



 CRYPTO20

QUARTERLY REPORT

SEPTEMBER 2019

INVICTUS

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Executive Summary

The crypto market remained largely Bitcoin-focussed for the quarter, seeing an increase in the Bitcoin dominance index to 71% and slow sell-offs in the altcoin markets. Towards the end of the quarter, we saw a significant retracement in the market, with Bitcoin dominance dropping to 67.4%. Bitcoin returns were down 23% for the period, showing a sharp drop in price towards the end of September. This quarter saw the launch of the long-awaited Bakkt futures exchange and the announcement of CME Bitcoin options to be launched in early 2020, further increasing institutional on-ramps and risk mitigation tools.

CRYPTO20 (C20) has shown a year-to-date return of 15%. As the fund is a diversified capped index fund, the primary objective of C20 is to deliver long term capital growth whilst remaining 100% invested in the cryptoasset class. Each cryptoasset is capped to a maximum exposure of 10%, which is designed to provide optimal returns throughout a full market cycle. With the C20 fund strategy being less exposed to Bitcoin in relation to the total crypto market cap, C20 should perform well should we see a continued decrease in Bitcoin dominance.

Market Commentary

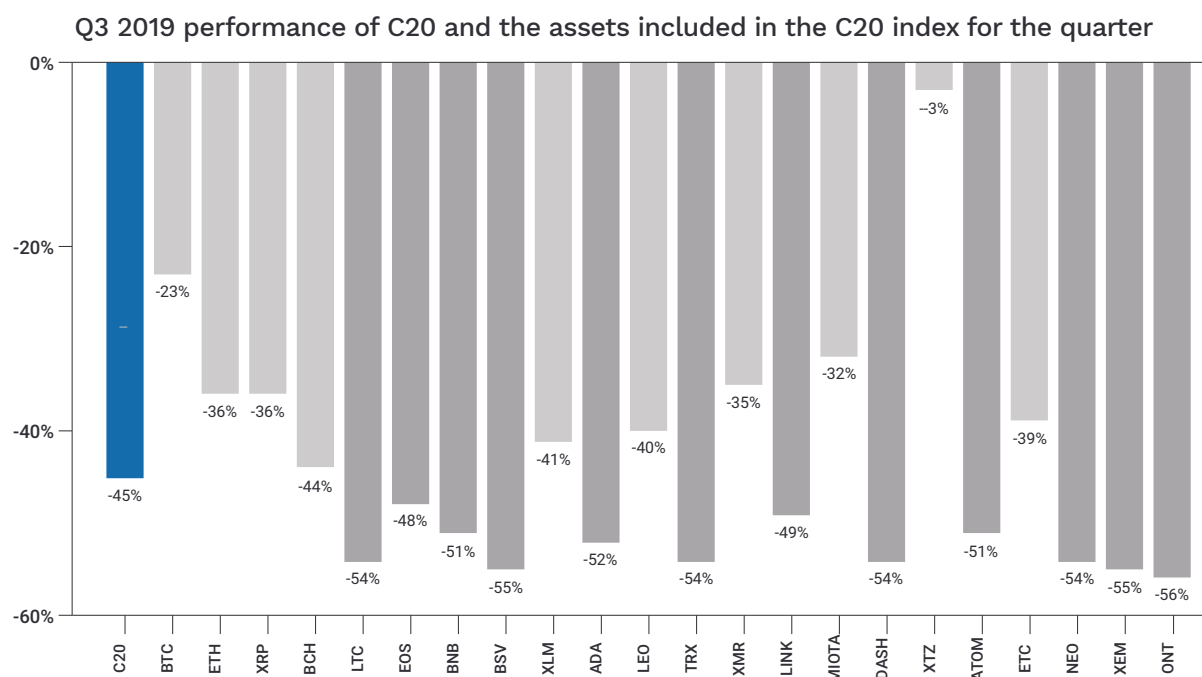
Picking up from Q2's surprise Bitcoin breakout, the crypto market remained primarily Bitcoin-focussed throughout the rally with a largely volatile third quarter. The total crypto market cap shrunk by 30% over the quarter, marching in lockstep with the Bitcoin price. Overall, Bitcoin returns were negative for the period, ending 23% lower at \$8,300. However, YTD figures for Bitcoin have been extremely strong, returning 124.88% for 2019.

