



# Crossgate Capital March 2021 Quarterly Investor Report

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# Executive Summary

Our Share price at 31 March 2021 was \$4.70, which is net of all fees, expenses and tax. We manage all the challenges of investing in crypto assets and consider this sets us apart from other ways to invest in this sector. We consider that it requires a hands on approach to deliver the potential returns from investing in this emerging asset class.

Crossgate Capital's financial year end is also 31 March and we will be reporting under the Financial Markets Conduct Act 2013, as a FMC Reporting Entity and file audited financial statements with the Companies' Office within four months of our year end. We expect to complete the audit prior to the regulatory deadline.

As we progress into this new financial year, we will also be sending investors our Annual Report (including audited financial statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS')).

Looking back at the end of our previous financial year (31 March 2020) the outbreak of Covid-19 was having major repercussions for the global economy. Stocks, gold and U.S. Treasury prices fell as investors gravitated to cash. Investors also initially exited other asset classes amid the coronavirus pandemic, which caused the price of Bitcoin and other cryptocurrencies to decline. This did not dilute our conviction as we considered there is significant potential in digital assets, due to its infancy and potential impact on business and society.

This belief was reflected in our initial statement in 2019 when we launched Crossgate Capital. We stated that we consider cryptocurrencies now form part of the financial landscape and have the potential to be an accepted asset class. Within two years, this statement is now illustrated by the institutional capital flooding into the cryptocurrency market. In recent months, both MicroStrategy and Tesla added a billion dollars of Bitcoin to their balance sheets. Investing in cryptocurrencies is starting to gain acceptance among more mainstream institutions and investors.



We consider this is starting to have a positive impact on the prices of the leading cryptocurrencies that we invest in.

This is the direction of travel that we envisaged. We believed that institutions would become active in this space, which would therefore create additional demand. During this year we have certainly seen significant investment activity. Cryptocurrencies have gone from being an obscure part of finance to becoming a more accepted asset class by some. Albeit, we are just at the start and there is still a long way to go before there is mainstream acceptance. As we are still very much in the early days, we consider this provides us an early mover advantage by investing in this space.



As one of the largest companies in the world now owns Bitcoin every investor that owns Tesla, or even some of the US S&P 500 funds, has exposure to Bitcoin as well. It will be interesting to see whether there is an acceleration of companies looking to invest in Bitcoin now that Tesla has made the move.

One of the other institutional investors that has taken the leap into investing in Bitcoin includes Mass Mutual, who is one of the oldest life insurance companies in the world.

Giant financial institutions like Paypal, Mastercard and Visa are offering crypto services, and in addition to institutional interest more retail investors are interested in gaining exposure to this asset class.

Ethereum, the world's second-largest cryptocurrency, is also gaining the attention of major institutional investors around the world. According to a recent digital asset inflows report published by CoinShares, ETH-related investment products attracted a total of USD \$4.2 billion inflows in this quarter which is also the highest level on record. The popularity of Ethereum is growing as institutions are accumulating the cryptocurrency.

The potential in this asset class is not confined to just Bitcoin and Ethereum. Crossgate Capital invests in a diversified portfolio of the leading cryptocurrencies. 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.

In March and September 2020 quarterly reports we advised that we were increasing our weighting to Cardano. As at 31 December 2020, the price of Cardano was USD \$0.1814, this has increased to USD \$1.19 at 31 March.

On 15 March 2021, Stuff reported that;

"The meteoric rise of Cardano over the past three months is catching the attention of some of the savviest investors in cryptocurrencies."



We were pleased that it had already caught our attention a year earlier, allowing us to position ourselves for the uplift.

We invest based on fundamentals driven by continual research and monitoring. Our approach is to take a considered position in order to deliver on our objective of providing strong returns to our investors.

In the Portfolio section of the report we provide an update on two new cryptocurrencies which will form part of our portfolio going forward. We consider that it requires an active approach to deliver the potential returns from investing in this emerging asset class and take advantage of the opportunities that exist.

**Our portfolio of the leading cryptocurrencies are tracking as anticipated, which has meant that the Share price as at 31 March 2021 was \$4.70 (after tax). While this compares favourably to the Share price at inception (1 April 2019) of \$1.00, we consider that the cryptocurrency market is still in its infancy and see this as just one step in the right direction.**

## Early Mover Advantage

Interest in Bitcoin increased this year, with investors viewing Bitcoin as a hedge against inflation and an alternative to the depreciating dollar. Bitcoin's latest halving, which took place in May last year, saw the reward for adding new transactions to the blockchain diminish from 12.5 Bitcoins to 6.25. A traditional supply and demand, equation would indicate that the fewer coins created, the more valuable each one already in existence is. This is in contrast to central banks across the globes printing an unparalleled amount of money to stimulate the economy.

