that the Fund’s strategy will outperform Bitcoin over the long-term.
5.5.1 IML in review

<table>
<thead>
<tr>
<th>IML Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized returns in Q1 2021</td>
<td>15.4%</td>
</tr>
<tr>
<td>Annualized returns (since inception)</td>
<td>12.9%</td>
</tr>
<tr>
<td>Highest monthly return (annualized)</td>
<td>23.6% (Jan 2021)</td>
</tr>
<tr>
<td>Lowest monthly return (annualized)</td>
<td>5.4% (Apr 2020)</td>
</tr>
<tr>
<td>Fund launch date</td>
<td>13 November 2019</td>
</tr>
<tr>
<td>Management fees</td>
<td>2%</td>
</tr>
<tr>
<td>Investment currencies</td>
<td>BUSD, TUSD, USDT</td>
</tr>
</tbody>
</table>

The second quarter of 2021 showed once more the value in holding a significant portion of one’s portfolio in safe haven assets like Invictus Capital’s Margin Lending Fund. The fund’s returns remained steady over the quarter despite almost every cryptoasset losing significant value due in part to Bitcoin’s relatively overheated technicals, intensified Chinese regulatory action (including a shutdown of all mining activity), and Musk’s Bitcoin ESG backtracking.

The IML fund, in stark contrast, has grown over the past quarter, despite heightened volatility ending Q2, up 3.65% from Q1, increasing in value from $1.212 to $1.256. The annualized return of the fund over the quarter (15.42%) and since inception (12.87%) has again outperformed the fund’s hurdle rate of 6%, further cementing itself as a leader of risk-adjusted returns.

IML continues to experience little to no drawdown and a linear profile of returns since its launch in August 2019, both of which can be seen in the above graph. Small fluctuations in the IML Token NAV are a result of volatility experienced in the value of the fund’s stablecoin holdings, which can trade at a slight premium or discount during volatile market conditions like those experienced over the past quarter. The fund is once more a firm favorite among investors, with net investments exceeding $2,000,000 in Q2 alone. Driven by new investments into the fund, assets under management grew a whopping 37.34% to end the quarter at $7,992,479.
Despite weakening sentiment within the broader cryptoasset markets, the public and private USD-based margin lending markets have maintained a relatively strong and steady return profile over the half-year period. However, given the subdued lending rates currently on offer, the Invictus capital team has implemented alternative yield-generation trading strategies including but not limited to private lending and interest rate arbitrage.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>% Change versus previous quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Loans Provided</td>
<td>20,557</td>
<td>75,325</td>
<td>24,149</td>
<td>-67.94%</td>
</tr>
<tr>
<td>Total Number of Funding Offers</td>
<td>147,978</td>
<td>145,866</td>
<td>125,948</td>
<td>-13.65%</td>
</tr>
<tr>
<td>Percentage of Offers Accepted</td>
<td>13.89%</td>
<td>51.64%</td>
<td>19.17%</td>
<td>-62.87%</td>
</tr>
<tr>
<td>Average Loan Duration (Days)</td>
<td>9.43 days</td>
<td>14.06 days</td>
<td>38.13 days</td>
<td>171.19%</td>
</tr>
</tbody>
</table>

The decline in the number of loans provided compared to the previous quarter (-68%) was offset by the increase in the average loan duration which increased 171% from 14 days in Q1 to 38 days in Q2. This dichotomy was a result of IML’s proprietary algorithmic lending platform locking in rates at attractive interest rates for longer durations. Additionally, as rates were relatively subdued in June, the fund decided to hold back on deploying all capital, instead employing additional yield generation tactics.

5.5.2 IML outlook

Although providing collateralized loans to traders looking to open leveraged positions has been around for a while now, it has gained a new appeal for investors recently as the market experiences its latest bout of volatility.

