PORTAL
ASSET MANAGEMENT

Market Commentary

September 2022

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01.
Market Overview

September was a challenging month for funds to trade. BTC initially rallied 10% whilst ETH and the overall market rose 14% in the first 12 days of September leading up to the impressively smooth and successful ETH merge on the 15th September.

Global markets were then whiplashed with a sharp correction due to the Nord Stream gas pipeline explosion - which is the largest infrastructure sabotage since the NATO-Russia conflict began and has escalated the energy crisis ahead of the European winter.

Some of the underlying funds suffered from this sharp reversal as both the sentiment and momentum of the market were positive in the short-term and many funds were increasing risk into rally ahead of the black-swan event. BTC fell -18% before bouncing to finish the month down -3.4%, and ETH fell -29% to finish the month down -14%.

- The Portal Digital Fund finished September down -4.7% vs BTC down -3.4% and the CCI30 Index down -2.6%.

- For Quarter 3, The Portal Digital Fund finished basically flat, down -1.1% vs BTC which was down -2.7% and the CCI30 Index was up 11.6% after significantly underperforming BTC in Q2.

- YTD 2022 the PDF is down -34.5% vs BTC down -58.2% and the CCI30 Index down -65.2%.

02.

Synopsis

This quarterly report is divided into three parts and will focus on:

01 Trying together the macro trends for investing in cryptocurrency and digital assets ("Crypto Assets") with actual empirical evidence of how overall performance would have been, and will continue to be, improved with an allocation to Crypto Assets.

02 The continued rate of technological adoption and actual on-chain metrics supporting our thesis of a tipping point in the sharply rising S-Curve of technological adoption.

03 An assessment of real investment in the space by top-tier large investment institutions in the past quarter.

03.
Macro Commentary

We recently attended the annual Australian Crypto Conference on the Gold Coast and were pleasantly surprised to see many of our inherent views we have been promoting for the past three years confirmed by Jamie D. Coutts, Bloomberg Intelligence's Crypto Market Analyst. All Bloomberg charts in this report are referenced to his recent research and presentation at the conference.

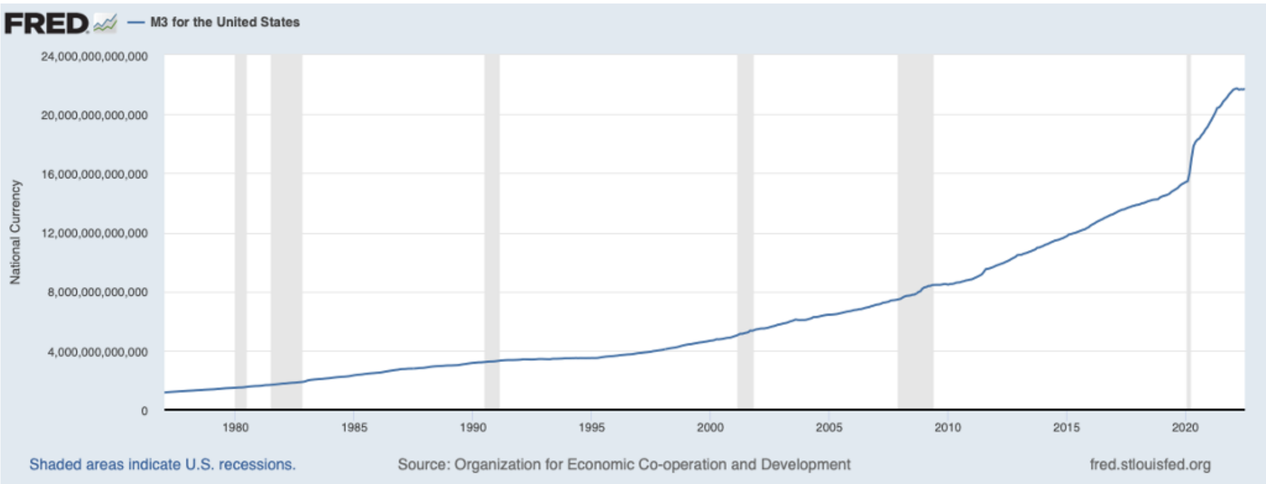
As Crypto Asset Fund Managers, we constantly ask ourselves the question: "Why do we not see significantly more institutional investment in the crypto assets space?"

As we answer this question from both a macroeconomic assessment of global market forces, and then in trying to better understand the institutional investor mindset, we realised that in fact this question is incorrectly phrased. It should read "How much additional growth are we currently seeing in institutional adoption and investment, and when is the tipping point?" Institutions are quietly laying the foundations for full participation in the crypto asset markets in 2023.

Macro Theme 1: The Great Debasement Continues

We have discussed this in many of our past market commentaries how global quantitative easing will lead to a debasement of currency and a sharp increase in inflation (remember "M x V=P x Q", always!).

