

Investor Report December 2023



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Executive Summary

Looking back at last year, the cryptocurrency sector (like many other asset classes) was subdued. However, towards the end of 2023 market conditions improved across the board and institutional interest accelerated alongside the possibility of the impending launch of both a spot Bitcoin ETF and Ethereum ETF.

On 11 January 2024, the US securities regulator approved the first US-listed exchange traded funds (ETF) to track Bitcoin, which we consider is a watershed moment for the world's largest cryptocurrency and the broader crypto industry. This event has the potential to attract new investors who don't want the hassle of actually buying and storing actual Bitcoin.



These new investors may gain the confidence to invest in the crypto markets and start to explore other crypto assets in order to diversify their cryptocurrency portfolio. As opposed to putting all your eggs in one (Bitcoin) basket, many investors understand the benefit of investing in a portfolio of crypto assets. An approach many investors use when investing in the Share market. Why not invest in cryptocurrencies like you would invest in any other asset class?

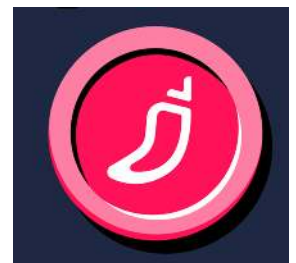


The excitement in the cryptocurrency market isn't limited to Bitcoin. Also on the horizon is the potential for a spot Ethereum ETF. BlackRock joined other entities in filing for such an ETF. If approved by the SEC, this will give investors access to Ether - the second most popular cryptocurrency - without directly owning it.

In our first PDS (January 2019), we stated that *"the Board considers that cryptocurrency has the potential to be an accepted asset class in an investors' portfolios alongside equities and debt. In a world where growth is increasingly digital, we consider that digital assets will increase in relevance."* We believe that this statement is now being demonstrated by some of the largest asset firms becoming publicly involved in this sector.

In this report we look forward to 2024, as there are a number of important developments on the horizon. most notably the Bitcoin Halving in April. As we start 2024, we are pleased to announce the inclusion of Chiliz in our portfolio. We will look at this cryptocurrency in further detail and explain why we consider this asset provides further balance to the portfolio and has the potential to deliver strong returns to our investors.

We consider, a well constructed diversified portfolio reduces the risk that comes with investing in a single cryptocurrency. Whilst we are understandably bullish on Bitcoin and Ethereum and consider them a core part of our portfolio, in such a fast moving sector we believe a diversified portfolio is the best way to invest in this market.



We therefore also invest in 'altcoins'. Which is a term used to describe any type of cryptocurrency other than Bitcoin.



Investors can choose between thousands of altcoins on the market today. Altcoins may be smaller than Bitcoin, but they have the potential to deliver greater % price moves over time or they can become worthless over time.

Understanding which ones will deliver on their potential is where fundamental analysis comes into play.

Projects with a strong chance of gaining user adoption, have a strong real-world use case and are able to deliver on their roadmap offers the potential for strong returns.

Looking Forward To 2024

The Arrival of Spot ETFs

It has been a long road for the approval of a spot Bitcoin ETF in the United States. The journey began more than a decade ago and since then a number of applications were rejected on the grounds that Bitcoin's unregulated nature creates too much risk for investors. In 2021, Bitcoin ETFs based on futures products were eventually approved by the SEC.

Blackrock's application for a spot Bitcoin ETF last year provided momentum to the prospect that this product could come to market due to the firms' position and size in the U.S. financial system. Other large, high profile traditional finance entities also filed applications.



The current approved ETFs are the Grayscale Bitcoin Trust GBTC; Bitwise Bitcoin ETF; Hashdex Bitcoin ETF; Blackrock's iShares Bitcoin Trust; Valkyrie Bitcoin Fund; ARK 21Shares Bitcoin ETF; Invesco Galaxy Bitcoin ETF; VanEck Bitcoin Trust; WisdomTree Bitcoin Fund; Fidelity Wise Origin Bitcoin Fund; and the Franklin Bitcoin ETF.

This event showcases 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.

The Fourth Bitcoin Halving.

Every 210,000 Bitcoin blocks, or about every four years, the amount of newly issued Bitcoins cuts in half in an event known as a "halving."

Bitcoin block 840,000, is expected to be mined this upcoming **April**, which will reduce the reward for newly mined blocks from 6.25 Bitcoin to 3.125 Bitcoin, marking the fourth halving in Bitcoin's history and a key milestone. The first Bitcoin halving occurred in 2012 when the reward for mining a block was reduced from 50 to 25 Bitcoin.

