



CRYPTO20

QUARTERLY REPORT

MARCH 2018

by **INVICTUS**

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CEO's Perspective



The first quarter of 2018 has seen the cryptocurrency markets weather a period of extreme volatility with an all-time market capitalization high of \$814bn being reached on the 7th of January.

The growth over the past year has been extreme - for perspective, the 7th of January 2017 yielded a total cryptocurrency market cap of only \$17bn. A correction or reversion towards the mean is to be expected in such a scenario and would not reflect any loss of faith in the technology - none of the underlying fundamentals have changed.

The kind of relative gain seen from \$17bn to \$268bn[†] over a 15 month period would have taken almost 30 years on the NASDAQ[‡]. Cryptocurrency and blockchain technology are still in their infancy and there is significant room for sustainable growth.

Media focus has been squarely on the 'decline' of the bitcoin price or the losses suffered by speculators who invested at the December peak - rarely is mention made of the major progress in the underlying technology and the growth of user adoption. Binance reported that several million new user accounts were being created each week in January.

Extensive efforts have been made by the global community to bring legitimacy and regulatory certainty to the space. Self-regulation has emerged as an international theme with Japan and Korea spearheading progress. Here at Invictus we have made our own contribution to this movement - earlier this year we released our free Titan AI tool that was created with the intention of rooting out fraudulent and plagiarized ICO white papers.

There are also many examples of progress by the governments of nation-states - Belarus has adopted a legal and accounting framework for cryptocurrency and the Swiss financial market supervisory authority (FINMA) has issued clear guidance on which regulations apply to the different kinds of tokens offered via ICO. Even in the United States, there has been positive movement - the Arizona House of Representatives proposed a bill that would allow residents to pay their taxes in "Bitcoin, Litecoin or any other cryptocurrency recognized by the department."

Major institutional investors have begun to enter the market with the introduction of bitcoin futures settled in fiat by the CME Group. Various institutional products and offerings will emerge in tandem with the additional regulatory clarity that we expect to see in 2018.

Every voice in the community should speak to the rapid advances in blockchain technology and its adoption - and not just the growth in price. Share positive news and real-world use cases - not fear. This will drive the sustainable, organic growth that we need to secure a bright future for our fledgling industry.

If in doubt, just remember that for every trade there is a counterparty—for every sale executed now there is someone buying. We greatly appreciate the continued support of our community and hope to further our trusted relationship with you this year - 2018 is set to bring about some exciting developments in mainstream adoption.

Kind regards,

Daniel Schwartzkopff
CEO, Invictus Capital

[†] Total cryptocurrency market capitalization, 7th of January 2017 to April 2nd 2018

[‡] NASDAQ Composite - 434.8, May 12th 1989 - 6870.2, 2nd April, 2018

1. Market Overview

Market Capitalization

The cryptocurrency market has been highly volatile this quarter with total market capitalization reaching an all-time high of \$814bn¹ on 7 January 2018 followed by a steady decline to \$263bn¹ as at the end of March driven by a number of events including:

- An emergency cease and desist order² issued on 4 January – stating that BitConnect is engaging in fraud and misleading investors. The market cap of this coin reduced from \$2.8b to current \$16m. The fund avoided exposure to Bitconnect as we suspected it to be a scam.
- Reports of a Chinese crackdown on cryptocurrency trading on 15 January.³
- South Korean regulatory intervention on 23 January⁴ designed to curb speculative market overheating.
- \$530m stolen from Japanese exchange Coincheck on 29 January.⁵
- High volume cryptocurrency sales associated with the Mt Gox liquidator⁶ contributed to a steep market decline on 5 February.

Bitcoin's share of total market capitalization increased from 39% at the beginning of the quarter to 44% at the end of the quarter, indicating that Bitcoin is utilized as a reserve currency in bear cryptocurrency markets. Bitcoin dominance is expected to decrease over time with the diversification and growth of the market. It has decreased from an average of 90% (Jan 2014 - Dec 2016) to the current level of 44%, after recording an all time low of 33% on 7 January.

