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Executive Summary

Cryptoassets showed strength during an abnormal quarter characterized by the unfolding effects of the global pandemic. Markets fared well overall, bouncing sharply from March lows despite ominous forecasts of a slow economic recovery. Cryptoassets rallied as Bitcoin revisited the $10,000 level, forming the range in which it has since remained.

CRYPTO10 Hedged Fund continues to provide investors with dynamic crypto exposure amid uncertainty. Having begun the quarter at $1.19 with half of the fund hedged in cash, crypto holdings increased in April as the market strengthened and the fund recorded its quarterly high of $1.47. The cash component was again increased throughout May and June, reducing downside exposure while funds earned a return through margin lending. C10 recorded a 14.58% gain for Q2, closing at $1.36.

Two new assets found their way into the C10 portfolio: Crypto.com Coin (CRO) and Cardano (ADA) took the places of Tezos (XTZ) and UNUS SED LEO (LEO). Both incoming cryptoassets gained significantly over the quarter, complimenting C10’s ongoing ability to capture value from the market’s success stories. Fees for the quarter totalled $7,642 and were comfortably covered by the returns from margin lending alone, which earned a total of $12,584.

C10 has recorded a 35.68% gain since inception on April 1, 2019. The fund’s assets continue to cover more than 80% of the entire asset class by market capitalization. C10’s weekly rebalancing strategy tracks the market, targeting superior risk-adjusted returns. Overall it has been a successful quarter for the CRYPTO10 Hedged Fund as the strategy continues to provide investors with a smoother return profile and less volatility than a pure top 10 market-weighted position.
Market Commentary

The second quarter of 2020 challenged the status quo, shaping a new era as change first had to be accepted, and is now expected. Bitcoin was invented as a solution to the flaws in the monetary system which were exposed during the previous financial crisis. As Bitcoin continues to headline the asset class, is crypto coming of age in this crisis?

The perception of crypto within the investment landscape is shifting. Some are bullish on another decade’s success, while others are considering their first investment in digital assets. Here, what was once written off as pyrite, is starting to be recognized as digital gold.

In the wake of a fast-paced quarter, we interpret how current events are shaping the digital world of cryptocurrency.
The restriction of business activities evoked changes in monetary policy that are stretching government currencies to new extremes. In the absence of actual economic growth, and with no room for further interest rate cuts, the only remaining option is balance sheet expansion. This stimulus is intended to bridge the gap until the economy recovers to pre-pandemic levels, but it cannot solve the fundamental problem - less economic goods and services. The U.S GDP fell 5% in the first quarter and is expected to contract by 6% this year. Considering the economy’s dependence on continuous growth, this has grave implications. The recovery to pre-pandemic levels is forecasted to take until 2023, depending on the severity of second wave infections.

While it is not fixing the GDP, the seemingly unlimited supply of new money is favourable for assets with limited supply. The cryptocurrency market and S&P completed V-shaped recoveries, while Nasdaq and gold went a step further, breaking the highs set before the crash. As the markets continue despite the second wave of infections, the gap between markets and reality is widening.

The stability of the US Dollar and its status as the global reserve currency is under question. A reduction in its dominance, or a collapse in value, would shift the paradigm. Proposing alternative solutions to many of money’s functions, digital assets are positioned to benefit from the dollar’s demise, technological heirs to an archaic throne.

The fact that the current monetary policy is unsustainable means that it will inevitably reach an endpoint and be forced to change. But rather than preventing further damage, the multi-trillion-dollar stimulus experiment continues, as policymakers are fixated on growing market valuations and indicators, irrespective of the physical reality of the situation. The stimulus cheques will inevitably face a reality check.

Figure 1

Source: The Conference Board
Although blockchain’s decentralized structure is seen to undermine centralized powers, institutional money is widely accepted as a key role-player for mainstream adoption. Stock markets dwarf the crypto market, at over 300 times their size.¹ This implies that a relatively small shift across from traditional equities would boost cryptoassets significantly.

Wall Street media typically headlines anti-crypto sentiment, toeing the line of the traditional financial system which sees crypto as an existential threat. Through their lens of regulation and centralized authority, decentralized cryptoassets are denied the status of “investable” assets.

