CRYPTO20

QUARTERLY REPORT

SECOND QUARTER OF 2020

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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.

The C20 fund began the quarter with a net asset value of $0.37 per token. The fund continued to rally from March lows, setting a quarterly high of $0.55 before closing 30.78% up for Q2, with a token price of $0.49. C20’s drive in value came from index-wide growth, with the strongest performances coming from Cardano (ADA) and Chainlink (LINK). The fund’s only asset to lose value was Bitcoin SV (BSV) which lost 3.93%

The Invictus team is constantly looking for new ways to improve the risk-adjusted return profiles of its funds - essentially allowing investors to receive higher returns for the same (or lower) level of risk taken. Operational efficiency improvements have been identified which will result in an improved return profile for investors. The Fund will maintain its strategic asset allocation while earning additional yield for investors above capital gains. Changes will be phased in over the course of the third and fourth quarters, details of which are discussed in the report.

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Market Commentary

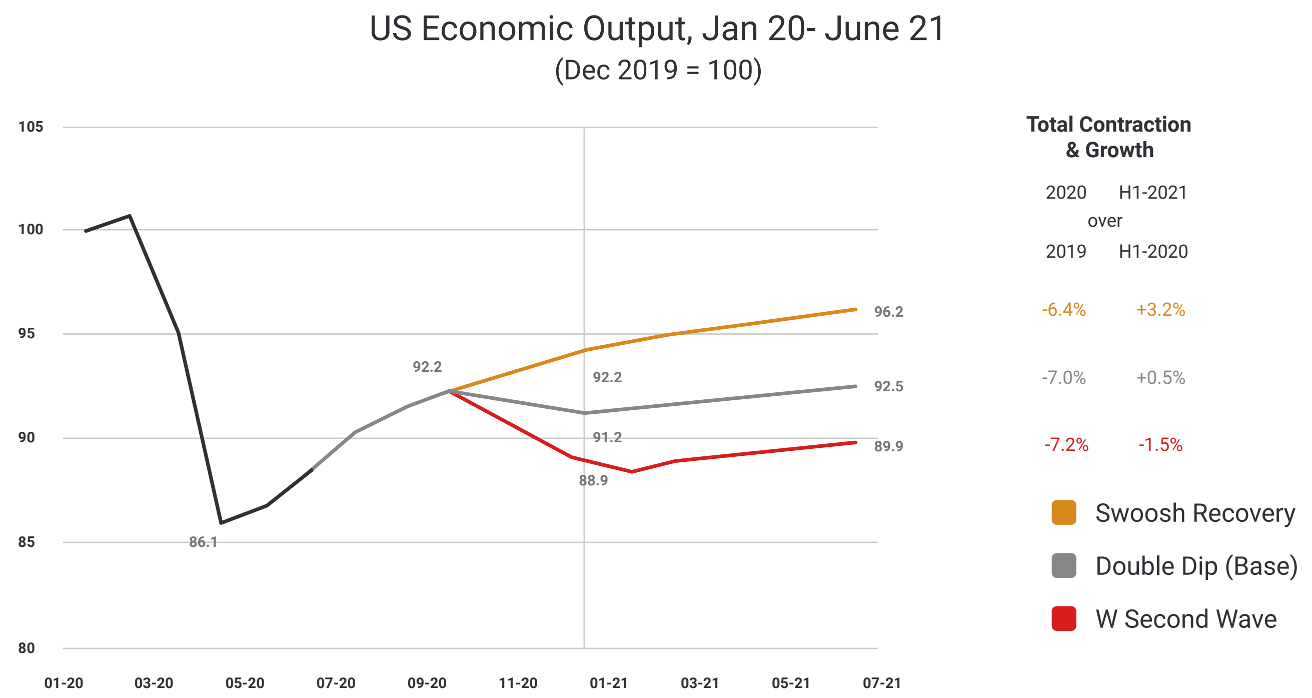
The second quarter of 2020 challenged the status quo, shaping a new era as change first had to be accepted, and is now expected. Bitcoin was invented as a solution to the flaws in the monetary system which were exposed during the previous financial crisis. As Bitcoin continues to headline the asset class,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

Reality vs. Markets

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.



Source: [The Conference Board]

Figure 1

While it is not fixing the GDP, the seemingly unlimited supply of new money is favorable 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.

Where are all the Institutions?

