



Crossgate Capital December 2020 Quarterly Investor Report

Email: info@crossgatecapital.co.nz

Website: www.crossgatecapital.co.nz



Table Of Contents

Executive Summary	2
2020: A Year In Review	4
Early Mover Advantage	5
Portfolio Of The Leading Cryptocurrencies	7
Performance	8
Reinvestment Option	9
Latest News	9
Contact Us	9

Executive Summary

Bitcoin is back in price discovery mode after breaking through \$30,000 to reach new all-time highs. As a result, the combined value of all the Bitcoin tokens in circulation has passed USD half a trillion dollars for the first time. The story is not confined to just Bitcoin, as other cryptocurrencies in our portfolio have also delivered significant gains. Ethereum broke above USD \$1,000 for the first time since February 2018.

In December 2020 we saw the Crossgate Capital Share price breakthrough \$2.00 per Share. The most recent Share price as at 7 January 2021 is \$2.71.

While this compares favourably to the Share price at inception (1 April 2019) of \$1.00, we see this as just one step in the right direction. While we do not expect the cryptocurrency market to increase in a straight line, we consider that the cryptocurrency market will continue to trend upwards over the medium to long term. Further in the report we review why we consider cryptocurrencies are at an inflection point and why this provides an early mover advantage for Crossgate Capital.

In summary with Bitcoin smashing through its all-time-high and having more infrastructure and institutional investment than ever, the growth is now based on fundamentals not retail hype. The backdrop of increased institutional adoption, strong development activity providing solutions to real world use cases, record money printing by central banks and the search for yield is providing the basis for further growth.

The list of names embracing Bitcoin is impressive and growing, which include public companies like MicroStrategy Square, PayPal and even more conservative institutions like MassMutual and Northern Trust. While there are many metrics that could explain the interest in Bitcoin, one of the key reasons is that many of these investors are seeing the digital currency as an effective store of value ("digital gold"). The May 2020 deflationary halving event highlighted Bitcoin's scarcity to a wider audience than ever before. This concept featured in a recent [NZ Herald article, click here to read>>](#)



Aside from institutions accumulating billions of dollars of Bitcoin, many companies are now beginning to provide services for them. PayPal for example, has decided to allow crypto access to its over 350 million active users.

Central banks and governments around the world are also now considering the potential of a central bank digital currency (CBDC). While these are not cryptocurrencies as they are not decentralized, and core control over supply and rules is in the hands of the banks or governments, they still show the government's consideration of the requirement for a more advanced payment system than paper cash provides. This further lends merit to the concept of cryptocurrencies and their convenience in general.

In regards to Crossgate Capital, during the quarter we adjusted the weightings in our portfolio with the objective of positioning us for further upside while minimising risk. One of the primary moves has been to further reduce our weighting to XRP.

Our indicative weighting to XRP is now just 1% and this could reduce further. For the time being, we have suspended any further purchases as we wait to see the outcome of the Securities and Exchange Commission (SEC) investigation. If there is a positive resolution we can always increase our position but at this stage we would rather miss some of the potential upside in order to protect the downside.

2020 has been very positive for our second largest holding, Ethereum. The successful launch of Ethereum 2.0 marked the official start of an upgrade that was five years in the making.

The long-awaited update to the Ethereum blockchain transforms the network from a proof-of-work to a proof-of-stake consensus model and is intended to improve speed, security, lower transaction fees and fix the scalability issues that have been holding Ethereum back throughout 2020. Once Ethereum 2.0 is fully operational, the DeFi (Decentralised Finance) market will likely benefit from the faster and more scalable network.



For Ethereum itself, the fact that DeFi infrastructure still remains stubbornly bound to its application layer cements the blockchain's potential. In a future where DeFi grows even further, Ethereum could be poised to reap the benefits.

Other cryptocurrencies in our portfolio generated headlines. Just a few soundbites include an announcement by the World Economic Forum they are collaborating with Chainlink, the most widely used decentralized oracle network, on a paper that lays out a new standard for integrating traditional infrastructure with blockchain technology.

