



CRYPTO20

QUARTERLY REPORT

SEPTEMBER 2018

by **INVICTUS**

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CEO's Perspective



The third quarter of 2018 has seen the cryptocurrency market, and BTC in particular, go through a period of all-time low volatility. This correlates with the maturation of the market and the increasing sophistication of the average cryptocurrency investor.

We have increasingly seen investors focus more strongly on thorough vetting and due diligence when purchasing a cryptocurrency - no longer is it viable to raise capital backed only by the strength of a whitepaper and an idea. Sanity seems to have prevailed, and with it, we have witnessed the flight of many speculators, scam-artists and uninformed participants from the market.

Investors want to participate in platforms and protocols, the 'roads and bridges' of the cryptocurrency world, or businesses that have a direct path to realistic revenue, even in a bear market. Tokens like BNB that have real utility (fee reduction), velocity reduction mechanics (staking, to reduce the fees) and a direct link to the growth of the underlying platform (buy and burn from Binance's significant profits) have shown solid performance - as evidenced by the USD price for the BNB token being higher at the end of Q3 2018 than it was on January 1st.

Weak projects with poor correlation to the underlying business's value creation are being driven out and many tokens are being reduced to micro-cap status. This is a natural process as tokenomic models are no longer haphazardly put together but rather painstakingly crafted by qualified specialists who understand the market dynamics and work with realistic adoption projections. Project teams have also realized they need to 'give more' - prior to Q3 2018 the risk of investing in an ICO was largely asymmetrical.

Institutional investors are rapidly entering the space with major developments in third-party custody and constructive engagement by regulators in the US. The CME bitcoin futures experienced a 41% growth in average daily volume over trade in Q2 and OTC trade is at an all-time high. Regulatory approval for a crypto ETF is most likely imminent, with most analysts predicting that it will come no later than the end of Q1 2019 and major traditional financial institutions like Fidelity are moving forward with crypto products.

The market seems to have found a bottom with the BTC/USD price failing to break \$5700 after several attempts so far this year and we eagerly await the exciting new developments set to emerge in Q4 2018 and Q1 2019. There is light at the end of the tunnel.

Thank you for your support so far and we look forward to furthering our trusted relationship with you,

Kind regards,

Daniel Schwartzkopff
CEO, Invictus Capital

1. Market Overview

Key themes

- Decreasing market volatility
- Increasing regulatory oversight
- Continued increasing awareness and adoption

Introduction

The negative market sentiment continued this quarter as the overall crypto market shed \$25bn. Tom Lee and Mike Novogratz, both top crypto market commentators, believe that we have now reached the market floor and that we can expect bullish price trends to emerge in the coming months.

If Bitcoin is following the Gartner Hype Cycle, as most disruptive technologies do, then it is most likely that we are in the “Trough of Disillusionment” or in the lows of the current market cycle.

While it is unclear whether the market has bottomed, what has continued is the downward trend in Bitcoin’s price volatility. A record year-low of 2.53% of the 30-day BTC/USD volatility was achieved this quarter. This shows that the markets are potentially maturing with the overall market becoming less susceptible to short-term wild price swings.

Volatility Over Time (%)