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 Fidelity[2], 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 Q1[3]. In parallel developments, institutional custodial frameworks offered by Fidelity and Bakkt reduce counterparty risk, meeting the requirements for portfolio allocations from asset managers.

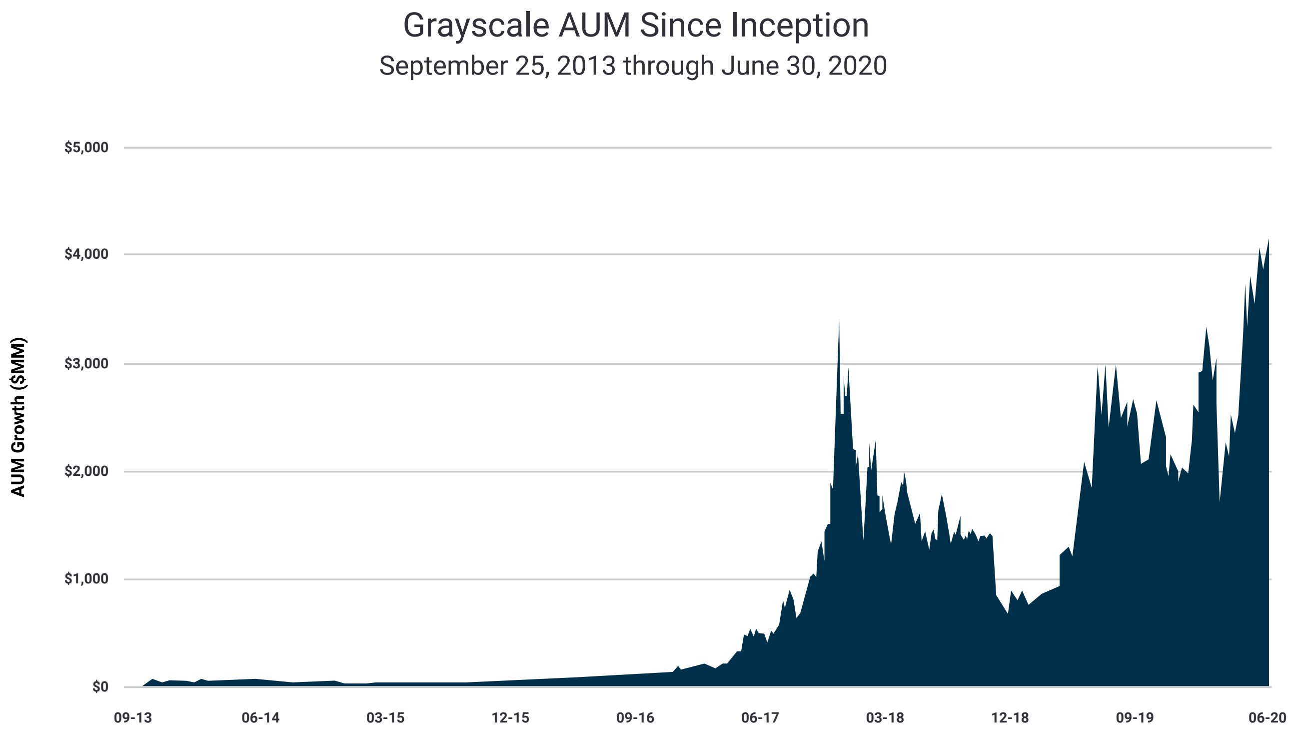


Figure 2

Source: [Grayscale]

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]

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 $4.02 billion.[5] 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 in C20's index cover 89% of the whole market cap ($231 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[6] , there is an incentivized race for the first truly global financial system.

As such, C20 is well-positioned to capitalize on the growth of the sector, offering a tokenized solution to broad market exposure. The fund provides a solution to owning a diverse portfolio which dynamically tracks the market. As financial uncertainty persists, investors remain cautiously optimistic about the unfolding effects on cryptoassets.

03

C20 In Review

The performance of C20 alongside each of its cryptoassets is illustrated in Figure 3 below, revealing a positive quarter across the top 20. Cardano (ADA) rallied 170% in Q2, likely a result of excitement around the network's "Shelley" upgrade which is expected to increase its decentralization. Note that the performance is calculated for the duration in which the cryptoasset formed part of the fund.