In Q3, the top large-cap altcoins displayed higher positive correlations than in the second quarter.¹ The strength of these correlations appear to be influenced by the following factors:

- Digital assets utilizing the Proof-of-Work algorithm appeared to have stronger correlations with each other.
- Privacy coins such as Dash, Zcoin and Monero showed strong correlations.
- Programmable blockchains such as NEO, Ethereum and EOS showed stronger correlations with each other than with non-programmable digital assets.
- We continued to see the “Binance effect”, as digital assets listed on Binance showed stronger correlations compared to unlisted assets. For example, the Dogecoin (DOGE) and Cosmos (ATOM) average correlation increased over the quarter.
- Lastly, Ether became the most correlated crypto asset in the ecosystem, showing a correlation of 81% to Bitcoin throughout Q3, with the ETH price following Bitcoin in tandem.

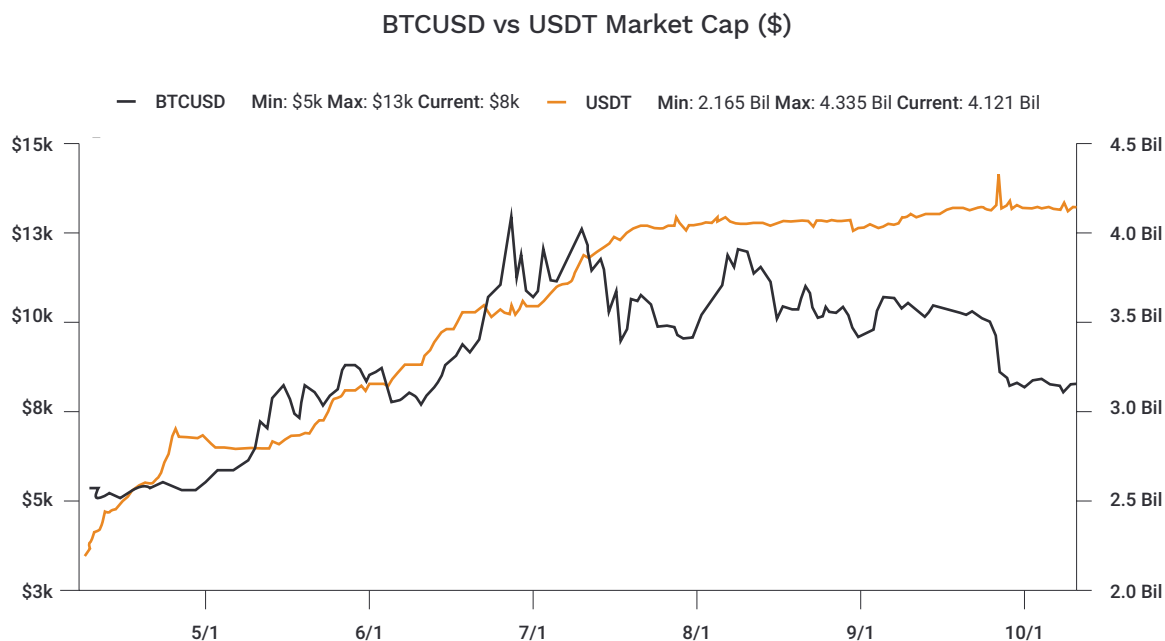
C20 has outperformed 12 of the 22 assets included in the C20 index for the last quarter.

Figure 1



Bitcoin fared better than the altcoins and this is likely due to the high levels of uncertainty in the cryptoasset space causing investors to sell their altcoin holdings into Bitcoin or Tether². This is demonstrated in the rapid growth of the Tether market cap since the end of Q2.