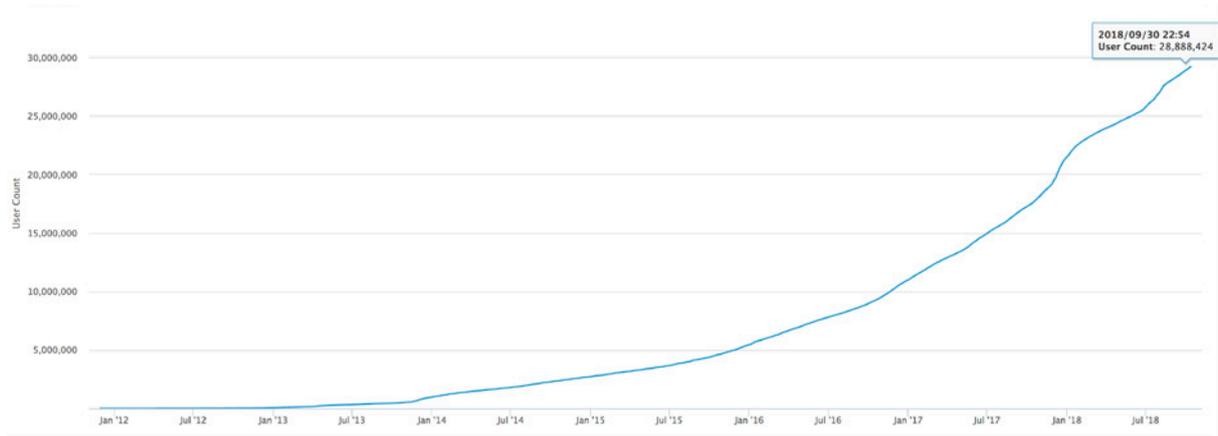


Source: [bitvol.index](#)

Traders generally prefer volatility whereas long-term investors generally favor price stability. As such, this lower volatility could be a sign that more institutional players have entered the market. Institutional investors adhere to stricter investment criteria compared to retail investors and are less reactive to sensational news stories. This is potentially the reason why we saw muted price reaction to positive news stories such as Bakkt¹ this quarter.

Adoption can be measured in many different ways such as capital inflows, search engine trends, or wallet openings. In a bear market, the number of new Bitcoin wallets could be considered a fair proxy for the number of new users entering the ecosystem. The 3rd quarter growth in new wallets was the highest of the year - 12.12% in Q3 compared to 7.53% in Q2 and 11.3% in Q1. There have been over 7.3m new wallets opened this year which is roughly the same number as those opened last year - the breakout year for cryptocurrencies.

Blockchain Wallet Users



Source: *blockchain.info*

The strong growth in crypto wallets also correlates with a string of positive news stories this quarter. There was an announcement by ICE (the Operator of the NYSE) that they are in the process of developing Bakkt, a platform developed that would allow for customer, merchants, and institutions to freely exchange digital assets for goods and services. There were also multiple announcements by some of the big banks (Goldman Sachs, CitiGroup, and Morgan Stanley) of intent to build custodial services for their institutional clients which is a sign that institutional investors are feeling more comfortable entering the market.

Regulation also played a strong hand in this quarter's market performance. Shapeshift succumbed to pressure from regulators and implemented a KYC/AML requirement for users of the peer to peer crypto exchange. This has contributed to a capital flight from the market with nervous investors anticipating further regulatory action.

In further regulatory moves, the SEC denied nine applications for Bitcoin ETFs, vehicles necessary to allow new inflows into the cryptocurrency markets from institutional investors. Despite these developments, the SEC have announced that they are reviewing the applications and look likely to approve at least one of these ETFs in early 2019.

Market technicals

The total cryptocurrency market cap declined this quarter from \$258bn in the beginning of July to \$223bn at the end of September. In the cryptoworld Bitcoin is seen as a "safe haven" asset in times of market uncertainty. We therefore saw a flight to safety during this period and Bitcoin's market dominance increase from 42,7% to 51,4%. This period also saw the capitulation of the Ethereum price from \$452 to \$233 and its market dominance drop approximately 7%.

The overall market sentiment continued to be gloomy this quarter and with low inflows of new money into the market despite the increasing interest from institutional investors. The market appears to be entering a new phase whereby individuals, who are less sophisticated investors are starting to be replaced by institutional investors who have much higher criteria for investment. A recent Bloomberg report found that hedge funds have overtaken high net worth individuals as the largest group of buyers of OTC crypto transactions over \$100 000³.

Overall market trading volume is lower this quarter compared to last but this is simply a factor of the declining market cap of cryptos. Trading activity in Bitcoin actually increased during the period as the average daily volume of Bitcoins traded increased by 14% from Q2 to Q3 according to coinmarketcap.com data. This is a sign that the trading activity in the market still remains strong, despite the negative price impacts.

Market drivers

Below are some of the Market drivers witnessed in Q3 2018.