Some institutions, against the macro backdrop of this stimulus, now consider cryptocurrencies as part of the financial landscape and a viable asset. This is not just confined to the larger entities such as Tesla, Microstrategy, and Square but smaller, maybe less well known companies are also disclosing their investments in crypto. It was reported that Meitu, a Chinese company that makes a photo editing app, bought USD \$22.1 million worth of Ethereum and USD \$17.9 million worth of Bitcoin. A Norwegian investment company, Aker ASA, announced their involvement in this space. There are many other examples that could be reported.

EARLY MOVER  
ADVANTAGE



Investing in cryptocurrencies has a higher risk profile than other asset classes, there is also more volatility. We were interested by the concept that if, over time, cryptocurrencies become mainstream and the deep pockets of large banks and fund, asset and wealth managers flow into the space, the currency may be less traded which may reduce price volatility. This could in turn create more use cases for crypto, with more retailers accepting it as a means of payment, creating a cycle of more consumers purchasing coins, drawing more institutions to offer trading, brokerage or custody services, thereby driving further investment.

However we are just at the beginning of the cycle but there are already notable market releases. Visa (the payments network company) estimates that USD \$18 trillion is spent using cash and cheques and health concerns due to Covid-19 will push more transactions to a cashless society. The payments network company also sees 1.7 billion people around the world who are unbanked or underbanked as targets for growth. One way in which Visa expects more people to pay in the future is with cryptocurrencies.

Mastercard recently issued a press release disclosing why it is bringing crypto onto its network;

Whatever your opinions on cryptocurrencies – from a dyed-in-wool fanatic to utter skeptic – the fact remains that these digital assets are becoming a more important part of the payments world. We are seeing this fact play out on the Mastercard network, with people using cards to buy crypto assets, especially during Bitcoin's recent surge in value. We are also seeing users increasingly take advantage of crypto cards to access these assets and convert them to traditional currencies for spending. To be clear, this data is not of any individuals – it's anonymized and in aggregate – but the trend is unmistakable. We are preparing right now for the future of crypto and payments, announcing that this year Mastercard will start supporting select cryptocurrencies directly on our network.

– Mastercard Newsroom 10 February 2021

While the crypto space has seen tremendous growth over the past decade and there has been a wave of media announcements, the asset class still holds a tiny amount of value compared to mainstream markets, especially when compared to other assets such as Gold. We are still in the early days of this asset class and there is a long road ahead if cryptocurrencies are to deliver on its full potential. However, it is good to have entities such as Tesla, Visa and Mastercard (to name just a few) also consider that cryptocurrencies now form part of the financial landscape.

Crossgate Capital is a specialist investor in cryptocurrencies. We do not invest in any other asset class. Our objective is to provide strong returns to our investors and to become the preferred way to invest in this asset class.

Our objective is to navigate the complex world of cryptocurrencies on your behalf and deliver strong returns. We invest based on fundamentals driven by continual research and monitoring. Our approach is to take a considered position in order to deliver on our objective of providing strong returns to our investors.

As an active investor we seek to maximise returns while managing the risks of investing in cryptocurrencies. We consider that there is an early mover advantage due to the significant growth potential of the cryptocurrencies that we invest in. This growth comes from a diversified portfolio of the leading cryptocurrencies, not just Bitcoin.

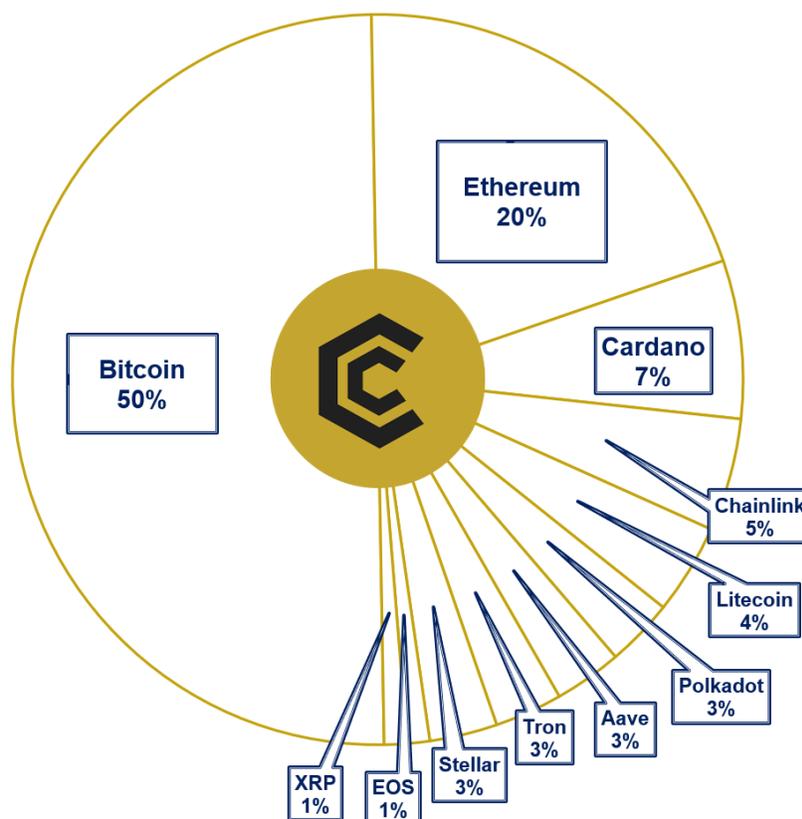
# Portfolio Of The Leading Cryptocurrencies

