AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

MTC Digital Asset Fund
(Wholesale Unlisted Unit Trust)

Initiating Coverage

8 June 2022

For Wholesale Investors Only

INDEPENDENT INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

DISCLAIMER

This publication has been prepared by Independent Investment Research (Aust) Pty Limited trading as Independent Investment Research ("IIR") (ABN 11 152 172 079), an corporate authorised representative of Australian Financial Services Licensee (AFSL no. 410381. IIR has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided IIR with information about its current activities. While the information contained in this publication has been prepared with all reasonable care from sources that IIR believes are reliable, no responsibility or liability is accepted by IIR for any errors, omissions or misstatements however caused. In the event that updated or additional information is issued by the "Participants", subsequent to this publication, IIR is under no obligation to provide further research unless commissioned to do so. Any opinions, forecasts or recommendations reflects the judgment and assumptions of IIR as at the date of publication and may change without notice. IIR and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither IIR nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. This document does not constitute an offer of services in jurisdictions where IIR or its affiliates do not have the necessary licenses. IIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. IIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

IIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. IIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may affect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has IIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report. The information contained in this publication must be read in conjunction with the Legal Notice that can be located at http://www.independentresearch.com.au/Public/Disclaimer.aspx.

THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website www.independentresearch.com.au.

Contents

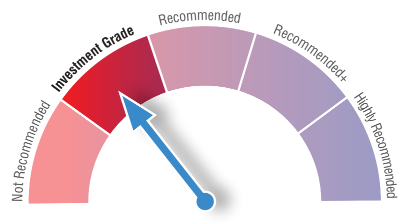
INDEPENDENT INVESTMENT RESEARCH

MTC Digital Asset Fund

Initiating Coverage

Note: This report is based on information provided by Merkle Tree Capital as at April 2022. **This report is for Wholesale Investors only.**

Rating



Key Investment Information

Name of Fund	MTC Digital Asset Fund
Trustee	Boutique Capital Pty Ltd
Investment Manager	Merkle Tree Capital Pty Ltd
Investment Type	Unlisted Unit Trust
Investor Type	Wholesale
Minimum Initial Investment	$50,000
Fund Inception	18 August 2021
NAV per unit as at 30 April 2022	$0.7534
Applications & Redemptions	Monthly
Distribution Policy	Annual
Target Distribution Yield	4%-6%p.a.
FX Exposure	Unhedged
Buy/Sell Spread	na
Management Fee (p.a.)	2.0%
Performance Fee (p.a)	20.0%
Performance Fee Hurdle	Bitcoin AUD, subject to High Water Mark

Fee Commentary

The fees are high, however are in line with peers with a key differentiator of the Fund being the performance fee is subject to the outperformance of Bitcoin (AUD). This compares favourably to its peers in which the High Water Mark serves as the performance fee hurdle. The Fund's performance fee is also subject to a High Water Mark, which means investors will not incur performance fees in the event the value of the Fund declines, even if the Fund outperforms the benchmark.

FUND SUMMARY

The MTC Digital Asset Fund ("the Fund") provides exposure to an actively managed portfolio of crypto assets with the Manager seeking to invest in the best of class crypto assets that it believes will form the basis of the ecosystem in the next 5-10 years. The Fund was established in August 2021 and is available to wholesale investors only. The Fund is managed by Merkle Tree Capital Pty Ltd ("MTC" or the "Manager"), a specialist cryptocurrency investment manager established in June 2021 by the two Directors, Dean Serroni and Ryan McMillin. The Fund seeks to achieve superior returns to that of Bitcoin by diversifying across a variety of cryptocurrencies that provide access to a range of crypto assets/sectors including Blockchains and Smart Contract Platforms, Decentralised Finance protocols, Web 3 applications and Gaming/Metaverse applications as well as other emerging sectors (for more information on the crypto sectors see Appendix A). The Fund will typically have a bias towards established and market leading cryptocurrencies with a smaller allocation to emerging protocols. The portfolio will comprise 15-25 positions with the portfolio heavily concentrated to the top holdings and will be weighted to blockchain infrastructure (Layer 1) assets. Application and redemption requests are provided on a monthly basis. The Fund will seek to deliver a return in excess of Bitcoin (AUD) as well as provide a distribution yield of 4%-6%p.a. The Manager has a long-term investment horizon and does not seek to be a trader of cryptocurrencies. As such, the portfolio is expected to have low levels of turnover. The Manager will receive a management fee of 2%p.a. of the NAV calculated and payable on a monthly basis and is eligible for a performance fee of 20% of the outperformance of Bitcoin (AUD), after management fees and expenses, subject to a High Water Mark, calculated and payable at the end of each financial year.

