

Investor Report

June 2023



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Executive Summary

During the quarter, uncertainty surrounding the crypto market regulatory landscape had an impact on the price of cryptocurrencies. Over the last decade, the world of cryptocurrencies has seen amazing development and innovation. Governments and regulatory bodies are attempting to build comprehensive frameworks to oversee the usage of digital assets as they gain popularity and general acceptance.

Regulatory clarity and consistency for the cryptocurrency sector will take time to evolve because the industry is global, technologically complex and covers numerous use cases. On top of that, the industry's rapid development makes it even more challenging for regulators to construct suitable regulation.

However progress is being made. The EU recently passed MICA (Markets in Crypto-assets) its objective being to achieve a balance between promoting innovation and protecting against hazards like as fraud, money laundering, and market manipulation. The package bridges a gap in existing EU legislation by ensuring that the current legal framework does not pose obstacles to the use of new digital financial instruments and, at the same time, ensures that such new technologies and products fall within the scope of financial regulation and operational risk management arrangements of firms active in the EU. The package aims to support innovation and the uptake of new financial technologies while providing for an appropriate level of consumer and investor protection. The regulation, which may become effective between mid-2024 and early 2025, could position Europe as an attractive region in the crypto market



There was further positive news from Hong Kong. In January, as the crypto industry was reeling from the FTX crisis, it is reported that Hong Kong's Financial Secretary Paul Chan said that local government and regulators are looking forward to building a crypto and fintech ecosystem in 2023. On Jan. 13, just days after Chan's statement, Korean tech giant Samsung announced the launch of a Bitcoin Futures Active ETF, or exchange-traded fund, on the Stock Exchange of Hong Kong. Hong Kong recently announced that it has decided to let retail investors trade cryptocurrency under its new regulatory regime as they consider that "virtual assets are going to stay" and they plan to become a major digital asset hub.



Canadian lawmakers in the House of Commons have shown their support for blockchain technology and cryptocurrencies in a report released by the Standing Committee on Industry and Technology (INDU).



The report, which consists of 16 separate proposals, highlights the advantages and potential of blockchain technology in various sectors. The report recommends that the Government of Canada recognise blockchain as an emerging industry in Canada, with significant long-term economic and job creation opportunities. It also notes that the government of Canada should, in its efforts to improve consumer protection and regulatory clarity to the emerging and innovative field of digital assets, be guided by certain principles.

In comparison to these positive developments the markets were severely impacted by the USA's approach. The Securities and Exchange Commission, or SEC, announced it was suing Binance, Binance founder and CEO Changpeng "CZ" Zhao and the operating company for Binance. A day later it sued rival exchange Coinbase.

The SEC's complaint alleges that Binance should have registered as an exchange, broker-dealer, and clearing agency. The SEC charged Binance for the unregistered offers and sales of BNB, BUSD, and crypto-lending products known as "Simple Earn" and "BNB Vault".

The Securities and Exchange Commission also charged Coinbase, Inc. with operating its crypto asset trading platform as an unregistered national securities exchange, broker, and clearing agency. In addition, the SEC charged Coinbase for failing to register the offer and sale of its crypto asset staking-as-a-service program.

The U.S. Securities and Exchange Commission (SEC)'s lawsuits against Binance and Coinbase highlight the need for U.S. lawmakers to come up with "a comprehensive framework on how to regulate the crypto industries and the relative responsibilities of SEC vs the Commodity Futures Trading Commission (CFTC)," JPMorgan (JPM) said in a recent research report. The SEC thinks most cryptocurrencies should be classed as securities, and therefore, most crypto companies and trading should fall under its supervision and comply with regulatory frameworks that are currently applied to other securities, the report said.

While the market is negatively impacted by the news from the USA. In the long term, crypto regulations that are clear and well-defined can have a significant positive impact on businesses and investors. Investor confidence is boosted by regulatory stability, which attracts institutional players and traditional financial institutions to the crypto arena. This infusion of capital and knowledge has the potential to stimulate innovation, liquidity, and market maturation.



Crossgate Capital was structured in the knowledge that there would be crypto winters and crypto summers. Our approach is to invest in established crypto assets over the long term and hold course during short term market volatility.

There has been a lot of macro events over the past year which has had a significant impact on the market. Including the collapse of Terraform Labs' Luna token and sister stablecoin TerraUSD, the fallout of FTX and bankruptcies of notable crypto entities such as Three Arrows Capital, Voyager Digital and Celsius Network. We are pleased to report that Crossgate Capital did not have any direct exposure to these events or entities.