While short-term sentiment may err on the side of the bear, long-term sentiment is certainly bullish. From this, we can deduce that higher trading volumes are expected, led by an increase in demand for leverage, and buoyed by the consistent rollout of new margin lending services across crypto platforms. As a result, upwards pressure on lending prices and therefore an increase in daily annualized rates is expected. This by extension would lead to increased risk-adjusted returns for investors of the IML fund.

```
Asset | Q4 2020 | Q1 2021 | Q2 2021 | % Change versus previous quarter
-------|---------|---------|---------|---------------------------------|
Tether (11.86%) |  |  |  | |
USD (88.03%) |  |  |  | |
```
5.6.1 IGP in review

<table>
<thead>
<tr>
<th></th>
<th>IGP Fund</th>
<th>GLD Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized returns (since inception)</td>
<td>7.61%</td>
<td>2.91%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.17</td>
<td>0.2</td>
</tr>
<tr>
<td>Sharpe ratio</td>
<td>0.52</td>
<td>0.24</td>
</tr>
<tr>
<td>Max drawdown</td>
<td>16.55%</td>
<td>18.77%</td>
</tr>
<tr>
<td>Fund launch date</td>
<td>21 April 2020</td>
<td></td>
</tr>
<tr>
<td>Management fees</td>
<td>0.75% p.a</td>
<td></td>
</tr>
<tr>
<td>Investment currencies</td>
<td>BUSD, USDT, TUSD</td>
<td></td>
</tr>
</tbody>
</table>

This past quarter saw notable volatility in the gold market, with spot prices rising to end the quarter just shy of $1,800/toz after peaking at around $1,900/toz late May.

Invictus Capital is proud to report that in Q2 2021 the Invictus Gold Plus continued to outperform the benchmark GLD ETF, ending the quarter with a NAV per token of $1.09. This represents an increase of 4.81% (compared to the benchmark’s 4.61%) and extends outperformance since inception to 5.47%.

The spot gold market has experienced significant weakness since mid-2020, however, this has not prevented IGP from fulfilling its mandate in offering improved returns relative to the ultra-popular and globally-traded GLD ETF.

Outperformance to date has extended to every major comparative metric, including a lower standard deviation, a dominant Sharpe ratio, and a lower maximum drawdown. The ability of the fund to successfully utilize arbitrage opportunities as they become available in the digital gold markets ultimately drove the bulk of the momentum behind the funds’ superior performance.

5.6.2 IGP outlook

Throughout history, gold has been embedded within the human consciousness as being a safe haven. Gold’s use in this domain is unlikely to be threatened significantly in the coming years as ultra-loose monetary and fiscal policy likely continue to propagate globally — despite competition from certain cryptoassets, which aim to fill the role as a superior store of value. The previous quarter’s economic growth doubts — if they continue — are likely to provide further support for gold prices as a result of growing risk-off sentiment and a related further decline in real bond yields (lower safe yields on offer from the bond market makes holding gold as a safe haven asset relatively more attractive).

As central banks are likely to be left with no choice but to suppress bond yields (and government debt repayments) in order to facilitate continued expansionary fiscal stimulus, long-term forecasts tend to favor the inflationary outcome prevailing, with traditional investors expected to flock to the golden pastures they know best. A stagflationary, or highly inflationary recovery would both help prop up the gold market, however, the risk of a deflationary scenario playing out would likely see the yellow metal suffer somewhat.
5.7.1 EMS in review

The Emerging Market Solar Fund performed well and continues to generate incredible returns with low volatility and a resultant high Sharpe ratio. EMS was successful in achieving its mandate, providing value as a great, low-risk diversification instrument that generates stable, uncorrelated returns over the long-term, whilst simultaneously contributing to the global green energy initiative. The EMS fund offering therefore contributes to an overall positive social impact.

