

Investor Report December 2022



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Executive Summary

If 2021 was the year of the crypto investor, 2022 was the year of the crypto developer. The Ethereum Merge was a huge milestone for crypto: a \$200 billion network porting over to an entirely new, scalable transaction ledger with a brand new security model, in real time, with zero hiccups. We will explore this significant technical feat in more detail.

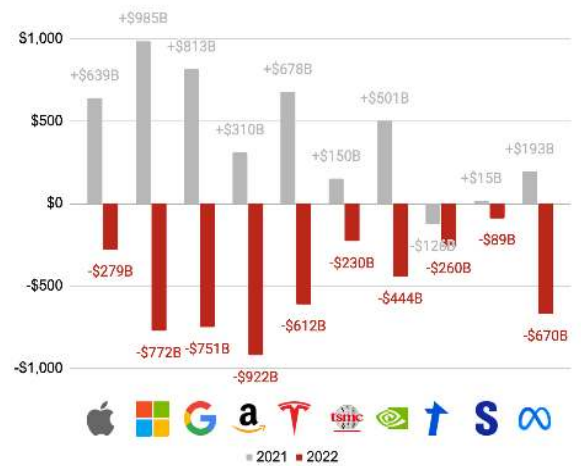
From an investing standpoint, investors witnessed the worst year in global financial markets since the 2008 financial crisis, as inflation forced central banks around the world to raise interest rates and put an end to the supply of cheap money. Inflation surged as economies reopened from the pandemic lockdowns and sanctions on Russian energy have led to a crisis in several European countries, with prices skyrocketing and supplies dwindling.

Tech stocks were particularly hit. The FAANGs – an acronym referring to the big five tech companies, Meta (formerly known as Facebook), Amazon, Apple, Netflix and Alphabet (formerly known as Google) were all impacted. Tesla’s share price has also come under stress. The crypto market has also been affected and we saw the onset of a crypto winter.

2022 saw the fall of the Terra [LUNA] cryptocurrency, crypto lenders abruptly freezing withdrawals, mass layoffs across fintech companies and the collapse of the FTX exchange. At one stage, Terra’s LUNA cryptocurrency rose to become one of the top ten cryptocurrencies by market capitalisation in 2022, attracting significant interest before its breakdown.

Crossgate Capital was structured in the knowledge that there would be crypto winters and crypto summers. Therefore when

2021 vs 2022 Market Cap change in Tech Industry (USD Billions)



Source: yCharts as of 21 November 2022 (21/11/2022 vs 21/11/2021 vs 21/11/2020)



we enter a crypto winter we do not have to take any action to right size the business - it flexes automatically with the conditions as the majority of costs are variable and determined by the performance of the company.

Investors forced to sell during this period may feel the pain as they may have to sell at a loss. We have not sold any crypto. The amount of crypto we hold only changes when we purchase more. Obviously we would rather buy low than buy high and would prefer to be in the left hand queue (as per the neighbouring image) as opposed to following the crowd.