INVESTOR SUITABILITY

The Fund provides investors exposure to a professionally managed portfolio of cryptocurrencies. The Manager has access to a range of data and information that can be difficult for regular market participants to obtain and decipher. This information is used to assess the over 10,000 crypto coins/tokens on issue to make asset allocation decisions. The Fund also provides investors the potential for an annual distribution, with the Fund receiving the equivalent of an income stream from the "staking" of crypto assets (see Fund Overview section below for an explanation on staking). This is the first fund issued and managed by the Manager and the first cryptocurrency fund managed by the investment team. As such, investors should be comfortable with the additional risks associated with new and first time investment strategies. The Fund is considered high risk with the potential for extreme volatility and as such we view an investment in the Fund to be most appropriate as a small allocation as part of a broader investment portfolio. Further to this, the Manager has a long-term investment horizon and does not intend to trade cryptocurrencies. As such, investors should have a long-term investment horizon.

RECOMMENDATION

Independent Investment Research (IIR) has assigned the MTC Digital Asset Fund an **Investment Grade** rating. While we have assigned an Investment Grade rating investors should note that cryptocurrency is an emerging asset class and an investment in cryptocurrency is considered a speculative investment. There is substantial risk associated with an investment in cryptocurrency and there is no guarantee as to the future returns. The Fund provides investors seeking exposure to the crypto asset class a professionally managed fund that provides exposure to a portfolio of cryptocurrencies, filtering through the extensive cryptocurrency universe to invest in what the Manager believes are the best long-term investment opportunities. The Fund is targeting a distribution yield of 4%-6%p.a, which if achieved will offset the capital volatility to some extent, however the Fund may not achieve the target distribution yield. Given the emerging nature of the asset class, all professionally managed portfolios have a limited track record. This is no different for the Fund, which has a track record of less than one year. As such investors take on the risks associated with a new fund. There is significant key man risk associated with the two co-founders of the Manager.

SWOT

Strengths

- The Fund provides access to a portfolio of crypto assets though a single investment. Given the extreme volatility associated with crypto assets, portfolio diversification reduces the risk associated with a single cryptocurrency.
- Cryptocurrencies and associated assets are growing at a rapid pace with new coins/tokens and associated assets being released regularly. Through its investment process, the Manager will continue to monitor the investment universe and allocate to those assets that they believe will deliver the best long-term prospects for investors.
- The Funds assets will be held with Coinbase Custody Inc, the worlds leading crypto asset custody provider.
- The use of staking provides the ability for the Fund to pay an annual distribution. The Fund is targeting a distribution yield of 4%-6%p.a. The ability to generate an income stream offsets the capital volatility associated with the underlying assets to some degree. We note, the Fund may not achieve the distribution yield target.
- While fees are high relative to traditional asset classes, we view the performance fee hurdle of Bitcoin (AUD) to be a positive and compares favourably to the Fund's peers who have absolute return hurdles for their performance fees. Further to this, performance fees are only paid during periods of positive performance.
- The investment team have complementary skills across technology and funds management and the team is supported by a team of advisors who also have a range of experience across funds management and technology.

Weaknesses

- The Fund has a short track record with the Fund only established in August 2021 and this is the first fund issued by the Manager. As such, investors are exposed to the risks associated with a new and first time investment strategy for the Manager.
- Liquidity is provided on a monthly basis, however liquidity is limited to no more 25% of the NAV for a single investor in any given redemption period.
- The underlying investments are prone to extreme volatility when compared to traditional asset classes. We note that with the extreme levels of risk comes the potential to generate heightened returns.

Opportunities

- There are limited professionally managed cryptocurrency investment offerings available to domestic investors and a number of existing investment offerings provide exposure to a sole asset/cryptocurrency. The Fund provides investors the opportunity to gain exposure to a portfolio of crypto assets providing an alternative risk/return profile to a number of funds which provide exposure to a single asset.
- The Fund provides an opportunity for investors who are seeking access to crypto assets yet don't know where to start or have concerns with direct holding and self custody.