As per the chart below courtesy of the St Louis Federal Reserve, USA Money Supply M3 has grown 1,200% from 1.7 trillion in 1977 to $22 trillion 45 years later. The concerning aspect is that 47% of this increase has come in the past three years, most notably accelerating since the plandemic began in March 2020.



[1] "Crypto Risk Is Misunderstood and How Its Holding Back Institutional Investors" Jamie D. Coutts, CMT, CFTe. Crypto Market Analyst, Bloomberg Intelligence

The challenge is we are now in a global debt trap. We cannot hike rates aggressively without causing a recession and eventually depression. The first country to blink in this global game of who will default first is the UK, with the BOE stepping in to pledge unlimited bond purchases to avert an "Imminent Gilts Crash".

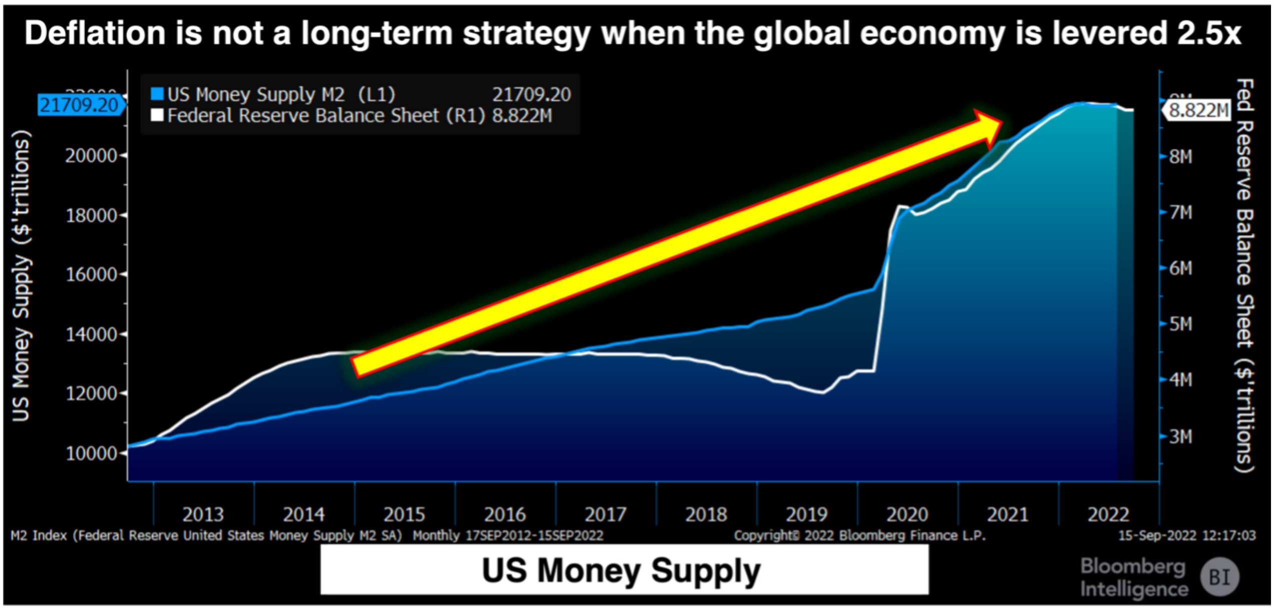
This resulted in the 30-year yield falling the most on record in the wake of the intervention in order to stave off forced selling of UK Gilts by liability-driven investment funds, such as pension funds.

Markets have now turned their attention to Credit Suisse and Deutsche Bank as they both scramble to shore up their balance sheets and convince investors they are not about to spark a "Lehman's-type" gestalt risk to the global financial system. Their Credit Default Swap (CDS) spreads or insurance on their debt says otherwise with the spread reaching 2009's highs at 250bps.

Bottom line:

You cannot raise rates and reduce liquidity during stagflation, defined as "an inflationary period accompanied by rising unemployment and lack of growth in consumer demand and business activity." This combined with tightening central bank liquidity resulted in the prolonged 1929-1932 crash that saw -89% correction from peak to trough over 3 years.