We understand there will be good and bad years and do not expect our Share price to increase in a straight line. Our objective is to generate returns over time. Despite the markets retracing last year and recently showing signs of improvement, these price movements do not detract from the development activity which continues at pace and we also note that real world use cases are increasing. As noted above there are some jurisdictions such as the EU and Hong Kong who are positioning themselves as virtual asset hubs.

If regulators formulate well-structured regulatory frameworks, it will bring healthy development in the crypto sphere. First, it will profoundly minimise bad actors in the crypto space. Additionally, the market will be less prone to manipulation. Consequently, this move will enhance safety for investors in the market and potentially even boost crypto adoption by institutional investors.

Since the inception of Crossgate Capital we have not sold any of our cryptocurrencies. So whether the price has gone up or down it hasn't impacted the amount of cryptocurrency that we hold.

Institutional Interest

As reported in the BitGo 21 June 2023 newsletter, despite the crypto winter and regulatory challenges, interest in cryptocurrency amongst institutional investors shows no signs of fading. A recent survey by Laser Digital, a subsidiary of Japan's largest investment bank, Nomura, finds that 96 percent of asset managers, family offices, hedge funds, and investment funds see digital assets as an investment diversification opportunity with 88 percent saying they or their clients were considering investing.

Respondents also indicated an overwhelming preference for participating in crypto through a recognised traditional finance provider. As if on cue, several TradFi (traditional finance) firms made market moves - most notably BlackRock. The world's largest asset manager with over USD \$9T in assets under management applied to the SEC to operate a spot Bitcoin ETF. BlackRock launched a spot Bitcoin private trust for its U.S. institutional clients last year.

In July 2018, the chief executive officer of BlackRock Inc. told Bloomberg Television that clients of the world's largest asset manager have zero interest in cryptocurrencies. When asked if he feels the need to be prepared for the day when clients might want exposure, Fink replied "at the moment, no." Times have changed.



A spot Bitcoin ETF would give individuals and institutions alike easy, affordable access to Bitcoin, but the SEC has yet to approve one, rejecting applications from crypto firms like NYDIG and TradFi powerhouses like Fidelity, VanEck, and WisdomTree. The SEC has also rejected Grayscale's application to convert its USD \$13.5B Grayscale Bitcoin Trust to an ETF last year.



All these events showcase what a unique product Crossgate Capital is. Crossgate Capital, an established company in New Zealand, is a regulated offer of shares (OFR12554) and is a registered financial service provider (FSP649949). Offering investors the opportunity to invest in a diversified portfolio of cryptocurrencies (not just investing in one cryptocurrency such as Bitcoin or Ethereum) whilst managing the challenges of investing in crypto assets.

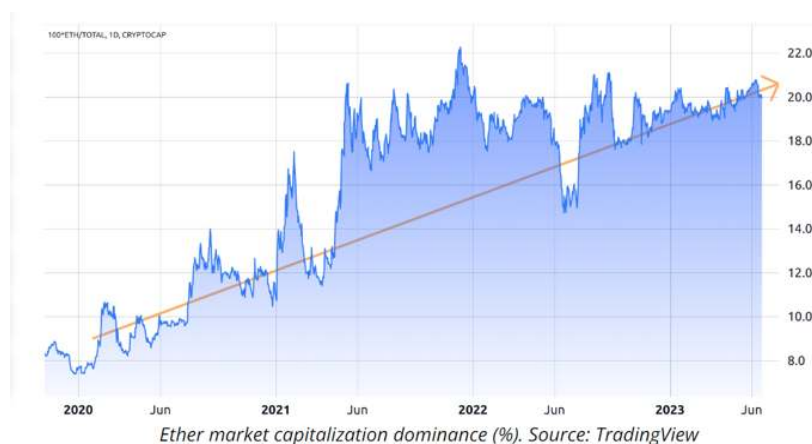
Crossgate Capital diversification strategy is similar when compared with a traditional share portfolio. Most investors would invest in a number of different companies and industries as opposed to investing in just one company. Therefore we do not put all our eggs in the Bitcoin basket as we may miss out on potential returns. While Bitcoin and Ethereum form a core part of our portfolio (and have the largest weighting) our portfolio has greater breadth by investing across the leading cryptocurrencies.

Spotlight On Ethereum

While the attention has recently been on Bitcoin due to the BlackRock surprise filing for a spot Bitcoin ETF, it is worth shining a spotlight on our second largest holding, Ethereum.

