



Dear Fellow Investors

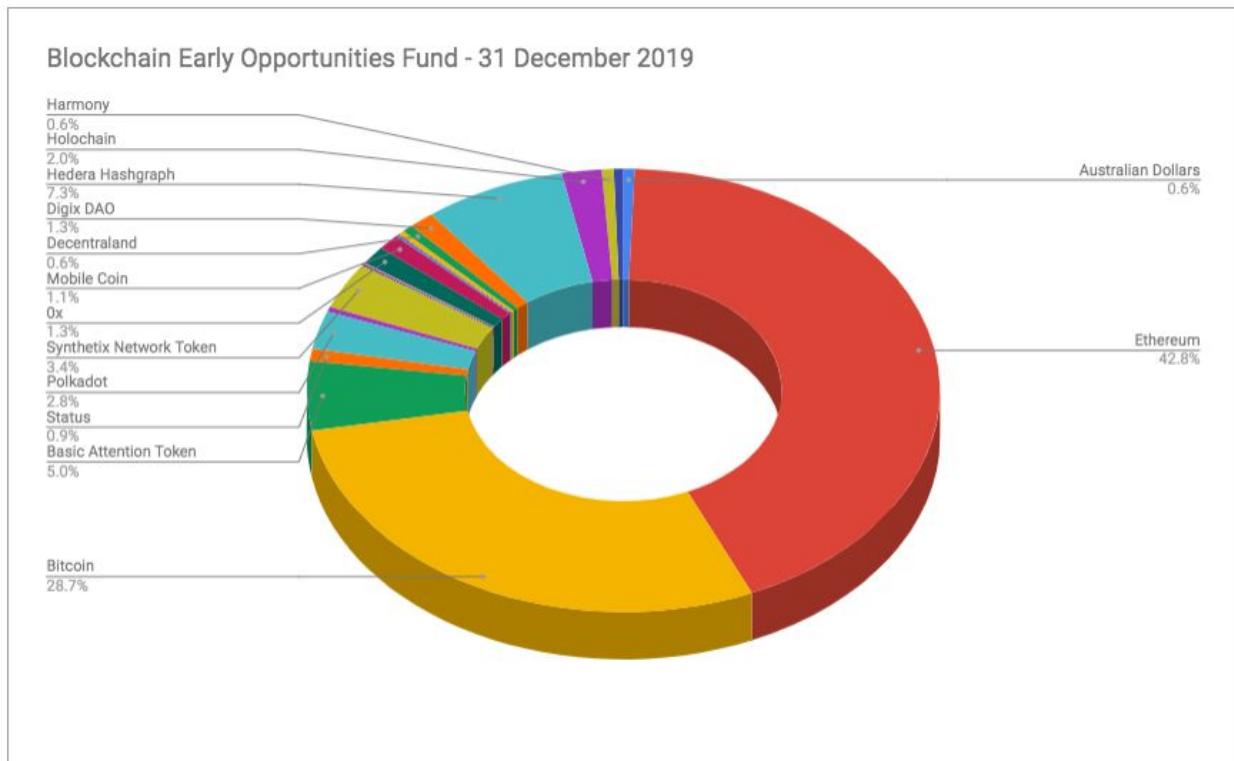
In last quarter's newsletter I set out the current status and likely future developments of our three main assets. In this newsletter I explore the current global landscape of cryptoasset adoption, with focus on Central Banks and Governments. I also set out some details about the emergence of Decentralised Finance (DeFi) in 2019 and foreshadow the emergence of Crypto Staking as a theme for 2020.

Summary

The cryptomarkets continued to decline throughout the December quarter. Except for some short relief up to June 2019, we have now been in a bear market for close to 2 years. Negative regulatory sentiment is partly to blame but there are a number of factors. The good news is that the technology is progressing strongly. As you will see from my comments in the report, there is growing interest around the world from Central Banks about the possibility of central bank digital currency. There are also many corporates like Facebook and JP Morgan looking to issue their own coins. This interest together with the growth of Decentralised Finance, the continued adoption of ethereum (eg Perth Mint Gold Token) and the emergence of Staking for Proof of Stake chains (including Hedera Hashgraph and Ethereum) gives us a lot to look forward to in the year ahead.