During the quarter, Munich-based Bank von der Heydt, established in 1754, reported that it had partnered with a blockchain financial services provider to help integrate tokenisation into its established securitisation platform. The partnership will allow the bank to tokenise digital securities onto the Stellar blockchain, which it can offer to institutional clients via private placements.

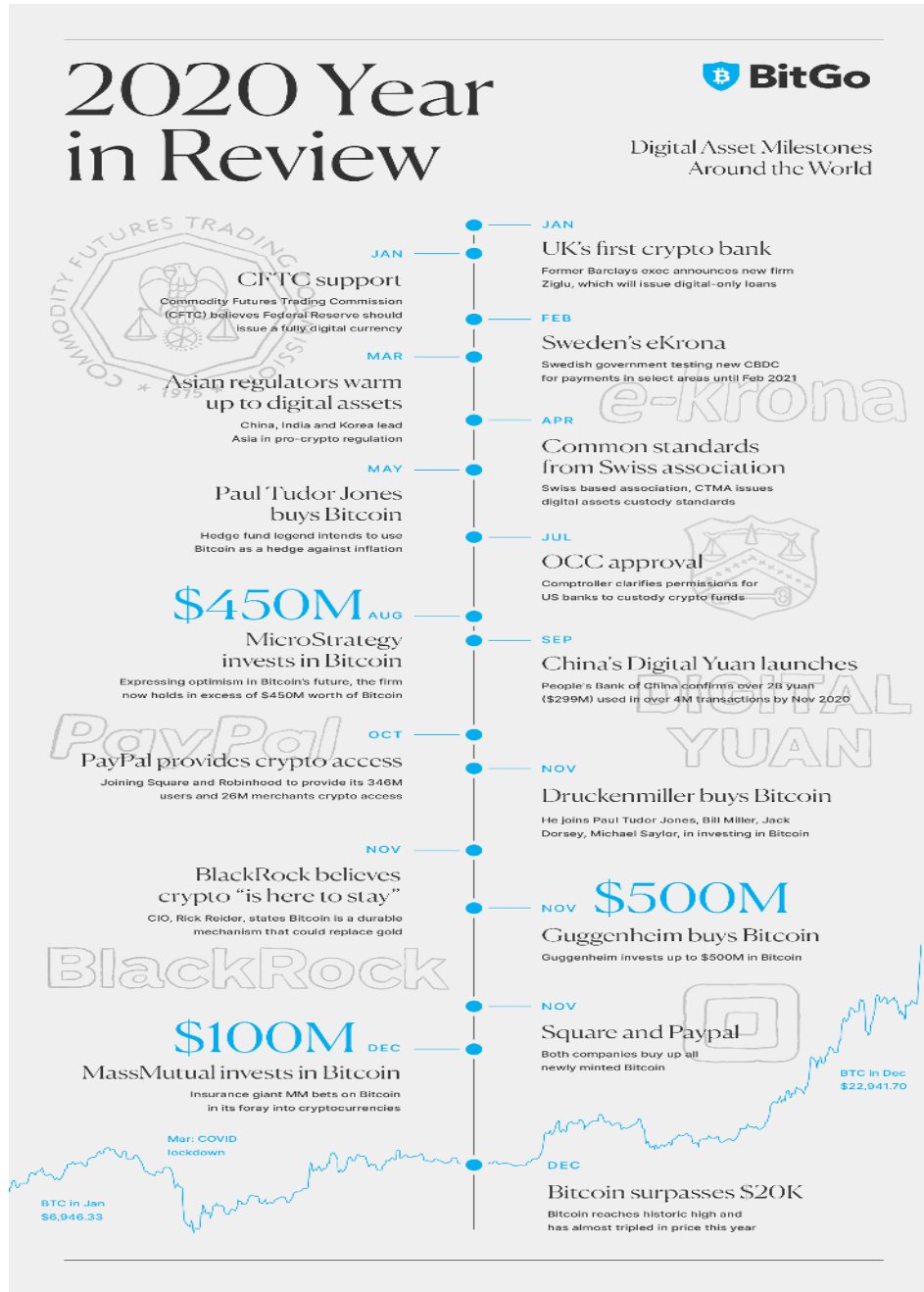
Litecoin was just one of the cryptocurrencies which reported significant price increase. While 'Bitcoin is called "Digital Gold", Litecoin is called "Digital Silver". Just some of their recent partnerships include the Miami Dolphins professional football team and Flexa, which added Litecoin as a method of payment for its 39,000+ merchant network. PayPal also announced that Litecoin is one of the cryptocurrencies that it will initially support.

