

Investor Report September 2022



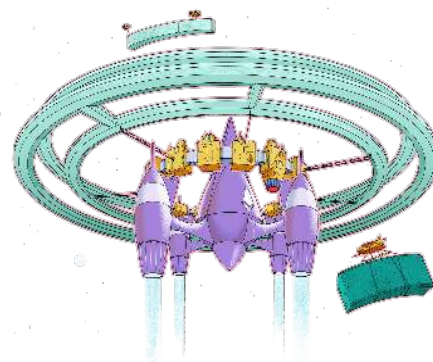
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Executive Summary

During the quarter, the news was all about development milestones. We do not expect the crypto market to increase in a straight line. While we consider the direction of travel for cryptocurrencies is to become mainstream due to its potential to enable economic growth, increase efficiency, enable greater transparency and financial inclusion, significant price swings is still a predictable part of investing in the crypto market.

One of the reasons why we only invest in the more mature stable cryptocurrencies is that during a crypto winter they have the ability to make progress during volatile times. In September, Ethereum transitioned to Proof-of-Stake (PoS) marking a significant milestone in a multi year long effort to increase the efficiency and scalability of the network.



The Merge is a historic event for Ethereum, some commentary citing it as effectively upgrading an aircrafts combustion engine to a modern electric motor, whilst in mid flight.

Also in September, the Vasil Hard Fork upgrade of the Cardano Blockchain completed its first phase with the aim to enhance the platform's transaction throughput speeds, DApp development capacity, security and general usability. In its most basic sense, a hard fork is a network upgrade set in motion when those governing a blockchain platform decide to add or fix certain features to the ecosystem.



Some industry commentators label the Vasil upgrade the dawn of a new era for the Cardano ecosystem and the decentralized finance space at large. The upgrade aims to improve the network's scalability and enhance Cardano's smart contract capabilities.

It is worth noting that Vasil is not Cardano's first major network upgrade. The project witnessed the launch of another hard fork called Alonzo, which was designed to allow users to devise DApps using smart contracts. The Alonzo upgrade, alongside many other developments, was Cardano's way of providing users with another option to Ethereum.

The latest development activity is another step towards mainstream adoption. Applications such as decentralised finance, NFTs, stablecoins, and Web3 have the potential to completely transform the way many lead their digital lives. We therefore focus our attention on the assets that continually innovate and improve their technology and processes.

As the world gets more digitally connected it seems logical to use that cryptocurrencies will increase in relevance.

Crossgate Capital has a clearly defined investment strategy. To warrant inclusion in the portfolio, a cryptocurrency must have a market cap of at least NZD \$500 million. As noted earlier, while the more mature stable cryptocurrencies are well advanced in their development cycle, we consider there is a higher risk that speculative start-ups or smaller cryptocurrency projects do not deliver on their objectives. When there is a decline in the price these 'tail end' cryptocurrencies may struggle to pay developers, marketing and other operational costs during challenging times.

In regards to the overall markets, we are still in a crypto winter. As most people would have seen on the news or read in the papers, globally inflation has forced central bankers to reduce liquidity in the market by raising interest rates. There has also been the impact of the Russia-Ukraine conflict and the lingering effects of COVID. These factors have impacted the share market, property market and led to a sell-off in risk assets, such as cryptocurrencies. Even assets which investors turn to in times of turbulence, such as bonds and gold have been negatively impacted

At Crossgate Capital we take a longer term view. We are well positioned to filter out short-term volatility and focus our attention on the underlying fundamentals which underpin the assets. As we have a strong conviction regarding the long term direction of the cryptocurrencies market, we are not surprised about the expected volatility and consider it provides us an opportunity to acquire crypto whilst the price is low.



Even noting above, our Share price saw a slight increase at the last allotment of the quarter (29 September 2022) to \$2.18 net of all fees, expenses and tax when compared to the last allotment of the previous quarter (29 June 2022) of \$2.04. While we consider this movement immaterial with all the turmoil in the markets the portfolio held its value. We will review this in more detail in the performance sector.

For us, the current market provides us an opportunity to purchase more currency at a lower price. As an investor not trader we look through short term price volatility, we are structured with the knowledge that we would experience periods of market correction and therefore can focus on building an asset base that has the potential to deliver significant returns over the medium to long term.