The halving has a number of implications. The first is the impact on Bitcoin miners, who are incentivised to invest capital and energy into securing the network in exchange for Bitcoin.

BITCOIN HALVING 2024

Miner revenue is derived from new Bitcoins being issued, which is reduced through the halving, and fees paid by transactors. The halving impacts miner economics by potentially reducing total aggregate miner revenues in dollar terms, while pressuring the margins of operators with high energy costs and/or inefficient hardware.

As in past halvings, there is likely to be renewed debate surrounding the halving's impact on Bitcoin's supply and demand dynamics, and whether this reduction in issuance is already "priced in." In one camp, there are those who believe that the Bitcoin halving, inherently programmed into the protocol's rules, is an event well-understood in advance, especially by the growing number of sophisticated institutions researching Bitcoin.

On the other hand, some consider that sales from miners, who are natural sellers of Bitcoin will abate post-halving. Some proponents consider that the halving serves as a reinforcement of Bitcoin's monetary properties and advances Bitcoin as a reliable store of value, attracting new interest through the attention each halving brings.

Unlocking Potential

As more people adopt cryptocurrencies, it becomes increasingly important to ensure that crypto assets can be used efficiently and effectively. Both Bitcoin and Altcoins are innovating to enhance scalability, reduce transaction fees, and improve overall efficiency.

Scalability refers to a system's ability to handle an increasing amount of work or demand. In the context of cryptocurrency, scalability refers to a blockchain's ability to handle an increasing number of transactions. The more people that use a cryptocurrencies, the more transactions that need to be processed, and the more difficult it becomes to maintain the system's performance

Transaction speed is another important factor when it comes to cryptocurrency adoption. If transactions take too long to process, it can discourage people from using cryptocurrencies for everyday transactions. The reason for slow transaction speeds is that each transaction needs to be verified and added to the blockchain by the network's nodes. As the number of transactions increases, it takes longer for the nodes to verify each transaction, leading to slower transaction times



In Ethereum's case, its growth has brought key scalability issues to the forefront; namely, high transaction fees (gas fees), network congestion, and slow transaction times during periods of high network activity. Ethereum developers have already outlined a comprehensive plan for the network's development in 2024, including significant upgrades and new proposals. The Dencun upgrade scheduled for Quarter 1 objective is to reduce transaction costs.

We are expecting significant development activity in 2024. A tweet by Cardano (6 Jan 2024) announced that Development Activity has surged by nearly 250% In the past 30 days. In its Q4 2023 update, Chainlink outlined its three priorities for the upcoming year which include the launch of its Cross-Chain Interoperability Protocol (CCIP), the introduction of a new data solution, and the launch of functions for developers on the blockchain.

Developer engagement serves as an indicator for a blockchain's long-term viability, network security, and user adoption. It isn't just a technical upgrade; it's a leap towards realising the full potential of blockchain technology. Delivering real world use cases and mainstream adoption could be beneficial for the price of the assets.

What Is Chiliz?

Chiliz, founded in 2018, is a blockchain provider focused on the sports and entertainment industry. They build scalable, secure blockchain enabled solutions that supercharge fan experiences using digital assets.

Chiliz is a cryptocurrency that allows sports fans to have unique experiences with their favorite teams. Chiliz leverages blockchain technology to enable a new kind of direct engagement between fans and their favorite sports teams. Fans are able to purchase the Fan Tokens of their favorite teams using the CHZ token, the native cryptocurrency of the Chiliz experience. Fan Tokens can be bought for CHZ through socios.com, the crowd management platform that powers the Chiliz experience.



Each team that partners with Chiliz can customize the real world experiences their Fan Tokens provide to holders. Fan Tokens can also grant holders influence over decisions presented by the team, such as new uniform designs, stadium names and, in some instances, decisions over the starting lineups.

Chiliz and its associated Fan Tokens give sport fanatics an active presence within the operations of their favorite teams and a unique influence over its decision making process. Meanwhile, Chiliz allows sports franchises to monetise their fan base in new ways while providing unique experiences to their most loyal supporters.

The CHZ token is the native token of Chiliz and serves as the primary currency for transactions on the platform. Users earn CHZ by participating in activities on the platform, such as polls, votes, and other fan-centric activities. These tokens can then be spent to access virtual meet-and-greets with sports and entertainment icons, special events, and merchandise.

This incentivises user engagement, potentially increasing the value of CHZ. Additionally, CHZ is used as a means to invest in the growth of the Chiliz platform and the entertainment industry as a whole. With a decentralised self-governing platform and partnerships with well-known entertainment icons, Chiliz aims to increase the value of CHZ for its investors.