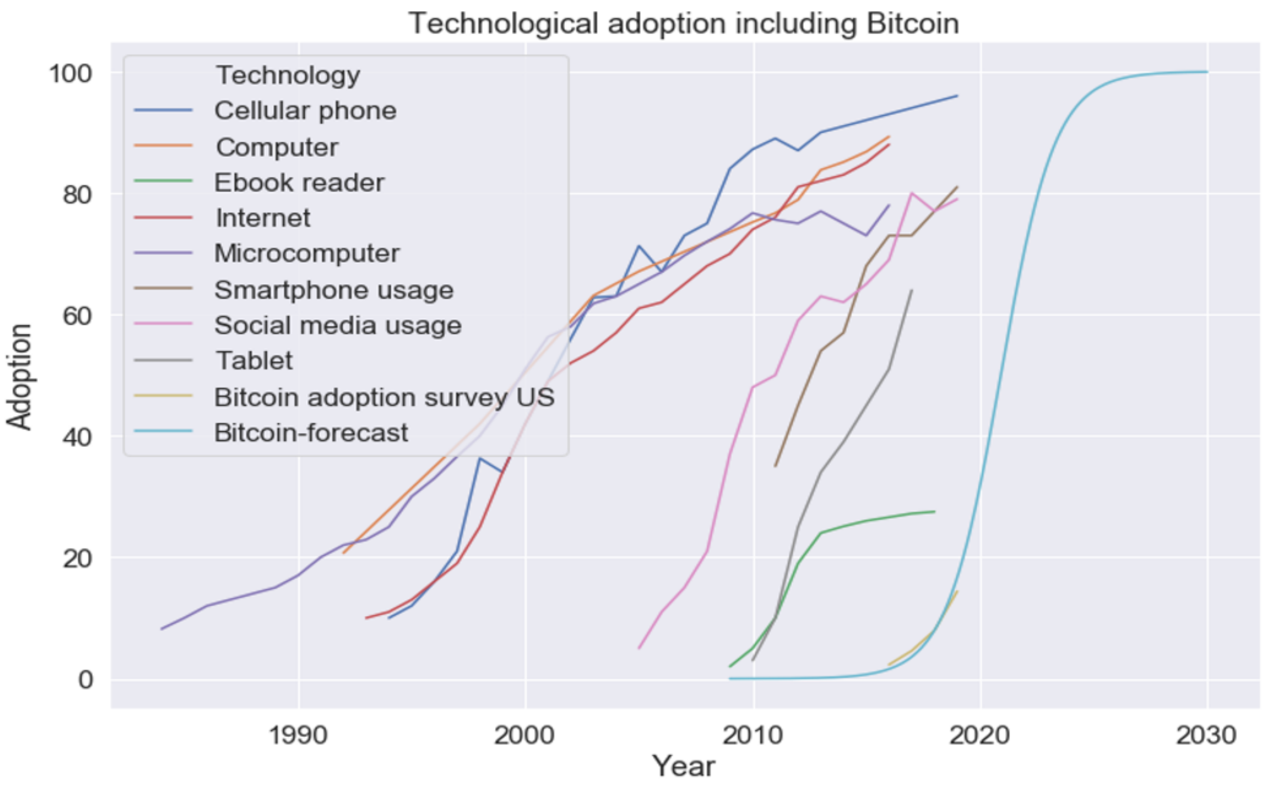
No, unfortunately you have no other option but to inflate your way out of the debt, which results in further transfer of wealth from the middle class to the large corporates and banks. Main Street is being hollowed out by Wall Street and Silicon Valley, but the alternative is unfortunately financial collapse of the global fiat-based capitalist system. The Great Debasement will continue shortly as the Fed reverses course, and fiat cash's value will continue to be eroded.



Macro Theme 2: The Rapid Adoption of Crypto Continues Unabated

In assessing investment opportunities, you cannot decipher where the trends are going unless you know where they initially originated from and why, and more importantly - how they evolved.

As per the chart below we see that the S-Curve adoption of Crypto Assets with BTC as a proxy is continuing in a persistent manner and indeed is gathering momentum. This has been a consistent trend despite the volatility of the past few years, and especially when it spiked from $12 in 2013 to $1,238 in 2014.



Source: https://walletrecovery.nl/articles-tips-tricks/predicting-the-future-adoption-of-bitcoin/