In addition to focusing on the return on capital we also focus on the return of capital. That is why we only invest in the big end of town, we don't invest in the long tail assets, the smaller cryptocurrencies. To be considered for investment the market cap has to be at least \$500 million.

2020: A Year In Review

Crossgate Capital provides the ability for investors to invest in bitcoin and other cryptocurrencies without the hassle of storing the assets. Crossgate Capital has selected **BitGo** to store the majority of our crypto assets.

BitGo looks back at digital asset milestones in 2020, emphasizing institutional adoption, national and regulatory policies. We are pleased to be able to share their insights in the following table.



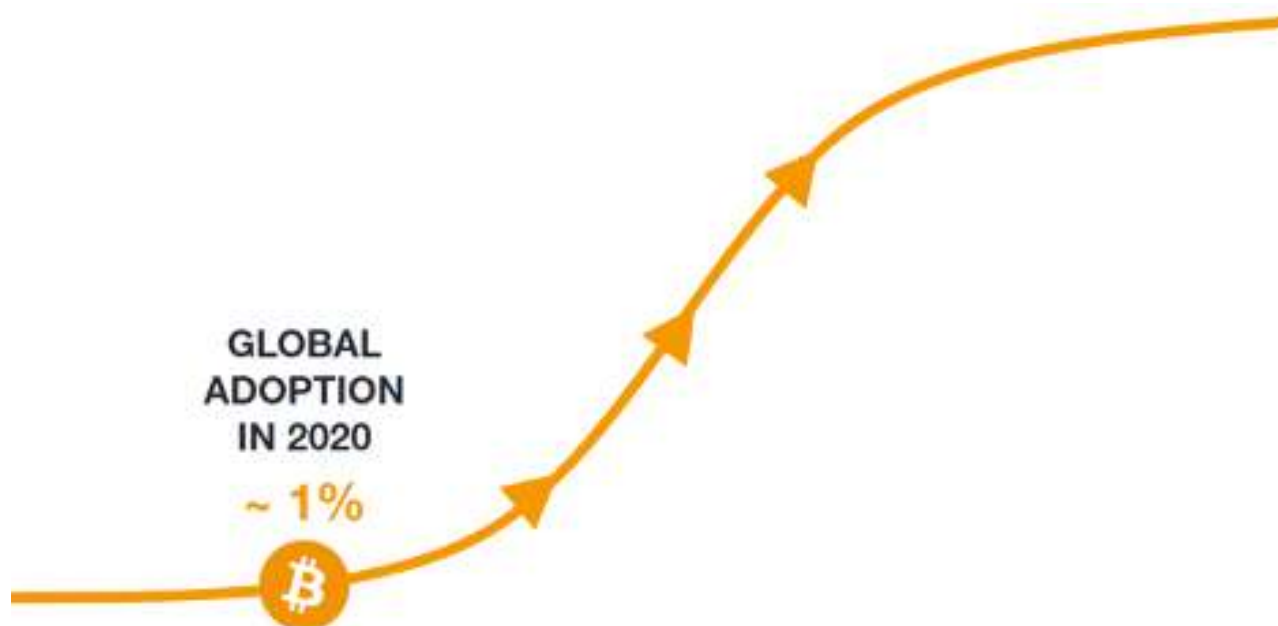
Early Mover Advantage

The adoption of new technologies follows an exponential S-curve function, with a seemingly flat section early on as small numbers of users double and triple, then exploding upward as the mainstream catches on.

“Every truly innovative high-tech product starts out as a fad-something with no known market value or purpose but with “great properties” that generate a lot of enthusiasm within an “in crowd. That’s the early market. Then comes a period during which the rest of the world watches to see if anything can be made of this; that is the chasm. If in fact something does come out of it, if a value proposition is discovered that can predictably be delivered to a targetable set of customers at a reasonable price, then a new mainstream market forms, typically with a rapidity that allows its initial leaders to become very, very successful.

