mhc DIGITAL GROUP

Investor Report

August 2024

Digital Asset Fund	**Market Neutral Fund**
Unit Price $1.7422 (-12.29%)	Unit Price $1.4244 (0.85%)

	Since Inception	6 months	3 months	1 month
Digital Asset Fund	74.22%	(10.94%)	(14.58%)	(12.29%)
Market Neutral Fund	42.44%	1.24%	2.81%	0.85%
Bitcoin	32.61%	(8.02%)	(14.62%)	(12.74%)
S&P Large Cap Crypto Index	15.32%	(16.72%)	(22.14%)	(13.19%)

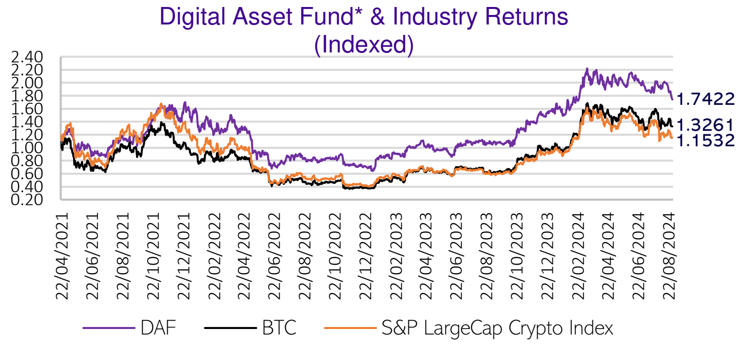
Commentary & Performance

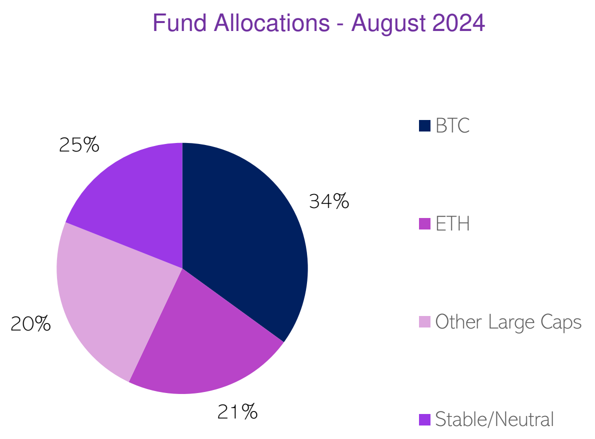
As predicted in the previous updates, significant chop has occurred through the summer months. August was marked by significant volatility across all global financial markets, with cryptocurrencies experiencing pronounced swings due to a confluence of macroeconomic pressures, political developments, and market-specific dynamics. Over the month, DAF was down by 12.29% while MNF was up 0.85%.

The negative sentiment that initially characterized the crypto market at the start of the month due to liquidations from Mount Gox and governments around the world was quickly exaggerated by a sharp global selloff in all risk assets. This was driven by the unwinding of a massive Japanese Yen carry trade—a long-standing strategy where investors borrowed in low-interest-rate Japan to invest in higher-yielding assets around the world. As Japan's interest rates began to rise and recession fears in the U.S. grew, this trade started to unravel, leading to a substantial selloff in USDJPY and causing participants to sell all risk assets, including crypto, to pay back the loans taken out in Yen.

Over the last few months Crypto has underperformed USA tech indexes and other risk assets due to industry specific supply and demand dynamics. USD10bn in Bitcoin was returned to early investors who lost assets when the Mt Gox Exchange was hacked back in 2015.

Sitting on significant gains, some of those investors liquidated their positions. This has kept a cap on Bitcoin prices and the market as a whole. We believe this supply demand dynamic will reverse in October when the FTX estate returns USD 16bn to investors who lost money when the exchange collapsed years ago.





Past performance is not indicative of future performance.

The difference here is that the recipients will receive cash at 118c on the dollar. This may be Surprising, but the value of the crypto currencies held on the exchange has risen in excess of 100% since the bankruptcy was declared, allowing the estate to sell assets at prices well in excess of where they were priced at the time of the bankruptcy.

Many who receive the cash payout are expected to use the funds to re-enter the market. We expect this shift in the market to lead to the outperformance of crypto relative to other risk assets over the coming months. The increased supply and muted demand, due to many in the northern summer being away, has kept a lid on prices. However, once this dynamic is reversed, we expect a significant reaction.

As for the ETFs in the USA, we have seen that most institutional participants have not been at their desks and interest has been muted. ETH has underperformed the market as the hype around its ETF launch has disappointed. With the return of financial advisors after Labour Day, we expect renewed interest in the products. Until now, only the sales forces of the ETF issuers themselves have been able to promote the product to their investor base, but the big banks which manage a large portion of the wealthiest clients' money, have not. Morgan Stanley is the first player in the space to allow their wealth advisors to recommend the BTC and ETH ETFs. This is very significant, and we expect institutions like UBS and Goldman Sachs to follow suit, which. will further increase demand for BTC and ETH.

Economic data in the USA has come in weak and the Fed has now stated it will reduce rates at its September meeting. The debate has now shifted from when rates will be reduced to the speed of the reduction. While many are speculating an immediate 50bp cut, we believe the Fed will disappoint with just 25bps, but with more cuts to follow. The fact that they will have pivoted by the end of September can only be good for risk assets, including Bitcoin, and we expect further cuts before year end.

We believe the amount of liquidity injected into the system by the Federal Reserve and other central banks around the world is more significant for asset values than rates themselves. We are already seeing M2 money supply tick up as the refinancing of existing high levels of debt that comes due, with added support being used to bolster economies teetering on recession. This activity is being driven by the USA, Europe and China and we expect it to continue well into next year. This is very supportive of risk asset prices.

Crypto has now become a significant part of the political debate in USA, with Trump even speaking at the Bitcoin Conference in Nashville. His aggressive pro crypto stance has meant that when he does well in the polls, the market rallies, but when he does badly, it sells off. With Harris replacing Biden on the ticket and the democrats faring better, the wider crypto market has taken a hit. The fact is Harris has not mapped out her policies going forward on any matters, let alone crypto, so we may well see some softening in the democratic stance against digital assets. If this occurs, and crypto becomes a bipartisan piece within the election, we expect the impact of a democratic win to have less of an impact on the market than currently expected.

As we have been saying for months, once we get through the Northern Summer chop, all these factors in combination make us very optimistic for the final quarter of 2024 and into the first half of 2025.

Regards,

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