For context we consider Blackrock's filing was a surprise, not because they are looking to provide cryptocurrency as an offering - we noted in our 2019 PDS that "the Board considers that cryptocurrency, now forms part of the financial landscape and has the potential to be an accepted asset class in an investors' portfolios alongside equities and debt" but due to the timing of this disclosure. The US regulatory temperature towards crypto is challenging at the moment.

Ethereum has fortified its position as the most dominant cryptocurrency following Bitcoin and has emerged as a leader in the world of decentralized finance (DeFi). The reasons behind Ethereum's remarkable strength lie in its innovative features and growing market share. Ether's dominance in market capitalization terms has grown over the past couple of years, as demonstrated in the chart below.



An analysis of the total value locked (TVL) in smart contracts further showcases Ethereum's dominance. Ethereum is the clear leader, followed by another asset in our portfolio Tron. Although there was a temporary decline in Ethereum's TVL market share from June 2021 to May 2022, this was largely due to the emergence of Terra and Avalanche. However, following the collapse of the Terra ecosystem and subsequent halt in network activity, Ethereum swiftly regained some market share.

At time of writing the Ethereum ecosystem has the highest number of active developers, surpassing 1,870, which is more than the next three competitors – Polkadot (752), Cosmos (511) and Solana (383). Polkadot is another asset that is included in our diversified portfolio.

Currently, the Ethereum network has over 700,000 validators. The blockchain infrastructure of Ethereum offers unique capabilities that enable developers to create decentralized applications and execute smart contracts.

Ethereum's superior blockchain technology has positioned it as the go-to platform for DeFi applications, leading many projects to choose Ethereum over Bitcoin for their launches. This surge in demand for Ethereum has contributed to the increase in its price and market capitalization.

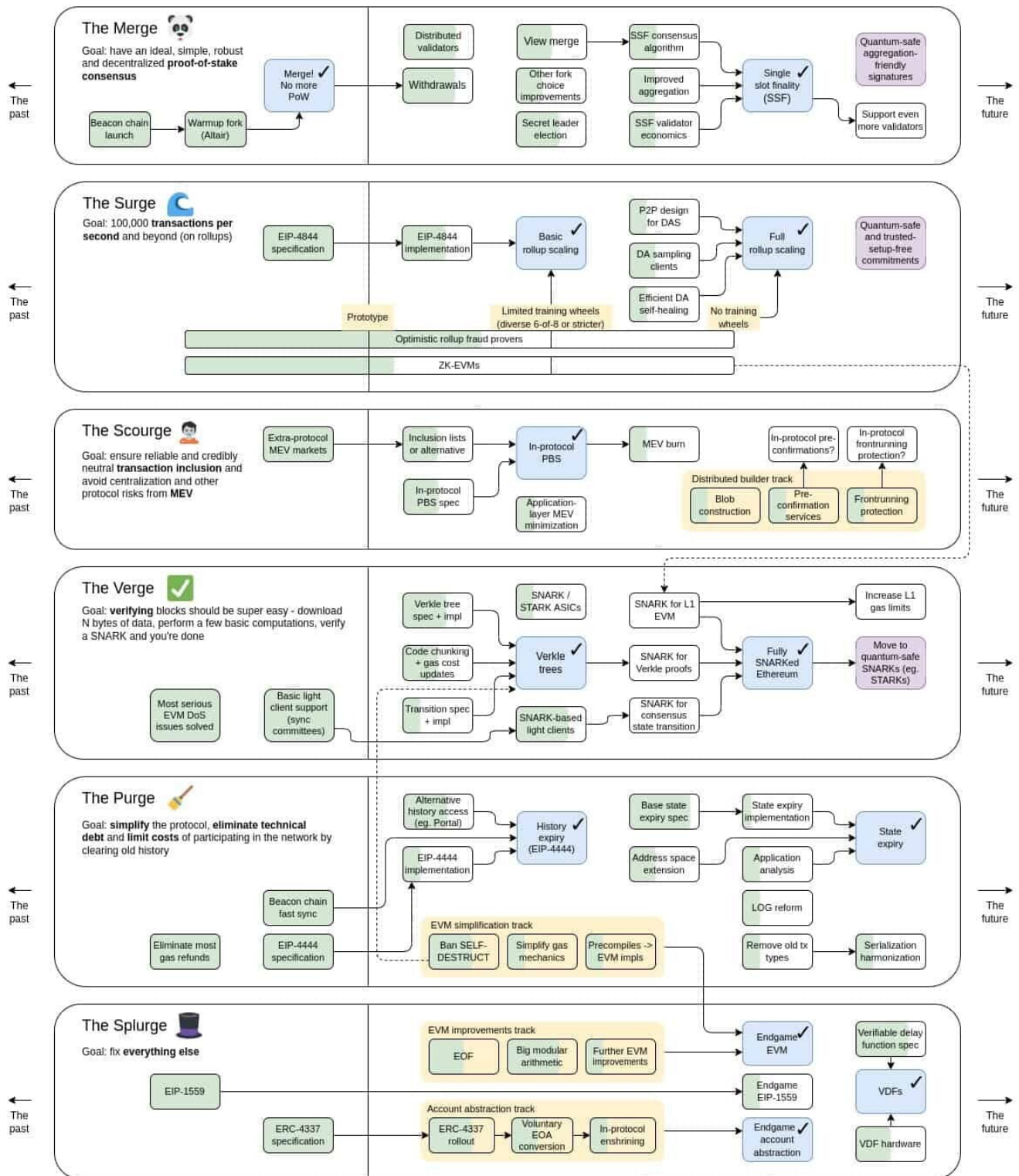
By the end of 2023, Ethereum's forecast anticipated upgrade will enhance its transaction processing capacity, allowing for more transactions per second and reduced fees. This improvement will make Ethereum even more appealing to users and investors.