But that sentiment is dying off. According to a recent survey by Fidelity², 60% of institutional investors feel that digital assets have a place in their portfolio. Looking forward, the most cited obstacles were price volatility, concerns around market manipulation, and a lack of fundamentals to gauge value. These all fell relative to last year’s survey, indicating that the growing infrastructure is taming volatility and that regulatory advances are putting new investors at ease.

A spectrum of opportunities has been enabled through various derivatives such as futures and options. These products are professionally traded to harness volatility. Fully regulated exchanges, Bakkt and CME, recorded trading volumes exceeding US$8 billion in Q¹³. In parallel developments, institutional custodial frameworks offered by Fidelity and Bakkt reduce counterparty risk, meeting the requirements for portfolio allocations from asset managers.

Grayscale is the world’s oldest and largest digital asset manager. Through their publicly tradable investment products, they provide access to nine different cryptocurrencies through vehicles familiar and accessible for investors with a traditional background. In 2019, 71% of their inflows came from institutional investors.⁴

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**Where are all the Institutions?**

Grayscale AUM Since Inception
September 25, 2013 through June 30, 2020

Source: Grayscale

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Figure 2
Their growth is gaining momentum, as displayed in figure 2 which shows how Grayscale added $908 million to its Assets Under Management (AUM) during Q2, ending with US$ 4.02 billion. This single firm is a useful gauge on institutions, which are an important tributary of the entire asset class which ended the quarter at $260 billion. The trend is clear -- crypto value is well-recognized by institutional asset managers, who now see crypto's independent return profile as a portfolio weapon. Along with retail investors, institutions are accumulating their share of this digital, global future.

Another Push Forward

When non-essential activities dependent on physical interaction were restricted, the door was left open for less fragile, often online solutions. We only need to imagine a lockdown without the internet to be reminded of its pivotal role in keeping people connected, while apart. The restrictions have been a catalyst, fast-forwarding innovation and our digital dependence.

Cryptoassets are synonymous with the internet, naturally more efficient and easier to use than their non-digital predecessors. Blockchain networks enable the seamless transferring and storing of value on the web. In addition to these original use-cases, new functions are emerging, suggesting that we have only seen the tip of the iceberg.

The digital assets behind each C10 token account for 85% of the whole market cap ($220 billion out of $260 billion), benefiting from the success of many sub-sectors. For investors, this means a stake in a peer-to-peer electronic cash system, decentralized smart contract networks and a real-time settlement system to name a few.

The many frontiers being explored by digital assets bring new users and new challenges. Considering that 1.7 billion people are still unbanked, there is an incentivized race for the first truly global financial system.

As such, C10 is well-positioned to capitalize on the sector’s growth. The cash hedge mitigates the drawdown risk typically associated with crypto. In combination with efficient portfolio allocation, superior risk-adjusted returns are targeted. As financial uncertainty persists, investors remain cautiously optimistic about the unfolding effects on cryptoassets.
C10 In Review

Over the long term, C10 targets a superior risk-return profile compared to an equally weighted top 10. The fund’s weighting strategy was optimized using historical data, such that no more parameter improvements are possible without affecting overall performance. The 15% cap per asset reduces the concentration risk.

Downtrends are an inevitable part of any market cycle. C10 addresses this through a cash hedging strategy which has been proven to retain capital overall. Due to this approach, C10 was hedged in over 90% cash during crypto’s Black Thursday as the market lost 40% of its value. Having dodged that bullet, C10 scaled back into crypto exposure, losing some ground against the pure-crypto benchmark. This is to be expected when the fund moves out of cash. Figure 3 shows how C10’s rise in value lags only slightly behind an equally weighted top 10 index but has significantly outperformed during times of market decline. This demonstrates C10’s inherent risk protection, and its overall favourability.

The recovery from March lows saw a reduction in C10’s cash position as it sprung to a quarterly high of $1.47 per token. Since fund inception, C10 has achieved better returns with less volatility than a pure top 10 cryptoasset holding. The cash holdings since inception are shown in figure 4.

**Source:** [Invictus Capital](https://invictuscapital.com)
Zooming into the performance of the individual assets, figure 5 compares C10’s performance with the top 3 cryptoassets. Figure 6 shows the quarterly returns of each cryptoasset for the period they were held by C10. The overall positivity is immediately evident, with C10 outperforming half of its constituents. This is a hallmark of index funds which yield consistent returns that are favourable over the long term.