Threats

- Key person risk is high with the Manager having a small team of just the two co-founders. Given both team members provide complimentary skills for the management of the portfolio, in the event something was to happen to a member of the investment team or if a team member was to leave, this will likely adversely impact the performance of the fund from both an operational and return standpoint.
- A key positive of the custody arrangement with Coinbase is they offer a level of insurance on the assets. There have been no hacking incidents that have resulted in a loss of assets at Coinbase to date, however there is the potential for the Fund to be underinsured in the event of a loss of assets.
- There is currently limited regulation in the cryptocurrency market with a number of governments potentially seeking to introduce new regulations for the market and its operators. While we view this as a positive as it will seek to provide additional layers of protection for investors, the impact of new regulations on the market are unknown.
- The portfolio is highly concentrated to the top 5 holdings. As such, the performance of the Fund will be driven by the performance of the top holdings.
- The FX exposure will be unhedged and as such movements in the relevant currencies compared to the Australian dollar will impact the NAV of the Fund.

FUND OVERVIEW

The MTC Digital Asset Fund (the "Fund") provides exposure to a portfolio of crypto assets with the Manager seeking to invest in the best of class crypto assets that it believes will form the basis of the ecosystem in the next 5-10 years. The Fund invests across three types of crypto assets: (1) Currency/Stablecoins; (2) Layer 1 assets; and (3) Layer 2 assets, as detailed in the below chart. For a high level overview of cryptocurrency and its key concepts, see Appendix A.

1) Currency - refers to Bitcoin (BTC) and Stablecoins. The Manager has categorised BTC as Currency as the Manager considers this to be a less risky asset given it is the largest and one of the most traded coins on the market. Stablecoins are coins in which the value is pegged to another currency, typically the US dollar (USD). Stablecoins aim to provide an alternative to the highly volatile cryptocurrencies. There are three types of Stablecoins based on the mechanism used to stabilise their value:

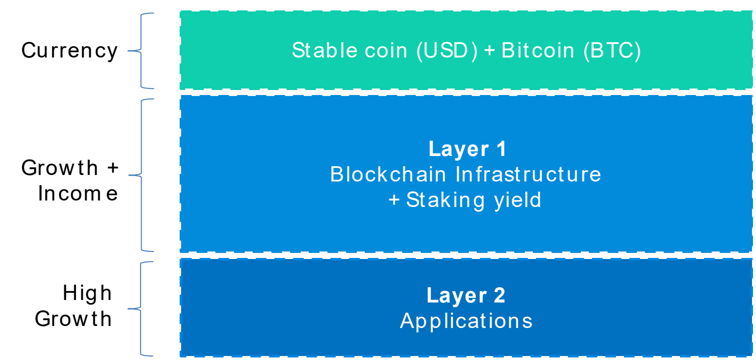
- Fiat-collateralised Stablecoins: maintain a reserve of a fiat currency or currencies, such as USD, as collateral to assure the coins value. Other forms of collateral can include precious metals and commodities. Such reserves are maintained by independent custodians and are regularly audited. The Fund only invests in fiat-backed Stablecoins.
- Crypto-collateralised Stablecoins: backed by other cryptocurrencies. The reserve cryptocurrency may also be prone to volatility. These coins are often over-collateralised to insure against volatility in the reserve cryptocurrency.
- Algorithmic Stable Coins: these coins may or may not hold reserve assets. The coins seeks to keep the value stable by controlling its supply through an algorithm.

While Stablecoins are intended to alleviate the extreme volatility in cryptocurrencies there have been a number of issues with Stablecoins with a number of the coins collapsing. The most recent collapse was Terra which was an algorithmic Stablecoin and the largest of its class. It is important for investors in Stablecoins to understand the mechanics of individual coins and the backing of the coins to fully appreciate the risks involved.

2) Layer 1 - Layer 1 assets are blockchain networks that can validate and finalise transactions without the need for another network. All Layer 1 networks have a native token that provides access to the network's resources. Layer 1 cryptocurrencies include Bitcoin, Ethereum, Solana, Polkadot and Avalanche. Layer 1 assets typically allow for staking, an explanation of which is provided below.

3) Layer 2 - Layer 2 refers to a secondary framework or application that is built on top of a Layer 1 network. The main goal of a Layer 2 application is to solve the transaction speed and scaling difficulties that are being faced by the major Layer 1 networks. Layer 2 assets are considered higher risk given they are an emerging asset class and they do not have the benefits of being native to the underlying blockchain technology. Layer 2 applications include Metaverse and gaming tokens, Web 3 coins/tokens and Decentralised and Centralised Finance coins/tokens.