- 11 July: Ripple hires Facebook exec to serve in Senior VP position⁴
- 23 July: Scam Dapps lock up \$46m in ETH⁵
- 4 August: Intercontinental Exchange (ICE) announces the launch of Bakkt⁶
- 6 August: Goldman Sachs announces plans to create a custodial offering for its clients⁷

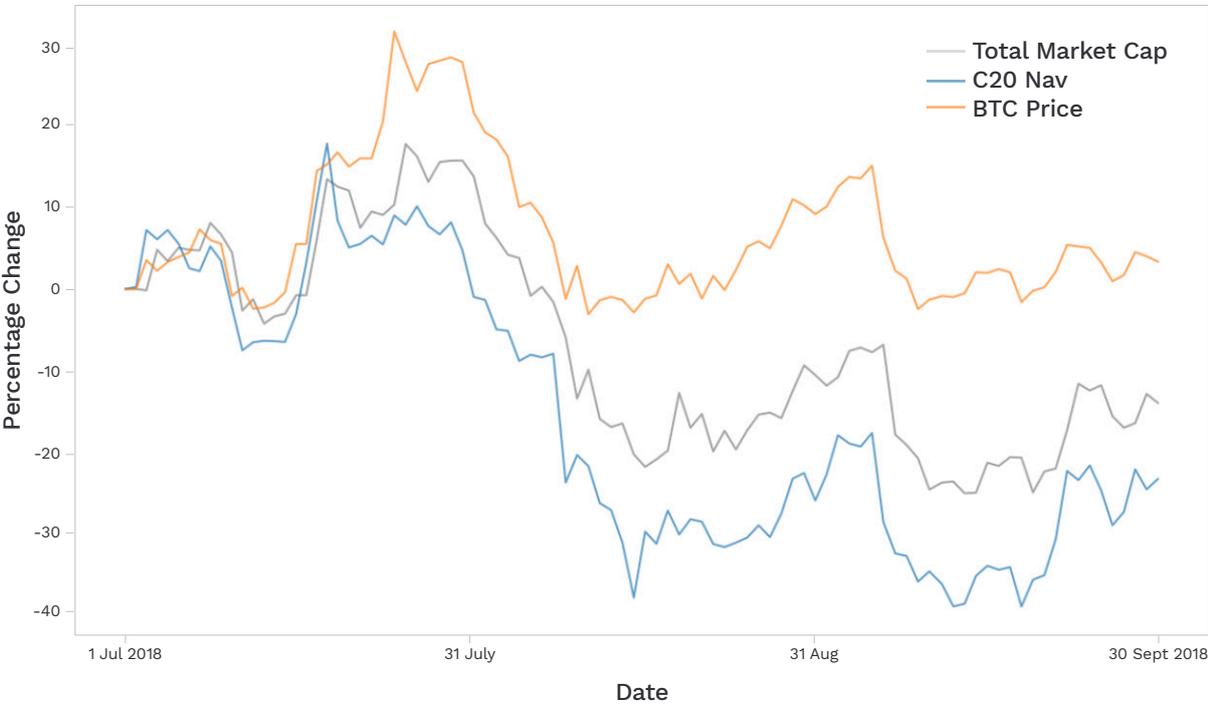
- 23 August: SEC rejects 9 Bitcoin ETF applications⁸
- 29 August: Square awarded patent facilitating payments to merchants in cryptocurrencies⁹
- 5 September: Shapeshift announce the introduction of KYC/AML requirements¹⁰
- 10 September: Citigroup to soon offer crypto custodial services to institutional clients¹¹
- 10 September: Gemini launch a stable coin¹²
- 13 September: Morgan Stanley looks to offer Bitcoin derivatives trading to clients¹³
- 25 September: Google reverses ban on cryptocurrency advertising¹⁴

If you take a long term view on cryptocurrencies, Q3 2018 appears to be a good time to increase your exposure to the market. It seems that currently no amount of good news can move the prices. As the market starts to view the new prices as stable, however, speculative investment should once again return and the investment cycle repeats.