Ethereum is already a powerful platform for global coordination, but it is still being improved. An ambitious set of improvements will upgrade Ethereum from its current form into a fully scaled, maximally resilient platform. These upgrades are laid out in the Ethereum roadmap on the next page.

Ethereum gets regular upgrades that enhance its scalability, security, or sustainability. One of Ethereum's core strengths is adapting as new ideas emerge from research and development. Adaptability gives Ethereum the flexibility to tackle emerging challenges and keep up with the most advanced technological breakthroughs.

One way to think about Ethereum development is by analogy to biological evolution. A network that is able to adapt to new challenges and maintain fitness is more likely to succeed than one that is resistant to change, although as the network becomes more and more performant, scalable and secure fewer changes to the protocol will be required.





Crossgate Capital Portfolio & XRP Update

Investors in the cryptocurrency space have been experiencing some of the most volatile financial markets.

With the fluctuating prices it can be challenging to adhere to an established investment principle. We consider that with the right portfolio management strategy and the ability to stay the course with a long term horizon, investors can enjoy an early mover advantage.

One of our assets, Polkadot just wrapped up the Decoded 2023 conference. The mantra of this year's conference was to focus on building better products instead of worrying about token price. Reports indicate that hardly anyone was talking about airdrops, token prices, memecoins, Bitcoin hitting a new all-time high or any of the general conversational fodder that forms the bulk of most crypto discussions. They are focusing on developing an advanced blockspace ecosystem in which the space on various chains is effectively put up for rent which can offer the ability to scale when needed, with a model that enables developers to quickly build capacity as more users join.

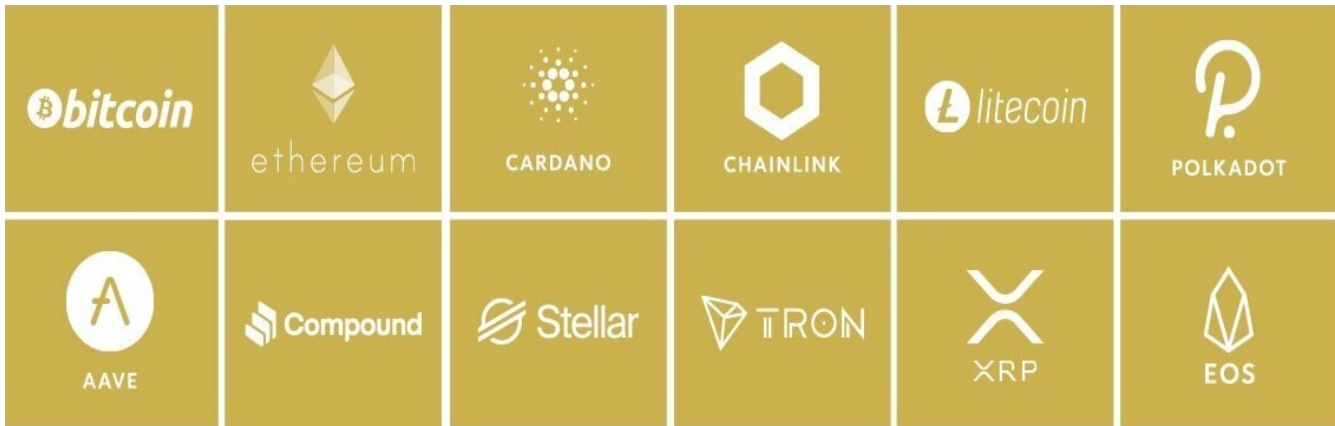
It is also worth mentioning the recent ruling that Ripple Labs Inc did not violate federal securities law by selling its XRP token on public exchanges, a U.S. judge recently ruled, a landmark legal victory for the cryptocurrency industry that sent the value of XRP soaring. When the SEC launched its challenge, many funds sold their holdings in XRP, for some funds this would have been at a loss as the price collapsed. Our approach was to suspend all further purchases until there was clarity but maintain our holding. This strategy appears to be the correct course of action due to the recent significant price rise.