Figure 2



Source: <https://www.skew.com/dashboard/stable-coins>

Q3 saw the Bitcoin dominance index surge to levels not seen since before the 2017 bull run. When Bitcoin dominance is high, this is representative of cryptocurrency traders expressing higher demand for Bitcoin over altcoins. The index can be used to infer the market's risk aversion to other assets in the crypto market. Starting at 61% in early July, Bitcoin market dominance steadily grew to reach its local peak at just over 71% in early September, before dropping to 67.4% at the end of the quarter. Such a sharp decline within a 3 week period is a significant retracement, illustrating a sizeable shift in market focus away from the leading asset, as investors look to diversify into comparatively cheaper altcoins.

With Bitcoin dominance reaching a local 2-year high, many market participants are concerned about the future of altcoins. Many investors fear that if Bitcoin reaches new highs, it will entice the current holders of altcoins to succumb to behavioural biases and sell due to loss aversion. Others view the high dominance level as temporary, as the peak of a natural cycle that will soon lead to an altcoin recovery. We are more inclined to agree with the latter as supported by our commentary below.

Investment firm CoinShares's³ research suggests that Bitcoin's recent dominance and the lack of an 'alt season' (as the spike in altcoin prices is often described), is attributed to a change in the character of investors leading the market. The lack of spikes in Bitcoin Google searches during the most recent price run suggests that market participants have shifted from the mass retail market, to more of an institutional focus. The 2017 bull run was driven very much by the retail market and this was evidenced by aspects such as spikes in Bitcoin Google searches preceding and during this period. It is this same retail market that traditionally drove up the price in altcoins as they looked to secure short-term, larger gains on altcoins as opposed to Bitcoin.⁴

Wall Street's presence is evidenced by the increased volumes on institutional platforms. CME has reported several record-breaking highs⁵ for Bitcoin futures trading volumes in the past few months.

Cryptocurrency use in financially distressed economies remains high, often used as an alternative currency in countries such as Venezuela⁶ where they are currently experiencing hyper-inflation in their local currency.⁷ Cryptobuyer, a Panama-based crypto start-up, has rolled out its crypto point-of-sale solution to over 200 stores in Latin America, including Samsung Experience stores in Panama and Venezuela, allowing customers to pay for products in Bitcoin, Litecoin, Dash and BNB.⁸

Following the last bull run, institutions and exchanges in the cryptocurrency space have made strides to educate investors and have created easy-to-use platforms and cryptocurrency storage solutions. There has also been a large increase in the number of cryptocurrency exchanges globally, making it easier for retail customers to not only purchase Bitcoin but other altcoins too.⁹ This quarter saw the launch of

Binance America, which offers the American market access to more altcoins than they had before. Major exchanges like Coinbase, which previously offered very little altcoin investment options, are continuing to add new listings to their platform.

Major institutions such as Grayscale continue to expand their offering of cryptoasset funds providing exposure to the altcoin market. They currently offer trusts for nine cryptocurrencies, including Ether, Bitcoin cash, Stellar and Litecoin, in addition to Bitcoin itself, allowing both institutional and retail capital to invest in the wider digital asset space.¹⁰

The blockchain industry is clearly in a persistent state of growth as constant developments are being made globally on both the regulatory and infrastructure fronts. Barriers to entry for the institutional market are being addressed through the development of licensed custodial services such as BitGo, regulated exchanges provided by the CME and Bakkt, and insurance providers, to name a few. Through these developments, we foresee a great deal of licensed investment vehicles entering the market over the coming year, which should instigate an inflow of fresh capital into the sector.