Ethereum (ETH) and Chainlink (LINK) recorded strong upside, with ETH outperforming Bitcoin (BTC) and leading altcoin optimism. C20's returns were greater than half of its constituents, ending the quarter 30.78% up, doing so with less volatility than the top cryptoassets seen in Figure 4. Cryptoassets have recovered a significant portion of the drawdown suffered in March, a positive indication of their resilience.

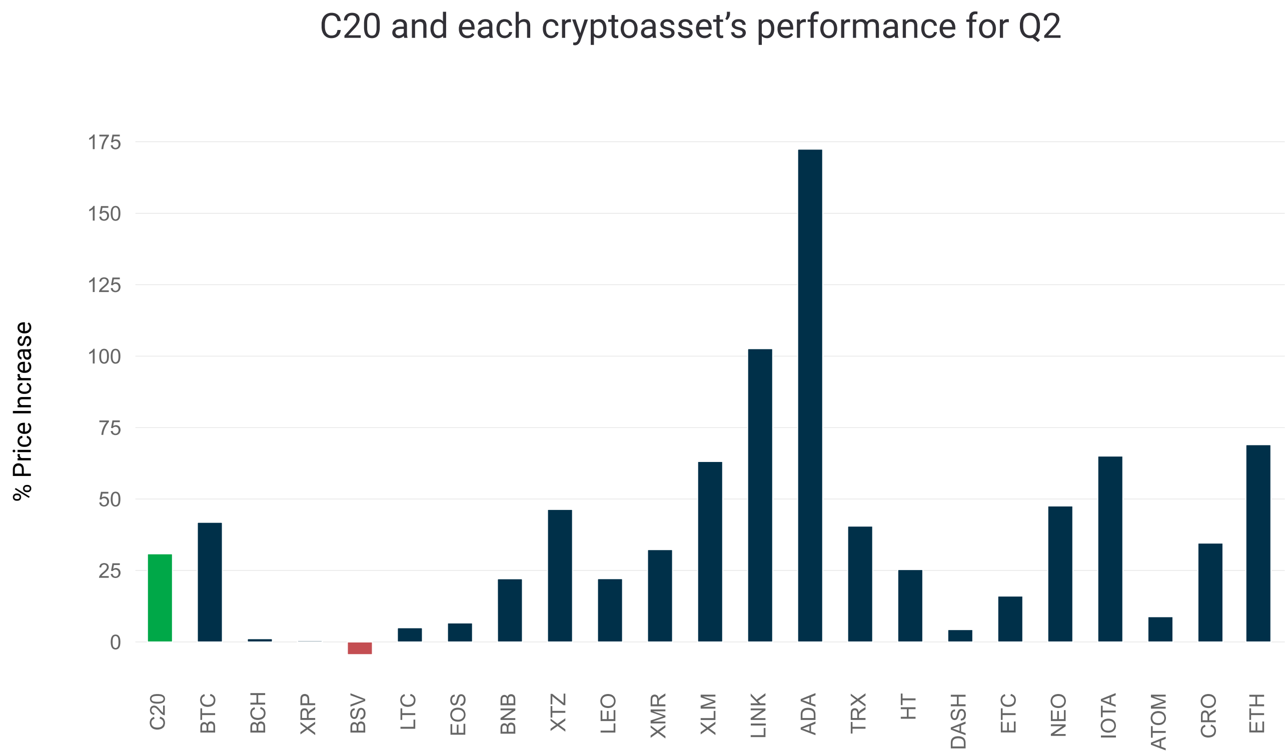


Figure 3

Source: Invictus Capital

C20 in comparison with select top cryptoassets

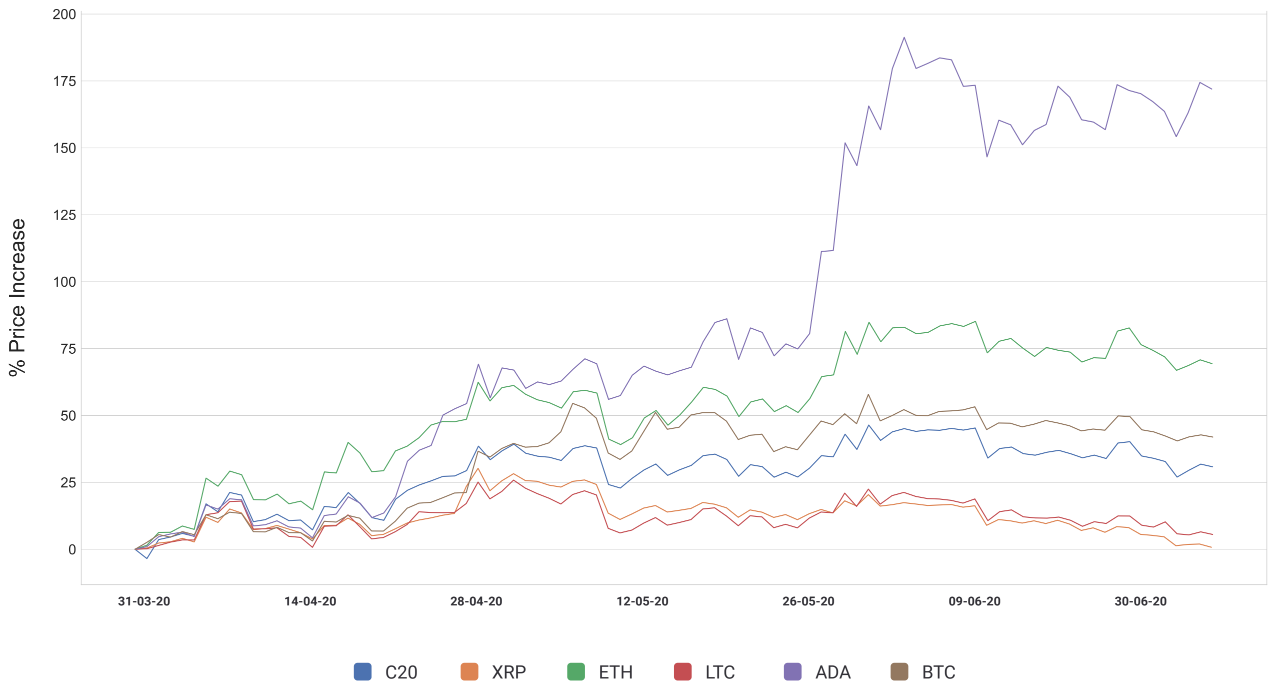


Figure 4

Source: [Invictus Capital]

The return of C20 in comparison with the top cryptoassets in Figure 5 below reveals how April saw a recovery before prices consolidated during May and June.

Percentage growth relative to USD

	April 2020	May 2020	June 2020	Q2 2020
C20	33.47	2.86	-4.68	30.87
BTC	34.48	9.27	-3.41	41.92
ADA	56.60	55.40	11.79	172.04
LTC	18.85	-2.40	-9.04	5.52
XRP	21.88	-4.63	-13.32	0.75
ETH	55.40	11.26	-2.02	69.41

Figure 5