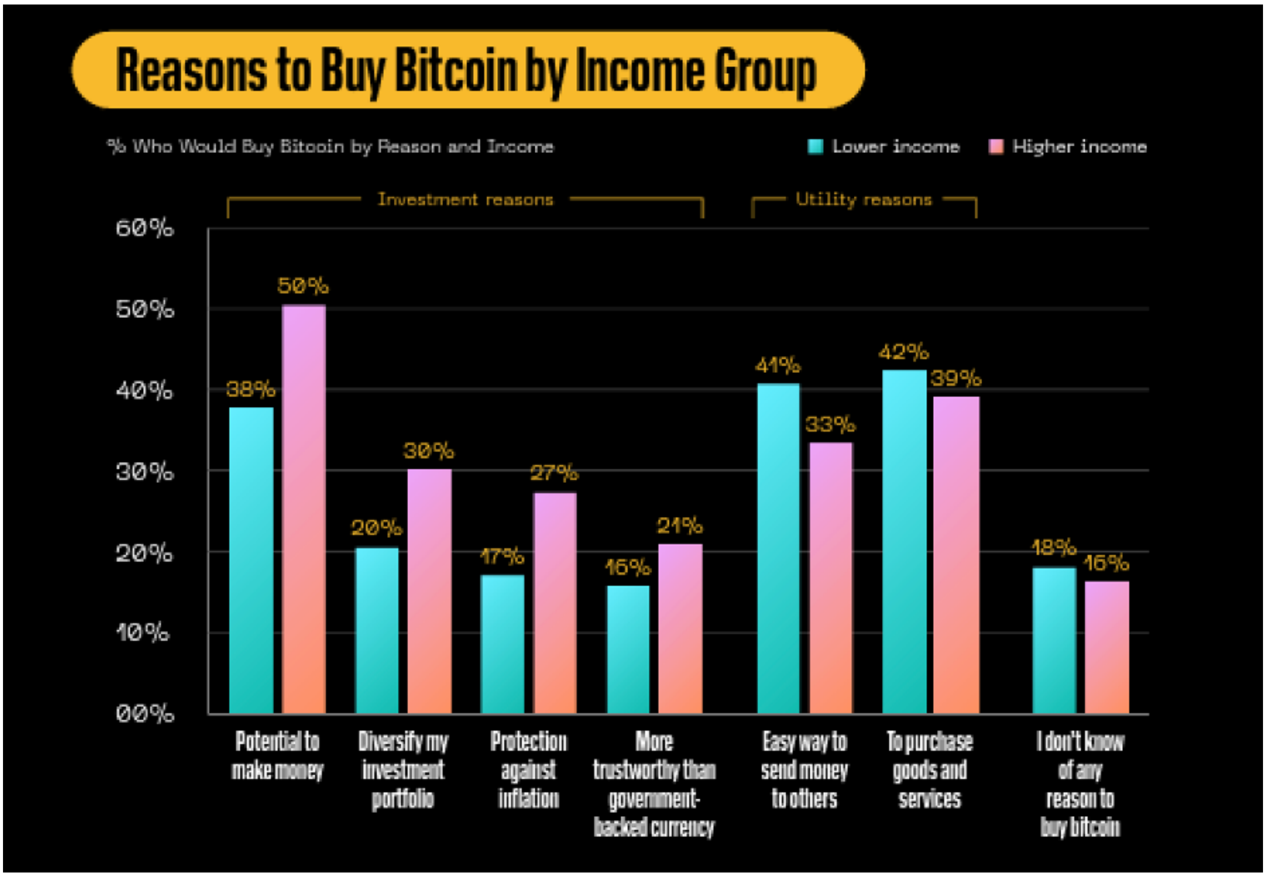
The main underlying drivers of the genesis of Crypto Assets in 2008 have been strengthened – especially the need for decentralisation and an independent, alternative accounting / transacting system. As we have stated previously, BTC was created in response to the reckless excess leverage utilised and predatory lending practices of banks that sparked the 2008 "Global Financial Crisis" or GFC.

As risk was moved from bank balance sheets to sovereign balance sheets with the 2008 Bank Bailouts and 2009 TARP (Targeted Asset Relief Program) we then saw the rolling European Debt Crisis unfold in 2009 sparked by the collapse of Iceland's Banking system. This crisis peaked in 2016 with Brexit as many European countries were unable to repay their loans and unable to roll / refinance their debt.

This calamity culminated with a new precedent being set when "Bank Bail-In's" were used against Cypriot insured depositors in various banks, most notably Laiki, who had their deposits seized and transferred to the "creditors" such as German banks, all guaranteed by the IMF. Indeed €6bn of the €10bn IMF guarantee was paid for by Cypriot depositors. Investors in 2016 realised that both global governments and banks could no longer be trusted to manage risk and match assets and liabilities appropriately.

In summary, over the past 15 years investors have been forced to examine alternatives that provide transportability, security, and immutability in ownership. The risk, particularly from debasement through inflation, in having your assets in any centralised ledger such as bank or in any central bank-controlled fiat currency should be obvious for any investor who wishes to preserve and control their wealth.

As depicted in the chart below, amongst both high- and lower-income groups, the main reason to own crypto assets is firmly still as an investment opportunity and for diversification benefits. It has also become a much cheaper and faster way to send money to others, particularly across geographical borders. Ultimately, people see the promise in crypto assets for a more equitable economy.