2. C20 in Review

Fund Performance: (Quarter): 1 July to 30 September

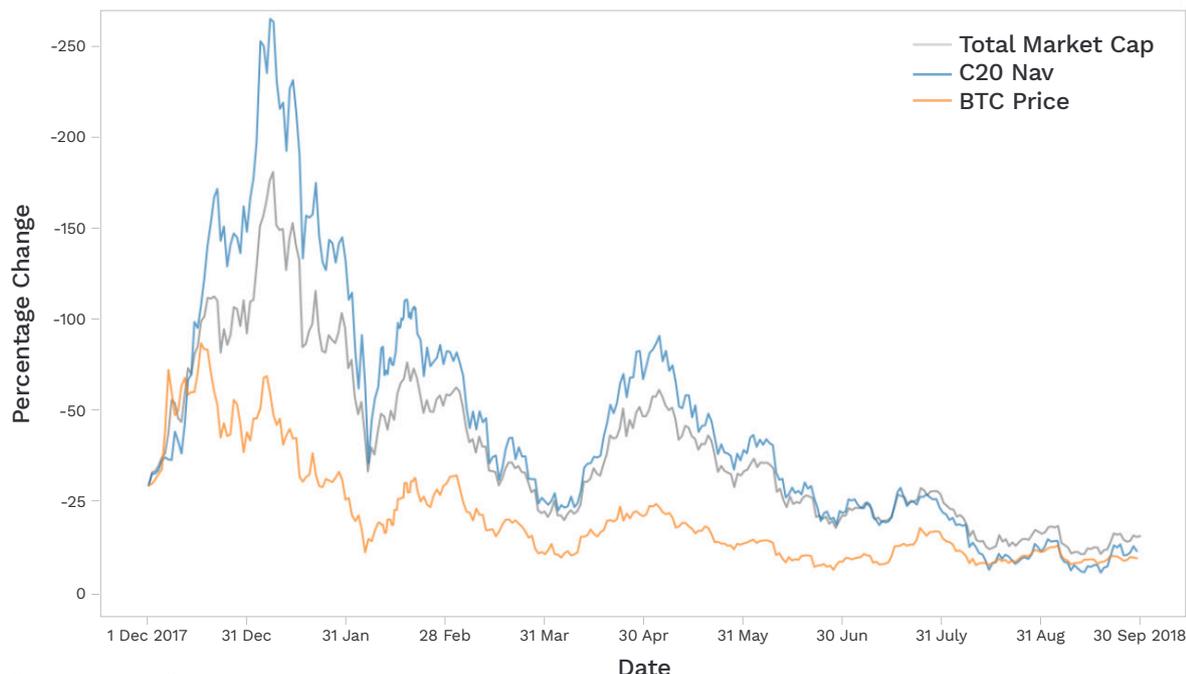
C20 vs Total Market Cap vs BTC Performance



Source: *Invictus Capital*

(Inception): 1 Dec to 30 September

C20 vs Total Market Cap vs BTC Performance



Source: *Invictus Capital*

Additional performance graphs of the underlying coins making up the C20 index are available online at <https://www.crypto20.com/en/portal/insights/>

	Total Cryptocurrency market Asset Cap	BTC	C20
Dec 2017	100.57%	39.24%	156.64%
Jan 2018	-15.46%	-34.19%	-20.01%
Feb 2018	-14.98%	19.91%	-19.07%
Mar 2018	-40.76%	-36.47%	-43.89%
Apr 2018	66.89%	31.95%	80.09%
May 2018	-23.53%	-18.99%	-27.78%
Jun 2018	-25.50%	-14.62%	-27.05%
Jul 2018	14.00%	19.40%	-1.37%
Aug 2018	-18.60%	-5.66%	-17.01%
Sep 2018	-2.83%	-5.85%	-2.10%
Q3 only	-9.83%	6.05%	-19.87%
Incep to date	-26.78%	-32.44%	-29.12%

Source: *Invictus Capital*

The market comprises c.2,050 coins/tokens traded on 14,600 markets/exchanges. C20 has outperformed BTC on an inception to date basis, with the Total Cryptocurrency market outperforming both C20 and BTC over a similar period.

Fund Holdings:

Asset	Rank Movement for quarter	Amount	\$ Equivalent as at 30/09/2018	%
ETH	0	14,673	3,407,658	11.68
XRP	0	5,709,629	3,326,396	11.40
BCH	0	5,867	3,139,666	10.76
EOS	0	498,652	2,862,262	9.81
XLM	1	10,732,056	2,745,528	9.41
BTC	0	404	2,662,635	9.13
LTC	-1	33,470	2,045,352	7.01
ADA	-1	15,007,687	1,276,479	4.37
XMR	2	9,461	1,089,434	3.73
DASH	2	4,776	895,118	3.07
MIOTA	-2	1,576,815	890,017	3.05
TRX	-2	38,669,307	854,862	2.93
NEO	-1	37,910	719,153	2.46
ETC	1	60,084	679,550	2.33
BNB	-1	64,755	641,722	2.20
XEM	-1	5,247,826	501,608	1.72
VET	-1	32,533,948	419,330	1.44
ZEC	1	2,745	363,767	1.25
DOGE	24	61,819,588	362,077	1.24
OMG	-3	80,553	295,630	1.01