The total market cap was the top performer for 48% of the time this quarter. C20 is a passive investment vehicle for exposure to the cryptoasset market with a steadier return profile. It is worth noting that there is no tokenized solution for owning the total market cap. By holding C20, risk is diversified in comparison to holding one or even multiple cryptoassets.

Days as top performer: C20, Bitcoin and the total market cap

Asset	Days (top performer)	Percentage time (top performer)
C20	23	25.3%
BTC	24	26.4%
Total Market Cap	44	48.3%
Total	91	100%

Figure 6

Looking at the assets' positioning in Figure 7, the rankings of the top 6 remained unchanged while CRO was the most notable gainer. The individual asset capping of 10% is adjusted with a weekly cadence. In the case of ETH, smart contract liquidity and fund subscriptions cause it's proportion to temporarily fluctuate above the threshold. The top 7 assets accounted for 59% of the fund by the quarter's close.

Fund holdings as at 30 June 2020

Asset	Rank (Q2 Movement)	Amount	$ Equivalent as at 30/06/2020	%
BTC	1 (-)	164.17	1,487,523	9.60
ETH	2 (-)	8,098.77	1,811,456	11.69
XRP	3 (-)	8,509,511.12	1,479,023	9.55
BCH	4 (-)	6,679.89	1,474,647	9.52
BSV	5 (-)	6,725.36	1,059,095	6.84
LTC	6 (-)	23,577.82	962,775	6.21
BNB	7(▲ 1)	56,920.82	866,311	5.59
EOS	8(▼ 1)	333,892.22	783,162	5.06
CRO	9(▲ 10)	6,378,744.62	790,475	5.10