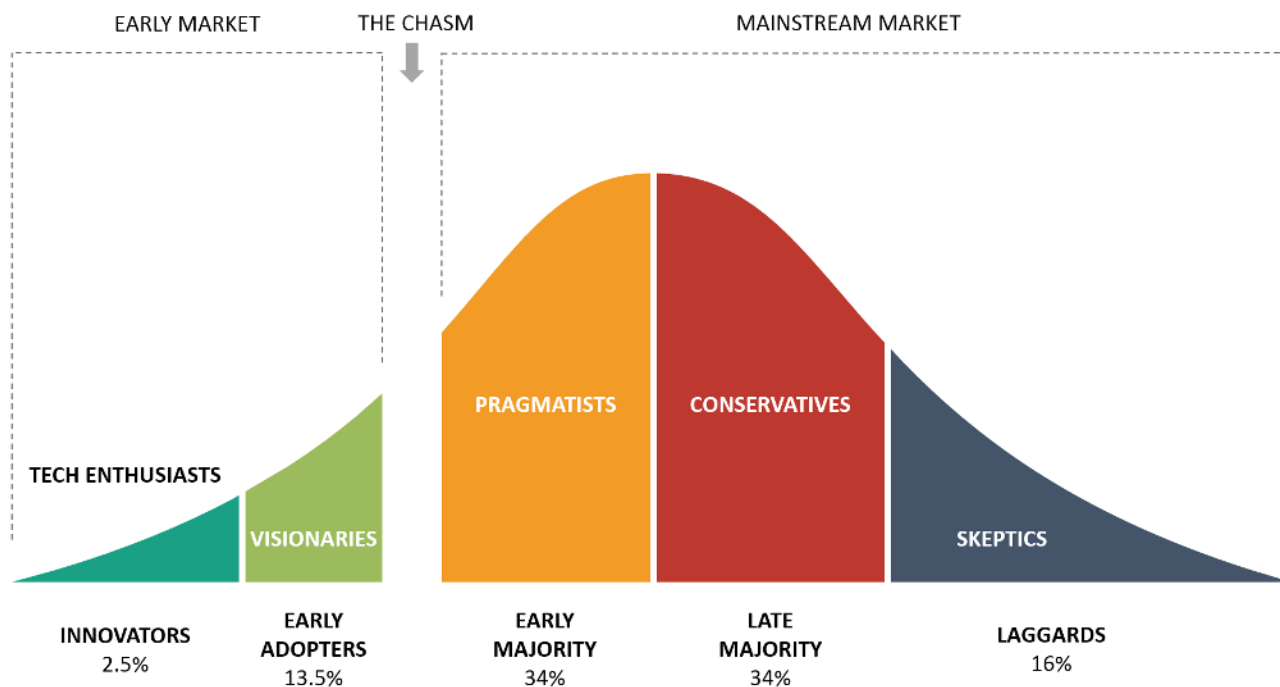
– Geoffrey Moore, Author of Crossing the Chasm

With estimates of the number of global Bitcoin holders ranging from 20 to 70 million, Bitcoin has achieved at most 1% adoption. With the latest bull market gathering steam, we are only now reaching the inflection point, just starting the path up the steep portion of the curve. If Crossgate Capital is an 'initial leader' then that may bode well in respect to achieving our objective of delivering significant returns to our investors.



Referring back to the popular “Crossing the Chasm” concept, at 1% adoption, we are still nowhere near the Chasm. If the global adoption of Bitcoin is just 1%, we are still at the earliest stage in the life cycle. That is why we consider there is still an early mover advantage and we are not surprised or excited by the current surge in prices in the cryptocurrency market.

While we do not expect the cryptocurrency market to increase in a straight line, we consider that the cryptocurrency market will continue to trend upwards over the medium to long term.



The recent announcement by PayPal that it would soon allow its users and merchants to buy, sell, hold, and accept Bitcoin and other cryptocurrencies as a form of payment, may be another reason why cryptocurrencies will move up the curve.