Crypto Asset Type Exposure



The Fund is managed by Merkle Tree Capital Pty Ltd ("MTC" or the "Manager"), a specialist cryptocurrency investment manager established in June 2021 by the two Directors, Dean Serroni and Ryan McMillin.

The Fund will seek to hold 15-25 assets with a maximum weighting of 10% to Stablecoins and a maximum of 25% to BTC. Although during periods of market volatility, the maximum exposure to BTC can expand to 50%. While the portfolio will have 15-25 positions we note that the portfolio is concentrated to the top 5 holdings.

The Manager will focus on the top 100 coins/tokens, with the portfolio having a maximum allocation of 5% to coins/tokens outside of the top 100 by market cap. This is to reduce the already high levels of risk in the portfolio.

The Fund has a target distribution of 4%-6%p.a, with distributions to be paid annually, within 60 days of the end of the financial year. Distribution income is expected to be generated through staking activity.

What is Staking? Staking is the process through which a blockchain network investor 'stakes' or locks their cryptocurrency assets on a network as part of the consensus mechanism, thus ensuring the security and functionality of the chain. Staked assets are usually held in a validator node or crypto wallet, and in order to encourage staking most projects reward the holders of staked tokens with financial returns. which are typically paid out on a regular basis. Staking is a core feature of Proof-of-Stake (PoS) blockchain protocols and each blockchain project which incorporates a staking feature has its own policies for staking requirements and withdrawal restrictions. You can think of staking as interest earned for taking the assets off the exchange for trade. The platforms provide staking as a way to secure the network, with staking providing a level of stability by reducing the amount of coins/tokens that are available for trade on any given day. As at 30 April 2022, the Fund had 36% of its assets staked with a lock-in period of 30 to 90 days. The staked cryptocurrency can be redeemed prior to the maturity of the lock-in period, however investors forego the full interest rate if redeemed prior to maturity. The Manager seeks to stake as much of the portfolio as it can at any given time. Staking provides the Fund the ability to offset the capital volatility of the assets to some degree through income generation.

Application and redemption requests will be processed on a monthly basis. A redemption request must be received by the Trustee no later than 5pm (Sydney time), three days before the last business day of the month. Requests received will be processed in the following month and generally be paid within 7 business days of the end of the month. There is a minimum redemption request amount of $50,000. Unitholders are required to have a minimum balance of $50,000. If a redemption request will result in a unitholder having less than the minimum balance, the Trustee may treat the redemption request as applicable to all units held by the unitholder. Redemptions will be capped at 25% of the NAV for a single investor (or otherwise determined by the Trustee) in a Redemption Period. In the event the Trustee receives a redemption requests in excess of 25% for a single unitholder, the Trustee reserves the right to defer redemptions on a pro-rata basis. The Trustee may at any time suspend the redemption of units in the Fund or refuse to meet a redemption request.

The Manager will be paid a management fee of 2%p.a. (plus GST) of the NAV of the Fund, calculated and payable on the last business day of each calendar month, or as determined by the Trustee. The Manager is also eligible for a performance fee equal to 20% of the outperformance of the S&P Bitcoin Index (Benchmark), subject to a High Water Mark. In addition to the High Water Mark the Manager is only eligible for a performance fee where absolute performance for the period is positive. The performance fee is calculated and payable on the last business day of each financial year.

Custody of Assets

There is limited regulation of crypto exchanges at present and as such the custodian of assets is of particular importance in the crypto market. There are currently hundreds of crypto exchanges, the number of which varies depending on the source. There have been a number of crypto exchanges that have failed in recent times, resulting in the loss of crypto assets and it is unlikely that these will be able to be recouped. Further to this, security is of upmost importance given the potential for hackers to steal assets and the difficulty in tracing the thieves. One of the most recent crypto exchanges that failed was Melbourne based MyCryptoWallet.

The Manager has sought to reduce custody risk as much as possible through the use of Coinbase as the main asset custodian. Coinbase is one of the largest cryptocurrency exchanges in the world and is listed on the NASDAQ. Coinbase offers a custodian service, where all digital assets are segregated and held in trust for clients. Coinbase Custody Inc. operates as a standalone, independently capitalised business to Coinbase Inc. The custody business has been operating since 2018 and has never lost customer funds. There is no guarantee that it will not be hacked in the future. To add a layer of protection, Coinbase offers insurance against its assets in custody with the company currently having an insurance coverage limit of US$320m per incident. We note that the insurance amount is across all clients affected by an incident and it is our understanding that if the incident resulted in a loss of greater the US$320m, the insurance would be provided on a pro rata basis.