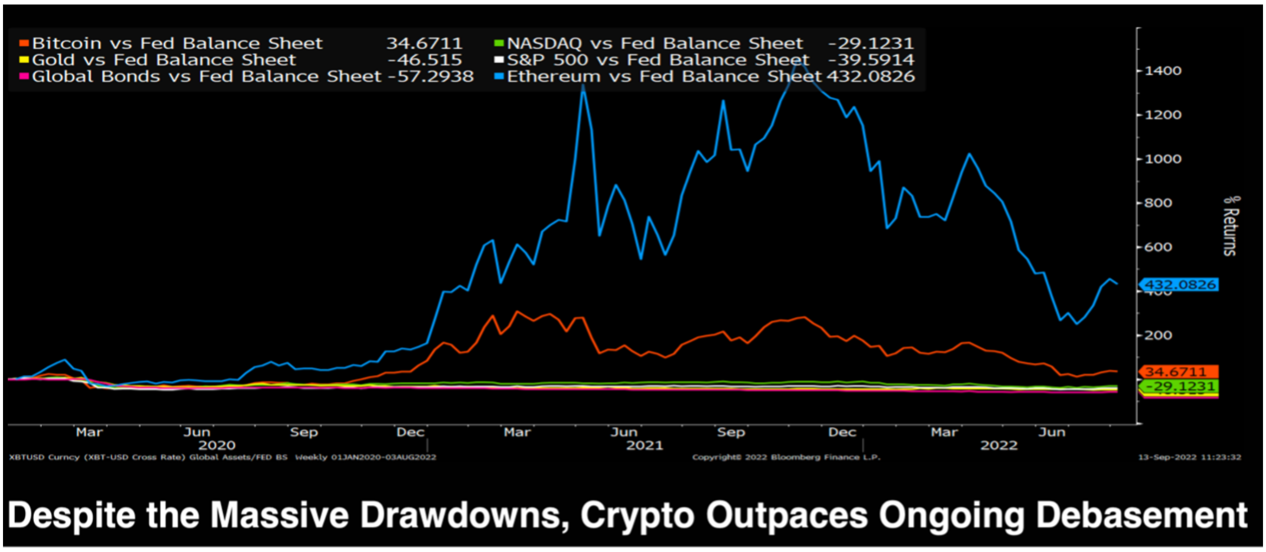


Source: Block Inc Report, 2022

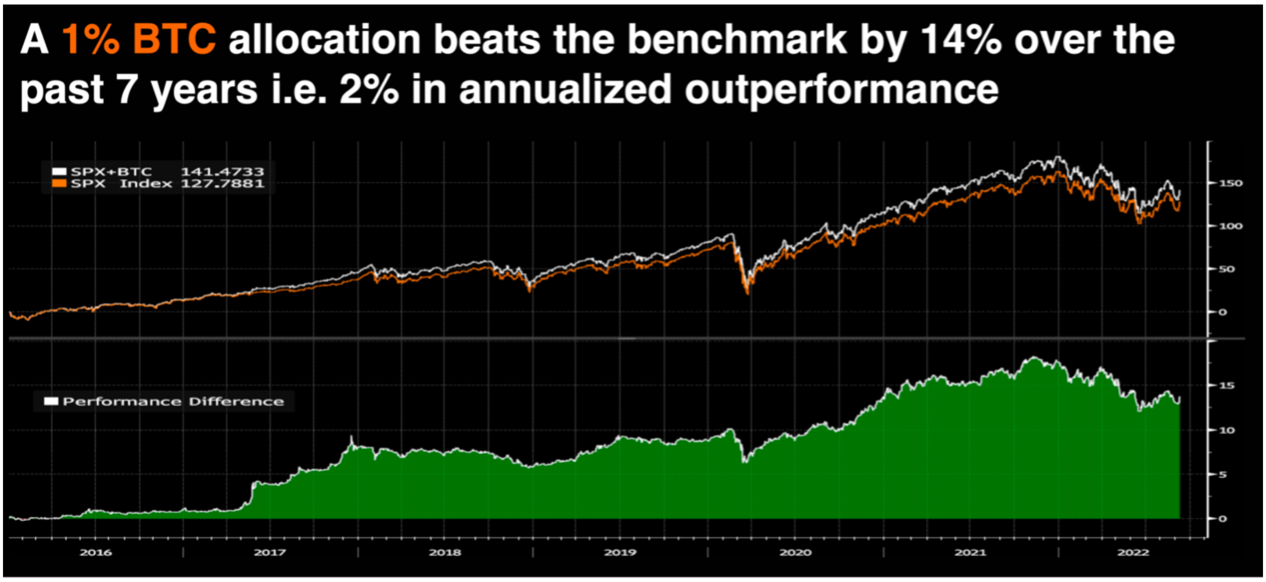
Macro Theme 3: Convergence and Institutional Adoption

We believe we are at the tipping point of a very rapid surge in adoption of Crypto Assets, and this is underpinned by the factual growth in both institutions and governments as detailed further below, combined with the private sector, seeking independent alternatives.

In the first instance, institutional investors should be aware that despite the recent weakness, both BTC and ETH have outperformed all the ongoing debasement of currency as per the charts below.