Over 170 major sports organisations, including massive soccer teams from Europe and Latin America, premium Formula One™ teams, giants from NBA, NFL, NHL and MLS, leading esports teams and the UFC are on board with many more to come in the future. The Socios.com app is available in 10 languages. Socios.com is powered by Chiliz, the world leading blockchain provider for the sports and entertainment industry.

Football clubs include FC Barcelona, Paris Saint-Germain, Manchester City, Juventus, S.S.C Napoli, Inter Milan, AC Milan, Arsenal, Atlético Madrid, and A.S. Roma.



Chiliz has been on our watchlist for a while. We consider it has a real world use case, demonstrated proof of concept by entering into relationships with high profile entities and therefore has potential to deliver strong returns to our investments.

While other investors are influenced by retail hype or short term price movements, we consider the underlying category mix when constructing our portfolio. We review our portfolio mix by category and sector (which indicates the specific solution(s) provided by a crypto asset network). Chiliz is focused on the sports and entertainment industry. This is a sector which we previously did not have exposure to and we consider provides further diversification to the portfolio and the potential for strong returns.

Watchlist

We have a number of other crypto assets on our watchlist. We review our portfolio mix by category and sector (which indicates the specific solution(s) provided by a crypto asset network). We also consider a range of other factors when deciding whether to invest in a new asset. Our approach is to take a considered position in order to deliver on our objective of providing strong returns to our investors over time.



While Bitcoin and Ethereum form a core part of our portfolio we have greater breadth by investing across 13 leading cryptocurrencies. Our objective is to deliver returns to investors by investing in cryptocurrencies where we consider there is a significant opportunity for growth.

By investing in individual crypto assets with a market capitalisation of at least NZD \$500million as at the date of purchase, the objective is to build a diverse portfolio whilst mitigating risk. We concentrate on cryptocurrencies that have strong use cases and are focused on real world applications .

We consider by including Altcoins in our portfolio we have the potential to deliver stronger returns.

Portfolio By Category & Sector

While other investors are influenced by retail hype or short term price movements, we consider the underlying category mix when constructing our portfolio. Specialist investors may have their own custom classification system. Crossgate Capital currently uses a number of crypto research and data tools which includes Messari, a leading data and information aggregator for the crypto asset industry.

| ASSET | CATEGORY | SECTOR |
|----------------|--------------------|-------------------------|
| Bitcoin BTC | Cryptocurrency | Cryptocurrency |
| Ethereum ETH | Networks | Smart Contract Platform |
| XRP XRP | Financial Services | Payments |
| Cardano ADA | Networks | Smart Contract Platform |
| Polkadot DOT | Networks | Layer-0 |
| TRON TRX | Networks | Smart Contract Platform |
| Chainlink LINK | Data | Oracles |
| Litecoin LTC | Cryptocurrency | Cryptocurrency |
| Stellar XLM | Financial Services | Payments |
| Aave AAVE | Marketplaces | Lending |
| EOS EOS | Networks | Smart Contract Platform |
| Chiliz CHZ | Entertainment | Sports |
| Compound COMP | Marketplaces | Lending |

Portfolio Performance

The Share price as at the final allotment of the December quarter (29 December 2023) was \$3.20. This was increase on the prior quarter. For reference, as at 20 September 2023 (the last allotment of the prior quarter) the Share price was \$2.31.

The most recent Share price was \$3.26, as at 10 January 2024.

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

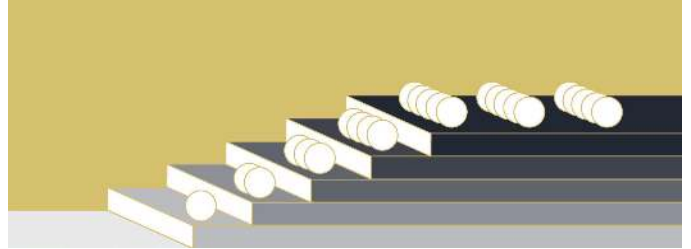
We welcome 2024, by announcing the inclusion of Chiliz in the Crossgate Capital portfolio.

2024 Calendar Released

Crossgate Capital allows you to achieve your investment goals with our automatic reinvestment plan.

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 cancel or put on hold their 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.

Dollar-cost averaging (DCA) allows you to invest at regular intervals, this potentially could reduce the impact of short-term volatility. To implement this strategy, all an investor needs to do is [click here](#)



Click on the calendar to see the 2024 recurring investment plan dates.

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.

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.



Email: info@crossgatecapital.co.nz

Freephone: 0800 378489 (EQUITY)

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