The fund's value drivers are predominantly determined by the revenues generated by the solar cell investments, which are denominated in the South African rand. The rand strength over the quarter — led by surging commodity export volumes — has helped to bolster returns in dollar terms. Since a significant portion of the fund is also invested into the IML Fund, the IML token price is also a key driver of Fund performance, and continues to generate strong upside for EMS investors despite weakness in the broader crypto markets. This diversification into IML provides benefits to investors, namely diversification that helps smooth the overall returns, as well as being a liquid asset that helps ensure that any investor redemption requests can be met in a timely fashion.

<table>
<thead>
<tr>
<th>EMS fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized returns (since inception)</td>
</tr>
<tr>
<td>Standard deviation:</td>
</tr>
<tr>
<td>Sharpe ratio:</td>
</tr>
<tr>
<td>Max drawdown:</td>
</tr>
<tr>
<td>Fund launch date:</td>
</tr>
<tr>
<td>Management fees:</td>
</tr>
<tr>
<td>Investment currencies:</td>
</tr>
</tbody>
</table>

5.7.2 EMS outlook

As the constitution of the Fund's solar investments are by nature stable returns denominated in South African rand terms, rising inflationary tensions and continuing fiscal action in the US could cause the dollar to be faced with significant downward pressures, culminating in further strong EMS performance. However, there do remain a number of short-term risks to the South African economy that may ultimately require greater inflationary fiscal policy intervention from the government, with inflationary implications for the rand. Aside from this exchange rate risk that impacts the solar cell valuations, the outlook for the portion of the fund allocated to IML remains strong, insulating the fund from any potential rand depreciation. The forecast for EMS therefore remains positive and we foresee continued strong risk-adjusted returns going into the 3rd quarter.
06 QUARTERLY REPORT TEAM

Andrew Knight  
VP of Analytics

Jason van Eck  
Creative Design Lead

Jason Welz  
Analyst

Jason Peckham  
Analyst

Ryan Berelowitz  
Analyst

Ruben Coetzee  
Junior Analyst

View the full Invictus team here
Annexure
i. Hyperion

Investment philosophy:

The Hyperion Fund is renowned as the world's first tokenized venture capital fund. The team at Invictus Capital has democratized an asset class that was previously only accessible to qualified investors or institutions. Through fractional tokenization, fund participants are able to gain custom exposure to early stage investments in the field of blockchain technology.

The Fund aims to take equity positions during seed or series A financing rounds, and partners with underlying investments through their growth phase. The Hyperion Fund portfolio is currently composed of 99.77% equity positions, with the remainder being a combination of liquid assets.

Hyperion token dynamics:

Venture capital, by nature, is a long-term investment. We foresee most IHF token holders to therefore adopt a buy-and-hold strategy with their tokens, in order to ride through the valuation cycles of the portfolio. Due to this, the IHF token will not be traded as a high-frequency asset like many of the other tokens or coins in the market. The token may trade on exchange at a discount to its Net Asset Value (NAV) during periods of low volume. The trading price, however, should be bound to the NAV of the fund due to market forces and the buy-and-burn related stimulus.

Value distribution from the fund will be tied to the token as follows:

Each IHF token represents a proportional share in the Hyperion Fund. In the case of the Hyperion Fund, the underlying assets are not liquid, and thus, the fund cannot offer an on-demand redemption function synonymous with an open-ended mutual fund. In order for the listed trading price of IHF (price on exchange) to track the NAV price per token (the price determined by the Fund's managers), there needs to be some form of value distribution to token holders that ties directly to the intrinsic value of the Fund. This is done by implementing the token buy-and-burn protocol. Much like a share repurchase in traditional markets, the Hyperion fund will place buy orders on exchange below, and up to, the prevailing NAV price per token. This method distributes fair value back to token holders wishing to liquidate their holdings. The accumulated tokens are then removed from the supply, resulting in a realizable NAV price per token.