The management team have a strong conviction in the approach and direction of Crossgate Capital and therefore has been continually acquiring Class A Shares in Crossgate Capital, on the same basis as all other investors. The team has acquired over 56,000 Shares and are planning to continue to add to its holding.

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.

Strong Development Activity

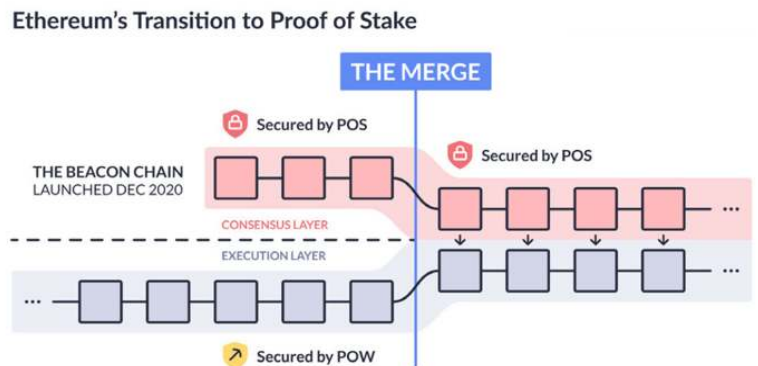
Ethereum - The Merge

Often described as “changing the engine while in flight,” Ethereum’s upcoming transition to Proof-of-Stake through The Merge will fundamentally change Ethereum’s security model and its economics. Following years of research and development and three “mock” Merges in 2022, Ethereum’s consensus mechanism will transition from a Bitcoin like Proof-of-Work (PoW) to Proof-of-Stake (PoS), realising one of the earliest and most important goals in an ambitious roadmap intended to improve Ethereum’s security, scalability, and sustainability.

Instead of miners, post-Merge Ethereum will have “validators.” Validators facilitate block production and contribute to the security of the network by verifying the changes in account balances, or state, enacted by every new block. In order to participate, validators need to stake Ethereum’s native ether (ETH) token (hence the name “Proof-of-Stake”) to earn ETH rewards—so long as they act honestly.

This upcoming network upgrade is called “The Merge” because two blockchains, today running in parallel, will be linked together.

Ethereum’s energy consumption will reportedly be reduced by circa 99% following the Merge, as Proof-of-Stake is much less energy intensive. Not only does this mean that the upgrade should benefit the environment, but at the same time it could benefit network adoption and growth.



Many investors, including large institutional investment firms are interested in cryptocurrency investments. They are governed by environmentally conscious investment standards (ESG) and may be less inclined to invest due to the energy requirements of Proof-of-Work networks.

The Ethereum upgrade to Proof-of-Stake may make it easier to satisfy their strict ESG requirement and therefore attract new investors.

The ultimate objective is for the Ethereum network to process transactions faster, become more cost effective and increase the viability of use cases, thereby increasing overall adoption.



Telecom giant Deutsche Telekom, parent company of T-Mobile, has reportedly announced that it will run a validator to support Ethereum staking. The German company reportedly announced that its T-Systems Multimedia Solutions (MMS) division is working with Proof-Of-Stake app and DAO StakeWise to operate a pool, allowing customers to take part in validating transactions without having to run a validator themselves.

Cardano - Vasil

The Cardano (ADA) network hit a milestone of smart contracts at the beginning of August, and since then, the network has shown no signs of slowing down after the blockchain successfully completed the Vasil hard fork in September.

Almost every blockchain needs to go through continuous upgrades and Cardano is no exception. Every time an upgrade is delivered, it brings optimal and crucial features to the network. The Vasil hard fork is important for Cardano in terms of extending its already present specifications. Growing number of projects demands more transaction speed, scalability and lower fees to some extent.

In addition to the Vasil upgrade, the Cardano team revealed that it has been working tirelessly on the development of its layer-2 scaling solution – the Hydra head protocol – which is capable of processing transactions from the Cardano blockchain while still making use of it as its core security and settlement layer.