Source: Invictus Capital
The monthly returns of the top 3 cryptoassets in figure 7 highlight April’s recovery, when C10’s partial cash exposure resulted in lesser returns. The market cooled off during May and June as C10 again outperformed the equally weighted top 10. This shows that while the fund may experience short-term underperformance, it seeks to outperform over a full market cycle, by limiting downside deviation relative to an equally weighted top 10.
As of 30 June 2020, the cash hedge algorithm determined the fund to be 100% in USD. Practically, a portion of the fund is held in ETH to provide liquidity for redemptions. New investments into the fund are also received in BTC, ETH and DASH, hence their small balances at the quarter’s end.

Fund Holdings and Fees

Fund Holdings at 30 June 2020

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rank Movement for the quarter</th>
<th>Amount</th>
<th>$ Equivalent as at 30/06/2020</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD*</td>
<td></td>
<td>1,742,385.05</td>
<td>1,742,389</td>
<td>95.92%</td>
</tr>
<tr>
<td>BTC</td>
<td>0</td>
<td>0.59</td>
<td>5,376</td>
<td>0.30%</td>
</tr>
<tr>
<td>ETH</td>
<td>0</td>
<td>304.01</td>
<td>68,668</td>
<td>3.78%</td>
</tr>
<tr>
<td>DASH</td>
<td>-2</td>
<td>1.51</td>
<td>103</td>
<td>0.01%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>1,816,536</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

* includes cash and other USD-backed stable coins.

Figure 7

Figure 8

As of 30 June 2020, the cash hedge algorithm determined the fund to be 100% in USD. Practically, a portion of the fund is held in ETH to provide liquidity for redemptions. New investments into the fund are also received in BTC, ETH and DASH, hence their small balances at the quarter’s end.
Management fees:

Management fees of 1%, a custody fee of 0.5% and an admin fee of 0.2% are charged to the fund per annum. 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 year are as follows:

Fee breakdown for Q2 2020

<table>
<thead>
<tr>
<th>Month</th>
<th>Average Fund Value (USD)</th>
<th>Management Fee (USD)</th>
<th>Custody Fee (USD)</th>
<th>Admin Fee (USD)</th>
<th>Total expense (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>1,692,105</td>
<td>1,410</td>
<td>705</td>
<td>282</td>
<td>2,397</td>
</tr>
<tr>
<td>May</td>
<td>1,853,569</td>
<td>1,545</td>
<td>772</td>
<td>309</td>
<td>2,626</td>
</tr>
<tr>
<td>June</td>
<td>1,848,610</td>
<td>1,541</td>
<td>770</td>
<td>308</td>
<td>2,619</td>
</tr>
<tr>
<td>Q2 2020</td>
<td>5,394,285</td>
<td>4,495</td>
<td>2,248</td>
<td>899</td>
<td>7,642</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.

Margin lending returns for Q2 2020

<table>
<thead>
<tr>
<th>Month</th>
<th>Net margin lending earnings (USD)</th>
<th>Average Fund AUM (USD)</th>
<th>Earnings as a percentage of Fund Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>1,421</td>
<td>1,692,105</td>
<td>0.08%</td>
</tr>
<tr>
<td>May</td>
<td>5,385</td>
<td>1,853,569</td>
<td>0.29%</td>
</tr>
<tr>
<td>June</td>
<td>5,779</td>
<td>1,848,611</td>
<td>0.31%</td>
</tr>
<tr>
<td>Q2 2020</td>
<td>12,584</td>
<td>1,798,095</td>
<td>0.70%</td>
</tr>
</tbody>
</table>
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.

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 2020 Statistical Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebalances performed</td>
<td>13</td>
</tr>
<tr>
<td>New coins included</td>
<td>CRO, ADA</td>
</tr>
<tr>
<td>Coins falling out of the index</td>
<td>XTZ, LEO</td>
</tr>
<tr>
<td>Best performing coins (change in market capitalisation rank)</td>
<td>CRO(+10), ADA(+4)</td>
</tr>
<tr>
<td>Worst performing coin (change in market capitalisation rank)</td>
<td>XTZ(-2), LEO(-4)</td>
</tr>
<tr>
<td>Number of C10 tokens issued during quarter</td>
<td>163,238</td>
</tr>
<tr>
<td>Number of C10 tokens redeemed during quarter</td>
<td>156,817</td>
</tr>
<tr>
<td>Number of C10’s assets capped by 15% weighting rule.</td>
<td>3 (BTC, ETH, XRP) at the beginning of the quarter</td>
</tr>
<tr>
<td></td>
<td>0 (100% cash hedge) at the end of the quarter</td>
</tr>
</tbody>
</table>