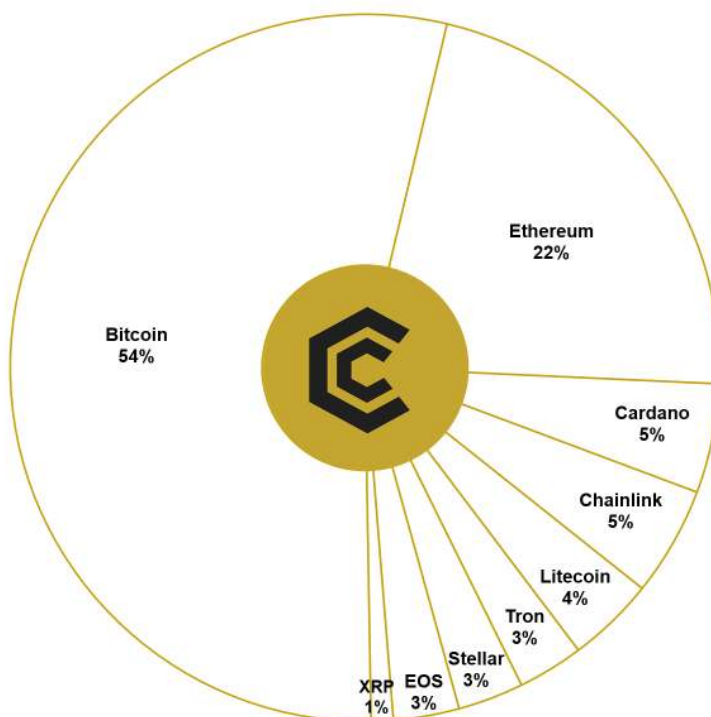
PayPal has reportedly nearly 350 million users and well over 20 million active merchants who can now accept the currency. One only has to compare the size of PayPal’s userbase to the number of current Bitcoin users to understand the significance of this development.

2020 could go down as the year that major institutions rewrote the script on Bitcoin. Unlike in 2017, when Bitcoin’s surge was mainly driven by retail speculation, the 2020 bull market appears to be underpinned by institutions looking to invest in Bitcoin for the medium to long term. Square, MassMutual, MicroStrategy are just a few of the corporate and institutional names that have used their own balance sheets to buy cryptocurrency. We would consider that these investors are medium to long term holders and strengthen the foundation for strong growth

Portfolio Of The Leading Cryptocurrencies

As part of our strategy to achieve our objective of delivering significant returns to our investors, Crossgate Capital continually reviews the weightings of individual assets within our investment portfolio. We are heavily weighted to Bitcoin but have greater breadth by investing across the leading cryptocurrencies.

Provided below are our current indicative weightings;



We have recently been increasing our weighting to Bitcoin and Ethereum and as noted before reduced our weighting in regards to XRP. We have also slightly reduced our weightings to Stellar and Tron. To mitigate any unnecessary transaction fees or tax implications, we re-weight the portfolio through purchases as opposed to selling any of the cryptocurrencies.

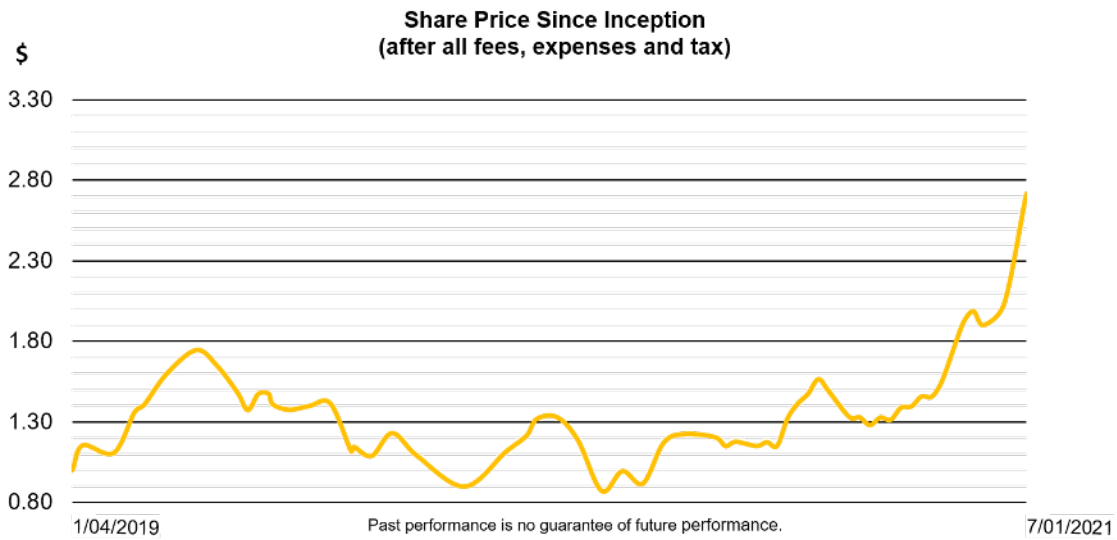
We are continually reviewing other cryptocurrencies which warrant inclusion and align with the requirements of our governing documents which states that the market capitalisation must be at least NZD \$500million, at the date of purchase.