Regulation

Major exchanges are being compelled to improve their KYC/AML processes. Recent examples of this include the Japanese Finance Service Agency engaging with Binance with the objective of tightening KYC/AML processes. Binance have publicly announced their willingness to work with regulators to find solutions to their concerns around crypto currencies.

The publication of guidelines⁷ by the Swiss financial market supervisory authority (FINMA) provided useful clarifications on how the Swiss Authorities define the regulation applicable to the different kinds of tokens issued during ICOs. FINMA recognizes three types of tokens: payment tokens, utility tokens, and asset tokens.

The relevance of these guidelines is that Asset Tokens or Crypto Securities are regulated within Switzerland. Regulation protects investors, and businesses can operate within a known regulatory environment.

Regulatory interventions can be considered favourable to the extent that it discourages fraud and scams. It will also ultimately remove uncertainty which is a key contributor to price volatility.

Accounting Standards

Belarus, which announced the legalization of crypto activities with Decree No. 8 that was signed into law on 21 December 2017, has adopted new accounting standards shortly before these new laws came into effect on 28 March 2018.

As one of the first countries in the world to adopt a legal and accounting framework for Crypto, Belarus is well positioned to benefit from future growth of the digital economy.

Governments Adapting to Change

There have been numerous developments from Government institutions on the subject of cryptocurrencies and distributed ledger technology in Q1. For example, the National Bank for Economic and Social Development (Brazil), the Securities Exchange Commission (USA) and the Chancellor of the Exchequer (UK) have all made positive statements on the potential of the underlying technology, indicating a willingness to support legitimate efforts in the space. This is in contrast to historical commentary which was more critical, especially of Bitcoin.

At least partially responsible for the change of tack are an improved understanding of the technology and the realization that if it brings even some of the benefits being proposed, late adoption would be a geopolitical disadvantage.

On the legislative front in the U.S., the Arizona House of Representatives passed a tax bill that would allow residents to pay their taxes in “Bitcoin, Litecoin or any other cryptocurrency recognized by the department”, an important step given the importance placed on the payment of taxes in the fiat vs. cryptocurrency

debate. Other states like Wyoming are also taking the lead in supporting the crypto-industry to encourage local business development. In the past, states like North Carolina have succeeded in establishing business-friendly climates which have brought significant local advantages.

In Judiciary related news, the Supreme Court of Israel prohibited banks from limiting in any way the accounts of businesses in the cryptocurrency industry. Bank Leumi was handed a court order prohibiting further action against an account held by the Bits of Gold Exchange. This is a significant development given the perceived threat cryptocurrencies pose to traditional financial institutions and the current influence these institutions have over the ability of businesses and individuals to participate in the crypto-economy. Visa and Mastercard's reclassification of cryptocurrency purchases on credit cards as cash advances is an example of incumbents placing barriers in the way of participation. Bank transfers to exchanges like Coinbase can take days and require more effort than instantly buying with a credit card. But by classifying these purchases as cash advances, transaction fees can be increased to a total of 9%, and the 'advance' is subject to interest charges immediately, which are frequently in excess of 20% on credit cards.

Self-regulation has emerged as an international theme with Japan and Korea establishing agreements between crypto associations and exchanges to further self-regulate to increase security in the industry as well as to establish goodwill with regulators. The Winklevoss twins in the U.S. have proposed the creation of a Self-Regulatory Organisation, something the CFTC Commissioner has been explicitly supporting. Moves in this area will ensure the full legal legitimization of the industry at a much more rapid pace than could be achieved by regulators alone and will be beneficial for short and long-term stability.

In parallel with self-regulation are efforts by various international regulatory bodies to ensure basic standards are met and existing laws are not contravened. The SEC has issued statements and begun probes into Hedge Funds, Exchanges, and ICOs. South Korean regulators have indicated that they will release a framework for the taxation of cryptocurrencies by June 2018, and the European Union has stated it is now ready to regulate cryptocurrencies.