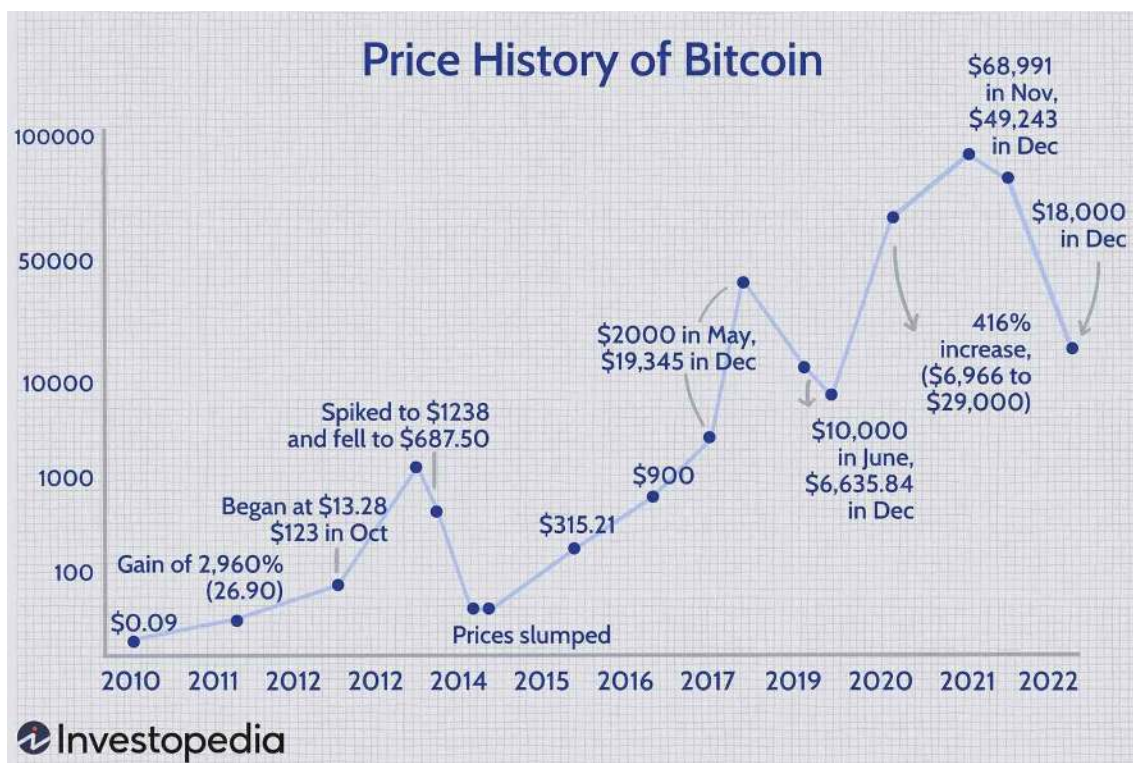
In this edition, we provide commentary regarding our process of selecting which cryptocurrencies to invest in - it is pleasing that our approach has meant that we have currently avoided all of the fatalities that have impacted this sector. Our assets are therefore positioned to take advantage of an upturn in the market.

Projects that have a sustainable model and actively develop and progress against their road-map are laying the foundations for potential long term growth. That is why to warrant inclusion in the portfolio, a cryptocurrency must have a market cap of at least NZD \$500 million. We consider that the more mature stable cryptocurrencies (such as Ethereum) are well advanced in their development cycle. 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. During a crypto winter we expect that our assets will continue to deliver against their development objectives even though the price may be severely impacted for a while.

For those who have invested for a number of years have continually seen the industry recover from several major slumps in the past. As reported by Investopedia, among asset classes, Bitcoin has had one of the more volatile trading histories. The cryptocurrency's first significant price increase occurred in 2010 when the value of a single Bitcoin jumped from just a fraction of a penny to \$0.09. The cryptocurrency has undergone several rallies and crashes since it became available



Despite having a relatively short history compared to the stock market, crypto has shown in the past that it is capable of more than recouping the losses caused by high profile events. Whilst past performance is no guarantee of future performance, for some investors they are using this time to build their portfolio with the objective of achieving greater returns.

On the subject of Bitcoin, we are also mindful that the halvening, or halving, is an event that happens every four years in which Bitcoin rewards to miners are cut in half. This is viewed by some investors as positive for Bitcoin's price, as it squeezes supply. The next halving is scheduled to happen sometime in 2024 and could be beneficial for the sector.