- **Tokens excluded from the index for Q2 2020**

<table>
<thead>
<tr>
<th>Coin/Token</th>
<th>Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tether (USDT)</td>
<td>Due to the nature of the project, this was never included in the C10 cryptoasset portfolio. However, from time to time it is held as part of the cash portion of the fund.</td>
</tr>
</tbody>
</table>

**Figure 11**

**Figure 12**
Outlook

Two Trends in Confluence

1. Generational Wealth Shift

Within US households, $68 trillion in wealth will be passed down over the next 25 years. Most will be from Baby Boomers, and 57% is expected to be received by Generation X. The remaining 43% will be inherited by millennials and younger generations.7

2. Younger generations favour crypto assets more than their parents

When the general American population were asked how they would choose to invest $10,000, the answer "virtual currencies” was chosen by 3% of Baby Boomers, 4% of Gen Xers, and 9% of millennials.

Inherited wealth is often illiquid and some will be donated to charity. But, if only 10% of the wealth received by that 4% of Gen Xers and 9% of millennials finds its way into cryptoassets, that inflow would be 1.6 times the current market capitalization. If we assume the continuation of both trends - the generational wealth shift to younger generations who continue to favour cryptoassets, then it is likely that the crypto asset class is currently undervalued.

With the ability to dynamically adjust exposure to the cryptocurrency sector’s largest successes, C10 is positioned to provide investors upside exposure while limiting loss of capital during times of market stress. The unfolding of global monetary inflation strengthens the case for investment in cryptoassets with a strategic approach to short-term risk.
The C10 fund management team comprises the following 4 team members. The broader Invictus Capital Team has a strong data science and technology emphasis.

**Daniel Schwartzkopff**

CEO

Mr. Schwartzkopff is currently the CEO of Invictus Capital, a natively digital asset management platform he co-founded with the vision to democratize investment access. Invictus Capital leverages existing public blockchain rails to bring tokenized funds, in a variety of asset classes, to a new, global generation of investor.

Daniel is a serial entrepreneur and previously founded several other ventures, such as DataProphet, a World Economic Forum 2019 Tech Pioneer that develops artificial intelligence solutions for manufacturing. It has a prestigious list of clients including BMW and Mercedes-Benz.

His involvement in the DLT sector began in 2014 when he launched the world’s first licensed bitcoin sports betting platform which was subsequently acquired by Cloudbet. He has been featured in everything from CNBC and Forbes to the Wall Street Journal. He holds an honours degree in Chemical Engineering from the University of Cape Town.

**Steven Williams**

Strategy and Operations Director

Chartered accountant with 20 years executive experience in scaling businesses in financial services, healthcare, real estate and NGO sectors.

In addition to core financial skills, Mr. Williams has extensive operational experience in all functional areas of business operation.
Andrew Knight
VP Analytics

Andrew Knight brings a wealth of experience and knowledge relating to the operational management of investment funds. After leading multiple hedge fund accounting teams for one of the biggest fund administrators in the world, Andrew moved into investment management where he held the position of Head of Operations for a large multinational investment firm with over $200 billion in assets under management. Andrew is a CFA charter holder and has a Bcom Honours degree in Economics and Finance.

Jason Peckham
Analyst

Jason is an investment researcher and analyst, with a focus on developing fund strategies. He delivers insights on the digital asset sector through his writing and holds a degree in Civil Engineering from Stellenbosch University.
1. All of the World’s Money and Markets in One Visualization

2. Growing Number of Institutional Investors Believe That Digital Assets Should Be a Part of Their Investment Portfolios, According to New Research from Fidelity Digital Assets

3. $8.8 Trillion Traded in Cryptocurrency Spot and Futures Markets in Q1: Reports

4. Grayscale Investments Closes Out 2019 with Record Year, Raising Over $600 Million

5. Grayscale Digital Asset Investment Report Q2 2020

6. Globally, about 1.7 billion adults remain unbanked—without an account at a financial institution or through a mobile money provider.

7. The Great Wealth Transfer: $68 Trillion Assets in Motion

8. 10 Ways to Invest $10,000: What Investment Opportunities Interest Each Generation?
   https://lendedu.com/blog/10-ways-to-invest-10000/
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