Broad statements about regulation and control in the past have caused uncertainty in the markets, but the obvious steps now being taken, combined with the mood struck on the positive aspects of the technology result in the improvement of the outlook for cryptocurrencies in general. Indicating that the regulatory stance is unlikely to be one of dismissal and that regulation will instead bring security and a more definable route for flows from the non-crypto economy.

Support

The UK government is launching a cryptocurrency task force, which "will help the U.K. to manage the risks around crypto-assets, as well as harnessing the potential benefits of the underlying technology."⁸

Arizona moves closer to accepting taxes in Bitcoin⁹ as they have passed the bill.

The Brazilian National Bank for Economic and Social Development (BNDES) is tokenizing the country's national currency through Ethereum's public blockchain to increase transparency.¹⁰

CFTC allows employees to trade cryptocurrencies.¹¹

Israeli Supreme Court prohibits banks from restricting cryptocurrency-related activity.¹²

SEC & CFTC positive on the future applications of Blockchain and Distributed Ledger technology.¹³

Self Regulation

The Winklevoss Twins have submitted a proposal to create the Virtual Commodity Association; an industry non-profit focused on self-regulation amongst exchanges.¹⁴

Japanese cryptocurrency industry pursues self-regulation.¹⁵

A self-regulation process has begun to take place with the largest cryptocurrency exchanges joining together to form the Korean Blockchain Association (KBA).¹⁶

Enforcement

The SEC announced a probe to examine more than 100 cryptocurrency hedge funds.¹⁷

The IMF reiterated its concern regarding the potential for cryptocurrencies to be used for money laundering.¹⁸

The SEC issued a warning to cryptocurrency exchanges that facilitate transactions of unregistered securities.¹⁹

A note from FinCEN written in February but released in early March suggests that ICOs will be held to higher standards of Know Your Customer (KYC) and anti-money laundering (AML) laws.²⁰

SEC Probe.²¹

European Union ready to regulate cryptocurrencies.²²

The United States stepped up its efforts to crack down on initial coin offerings (ICOs) by freezing the assets of AriseCoin for alleged fraud.²³

Controls

China attempted to block access to overseas trading.²⁴

Taxation

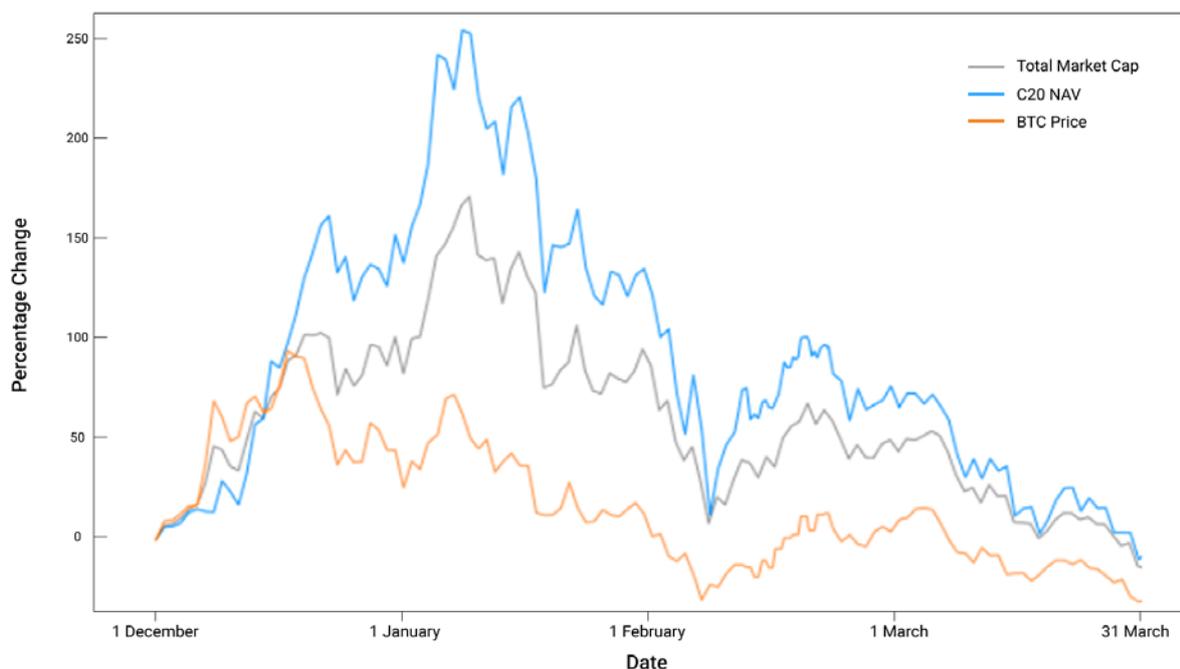
The Thailand cabinet approved a draft decree to regulate digital-asset-related transactions. Digital asset exchanges, brokers, and dealers, are to be registered with the relevant authorities. A 15% capital gains tax is being introduced for gains realized on digital assets as well as 7% value-added tax for investment in digital assets through the likes of ICOs.²⁵