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.

Next quarter we will expand our portfolio by investing in two more cryptocurrencies, Polkadot and Aave. This brings the total cryptocurrencies in our portfolio to 11.

We have been closely monitoring a number of different cryptocurrencies which adhere to our investment principles and have the potential to deliver strong returns to our investors. The targeted weighting for both Polkadot and Aave will be 3% which we aim to achieve over a period of time through purchases as opposed to selling any of our cryptocurrencies. We are not selling any assets as we retain a positive view on the cryptocurrencies that we hold. Our approach also ensures that at this stage we do not crystallise any tax gain by selling any cryptocurrencies.

Provided below are our current indicative weightings;



**We are focused on both the return off capital and the return on capital. We are therefore comfortable to wait and take a considered position, as opposed to being an early investor and accepting the additional risk that this may impose.**

In order to be able to accommodate these two cryptocurrencies we will be reducing our Bitcoin weighting to 50% and Ethereum to 20%. We are still heavily weighted to the two leading cryptocurrencies in this sector.

We have introduced these two cryptocurrencies in order to assist us in our objective of delivering significant returns to our investors.

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.

## Polkadot (DOT)

Blockchain technology has witnessed a tremendous increase in popularity, leading to the emergence of a vast landscape of specific blockchains. Polkadot aims to connect all these blockchains together. This will allow data transactions to flow from one blockchain to another.

Polkadot is the flagship project by Web3 Foundation, a Swiss Foundation founded to facilitate a fully functional and user-friendly decentralized web. Polkadot facilitates an internet where independent blockchains can exchange information and transactions via the Polkadot relay chain.

In essence, Polkadot is a network designed to 'join the dots' with all other networks. It's commonly referred to as a multi-chain network, because it can join networks together, unlike networks like Bitcoin, which operates on its own.

Polkadot first launched its mainnet in May 2020 and has gained traction among investors, developers, and cryptocurrency traders. We have been reviewing progress and adoption prior to committing funds to this asset.

Polkadot differentiates itself from Ethereum by allowing smart contracts to run in an ecosystem of smaller blockchains called parachains. By using parachains and segmenting data across smaller groups of nodes, Polkadot is theoretically able to process data more efficiently.

Polkadot simplifies the innovation process and takes the burden off having to build everything from scratch. DOT has many elements that are designed to address some of the perceived challenges of Ethereum. However Ethereum is an established platform which already has many existing working projects and is undertaking significant development to deliver notable improvements.

We will look to see whether Polkadot can gain critical mass much like Ethereum has already achieved.



## Aave (AAVE)

The DeFi market itself is still in an early phase of development. A few projects have established themselves on the market which may indicate a good prognosis for the future. The Aave project now ranks as one of the largest in the DeFi sector.

One of a number of emerging DeFi cryptocurrencies, Aave is a decentralized lending system that allows users to lend, borrow and earn interest on crypto assets, performing a role similar to money markets in traditional finance.

Aave is a DeFi platform built on Ethereum. The Aave Protocol enables you to earn interest on your digital assets by depositing them into pools, from which you can also borrow assets in the form of stable rate loans, variable rate loans, and flash loans. If you deposit tokens into Aave's pools, you receive a corresponding amount of aTokens, interest-earning tokens that represent your holdings.