ADA	10(▲3)	9,507,522.00	774,950	5.00
XTZ	11(▼2)	262,177.30	613,290	3.96
LINK	12(▲3)	126,249.23	575,748	3.72
XLM	13(▲1)	7,666,223.00	506,531	3.27
LEO	14(▲4)	360,836.54	457,848	2.96
XMR	15(▼4)	6,398.79	402,980	2.60
TRX	16(▼2)	24,419,946.65	393,614	2.54
HT	17(▼1)	80,118.15	329,038	2.12
NEO	18(▲1)	25,676.33	252,649	1.63
ETC	19(▼1)	41,937.95	238,394	1.54
DASH	20(▼3)	3,444.80	232,676	1.50
TOTAL			**$15,492,185**	**100%**

Figure 7

Management fees:
Management fees of 0.5% per annum are charged to the fund. 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:

Management fee breakdown

Month	Average fund Value (USD)	Management Fee (USD)
April	14,393,166.27	5,997.15
May	16,066,601.35	6,694.42
June	16,479,652.57	6,866.52
Q2 2020		**$19,558.09**

Figure 8

04

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 coin/token from the index. Where a coin is excluded, the next inline coin in terms of market capitalization is included in the index.

Exclusions from the C20 index for the quarter

Coin/Token	Context
Tether	Due to the nature of the project, this was never included in the C20 portfolio.
Mindol	Mindol was a C20 index candidate during April 2020. It was excluded from the index due to liquidity concerns. It is currently ranked 206.
USD Coin	Due to the nature of the project, this was never included in the C20 portfolio.
HedgeTrade	HedgeTrade was rejected from the index due to liquidity concerns. It is currently ranked 30.
TAGZ5	The token was an index candidate for the week commencing 27 April, however was excluded due to liquidity concerns. It is currently ranked 342.

Figure 9

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.

Operational statistics for the quarter

Operational Statistic	Data	
Rebalances performed	13	
New coins included	CRO, ATOM	
Coins falling out of the index	ATOM, MIOTA	
Best performing coins (change in market capitalization rank)	CRO(10), ADA(3), LINK(3)	
Worst performing coins (change in market capitalization rank)	LEO(-4), XMR(-4), DASH(-3)	
Total trade volume (USD) for C20 Average daily volume (USD) for C20	$331,332 $3,641	
Number of assets in index capped by 10% weighting rule.	3 (BTC, XRP, BCH) at the beginning of the quarter 3 (BTC, ETH, XRP) at the end of the quarter	
Proceeds of staking*	**Amount**	**USD value**
EOS	27.8741	66.09
XTZ	1264.9142	2,987.82
TRX	369.2112	6.04
ATOM	127.2543	330.86

* USD values calculated at closing prices on 30 June 2020.

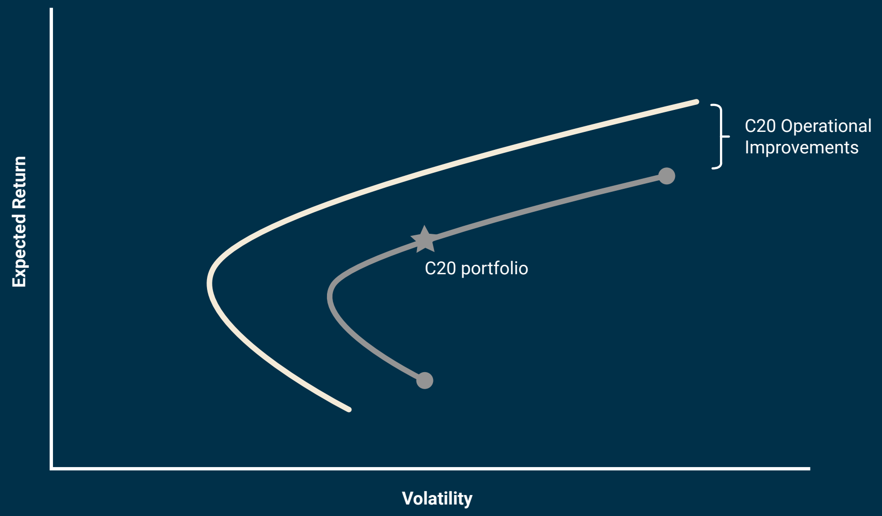
Figure 10

05

Operational Efficiency Improvements

Following a review of the cryptoasset market's infrastructure development, it was found to be possible to significantly improve the operational efficiency of the fund. This will translate into improved yields for fund investors.