In the scenario where the IHF token is trading at a discount to NAV at the time the buy-and-burn is implemented, a number of IHF tokens in the order book will be purchased below NAV until the prevailing spot price reaches the NAV price per token. In this case, the buy-and-burn will result in an increased NAV price per token for remaining token holders, subsequent to the purchased tokens being removed from the supply. This strategy has been effectively implemented across asset classes - from Berkshire-Hathaway to Binance's BNB. Therefore, should a discount occur on exchange it may present a good buying opportunity for those looking to hold over the longer term.
Buy and burn:

The original fund mandate states that the IHF token buy-and-burn protocol will only be implemented once the net asset value of the fund reaches $30 million. Now that this milestone has been reached, 50% of all realized returns will be allocated towards buy-and-burns. Realized returns are defined as the sale of illiquid assets in the fund that settle in liquid assets that are able to be sold for cash or cash equivalents. Only once all outstanding liabilities on the fund have been settled, and the buy-and-burn portion has been allocated to the market, will the Hyperion fund then be in a position to start accumulating more cash for investments. The Hyperion fund will reserve the right to first settle liabilities on the fund before allocating realized returns to buy-and-burns. As it stands, however, realized returns are split 50/50 between buy-and-burns and the settlement of liabilities, until such time as the liabilities, predominantly in the form of fees, are paid off.

The purpose of the buy-and-burn is to distribute value back to token holders and allow fund participants to realize a fair value for their holding should they wish to exit their position. For more information on how the overall value distribution to IHF token holders is conducted, please refer to the Medium article released here.

Fund performance:

We do not publish specific ownership details of equity holdings in Hyperion as these details may allow for sensitive information to be reverse engineered. Generally, however, it is accepted that 'venture capital' is defined as an equity stake of between 10 and 30% and is often paired with an exit horizon of three to seven years.

Venture capital funds invest in private companies which are not required to publish financial reports (unlike public companies which are required to do so) and tend to keep critical information like valuation and performance data private for competitive business reasons. We will, however, always strive to be as transparent as possible with IHF token holders.

This report reflects the NAV per token as assessed by the Hyperion management team and fund managers as of 30 June 2021. Note that this report has not been audited or reviewed by auditors and that the NAV calculation is determined internally using industry accepted standards. Equity positions are held at cost, unless further equity rounds or a change in the company financials justify a revaluation.

Conservative valuation methods are always applied with discounts for lack of marketability of minority stakes. It is important to remember that these calculations are used only as a guideline to determine the underlying value of the IHF token at the date calculated. The market value of the token may trade at a discount or premium on exchanges subject to relative supply and demand forces.
Hyperion fund fees:
By comparative standards, the Hyperion venture capital fund charges significantly lower fees than traditional VC funds. The global industry standard for private equity and venture capital fees usually follow the standard 2/20 (or even 3/30) model. That is, 2% management fees and 20% performance fees. The ongoing management fees charged by the Hyperion Fund are 1.5% per annum, accrued on a monthly basis. The performance fee is 12.5% on the token NAV outperformance over its high-water mark on a quarterly basis. For a detailed example of how these fees are calculated, please refer to the Hyperion Litepaper. Fees for Q2 2021 are as follows:

<table>
<thead>
<tr>
<th>Management Fee</th>
<th>$149,344</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Fee</td>
<td>$3,808,567</td>
</tr>
</tbody>
</table>

Management fees:
Management fees of 0.5% per annum are charged to the fund, and accrued for on a daily basis. Fund values are recorded daily at 12PM UTC. Average fund values are then recorded for each month. Management fees paid by the fund for the quarter are as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Average fund Value (USD)</th>
<th>Management Fee (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>76,632,971.90</td>
<td>32,209.67</td>
</tr>
<tr>
<td>May</td>
<td>86,047,607.10</td>
<td>35,545.28</td>
</tr>
<tr>
<td>June</td>
<td>61,650,079.30</td>
<td>31,911.23</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>74,776,886.10</td>
<td>$99,666.18</td>
</tr>
</tbody>
</table>
EXECUTION OF FUND RULES

The fund was rebalanced on a weekly basis throughout the quarter in adherence with the fund rules. As stipulated in the fund’s whitepaper, management decisions listed below were made to exclude a cryptoasset from the index. Where a cryptoasset is excluded, the next inline coin in terms of market capitalization is included in the index.