2019 has seen the rapid development and expansion of the derivatives space, with exchanges opening futures markets on Bitcoin and many of the top altcoins. Binance, the largest spot exchange by trading volume, launched Binance Futures and acquired JEX, a small derivatives exchange offering Bitcoin options and futures. These exchanges allow traders to hedge their cryptoasset price risk or speculate on the movement of Bitcoin without necessarily having to trade the underlying asset. This allows for greater flexibility in hedging and trading strategies, and should help curb the ecosystem's characteristically high volatility. In the traditional markets, the derivatives space has typically been dominated by the large Wall Street banks and hedge funds. As the crypto derivatives industry matures, these same players will likely be attracted to develop unique trading strategies to profit from the crypto market's high volatility. The options market also continues to develop as the Chicago Mercantile Exchange (CME) announced it will launch options on its Bitcoin futures contracts in the first quarter of 2020, pending a regulatory review.¹¹

There have also been significant developments on the Ethereum network which is poised to roll out its first phase of 2.0 updates in late 2019 to increase network performance and scalability. The update to Ethereum 2.0 will involve making the switch from Proof-of-Work to Proof-of-Stake, with the intention of increasing the security of the network whilst simultaneously allowing an increase in the transaction throughput. The upgrade roadmap is extensive and will be rolled out in 3 phases over the next 3 years.¹²

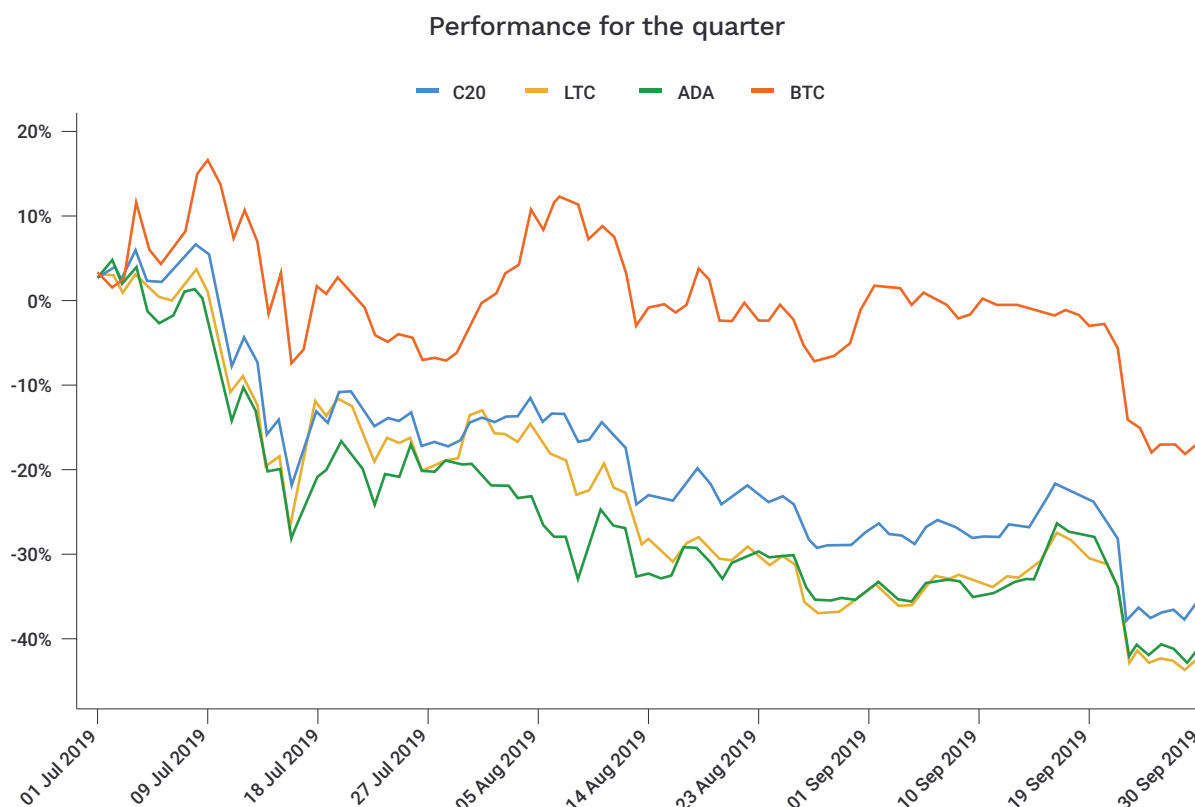
The DeFi (Decentralized Finance) space has shown significant growth. Within the span of one year, the amount of Ether locked in smart contracts to power DeFi has tripled to approximately 2.9 million ETH. With the aim of creating a more efficient money market, DeFi has seen strong growth in the types of applications coming on board. The most popular applications in the DeFi space are in the lending, derivatives, decentralized exchanges (DEX), and payment services.