South Korea plans to release a framework for cryptocurrency taxation by June 2018.²⁶

2. C20 in Review

Fund Performance:

Performance of C20, BTC and the Total Cryptocurrency Market Cap



Source: *Invictus Capital*

	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Inception to date
Total Cryptocurrency market Asset Cap	100,57%	-15,46%	-14,98%	-40,76%	-14,61%
BTC	39,24%	-34,19%	19,91%	-36,47%	-30,19%
C20	156,64%	-20,01%	-19,07%	-43,89%	-6,77%

Source: *Invictus Capital*

The market comprises c.1,600 coins/tokens traded on 10,000 markets/exchanges. It is pleasing to note that C20 has outperformed Bitcoin and the total market from inception to date.

Fund Holdings:

Asset	Rank Movement For Quarter	Amount	\$ Equivalent	%
BTC	0	619	4,222,229	10.09
XRP	-1	8,458,440	4,178,743	9.98
ETH	+1	10,113	3,976,123	9.50
LTC	+1	32,981	3,902,186	9.32
BCH	0	5,439	3,739,169	8.93
EOS	+6	477,537	2,862,087	6.84
ADA	-2	16,700,798	2,344,289	5.60
XLM	+2	11,697,505	2,165,737	5.17
NEO	+4	41,237	2,046,528	4.89
MIOTA	-3	1,729,054	1,901,205	4.54
XMR	0	9,976	1,719,262	4.11
TRX	+5	42,080,378	1,716,463	4.10
DASH	-3	5,107	1,596,325	3.81
XEM	-7	5,587,795	1,261,758	3.01
ETC	0	63,540	906,081	2.16
QTUM	-3	56,141	808,035	1.93
VEN	+27	328,570	760,546	1.82
BNB	+17	61,370	738,897	1.76
ICX	+1	240,174	532,876	1.27
LSK	+2	64,104	485,384	1.17
Total			41,863,923	100.00 %

Source: Invictus Capital

3. Execution of Fund Rules

The fund was rebalanced on a weekly basis throughout the quarter in adherence with the fund rules. As contemplated by the white paper, management decisions listed below were made to exclude a coin/token from the index. Where a coin is excluded, the next in line coin in terms of market capitalization is included in the index.

Coin/Token	Context
Nano	Nano was excluded from the portfolio for the 2 January rebalance as it was not listed on an independent exchange at the time. The coin has been included in the fund at subsequent rebalance dates with subsequent listings on independent exchanges with sufficient volume.
Bitconnect	After investigation we considered the business model to be indicative of a ponzi scheme. As such this project was never included in the C20 portfolio. The fund avoided the sudden drop in the value of this coin when US regulators categorized the project as a fraudulent scheme.
Tether	Due to the nature of the project, this was never included in the C20 portfolio.

Source: Invictus Capital

We have focussed on minimizing slippage in the weekly rebalancing via the following strategies:

- We rebalance automatically across all exchanges with best pices being executed first.
- Trades are executed across multiple exchanges in order to minimize the impact on market prices.
- Reporting of rebalance portfolio after completion of rebalance trades in order to prevent front-running.