Exclusions from the C20 index for the quarter

<table>
<thead>
<tr>
<th>Coin/Token</th>
<th>Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tether (USDT), USD Coin (USDC), Binance USD (BUSD)</td>
<td>This is a stablecoin and due to the nature of the project, this was never included in the C20 portfolio.</td>
</tr>
<tr>
<td>Wrapped Bitcoin (WBTC)</td>
<td>This is a tokenized version of Bitcoin (BTC) that runs on the Ethereum blockchain.</td>
</tr>
<tr>
<td>Ripple (XRP)</td>
<td>Ripple was excluded due to an ongoing SEC lawsuit that risks a liquidity crisis on reputable exchanges.</td>
</tr>
<tr>
<td>Internet Computer Protocol (ICP)</td>
<td>Excluded due to circulating supply ambiguity.</td>
</tr>
</tbody>
</table>

We manage to minimize slippage in the weekly rebalancing by employing the following strategies:

• Rebalancing automatically across all exchanges with best prices being executed first.
• Executing trades across multiple exchanges in order to minimize our impact on market prices.
• Preventing front running by reporting the rebalance portfolio after the completion of rebalancing trades.
## Q2 2021 Statistical Summary

<table>
<thead>
<tr>
<th>Operational Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebalances performed</td>
<td>14</td>
</tr>
<tr>
<td>New coins included</td>
<td>MATIC, ETC, XMR, EOS</td>
</tr>
<tr>
<td>Coins falling out of the index</td>
<td>LUNA, CRO, KSM, FTT</td>
</tr>
<tr>
<td>Best performing coins (change in market capitalization rank)</td>
<td>ETC(+52), MATIC(+49)</td>
</tr>
<tr>
<td>Worst performing coins (change in market capitalization rank)</td>
<td>FIL(-7), THETA(-5)</td>
</tr>
<tr>
<td>Total trade volume (USD) for C20</td>
<td>$10,128,401</td>
</tr>
<tr>
<td>Average daily volume (USD) for C20</td>
<td>$111,301</td>
</tr>
<tr>
<td>Number of assets in index capped by 10% weighting rule.</td>
<td>5 (ETH, BTC, BNB, ADA, DOT) at the beginning of the quarter 5 (ETH, BTC, BNB, ADA, DOGE) at the end of the quarter</td>
</tr>
<tr>
<td>USD proceeds of staking and lending operations attributable to the Fund.</td>
<td>$1,160,694</td>
</tr>
</tbody>
</table>

* USD values calculated at closing prices on 30 June 2022

** Lending proceeds on implementation of operational efficiency improvements
Management fees:
Management fees of 1.7% are charged to the fund per annum and accrued on a daily basis. Fund values are recorded daily at 12PM UTC. Average fund values are then recorded for each month. Management fees paid by the fund for the quarter are as follows:

Fee breakdown for Q2 2021

<table>
<thead>
<tr>
<th>Month</th>
<th>Average fund Value (USD)</th>
<th>Management Fee (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>13,041,290</td>
<td>14,440</td>
</tr>
<tr>
<td>May</td>
<td>15,003,663</td>
<td>16,613</td>
</tr>
<tr>
<td>June</td>
<td>13,060,945</td>
<td>14,462</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>13,701,966</td>
<td>45,515</td>
</tr>
</tbody>
</table>

Margin Lending earnings:
The fund aims to generate additional returns for investors, over and above the capital appreciation of the underlying assets. Through margin lending, Invictus Capital aims to cover at least the management fees, to minimize portfolio drag for investors. Over the quarter, margin lending returns comfortably exceeded fees. Invictus Capital continues to optimise this process and expects to consistently achieve some of the best returns going forward.
During periods of extreme volatility, the rebalance is triggered by a market cap change of 25% within a week. Due to the extreme upside seen over the past quarter, the fund's assets were not lent out midweek due to the risk of them being lent out and hindering the rebalance procedure. The double-digit returns are significant enough to justify foregoing lending returns under these temporary circumstances.

