

# Investor Report

January 2024

|  |   |
|--|---|
| <b>Digital Asset Fund</b><br>Unit Price \$1.5849 (1.12%) | <b>Market Neutral Fund</b><br>Unit Price \$1.4020 (1.11%) |
|--|---|

|                            | Since Inception | 6 months | 3 months | 1 month |
|----------------------------|-----------------|----------|----------|---------|
| Digital Asset Fund         | 58.49%          | 48.79%   | 21.81%   | 1.12%   |
| Market Neutral Fund        | 40.20%          | 14.49%   | 3.93%    | 1.11%   |
| Bitcoin                    | (0.85%)         | 49.37%   | 19.25%   | 1.66%   |
| S&P Large Cap Crypto Index | (5.57%)         | 45.36%   | 23.39%   | (1.36%) |

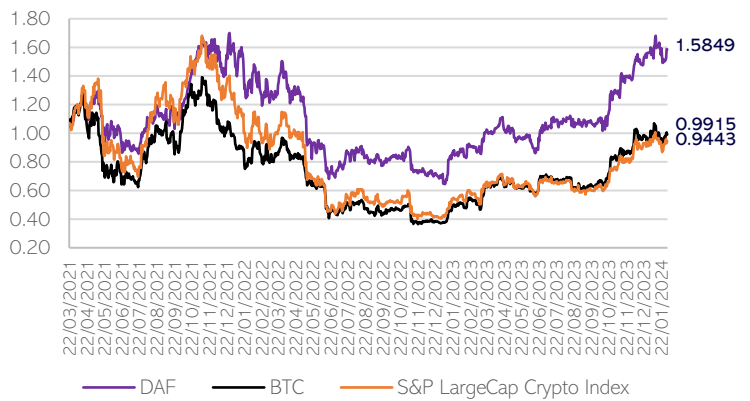
## Commentary & Performance

Throughout January, the movement in major cryptocurrencies and our funds appeared relatively subdued and uneventful, with gains of less than 2%. However, reality was quite different with an increase in volatility due to increased volume traded throughout the asset class resulting from the approval and commencement of trading of the eleven Bitcoin ETFs, which monopolised market attention and overshadowed all other factors. The SEC's approval of the spot Bitcoin ETFs represents a pivotal moment in the integration of cryptocurrencies into mainstream finance. While the initial market response may have been subdued, the long-term implications are profound. The approval has the potential to unlock increased investment, enhance legitimacy, and contribute to greater market stability within the cryptocurrency sector. As institutional and retail investors gain easier access to Bitcoin through ETFs, the crypto landscape is poised for continued evolution and growth. The approval of a spot Bitcoin ETF has also set a regulatory precedent for other crypto-based ETFs, streamlining the approval process for various cryptocurrencies like Ethereum and Solana.

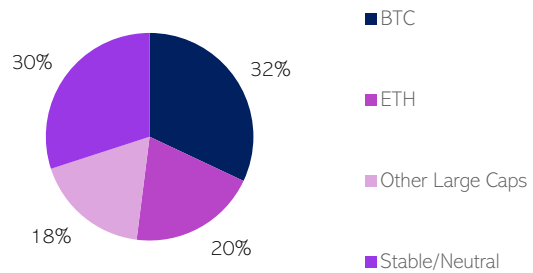
### Top of Form

The first week of January was dominated by anticipation around the approval of the spot Bitcoin ETF. This saw a flow of liquidity from altcoins to Bitcoin as Bitcoin naturally took centre stage. The approval came as expected on January 10th and the start gun went off for all ETF providers in the race to capture market share. Initial flows were disappointing as sales of Grayscale's ETF outstripped the purchases of the others combined. For frequent readers of our monthly report, this was no surprise.

Digital Asset Fund\* & Industry Returns (Indexed)



Fund Allocations - January 2024



Other market participants had placed the very same trade as we did last year, buying Grayscale's Bitcoin Trust (GBTC) at a substantial discount to its net asset value. Now with the ETF approved, the discount disappeared as did the incentive to hold the asset. A second source of selling also appeared as the bankrupt estate of FTX had permission from US courts to liquidate over \$1bn of GBTC assets. Finally, Grayscale decided to maintain the fees on its spot Bitcoin ETF at 1.5%, whereas others offered an almost identical product with fees as low as 0.25% and others offering 0.00% fees for the first 6 months - so logically people would move their holdings to the lower cost provider.