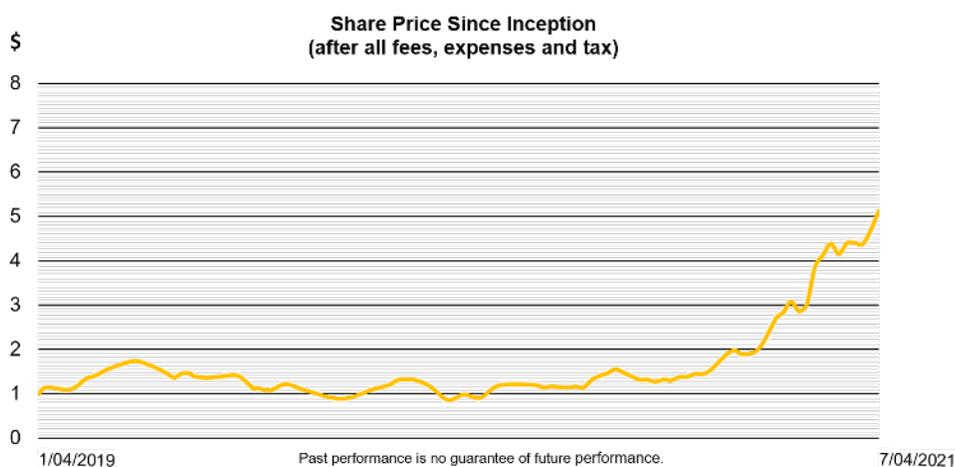
If you borrow from Aave, you must provide enough collateral in another asset to support your loan. This secures the funds in the protocol in case you cannot pay back your loan, or the value of your collateral falls.

Aave is one of the most important platforms in the DeFi sector. As the DeFi sector is one of the youngest sectors of the crypto market, there are only a few relatively established providers. We consider that Aave merits a portion of Crossgate Capital's investment.

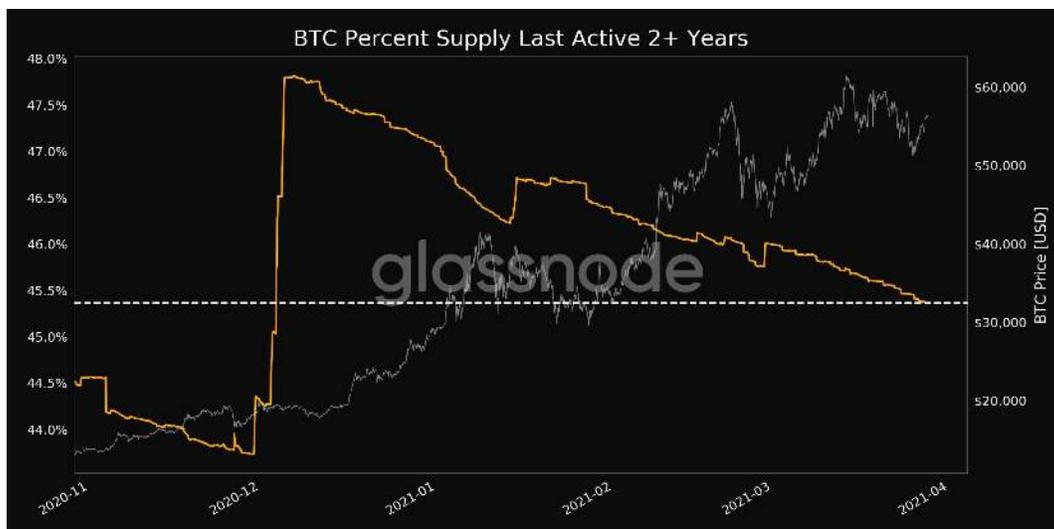
## Performance

The Share price as at the end of the quarter (31 March 2021) was \$4.70 (after tax), which is an increase when compared to the Share price at the end of the prior quarter, 31 December 2020, which was \$2.27 (after tax).

We are currently allotting Shares weekly and the Share price as at the latest allotment (7 April 2021) was \$5.13 (net of all fees, expenses and tax). The Share price is predominately determined by the fair value of our assets.



Long-time Bitcoin investors are refraining from selling their holdings, on-chain data from Glassnode suggests. According to Glassnode's "BTC Percent Supply Last Active 2+ Years" indicator, Bitcoin that was last moved well over two years ago reached a three-month low to 45.364%.



This trend may indicate that Bitcoin investors who bought around the top of the last bull cycle in 2018 and before are showing deeper conviction. In previous bull cycles, the sell-off from investors taking profit on their positions led to an entire cryptocurrency market pullback. The upward trend in prices may coincide with the fact that investors are not selling a significant amount of Bitcoin.

We would also consider that the new trend of institutional investors making an allocation to Bitcoin as part of their treasury management policy have a longer investment time horizon than some retail investors.

We focus on the potential opportunities as we consider that this asset class has strong growth prospects. We continue to keep track of this fast moving market with the objective of delivering returns to our investors.

# Reinvestment Option

Our automatic reinvestment option continues to prove popular as an increasing number of investors elect to use this feature. 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](http://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.

**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. 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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