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
Tether	Due to the nature of the project, this was never included in the C20 portfolio.
Tezos	There are governance and regulatory issues associated with this project. There is also concern regarding the liquidity of the token - extremely low for the top 20. We continue to monitor the token and will exclude it from the C20 index until these risks are mitigated.

Source: *Invictus Capital*

We have focussed on minimizing slippage in the weekly rebalancing via the following strategies: We rebalance automatically across all exchanges with the best prices being executed first.

Trades are executed across multiple exchanges 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		DOGE, ZEC
Coins falling out of the index during the quarter		ONT, QTUM
		VEN → VET
Best performing coins - change in market capitalisation rank	DOGE (+24), XMR (+2), DASH (+2)	
Worst performing coin - change in market capitalisation rank	OMG (-3), MIOTA (-2), TRX (-2)	
Total trade volume for the quarter (USD)		4,823,227
Average daily volume (USD)		52,426
The number of assets in index capped by 10% weighting rule	5 at the beginning of the quarter 6 at the end of the quarter	
Proceeds of staking	Amount	USD value
GAS	848.9	5,519
DASH*	49.23	9,237
XLM / Stellar**	28,597.10	7,424
During Q3, there were no significant proceeds from forks and airdrops		
C20 Tokens liquidated		Tokens
Where elected by the token holder, tokens are liquidated at NAV at the point of liquidation		1,198,629
Liquidated tokens are resold on an exchange. To date, liquidated tokens have been resold at a premium to NAV		

Source: *Invictus Capital*

* DASH proceeds are added to the fund, the USD value shown is the staked return valued as at 30 September 2018.

** Stellar is staked to earn approximately 1% pa, the USD value shown is the staked return valued as at 30 September 2018.

4. Year-end Predictive Analysis

Future outlook

The crypto-asset world has undergone a period of uncertainty and capitulation. On the one hand, there is an increasing number of promising projects, exchanges, developments, and fund-constructs that are pointing toward a strengthening of the fundamentals of the crypto-asset market. On the other end of the spectrum, we see a massive drop-off in demand for public ICOs, which is impacting how blockchain startups raise capital (and from whom), and how they distribute their crypto-assets.

In lieu of the above, Invictus is taking a view that projects with working business models and revenue, that can be augmented with tokenization and blockchain, will come to the fore. Such projects will pursue funding through private syndicates and venture-capital firms (such as Hyperion Fund), and Invictus will continue to increase its presence in the private equity world.

One of the partnerships that Invictus confirmed is with the Liquid.com exchange, which is bridging crypto and fiat through order-book aggregation and licenses in various jurisdictions. Liquidity and demand for fiat on-ramps without bottlenecks are critical for adoption of crypto-assets and their respective ecosystems.

In terms of building ecosystems, Invictus has launched Perseus, an end-to-end raise platform, to facilitate the launch of successful crypto-assets and communities, with Invictus providing consulting on the appropriate tokenomics and token distribution model.

Invictus will continue to innovate and provide valuable tools, services, and community-education, to stay on the forefront of the crypto-asset and blockchain space.

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 perform well as the market recovers from current levels.

Participation - Daniel Schwartzkopff participated as a panelist at the Crypto Finance Conference, in California from Sept. 5-7. We will participate in the AIM Summit in Dubai in Q4.

Team expansion - The business has continued its rapid growth trajectory, the C20 fund management team is comprised of the following 6 team members. The broader Invictus Capital Team is currently comprised of 32 permanent staff providing significant capacity for strengthening of systems, internal controls, research and analytics and new product development.



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.



Nick Hill
Business Development Manager

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.



Dorian Marz
Accountant

Experienced accountant with a demonstrated history of working in the financial services industry. Strong accounting background with a Bachelor of Commerce (BCom) focused in Financial Management, from the University of the Western Cape. Formerly a team leader at a large fund administration company, focusing on local hedge funds.

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