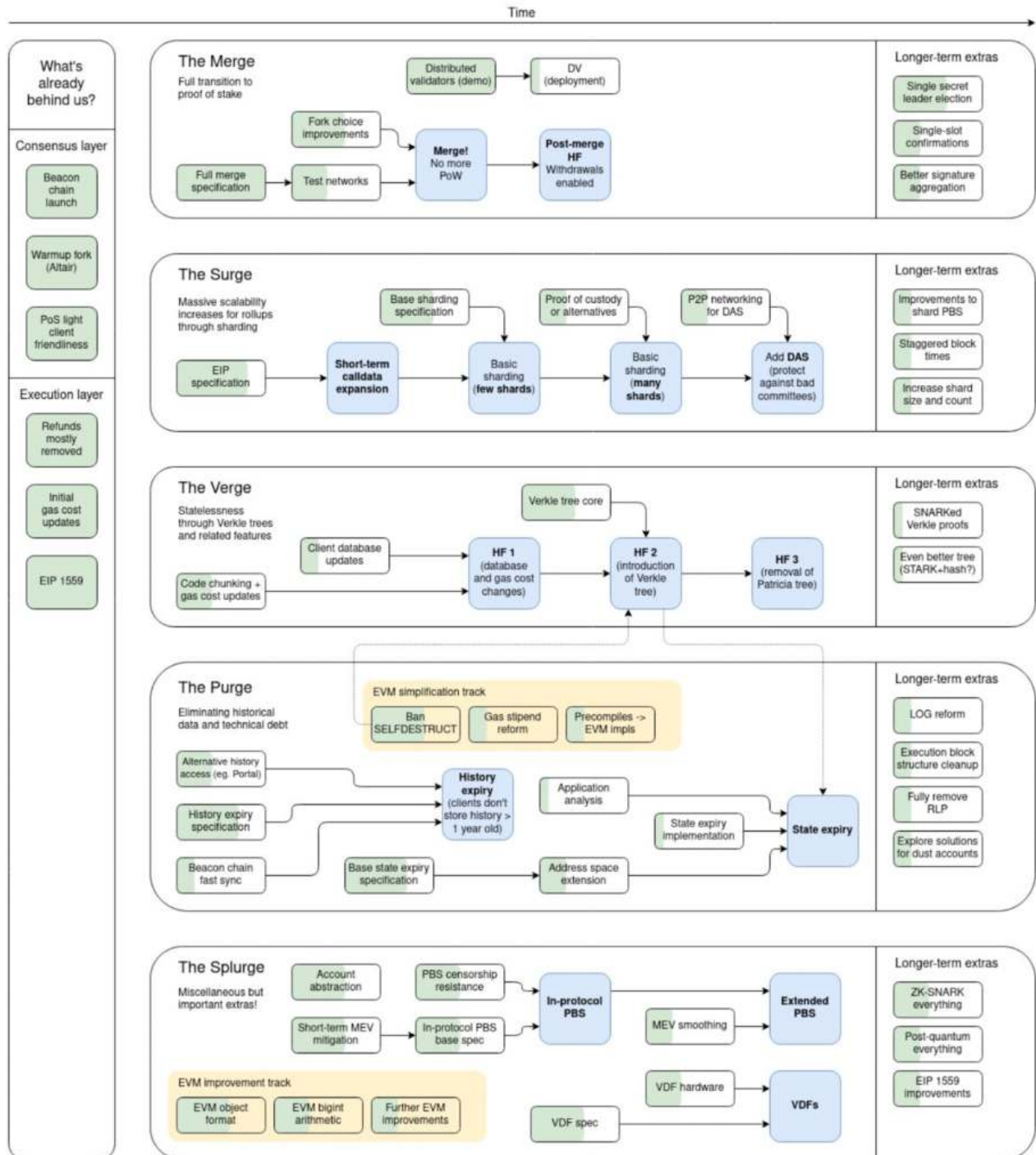
At Crossgate Capital we take a longer term view. We are well positioned to filter out short-term volatility and focus our attention on the underlying fundamentals which underpin the assets. As we have a strong conviction regarding the long term direction of the cryptocurrencies market, we are not surprised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

We continue to focus on the underlying fundamentals, technological advancements, use cases and the ability of the project to deliver against its masterplan.

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.

The New Ethereum RoadMap

The Merge was a major technical update six years in the making. Now that it's been successfully deployed, many people might not appreciate just how much future development is planned. As illustrated below we are still in the early days of the Ethereum core team's roadmap and therefore consider there is still an early mover advantage.



As explained by Messari (who provide Crossgate Capital with professional grade crypto market intelligence tools), a simpler explanation of the planned development events are detailed below;

- The Merge: Part one of The Merge forked out Proof-of-Work consensus and switched to Proof-of Stake. Now developers are working on ensuring transaction validation is well distributed, allowing stakers to withdraw from the staking contracts and tackling more wonky items like improving signature aggregation.