This quarter also saw the launch of the long-awaited Bakkt exchange. Bakkt is a Bitcoin futures exchange and digital assets platform founded in 2018 by the Intercontinental Exchange (ICE), the parent company of the New York Stock Exchange (NYSE). The company initially planned to open its futures exchange in 2018, but postponed its launch several times due to regulatory issues pertaining to custody. Bakkt began testing its platform in July 2019 while waiting for regulatory approval to take the platform live. Bakkt's goal is for people to use cryptoassets in everyday life seamlessly over its network and aims to enable institutional, merchant and consumer access to all digital assets.¹³

C20 in Review

Fund Performance

Figure 3



Percentage growth relative to USD

| | July 2019 | August 2019 | September 2019 | Q3 2019 |
|-----|-----------|-------------|----------------|---------|
| C20 | -20.32% | -22.17% | -11.80% | -45.31% |
| BTC | -6.76% | -4.51% | -13.88% | -23.33% |
| ETH | -24.79% | -21.12% | 4.29% | -38.13% |
| XRP | -19.05% | -19.23% | -1.26% | -35.44% |
| LTC | -19.42% | -34.44% | -13.19% | -54.14% |
| ADA | -26.73% | -25.21% | -13.57% | -52.64% |

Analysis of Performance

With the sharp increase in Bitcoin dominance this quarter, C20 underperformed against the Bitcoin market benchmark. It did however perform noticeably better than large cap coins such as Litecoin and Cardano. As C20's maximum Bitcoin exposure is capped at 10%, the fund holds 90% of its value in altcoins which have not yet seen an increase in value in line with Bitcoin. We expect to see higher performance in these assets following a pause or cessation of Bitcoin's rally, as traders start shifting capital into the relatively cheaper altcoins, which will result in C20 performing better.

For portions of time since the inception of the C20 fund, each of C20 and the comparative benchmarks BTC and Total Market Cap have outperformed each other. The percentage of time that each have outperformed is set out below:

Performance statistics (since inception)

| Asset | Days (top performer) | Percentage time (top performer) |
|------------------|-------------------------|------------------------------------|
| C20 | 215 | 32.14% |
| BTC | 109 | 16.29% |
| Total Market Cap | 345 | 51.57% |
| Total | 669 | 100% |

The above statistics demonstrate that C20 is an extremely effective passive investment vehicle for exposure to the cryptocurrency market. It is not practical for an investor to hold all crypto assets, but C20 provides an excellent and cost effective proxy, outperforming Bitcoin the majority of the time, whilst providing risk diversification from holding any single asset.

Fund holdings as at 30 September 2019

| Asset | Rank Movement for quarter | Amount | \$ Equivalent as at 30/09/2019 | % |
|--------------|------------------------------|-------------|-----------------------------------|----------------|
| ETH | 0 | 10792.33 | 1,928,218 | 12.36% |
| XRP | 0 | 6817302.26 | 1,734,821 | 11.12% |
| BTC | 0 | 187.8 | 1,540,317 | 9.88% |
| LTC | -2 | 25319.08 | 1,402,711 | 8.99% |
| BAB | 0 | 6060.69 | 1,368,730 | 8.78% |
| EOS | -1 | 442008.65 | 1,297,300 | 8.32% |
| BNB | -1 | 74709.37 | 1,164,538 | 7.47% |
| BSV | 0 | 8511.81 | 737,874 | 4.73% |
| XLM | 2 | 9573888.78 | 582,576 | 3.74% |
| LEO | 2 | 470073.52 | 487,955 | 3.13% |
| ADA | -1 | 12462181.66 | 474,047 | 3.04% |
| XMR | 1 | 8193.52 | 461,555 | 2.96% |
| TRX | -4 | 31959794.97 | 454,265 | 2.91% |
| MIOTA | 2 | 1310998.9 | 346,276 | 2.22% |
| DASH | -2 | 4324.19 | 302,765 | 1.94% |
| LINK | -2 | 165325 | 288,981 | 1.85% |
| XTZ | 6 | 315284.66 | 279,593 | 1.79% |
| NEO | -4 | 33964.8 | 252,196 | 1.62% |
| ETC | 0 | 53865.69 | 250,518 | 1.61% |
| ATOM | -3 | 91027.3 | 239,358 | 1.53% |
| TOTAL | | | 15,594,594 | 100.00% |