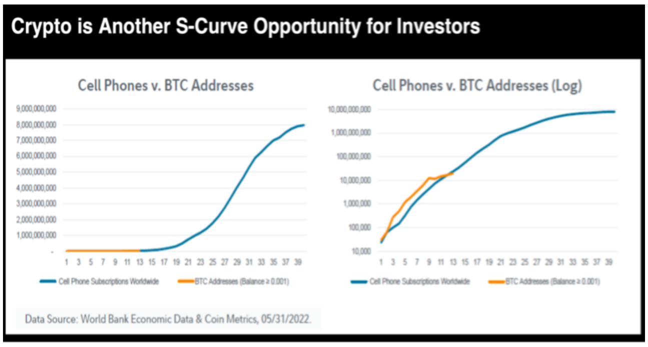
Most Institutional investors raise concerns around risk and volatility of the crypto asset market. However, it can further be seen empirically that a simple 'buy-and-hold' strategy with an allocation as small as 1% of an investor's portfolio has resulted in a 14% outperformance over the past 7 years.

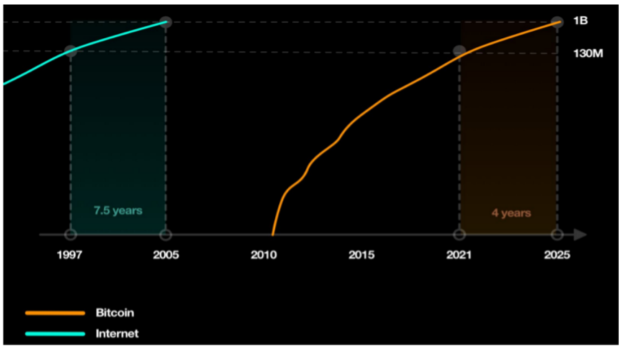


Crypto assets are well worth an allocation, especially given its significant upside potential in the form of a perpetual call option which we discussed in our last market commentary.

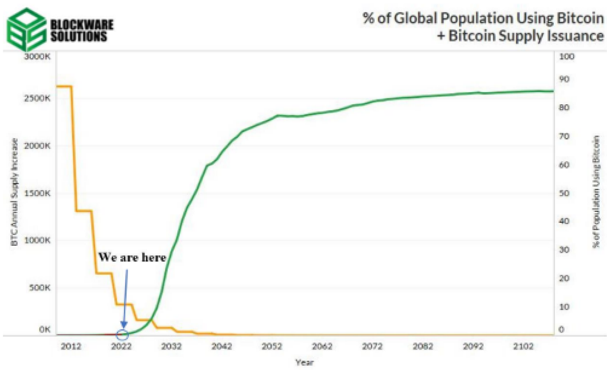
The Tipping Point

This driving factor in the rate of adoption to a billion consumers can be seen both in BTC vs Mobile phones as per the chart above and also BTC vs the internet as per the chart below:





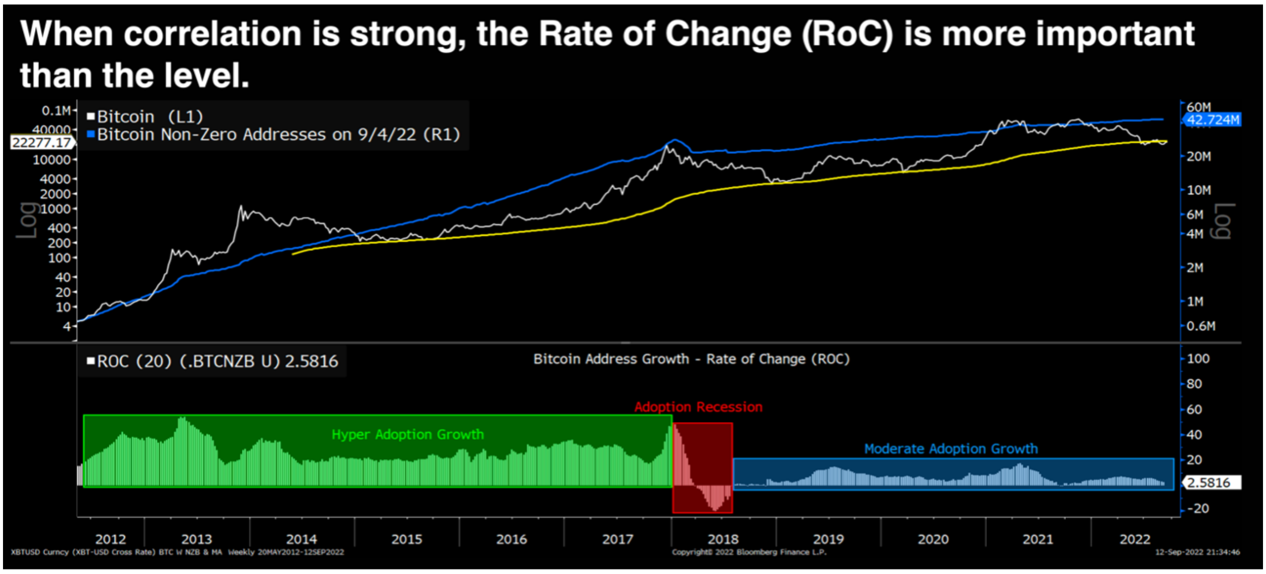
We are very much at the tipping point for rapid adoption, which we believe will begin in 2023 as per the charts below. In a world of continued debasement and risk of tenure, combined with soon to be unlimited QE and rapid advances in technological innovation by developers, we believe that crypto assets are very attractive substitutes to both fiat currency and fixed income with their deflationary characteristics, security of ownership and independence.