- The Surge: The goal is to reach 100,000 transactions/second by introducing a new Ethereum transaction type called “blobs,” where rollups will have a specific allocation of blockspace to post their data. The initial form of blobs will be delivered in EIP-4844 or “Proto-Danksharding.” In its full form, “Danksharding,” fees on both L1 and L2 should be reduced while tackling Ethereum’s version of Data Availability Sampling.

- The Scourge: This is a new phase added recently, Vitalik Buterin (the founder of Ethereum) tweeted largely in response to community concerns over risks that maximum extractable value (“MEV”) was creating potential transaction censorship.

- The Verge: A “fully Snarked Ethereum” makes verifying blocks easier and introduces something called Verkle trees, cryptographic proofs that are smaller than their Merkle tree cousins, paving the way for stateless clients (better mobile support) on Ethereum.

- The Purge: Lots of little code clean-ups that simplify the Ethereum protocol, eliminate technical debt and limit costs of participating in the network. This will include state expiry in EIP-4444. Again, things that reduce costs and improve performance.

- The Splurge: What Vitalik calls “fix everything else.” These are EVM improvements, account abstractions, and the creation of a “quantum-safe” Ethereum.

Watchlist

We constantly review the portfolio allocation and have a number of assets on the watchlist.

At the Board meetings (or at convened meetings) we discuss the watchlist and discuss whether any assets warrant inclusion, should remain on the list or no longer fit the profile. Obviously new assets are added to the list at any time.

The watchlist during 2022 included a number of assets such as Solana, Polygon, Avalanche, Decentraland, The Sandbox, Axie Infinity, Chiliz, Fantom and Enjin Coin. For a number of reasons none of these assets have currently been approved.



In regards to Solana, we were concerned about the robustness of the network. The high-speed smart contract platform has suffered full or partial outages at least seven separate times over the last twelve months, which have come from a number of different congestion and spam events. Other issues include a reported \$200 million hack on a Solana-based wallet and the fall-out from Solana's association with FTX.

We review our portfolio mix by category and sector (which indicates the specific solution(s) provided by a crypto asset network) which we consider is more advantageous than selecting individual assets. We currently have a targeted 34% weighting to Infrastructure assets which may need to be increased if we included additional infrastructure assets (such as Solana, Polygon, Avalanche, Fantom). We are focused on ensuring that we have an appropriate category mix and therefore are considered in our approach.

We have also been discussing whether the portfolio would merit the inclusion of Media & Entertainment asset(s) such as Decentraland, The Sandbox, Axie Infinity, Chiliz or Enjin Coin. At this stage none of these assets have been approved by the Board.

As an example, Axie Infinity consistently trended lower in 2022 due to underwhelming players turnout (which lowers the demand for tokens), a \$650 million hack concerning Axie Infinity's blockchain Ronin in late March and fears surrounding the unlocking of supply.

Prior years saw a number of assets secure approval which expanded our portfolio. Assets such as Polkadot, Aave, Compound and Chainlink all made the grade. We will notify investors if a new asset is selected. What may not be obvious is that even if the portfolio hasn't changed, the portfolio weightings are amended when appropriate – which we manage through purchases to avoid selling any assets.

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;



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. 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 (30 December 2022) was \$1.59, which is net of all fees, expenses and taxes. The Share price has increased to \$2.01 as at the most recent allotment (18 January 2023). 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	Litecoin
2	Ethereum
3	Tron
4	Bitcoin
5	ChainLink
6	EOS
7	Ripple
8	Aave
9	Polkadot
10	Stellar
11	Cardano
12	Compound

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)

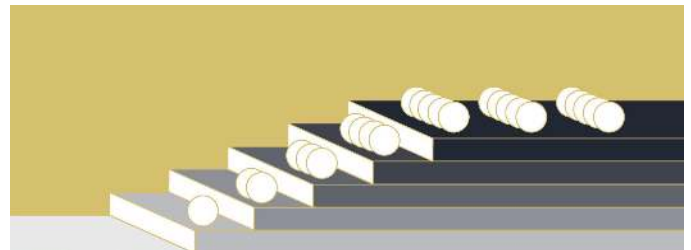
If you do not know your CSN or FIN, please contact Link Market Services on (09) 375 5998 or email crossgatecapital@linkmarketservices.co.nz.

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. 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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