Fund Assets and Key Metrics

Metric	30 September 2017	31 December 2017	31 January 2018	31 March 2018	30 June 2018
Unit Price	\$0.93	\$2.14	\$2.36	\$1.18	\$1.09
Return Since Last Valuation	-7.00%	130.11%	10.28%	-50.00%	-7.63%
Return Since Inception	-7.00%	114.00%	136.00%	18.00%	9.00%
Assets Under Management	\$1,166,062.70	\$3,459,592.39	\$5,028,329.29	\$2,417,802.58	\$2,516,518.55
Metric	30 September 2018	30 November 2018	31 December 2018	31 March 2019	30 June 2019
Unit Price	\$0.7480	\$0.4979	\$0.5178	\$0.5507	\$0.9501
Return Since Last Valuation	-31.38%	-33.44%	4.00%	6.35%	72.53%
Return Since Inception	-25.20%	-50.21%	-48.22%	-44.93%	-4.99%
Assets Under Management	\$1,768,920.85	\$1,445,669.37	\$1,842,159.60	\$2,211,850.52	\$3,918,854.71
Metric	30 September 2019	31 December 2019			
Unit Price	\$0.5270	\$0.3937			
Return Since Last Valuation	-44.53%	-25.29%			
Return Since Inception	-47.30%	-60.63%			
Assets Under Management	\$2,153,195.44	\$1,608,380.84			



Cryptoassets and Global Adoption

In 2015 there was a popular saying ‘I like Blockchain but not Bitcoin’. It made people seem smart without having to deal with negative narratives around Bitcoin. But when asked about the properties of Blockchains those same people soon ran out of conversation.

Today it is Central Banks and Governments using this same language. Specifically Central Banks are talking about issuing ‘Central Bank Digital Currency’ CBDC. That is, fiat currency issued in digital form and managed on a private blockchain (Note: private blockchains are permissioned like a private intranet, public blockchains are permissionless, like the public internet).

What does this mean for our fund and the future of cryptoassets?

I answer this question by considering two significant events the week of 21 October 2019.

Event 1. Was Mark Zuckerberg’s testimony to the US Congress on 23 October concerning the Facebook Crypto Currency Libra .

Event 2. Was the announcement by China President Xi Jinping on 25 October regarding adoption of blockchain technology and issuance of a digital renminbi.

Facebook and Libra

The Facebook coin ‘Libra’ is known in the industry as a ‘stable coin’ in that the price of the coin is referenced to the price of a specific asset (a basket of fiat currencies in the case of Libra). Many but not all members of US Congress are concerned that a private company with the power, reach and bad privacy management reputation of Facebook plans to use USD in a global crypto based payment platform. They fear loosing the ability to control who uses the USD and for what purpose.

Mark Zuckerberg’s main defence of the Libra project was that this innovative technology (blockchain/crypto) should be embraced and developed in the US and that this is a matter of national economic security.



China CBDC - People's Bank of China (POBC)

The very same week that Zuckerberg was testifying, as if scripted, China announced they are developing the World's first CBDC, they will embrace blockchain technology (private blockchain) throughout the country and global infrastructure projects like their 'Belt and Road' initiative.

The benefit to China of CBDC are:

1. Control of money and payments domestically and linking that with social credit scores etc.;
2. Payment channels internationally to support their Belt and Road initiative; and
3. Potentially undermine the USD as the default global base currency.

Of course China is talking about a private permissioned blockchain network. If these objectives are achieved it would give China unprecedented control over it's people and significant influence anywhere it touches in the world.

This is why Mark Zuckerberg argues that developing

blockchain/crypto tech in the US is such an important national issue.