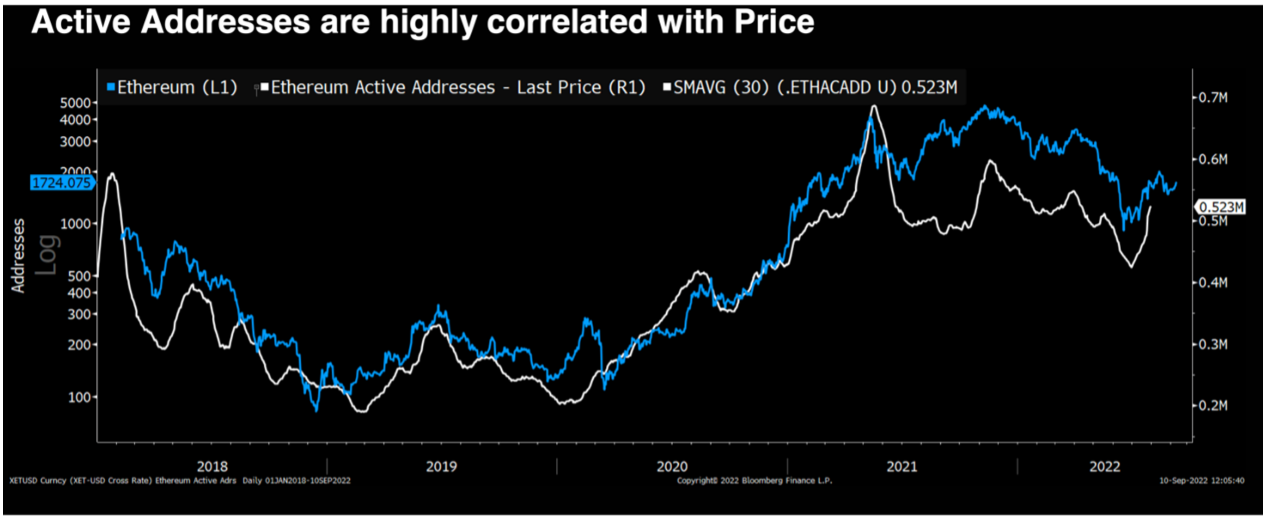
Source: https://www.nasdaq.com/articles/blockware-estimates-10-global-bitcoin-adoption-by-2030%3A-report

Evidence: On Chain Metrics

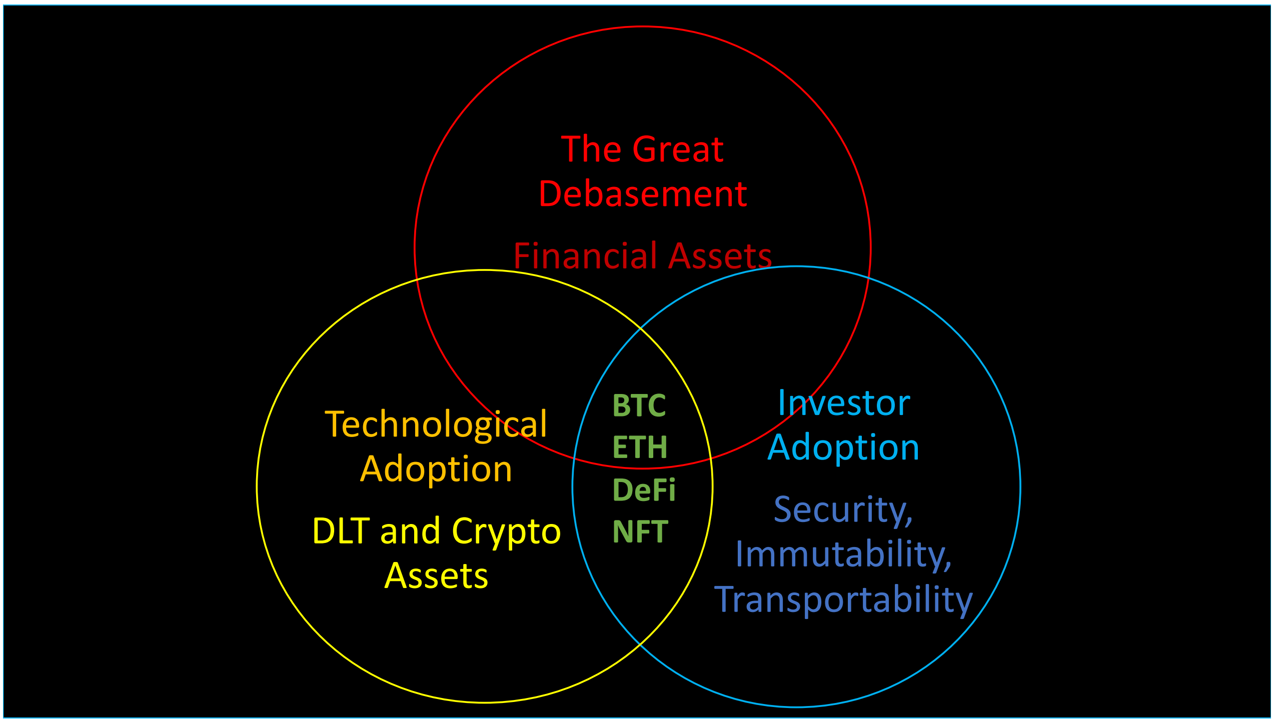
What is an important distinction in this bear market vs the bear market in 2018 is that in this instance we have seen a continued growth in the BTC wallets, and none have left the ecosystem as per the chart below. In this crypto winter, we have seen increased developer activity, growth in user base and more importantly, institutional entrance.