Coinbase, which had previously de-listed XRP on its trading platform, tweeted that it would now allow trading of the asset again. Ripple Chief Executive Brad Garlinghouse in an interview called the ruling "a huge win for Ripple but more importantly for the industry overall in the U.S."

As noted before, our approach is to look through short-term fluctuations in the market and make calls regarding such events with the objective of achieving growth over time by focusing on the projects which are building for the future and have a real world use case. With these principles in mind we navigate the volatile crypto markets.

While Bitcoin and Ethereum form a core part of our portfolio we have greater breadth by investing across 12 leading cryptocurrencies. Our objective is to deliver returns to investors by investing in cryptocurrencies where we consider there is a significant opportunity for growth. We concentrate on cryptocurrencies that have strong use cases and are focused on real world applications.

Our portfolio is provided below. There have been a number of additions to the portfolio and we continually review and amend the weightings when appropriate.



As noted earlier, Crossgate Capital has not sold any cryptocurrencies since inception. Profits or losses are only locked in when an asset is sold. Our investment strategy is to invest over the medium to long term.

As part of our investment approach we continually review the weightings of individual assets and monitor other assets which may warrant inclusion.

Performance

The Share price on the last allotment day of the quarter (28 June 2023) was \$2.51, which is net of all fees, expenses and taxes. This has increased since the prior quarter, which reported a Share price of \$2.38 on the last allotment day of the quarter (29 March 2023). The most recent allotment (19 July 2023) reported a Share price of \$2.53.

The Share price is predominately determined by the fair value of our assets. Provided below is a table ranking the % market price movement during the quarter;

Rank	Asset
1	Compound
2	Litecoin
3	Tron
4	Bitcoin
5	Ethereum
6	Stellar
7	Aave
8	Ripple
9	ChainLink
10	Polkadot
11	Cardano
12	EOS

Source: BNC Pricing Feed

Our approach remains consistent, assets which have a real world application and delivers a service that people want to use, have the ability to deliver significant gains to investors over time. We consider that the fundamentals underpinning Bitcoin and the leading cryptocurrencies which form part of our portfolio continue to strengthen.

Keeping Track Of Your Investment

Crossgate Capital makes it very easy to keep track of your investment.

Simply visit the Investor Centre to check the value of their holding. Please have the following information to hand;

- 1) CSN/Holder Number - which is located on your investor documentation.
- 2) Authorisation Code (FIN)

If you do not know your CSN or FIN, please contact Link Market Services on (09) 375 5998 or email crossgatecapital@linkmarketservices.co.nz.

As an investor you can visit the investor portal which allows you to easily keep track of how many Shares you hold and the current value of your investment.

Building Your Portfolio One Step At A Time

With Crossgate Capital you can make one-off investments and you also have the option of setting up a regular investment on a fortnight or monthly basis. Our automatic reinvestment option continues to prove popular as an increasing number of investors elect to use this feature.

Investors have the flexibility to increase, decrease, cancel or put on hold the regular investment plan at any time or amend the amount. Regular investing makes it easier to achieve your investment goals with less time and effort and allows you to manage investment risk by dollar-cost averaging into the market.



Dollar-cost averaging is when you choose to invest a certain amount regardless of what the price is. When you invest for the short term, it becomes more important to 'buy the dips and sell the rips' at precisely the right time. If you have a longer term horizon, the objective is that the value of the investment grows over the long term even when the value goes up and down in the short term. Regular investing maybe the key to attaining your goals and our automatic reinvestment option is a great time-saving measure to help you achieve this.

[Click here to refer to the 2023 Reinvestment Calendar.](#)

Latest News



We encourage all our investors to follow us on Facebook. Our posts provide a simple way to keep informed of the latest news. Click on the Facebook icon to visit the Crossgate Capital page.

Contact Us

If you have any investment questions, please contact our investor relations team.



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