Xi Jinping, President of the People's Republic of China and General Secretary of the Communist Party of China, said the country needs to "seize the opportunity" afforded by blockchain technology.

Other Central Banks and Corporates

It is very clear that there is now an arms race to develop the world's first CBDC. The Bank for International Settlement, the International Monetary Fund, the European Central Bank and



the US Federal Reserve all have research projects looking at the implications of CBDC and how to implement a CBDC.

But the private sector is also in an arms race.

Aside from Libra we have the JP Morgan Coin, Apple, Google, Amazon and others researching issuing their own cryptocurrency and payments infrastructure.

Where does this leave Bitcoin, Ethereum and Hedera Hashgraph etc.?

All of the above is fantastic for the future value of our assets.

Firstly, this level of interest in the tech is validation (if any more was needed) that it is transformative.

Secondly, it is opening the window into fiat money, more people are learning about the substance of fiat money and more people are seeing possible alternatives.

Thirdly, history rhymes and if we look at the development of the internet, it started with Government and then corporate intranets, it then it became a public internet where anyone with a connection can access the world wide web and send an email.

Adoption of blockchain/crypto is similar but better. The base layer infrastructure is being

built outside governments and corporations. Their involvement now will accelerate knowledge (consider how many people now know the word cryptocurrency because of Facebook/Libra), user interface and adoption. Systems going forward will be interoperable and people will have a choice about which assets to hold and use. They could hold a digital USD or they could hold a Bitcoin or an Hbar and they can freely switch between these assets in seconds.

There will not be just one blockchain, just like there is not just one telephone company. There will be many some will be public/open, some will be private/permissioned, some will be government and some will be corporate.

Our assets, Bitcoin, Ethereum, Hedera Hashgraph and others are already way more advanced than anything the government or corporate sector have developed. Our assets will be central to all this activity, which is known as Web 3.0 and this will make them valuable.

Decentralised Finance (DeFi)

The biggest commercial development theme in the cryptoasset world over 2019 has been the emergence of Decentralised Finance.

We are witnessing the emergence of a new financial system that replaces existing manual systems with bolt on technology, with completely new blockchain native systems built

from the ground up. The human elements of trust are being replaced with trust in software.

DeFi is built on public blockchains such as Bitcoin, Hedera Hashgraph and Ethereum. It has become one of the “core drivers of usage” on the Ethereum network. By leveraging the permissionless, distributed networks, DeFi platforms transform the financial products into trustless protocols, which can be accessed by anyone from any part of the world. People who have no accounts in banks can also use DeFi

At present there is USD 671m locked in smart contracts. These contracts cover : lending; derivatives; asset management; distributed exchanges; and payment networks. Most of these smart contract use the Ethereum platform. USD 671m is of course a tiny amount of money compared to global capital markets, however, DeFi is just one year old and still experimental in nature and it is of course just one use case for the Ethereum blockchain, but it gives us an idea of what is possible.



solutions for lending and borrowing assets, as well as for trading with financial instruments.

The diagram above seeks to illustrate how trust in the financial services sector will look in the future.

MakerDAO Example

MakerDAO is one of the oldest but most successful projects built on the Ethereum protocol. At a basic level it is a simple margin lending platform that takes security over cryptoassets.

Let me explain.

- Think of a vending machine but one that works like a pawn shop.
- The user deposits an asset in the machine, say the asset is worth \$150.
- The machine holds that asset in safe keeping and drops out \$100 which the user can spend as they like.
- When the user repays the \$100 (together with interest), they get their \$150 asset back.
- If the value of the asset falls below \$150 the machine sells the asset and the loan repaid.

In this example the vending machine does not know who the user is, does not know if the money will ever be repaid and does not know how the money was used. The vending machine does not care.

The MakerDAO project is a sophisticated vending machine. Instead of a physical machine there is a piece of software available free to anyone with access to an online computer. The assets deposited are cryptoassets and the loan is in the equivalent of US Dollars. So long as the value of the cryptoassets are above the loan amount (including interest and a margin) there is no need to repay. If the value falls below, the cryptoassets are sold to cover the USD liability.