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 year are as follows:

Management fee breakdown

| Month | Average fund Value (USD) | Management fee (USD) |
|-----------|--------------------------|----------------------|
| July | 24,754,803 | 10,314 |
| August | 20,756,184 | 8,648 |
| September | 17,842,688 | 7,434 |

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 inline coin in terms of market capitalization is included in the index.

Exclusions from the C20 index for the quarter

| Coin/Token | Context |
|-------------|---|
| Huobi Token | Huobi Token became an index candidate on 2 September 2019. The token has been excluded from the index primarily due to not being listed on the exchanges that we currently use to rebalance the fund. It is likely that we will incorporate Huobi Token in the C20 index going forward. |
| Maker | Maker was excluded from the index on 26 August 2019 due to liquidity concerns. The following week it had dropped in ranking, no longer being a C20 index candidate. |
| 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 prices 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.

Operational statistics for the quarter

| Operational Statistics | Data |
|--|-----------|
| Rebalances performed during the quarter | 14 |
| New coins included for the quarter | LINK, LEO |
| Coins falling out of the index during the quarter | XEM, ONT |
| Best performing coins - change in market capitalisation rank | XTZ (+6) |

| | | |
|--|--|------------------|
| Worst performing coin - change in market capitalisation rank | XEM (-5),ONT (-4), NEO (-4) | |
| Total trade volume for the quarter (USD) | 578,962 | |
| Average daily volume (USD) | 6,293 | |
| Number of assets in index capped by 10% weighting rule | 5 at the beginning of the quarter 5 at the end of the quarter | |
| Proceeds of staking and airdrops | Amount | USD value |
| GAS | 616.28 | 752 |
| DASH* | 44.25 | 3,145 |
| XLM / Stellar** | 23,091.57 | 1,419 |

* DASH proceeds are added to the fund, the USD value shown is the staked return valued as at 30 September 2019.

** Stellar is staked to earn approximately 1% pa, the USD value shown is the staked return valued as at 30 September 2019.

Future Outlook and Team Composition

Future Outlook

We look forward to seeing what the next quarter holds for Bitcoin and altcoins. In the short-term, we expect Bitcoin dominance to remain quite high as more investors continue to purchase the market-leading cryptocurrency. We will be keeping a close eye on altcoins and monitoring the trading volumes as more participants enter the market. It is clear that there are significant strides being made to regulate and legitimize the industry, which will only open up the market to more investors.

Team

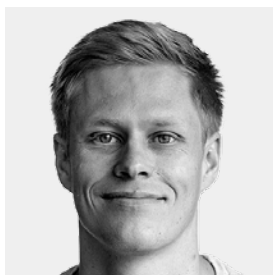
The C20 fund management team is comprised of the following 6 team members. The broader Invictus Capital Team has a strong data science and technology emphasis.



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.



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.



Thokozani Mabhena
Accountant

Qualified Accountant with financial services experience. Completed accounting articles with Corporate Investment Banking, Retail Business Banking and Internal Audit experience. Strong accounting background with a Postgraduate diploma in Accounting and Bcom in Accounting both from the University of Capetown.



Zulekha Cara
Cryptocurrency Investment Analyst

Zulekha holds a BCom Honours degree in Financial Analysis and Portfolio Management from UCT. She is an avid entrepreneur who has worked in the financial services, FMCG and cryptocurrency industries. She has been trading and mining cryptocurrencies since early 2015 and has been actively involved in both blockchain and cryptocurrency education initiatives and consulting.

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