We consider a wide range of metrics when monitoring the performance of each asset or consider an asset for inclusion. Some of the variables we consider include Use Case, Active Wallets, Development Activity, Partnerships & Acquisitions, Financial Performance, Trading Activity and Community Interest.

Performance

The Share price as at 31 December 2020 was \$2.27, which is an increase when compared to the Share price at the end of the prior quarter, 30 September 2020, which was \$1.33.

The current Share price as at the last allotment date (7 January 2021) is \$2.71.



We consider that long-term sentiment remains bullish, as evidenced by a continued decline in the number of coins held on exchanges, a sign that investors are shifting to holding strategies. Cryptocurrencies still needs more time to achieve its true growth potential. However, the world's largest cryptocurrency recently reported a larger market cap than the biggest payment service firm, Visa.

As the institutional demand for Bitcoin continues to increase, the surpassing of Visa's market cap and Warren Buffet's Berkshire Hathaway could further boost institutions confidence in Bitcoin.

As always, we note that cryptocurrencies is a volatile asset class and we do not expect that the price will increase in a straight line. Fluctuations in the crypto market represents business as usual. Investors who are comfortable with this reality know how to respond to falling prices. As an investor not a trader, we look at these pullbacks as providing us buying opportunities.

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.

Reinvestment Option

Our automatic reinvestment option is proving popular with our investors. This makes building an investment in cryptocurrencies even easier. 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.

As an investor, you can simply visit the investor centre at www.crossgatecapital.co.nz to set up a regular automatic investment on either a fortnightly or monthly basis and we will take care of the rest. You can also make one off investments at any time. At any time, you can cancel your automatic investment, simply by sending us an email.

All you need is your CSN/Holder Number, which is printed on your investor documentation, including the Securities Transaction Statement and your authorisation code (FIN). Let us know if you are unable to locate your CSN or FIN and if required we can contact Link Market Services on your behalf.

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. If you need assistance to understand how to follow us on Facebook, please call us and we will be happy to assist. 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)

Disclaimer

This report does not constitute investment, financial, legal, tax or other advice and is supplied for information purposes only. It does not take into account your investment needs, objectives, financial situation or personal circumstances. Before making any financial decisions, consider whether the investment is suitable for your circumstances and whether you wish to seek independent financial advice. The information, data, analyses, and opinions presented herein are provided as of the date written and are subject to change without notice. Crossgate Capital undertakes no obligation to publicly release any update or revisions to these forward-looking statements to reflect events or circumstances after their time of publication. Every effort has been made to ensure the accuracy of the information provided, but Crossgate Capital makes no warranty, express or implied, regarding such information. There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The readers are cautioned that forward-looking statements or information are not guarantees of future performance and, accordingly, expressly cautioned not to place any reliance on forward-looking statements or information due to the inherent uncertainty therein. The information presented herein will be deemed to be superseded by any subsequent versions of this commentary. Past performance is not a guide to future returns. No reproduction of any material either in part or in full is permitted without prior permission. Crossgate Capital Limited is the issuer of the products. The Product Disclosure Statement for the offer is available and can be obtained on our website at www.crossgatecapital.co.nz or at www.business.govt.nz/disclose under Crossgate Capital's offer number (OFR12554).