The Invictus team is constantly looking for new ways to improve the risk-adjusted return profiles of its funds - essentially allowing investors to receive higher returns for the same (or lower) level of risk taken. In modern portfolio theory, this is often described as an upward shift of the efficient frontier of the fund, as illustrated below.



Through the use of futures contracts with fixed expiry dates (not perpetual futures), in combination with its proprietary software, Invictus Capital is able to offer investors the same underlying exposure at a lower overall cost than buying and holding spot assets directly. The derivative markets are multitudes more liquid and have lower trade fees overall - this means lower trading costs and less slippage due to smaller spreads at each rebalance. The security benefits of this approach are also numerous - a cash balance can't be hacked in the same way that BTC or Ethereum can be.

The greatest value-add for investors, however, is that by gaining exposure through futures contracts, the fund only needs to post a portion of its assets as collateral to gain the full crypto exposure it requires. This leaves capital available for the fund to store as cash and lend for additional yield - any returns generated by this additional active component will be distributed in the same manner as C10, with an equal split going to the fund. By adopting this strategy, investors will effectively have the same crypto exposure they always had via the spot market, with further interest earned on a significant portion of otherwise unutilized assets. This cash yield strategy is currently employed for the cash portion of the Crypto10 Hedged fund, whereby it consistently generates additional returns that far outweigh the fees charged on the fund - it has been operating successfully and as envisioned without incident since the fund's inception.

This is a rapidly developing theme in traditional finance - 'synthetic' ETFs and index funds have much lower TER (total expense ratios) and tracking errors than their physical counterparts.

We estimate that we will be able to generate approximately $20 000 to $40 000 additional net monthly yield for the fund based on the current fund AUM and this has the potential to increase significantly. This additional yield will be utilized to purchase additional cryptocurrency or cryptocurrency exposure during the weekly rebalance process.

Crypto20 Features	Current Operation	With Operational Improvements
Fund Assets	Directly hold the top 20 cryptoassets purchased off the spot market.	Directly hold cryptoassets within the top 20 where futures contracts with a fixed expiry (and thus no funding rate) are not available*. Futures contract exposure for top 20 assets where available*. Balance of Fund held in cash to generate additional yield.
Rebalance	Weekly rebalance	Weekly rebalance
Additional returns	Staking of assets where applicable.	Staking of assets where applicable. Interest yield on fund assets held in cash or cash equivalents. Any additional yield achieved via future contract term structure.

*Currently futures contracts are not available for all the underlying assets in the Crypto20 portfolio and therefore the fund will only adopt this strategy for those assets that have a well established futures market. Currently only Bitcoin, Ether, Ripple, Bitcoin Cash, Bitcoin SV, Litecoin, EOS, Tron and Ethereum Classic will be migrated into futures positions.

These changes will slowly be phased in where applicable over the duration of the third and fourth quarters. It is important to note that there will be zero changes to the asset cap, rebalancing frequency or any other material component of the fund strategy apart from earning the additional yield. Additional cash yield generated will be posted in the quarterly reports for full transparency.

Advanced market making software will be deployed to the HitBTC C20 pairs in August - this should greatly increase available liquidity for those looking to trade the asset there.

Should C20 fund participants have any questions, please do not hesitate to contact anyone in the management team via our [C20 Discord channel].

06

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 [8], 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.

The CRYPTO20 Fund aims to deliver capital growth with full cryptoasset exposure. C20’s passive strategy is rebalanced weekly, enabling investors dynamic exposure to the largest cryptoassets. The unfolding of global monetary inflation strengthens the case for crypoassets as an alternative investment which can be achieved by passively holding the C20 index token.

07

Team

The following 4 team members form the C20 fund management team. 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 investors.

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. Mr Williams has extensive operational experience in all functional areas.

Bobby Jonker

Fund Administrator

Experienced fund manager with a demonstrated history of working in the financial services industry.
Specialising in insurance and investment management mainly focused on core audit & assurance. He has gained significant exposure to Hedge funds, Asset management, private equity, structured finance, alternative finance transactions and special purpose vehicles.

Nick Hill

Vice President of Business Development

Experienced financial services professional with a background in financial engineering and FinTech. Nick’s skills and expertise include financial instrument valuation, financial modelling, and start-up valuation.
Nick is a chartered accountant and a Chartered Financial Analyst. He holds a Masters in Finance from the University of the Witwatersrand.

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