The Cardano over-arching roadmap is a summary of Cardano development, which has been organized into five eras: Byron, Shelley, Goguen, Basho, and Voltaire. Each era is centered around a set of functionalities that will be delivered across multiple code releases. While the eras of Cardano will be delivered sequentially, the work for each era happens in parallel, with research, prototyping, and development often in progress all at once across the different development streams.



In regards to our other assets, such as Polkadot, Polkadot still has the largest active developer ecosystem outside Ethereum, with almost 3x more weekly commits than the next largest ecosystem according to @MessariCrypto. As we noted earlier, developer activity is important to a long term investor. Strong and continuous development activity implies that:

1. The project is serious about its business proposition.
2. The project will likely launch new features which will enhance the user experience.
3. It's less likely that the project is a scam and therefore has no long term value.

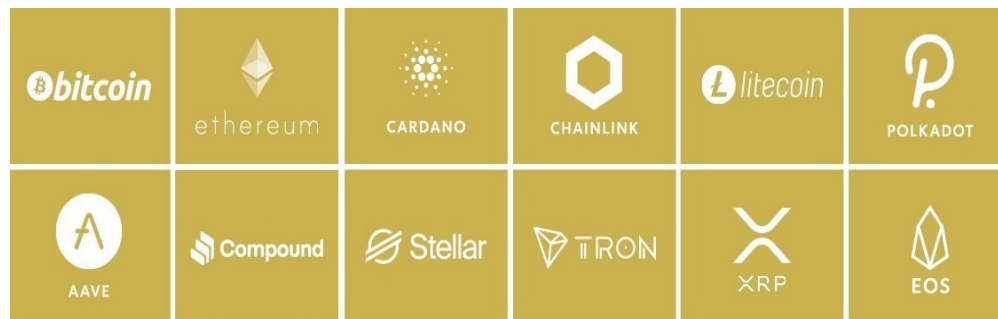
In addition to development progress, we also consider there is movement on the regulatory front. As previously reported, the European Union has agreed upon the full legal text of its landmark legislation known as the Markets in Crypto Assets Regulation (MiCA). MiCA introduces the first-ever licensing regime for crypto wallets and exchanges to operate across the bloc and imposes reserve requirements on stablecoins.

Crossgate Capital Portfolio

As specialist investors we have a strong understanding and appreciation of the fundamentals which assists us to allocate capital, in what we consider is an effective manner.

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. Our specialist team concentrate on cryptocurrencies that have strong use cases and are focused on real world applications.

Our portfolio currently includes;



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. Over this time frame there will be market dips, this is expected, but by maintaining focus on the underlying fundamentals we are not unnerved by short term price swings (however volatile).

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 (29 September 2022) was \$2.18, which is net of all fees, expenses and taxes. As discussed earlier, the result of, what we consider are temporary factors has currently subdued the performance of the crypto markets. The Share price is predominately determined by the fair value of our assets.

Provided below is a table ranking the % market price movement of the cryptocurrencies held during the quarter.

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

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.

The Team

Attracting, retaining and developing the team is a key driver of our long term success.

We are fortunate that we have a core stable team who have a deep understanding of the industry and a broad skill set. We consider that this specialist experience is essential in order to deliver returns from this sector

We continue to expand the team in order to deliver a strong investor experience. We were pleased to recently welcome Garth Lewis to the team. Garth holds a BEd in Mathematics as well as Level 5 Wealth Management (South Africa).

Garth has a career background in education, business and wealth management.

Garth has a keen interest in cryptocurrencies and blockchain technology and has personally invested in this market for years.



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)

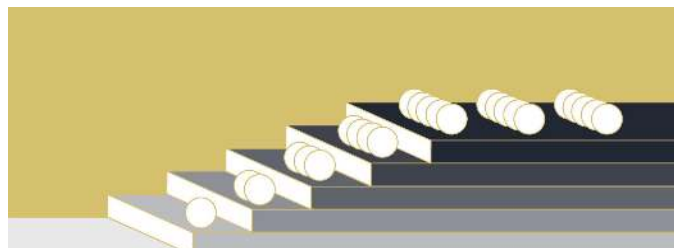
If you do not know your CSN or FIN, please contact Link Market Services on (09) 375 5998 or email crossgatecapital@linkmarketservices.co.nz.

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 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. 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.



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