**EXECUTION OF FUND RULES**

The fund was rebalanced weekly throughout the quarter in adherence with the fund rules. As mentioned in the litepaper, management decisions listed below exclude certain cryptoassets from the index where need be. When a cryptoasset is excluded, the next in line cryptoasset in terms of market capitalization is included in the index.

**Margin lending returns for Q2 2021**

<table>
<thead>
<tr>
<th>Month</th>
<th>Net margin lending earnings (USD)</th>
<th>Average Fund AUM (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>1,733</td>
<td>12,920,954</td>
</tr>
<tr>
<td>May</td>
<td>1,753</td>
<td>15,102,402</td>
</tr>
<tr>
<td>June</td>
<td>21,687</td>
<td>13,060,945</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>25,173</td>
<td>13,694,767</td>
</tr>
</tbody>
</table>

**Tokens Excluded from the index for Q2 2021**

<table>
<thead>
<tr>
<th>Coin/Token</th>
<th>Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tether (USDT), Binance (BUSD), Wrapped Binance USD (WBUSD), Binance Tether (BUSD-T)</td>
<td>This is a stablecoin hence it does not form part of C10’s crypto holdings. However, from time to time it is held as part of the cash portion of the fund.</td>
</tr>
<tr>
<td>Ripple (XRP)</td>
<td>Ripple was excluded due to an ongoing SEC lawsuit that risks a liquidity crisis on reputable exchanges.</td>
</tr>
<tr>
<td>Internet Computer Protocol (ICP)</td>
<td>Excluded due to circulating supply ambiguity. Has since dropped out of the top 10.</td>
</tr>
</tbody>
</table>
We manage to minimize slippage in the weekly rebalancing by employing the following strategies:

- Rebalancing automatically across all exchanges with best prices being executed first.
- Executing trades across multiple exchanges in order to minimize our impact on market prices.
- Preventing front running by reporting the rebalance portfolio after the completion of rebalancing trades.

### Q2 2021 Statistical Summary

<table>
<thead>
<tr>
<th>Operational Statistic</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebalances performed</td>
<td>15</td>
</tr>
<tr>
<td>New coins included</td>
<td>DOGE, SOL</td>
</tr>
<tr>
<td>Coins falling out of the index</td>
<td>LINK, XLM</td>
</tr>
<tr>
<td>Best performing coins (change in market capitalization rank)</td>
<td>SOL(+14), DOGE(+13)</td>
</tr>
<tr>
<td>Worst performing coins (change in market capitalization rank)</td>
<td>LTC(-3), DOT(-1), UNI(-1)</td>
</tr>
<tr>
<td>Number of C10 tokens issued during quarter</td>
<td>745,297</td>
</tr>
<tr>
<td>Number of C10 tokens redeemed during quarter</td>
<td>441,600</td>
</tr>
<tr>
<td>Number of C10’s assets capped by 15% weighting rule.</td>
<td>4 (BTC, ETH, BNB, DOT) at the beginning of the quarter</td>
</tr>
<tr>
<td></td>
<td>5 (BTC, ETH, BNB, ADA, DOGE) at the end of the quarter</td>
</tr>
</tbody>
</table>
iv. Invictus Margin Lending

EXECUTION OF FUND RULES

Fee Structure

As per the fund’s litepaper, a 2% annual management fee on the fund’s Net Asset Value is accrued daily to ensure equitable treatment of investors. An incentivizing performance fee is set on returns in excess of the fund’s annualized hurdle rate of 6%, should it overcome the high-water mark. IML’s high-water mark is the peak value the fund has achieved, measured as the highest IML token price. The application of the high-water mark to the hurdle rate means that the hurdle rate over an accrual period is calculated not from the token price at the beginning of the period, but the highest ever token price up to that point (though the two aren’t necessarily mutually exclusive). This increases the burden on the fund needed to accrue performance fees by requiring the token price to reach an all-time high. This favourable fee structure to investors demonstrates IML’s sincere efforts to ensure constant appreciation of capital.