This is typical margin lending service, nothing new here. But combine the properties of a vending machine, the legal terms of a margin lending contract, then minus the human beings and licenced lending party and 'whala' we have the MakerDAO platform.

It's actually more complicated than this with things like how the MakerDAO token is used to set interest rates and how the DAI stable coin is soft pegged to the US Dollar. But for the purpose of this newsletter all we need to know is that we now have a permissionless, decentralised margin lending platform that can be utilised by anyone. No bank or counterparty involved!

Perth Mint Gold

I have been hearing for a long time that the Perth Mint had a blockchain gold project on the

drawing board, but it was very much under cover.

On 11 October 2019 the cover was removed and I was delighted to find that they are using the Ethereum blockchain as the protocol layer for their gold backed cryptoasset, 'Perth Mint Gold Token'. The press advised that :

'Blockchain, the technology behind Bitcoin, Ethereum and Libra will now make it easier for consumers to buy and sell gold that is held in The Perth Mint vaults.'

The Perth mint CEO advised :

'Our aim is to make gold accessible to as many people in as many places as we possibly can in the easiest way possible...'

So good to see adoption of Ethereum technology in our own backyard by such a traditional and somewhat conservative Government owned organisation.

This is important for Ethereum because each time there is a transaction of Perth Mint Gold Token, a small amount of Ether (GAS) is paid, thus Ethereum utilisation increases.



In time our Fund will use Perth Mint Gold Tokens as a way to take risk off the table but still stay within the cryptosphere. I expect other investors will do the same.

2020 The Year of Staking

The year 2020 will be the year of Proof of Stake (PoS) blockchains and the evolution of Crypto Staking.

We do not hear the word 'Staking' very often. The best example of its use is when a person Stakes another person to participate in a poker game. The person with the money is not a good poker player, but the good poker player has no money. The one with the money Stakes the player and they split the profit.

Proof of Stake blockchains (Ethereum and Hedera Hashgraph) operate in largely the same manner. One party may hold the native asset of

the blockchain (Ether or hBars) while the other party has the computer equipment and knowhow to validate transactions on the blockchain.

There are over 20 PoS blockchains that will launch within the next 24 months. There are dozens of businesses aiming to provide Staking services to holders of cryptoassets. The yield on Staked cryptoassets vary widely depending on a number of crypto economic factors. We expect the yields for Ethereum and Hedera to be in the early double digits or just below.

We definitely intend to Stake our Ethereum and hBar assets at some point in 2020. This will give unitholders a regular return (I hope in the 8%-10% range) on the assets of the Fund. It is also expected that the yields on Staked assets will create demand for the assets.

Before deciding on the process for Staking our assets we will share further details of the expected risks and rewards of Staking. If anyone has a deeper interest in this aspect of our Fund strategy please do not hesitate to contact me, there is a lot of very detailed research and explanatory material available.

We are very early stage investors in experimental technology that has the potential to change the way the world deals with each other relative to trust. As time moves on this experimental technology is getting stronger and stronger. To date it has shown no signs of failing. Bitcoin in particular has been going for more than 10 years and has had everything thrown at it yet it just keeps on working.

As always, please do not hesitate to contact me on 04 5090 0151 or at ian@bca.fund if you have any questions.

Have a wonderful Christmas and New Year with your families and loved ones.

Best Regards



Ian Love
December 2019

To the extent that any of the information which we have supplied to you may be deemed to be “general advice” within the meaning of the Corporations Act, we draw your attention to:- (a) in preparing, supplying or conveying such advice, we did not take into account your investment objectives, financial situation or specific needs; and (b) (before acting on the advice) the need to consider, with or without the assistance of an authorised representative, the appropriateness of the advice having regard to your investment objectives, financial situation or specific needs and any relevant Information Memorandum.