Finally, we can see that active addresses are also highly correlated with price, and recently we are seeing a surge in active addresses. We expect the price to follow in due course,



Bringing these three forces together we see that Crypto Assets are at the intersection of these trends and stand to benefit from their convergence.



Large Increase in Institutional Crypto Asset Investment

Q3 of 2022 saw a monumental level of institutional investment into crypto assets with Shima Capital launching a $200m blockchain fund, Invesco launching a metaverse specific fund, auction house Christies supplying seed funding to firms working on "web3 innovations", Barclays buying a stake in self-proclaimed "institutional gate to digital asset investing" firm Copper, Felix Capital raising $600m for its fourth fund and the South Korean government investing $177 million into metaverse projects, directly.

In addition, CoinFund launched $300m Web3 fund, crypto fund Variant is looking to invest $450m into Web3 and DeFi, Lightspeed raised $7 billion across its 3 US domiciled funds and Indian Fund, Multicoin's third and largest fund raised $430 million and finally Binance Labs closed a Web3 $500m fund.

Whilst the market price (perception) remains negative along with the macro, the underlying news flow in crypto assets is continuously positive:

1. Fidelity Weighs Bitcoin Trading on Brokerage Platform - The firm has more than 34 million brokerage accounts.
2. Schwab, Citadel Securities, Fidelity, Other Wall Street Firms Start Crypto Exchange EDX
3. Norwegian central bank uses Ethereum to build national digital currency
4. KKR dives into Avalanche blockchain to tokenize and 'democratize' financial services
5. Two Sigma Ventures Raises $400M for Two Funds, Plans Crypto Investments - The firm invests about 15% of its capital to crypto and Web3 projects
6. Nasdaq is preparing to launch an institutional crypto custody service
7. Ethereum activates The Merge as it successfully shifts to proof of stake
8. SEC to open digital asset office as it cranks up regulatory scrutiny of cryptocurrencies
9. Investment Management Giant Franklin Templeton to Offer Digital Asset Strategies to Wealth Managers
10. India's Central Bank RBI Starts Digital Currency Pilot With 4 Banks
11. Coinbase shares soar on deal to provide crypto services for BlackRock clients
12. European Central Bank recruits Amazon, 4 other firms to test digital euro
13. Brevan Howard Scores Largest Crypto Hedge Fund Launch Ever with US$1 BN for Flagship Crypto Hedge Fund

03.
Conclusion

We continue to believe that crypto assets provide the best long-term opportunity of all asset classes and will outperform significantly as and when the chaotic global macro-economic conditions moderate.

We believe that institutions are underestimating long-term fiat currency debasement risk and technological adoption trends while overstating crypto asset risks, which can easily be managed with correct sizing of the investment – between 3-5% as an allocation. Furthermore, we can see that on-chain metrics explain network adoption (demand) and are evidence that both the number of wallets and market participants are increasing, despite this bear market in all risk assets.

Recent feedback form one of the funds we invest in who attended the Token 2049 Conference in Singapore, which is the premier conference in Asia: "It is clear that there is still a lot of 'money on the sidelines' which we expect to be deployed in the coming year and retail interest in crypto assets is still very strong".

We believe that Portal's 3 funds provide an option on a technology with significant upside. As long-term crypto asset investors we continue to ask the question: "What is the value of owning an option on the momentous shift via disruptive technology in financial markets?" Furthermore, the value of this option increased dramatically in 2022 as crypto asset prices have fallen and we continue to see both established and new institutional investors entering the market.

In conclusion, we continue to believe that this represents an incredible buying opportunity and accordingly, we have begun to slowly increase our exposure to some of the medium and higher volatility funds in the Portal Digital Fund, as well as increase our net exposure in the Portal Radiance Multi-Strategy fund to 70% net long with a view to capturing the expected upside call option on the digital asset market on a 12–18-month view.

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