The Edge of Automation

The execution of IML’s lending is automated via Invictus Capital’s proprietary lending software. Automation is paramount to the fund’s exceptional performance as it allows 24/7 deployment, near-instantaneous execution and monitoring of the entire search space for optimal lending rates. Nevertheless, no automated deployment is complete without manual intervention in the form of close monitoring and gradual improvement of the software, which is conducted by Invictus Capital’s talented team of analysts and technicians.

Loan Statistics for Q2 2021

<table>
<thead>
<tr>
<th>Month</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>% Change versus previous quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Loans Provided</td>
<td>20,557</td>
<td>75,325</td>
<td>24,149</td>
<td>-67.94%</td>
</tr>
<tr>
<td>Total Number of Funding Offers</td>
<td>147,978</td>
<td>145,866</td>
<td>125,948</td>
<td>-13.65%</td>
</tr>
<tr>
<td>Percentage of Offers Accepted</td>
<td>13.89%</td>
<td>51.64%</td>
<td>19.17%</td>
<td>-62.87%</td>
</tr>
<tr>
<td>Average Loan Duration (Days)</td>
<td>9.43 days</td>
<td>14.06 days</td>
<td>38.13 days</td>
<td>171.19%</td>
</tr>
</tbody>
</table>

Fee breakdown for Q2 2021

<table>
<thead>
<tr>
<th>Month</th>
<th>Average fund Value (USD)</th>
<th>Management Fee (USD)</th>
<th>Performance Fee (USD)</th>
<th>Total Fees (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>$6,161,347</td>
<td>$9,718</td>
<td>$18,647</td>
<td>$28,365</td>
</tr>
<tr>
<td>May</td>
<td>$6,629,247</td>
<td>$11,248</td>
<td>$14,165</td>
<td>$25,413</td>
</tr>
<tr>
<td>June</td>
<td>$7,477,338</td>
<td>$11,936</td>
<td>$2,395</td>
<td>$14,331</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>$6,755,977</td>
<td>$32,902</td>
<td>$35,207</td>
<td>$68,109</td>
</tr>
</tbody>
</table>
v. Invictus Gold Plus

Management fees:
Management fees of 0.75% per annum are charged to the fund. Fund values are recorded daily at 12PM UTC. Fees are accrued in the net asset value of the fund on a daily basis and paid monthly. Management fees paid by the fund for the quarter are as follows:

Performance fee:
A 20% performance fee is charged on fund performance over and above the benchmark returns. The IGP benchmark is currently the SPDR GLD ETF, listed on the New York Stock Exchange. The GLD is one of the largest and most cost-effective means of obtaining gold exposure in the world.

Fee breakdown for Q2 2021

<table>
<thead>
<tr>
<th>Month</th>
<th>Average fund Value (USD)</th>
<th>Management fee (USD)</th>
<th>Performance Fee (USD)</th>
<th>Total Fees (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>$273,230</td>
<td>$164.95</td>
<td>$0.00</td>
<td>$164.95</td>
</tr>
<tr>
<td>May</td>
<td>$301,381</td>
<td>$194.32</td>
<td>$0.00</td>
<td>$194.32</td>
</tr>
<tr>
<td>June</td>
<td>$323,238</td>
<td>$195.30</td>
<td>$0.00</td>
<td>$195.30</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>$299,282.97</td>
<td>$554.57</td>
<td>$0.00</td>
<td>$554.57</td>
</tr>
</tbody>
</table>
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