Fund assets have been maintained in bank level secure cold storage facilities with deposits and withdrawals limited to that required to facilitate the weekly rebalance process. KPMG verified fund assets post-ICO in terms of an agreed upon procedure. No exceptions were noted.

Operational Statistics	Data
Rebalances performed during the quarter	13
New coins included for the quarter	VEN,BNB,ICX
Coins excluded from the index during the quarter	BTG,ZEC, XVG
Best performing coins - change in market capitalization rank	VEN (+27), BNB (+17)
Worst performing coin - change in market capitalization rank	BTG (-12)
Total trade volume for the quarter (\$)	246,046,094
Average daily volume (\$)	3,565,885
Number of assets in index capped by 10% weighting rule.	4 at beginning of quarter 5 at end of quarter
Proceeds of staking #	
GAS	\$ 53,960
DASH	\$ 111,764
Proceeds of forks	
Bitcoin Gold	\$ 26,003
Airdrops received*	
ONT	\$ 6,000
C20 Tokens liquidated	1,357,075
C20 tokens resold	784,472
- Where elected by the token holder, tokens are liquidated at NAV at the point of liquidation.	
- Liquidated tokens are resold on exchange. To date, liquidated tokens have been resold at a premium to NAV.	

Source: *Invictus Capital*

* where value exceeds \$100

In order to stake coins on DASH, 1,000 coins, are required in order to create a master node. This is a significant barrier to entry to the individual investor as 1,000 DASH equates to c. \$ 300,000. These proceeds are included in the fund and rebalanced in accordance with the fund rules on a weekly basis.

4. Year-end Predictive Analysis

Future outlook

- New partnerships - we have recently listed C20 tokens on Ethlend and are exploring listing on Bancor. Ethlend is a decentralized and secure financial marketplace for peer to peer lending agreements allowing your C20 investments to earn income. Bancor is a decentralized exchange which allows trades with any two of the c.60 currencies listed on the exchange. Listing C20 on Bancor could significantly improve liquidity.
- New regulations - are expected filling the current regulatory void. Healthy regulation will guide the market and translate to decreased uncertainty and a safer environment for investors.
- Performance - C20 should continue to outperform as the market recovers from current levels.
- Participation - the Invictus Capital CEO will be is participating in a number of international conferences in the next quarter, starting with the AIM Conference in Abu Dhabi in May.

- Team expansion - over the last quarter we have seen significant growth in the business and the team, the C20 fund management team is now comprised of the following 5 team members.



Daniel Schwartzkopff
CEO

Serial digital entrepreneur Schwartzkopff is a South African business executive with firm start-up experience and a proven background in the technology and finance sectors.

He founded BetVIP, the world's first licensed bitcoin-only sportsbook and casino and DataProphet, a VC backed machine learning company with a global client base, and has been featured in everything from CNBC to the Wall Street Journal.

Schwartzkopff is a graduate of the University of Cape Town, where he studied Chemical Engineering.



Bobby Jonker
Fund Manager

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.



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, has extensive operational experience in all functional areas.



Ciaran MacDevette
VP of Analytics

Experienced data scientist with demonstrated ability in creating predictive solutions and applying the scientific method to answer a wide array of business questions from data.

Formerly a quant, he gained invaluable experience as part of a team managing European peripheral bond portfolios during the sovereign debt crisis.

Ciaran has Bachelor's degrees in mathematics and atmosphere science, with a masters in mathematical finance. He started his career in scientific services as an Officer in the South African Navy. He is also a registered professional natural scientist.



Brian Watson
Cryptocurrency Investment Analyst

A formally trained scientist with an aptitude for creative problem solving, Brian leverages his rich research experience and ability to quickly make sense of complex subject matter to identify and develop new investment products and opportunities within the ever-evolving crypto-asset landscape.

Before joining Invictus Capital, Brian completed three years of postdoctoral training at Stanford University where he worked on the development of solution-processed semiconductor and photovoltaic technologies.

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