All in all, the measure of success of the ETFs can be gauged by the net of outflows from GBTC and inflows to all of the others. Initially this was negative as the size of the outflows outstripped the inflows and spooked the market, resulting in a sell-off in Bitcoin. By month end the net flows were positive by in excess of a billion dollars. We consider this a success and expect the impact of the ETFs to increase in the coming months in anticipation for the Bitcoin halving and other fundamental project updates. Notably, one short-term offset may well be another bankruptcy ruling - that of Genesis - creating another forced seller of Grayscale's product. This may well create some market weakness and we will be ready to buy into any dips created.

Since the announcement of BlackRock's application for a spot Bitcoin ETF, Bitcoin's price has risen by approximately 70%. The Bitcoin ETF trade is now over. We believe focus will next shift to the Ethereum ETF, as market participants wait patiently for its ruling. Ethereum has already begun outperforming Bitcoin since Jan 10 and we expect this to continue. We see a high probability that an Ethereum ETF gets announced in May and will be positioned accordingly.

In altcoins, we remain bullish Solana. Our conviction for Ethereum has led us to increase our exposure to ETH layer 2's including Arbitrum, Optimism and Matic. The next ETH upgrade (Dencun Upgrade) will enhance scalability and reduce transaction costs on the network, making layer 2's even more attractive and practical. The AI revolution has brought with it a continued increase in demand for computing power storage and capacity for both data and graphics. As such, we are also increasing our holding in asset specific tokens including Render and Arweave.

We feel that the macro environment as well as crypto specific events on the horizon set a very positive stage for crypto over the coming 12-18 months. Though we may see some weakness in the short-term, any price depreciation is an opportunity to add risk in preparation for the positive momentum we expect over the coming months - as the impetus behind the ETFs increase the demand for Bitcoin and the halving reduces supply. With Bitcoin performing strongly we believe that Ethereum and specific altcoins are well positioned to appreciate significantly in value and even outperform Bitcoin over the coming twelve months.

## CONTACT

### ASIA

#### Andrew Palmer

Email: [andrew@mhcdigitalfinance.com](mailto:andrew@mhcdigitalfinance.com)

Tel: +61425229277

### EUROPE

#### Matt Milsom

Email: [matt.milsom@mhcdigitalgroup.com](mailto:matt.milsom@mhcdigitalgroup.com)

Tel: +447905218126

## Contact us to learn more

### ASIA

Andrew Palmer                      Email: [andrew@mhcdigitalfinance.com](mailto:andrew@mhcdigitalfinance.com)  
Portfolio Manager                      Tel: +61425229277 – Sydney, Australia

Liam Byrne                              Email: [liam@mhcdigitalfinance.com](mailto:liam@mhcdigitalfinance.com)  
Head Trader                              Tel: +61448948229 – Sydney, Australia

### EUROPE

Matt Milsom                              Email: [matt.milsom@mhcdigitalgroup.com](mailto:matt.milsom@mhcdigitalgroup.com)  
Portfolio Manager                      Tel: +447905218126 – London, United Kingdom

#### Disclaimer

This document has been prepared by MHC Digital Finance Pty Ltd ("MHC Digital Finance"). The information contained herein should be considered as preliminary and indicative and does not purport to contain all the information that any recipient may desire. In all cases, recipients should conduct their own investigations and analysis. No liability whatsoever is accepted and neither MHC Digital Finance nor any members of the MHC Digital Finance nor any of their respective directors, partners, officers, affiliates, employees, contractors, representatives or other agents ("Agents") is or will be making any warranty, representation or undertaking (expressed or implied) concerning the accuracy or truthfulness of, any of the information, forecasts, projections or of any of the opinions contained in this document or any other written or oral statement provided or for any errors, omissions or misstatements contained herein. Nothing contained in this document is, or should be relied upon as (i) the giving of financial product or any other advice by MHC Digital Finance nor as constituting an offer or invitation to enter into any transaction or investment, or (ii) a promise or representation as to any matter whether as to the past or the future. No representation, warranty, undertaking or other assurance is hereby given by MHC Digital Finance, any member of the MHC Digital Finance or any of their Agents that any of the forecasts or projections contained herein will be realised.

Recipients of this document in jurisdictions outside Australia should inform themselves about and observe any applicable legal requirements in their jurisdictions. In particular, the distribution of this document may in certain jurisdictions be restricted by law. Accordingly, recipients represent that they are able to receive this document without contravention of any applicable legal or regulatory restrictions in the jurisdiction in which they reside or conduct business.

No part of this document may be shown or distributed to third parties or reproduced, stored or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of MHC Digital Finance.