Not all of the Fund's assets are with Coinbase as Coinbase does not provide access to all digital coins/tokens. As such, some of the assets are held on the FTX and Binance exchanges, which are the two other largest exchanges in the world. The Manager and Trustee will seek to move the assets of the Fund where possible to Coinbase as it is considered to have the most secure exchange.

INVESTMENT MANAGER

Merkle Tree Capital Pty Ltd (MTC) is the Manager of the portfolio. MTC is a recently established asset manager with the Manager established in June 2021. MTC is a specialist cryptocurrency investment manager, that was co-founded by the two Directors, Dean Serroni and Ryan McMillin.

The two Directors make up the Investment Committee with consensus required before an investment is acquired or exited. The Directors bring complementary experience with Dean having significant experience in the technology sector and able provide a deep understanding of the underlying blockchain technology and Ryan provides funds management experience. We do note that this is the first crypto fund that the two Directors have managed.

The investment team is supported by a team of advisors who as a group have a range of experience across funds management, technology and crypto investing.

Investment Team		
Name	**Position**	**Experience**
Ryan McMillin	Director	Ryan has 20 years of experience in asset management in both Australia and the U.K. Ryan is a specialist in product development, strategy, and governance, implementing leading product solutions at BlackRock, GAM, Coutts & Co., Sarasin & Partners and AMP Capital. Ryan has designed and successfully launched over 100 funds in 10 jurisdictions which have raised billions and won multiple awards. Ryan is also a qualified accountant with experience in fund operations, risk and compliance.
Dean Serroni	Director	Dean is a technology leader with over 20 years of experience in technology transformations, consulting leadership and entrepreneurship. Dean spent the first part of his career delivering technology implementations, primarily in the financial services sector, before taking on leadership roles at a range of consulting firms. While building, and successfully exiting, a tech startup across the past decade, Dean became exposed to the cryptocurrency ecosystem and developed his skills as both an investor and industry contributor. Through his involvement in cryptocurrency Dean established a passion for this nascent space and felt compelled to become more deeply involved.
Investment Advisors		
Gabriel Cary	Investment Partner	Gabriel is CEO and Dounder of Cadre Capital Partners Pty Ltd. Cadre Capital Partners is a private advisory service assisting high net wealth and sophisticated investors that was founded in 2009. Prior to founding Cadre Capital Partners, Gabriel had several roles including Sales Director at Instreet Investment Limited, State Manager and Distribution Manager at Macquarie and Distribution Manager at Rural Funds Management.
Peter Cameron	Board Advisor	Peter Cameron joined MTC as a Board Advisor in October 2021. Peter is a Venture Partner at Giant Leap - Fund 1, which is Australia's first venture capital fund 100% dedicated to investing in impact businesses. Peter is also the CEO of Avalanche Technology Group, a group of companies that has developed, published and/or distributed a range of innovative technology solutions. Up until January 2022, Peter was a Non-Executive Director of Yellowfin International Pty Ltd, which creates business intelligence and analytics software company. Peter was also previously the Chair of Startup Victoria.
Andrew Nicol	Investment Partner	Andrew has 15 years' experience in the property sector. Andrew is currently a Senior Manager of Investments at ARA Australia an is responsible for ARA's property acquisitions strategy and transaction delivery, new fund's establishment, funds management and overseeing investment and asset management roles. Prior to joining ARA, Andrew worked as a Fund Manager at Arena Investment Management where he was responsible for the Arena Office Fund, Arena Property Fund and Chevron Renaissance Shopping Centre. Andrew has also held roles at Australian Unity and Knight Frank in London.

INVESTMENT PROCESS

Investment Philosophy

The Manager seeks to provide investors exposure to the digital revolution which they believe has just begun. Cryptocurrency is an emerging asset class that has grown to in excess of $2 trillion since Bitcoin was founded in 2009.

The Manager believes that information inefficiencies present strong alpha opportunities and that a diversified portfolio will provide for superior risk-adjusted returns.

Investment Process

The Manager's investment process can be broken down into five key stages, as detailed in the below graphic. We take a detailed look at each of the stages below.

Investment Process

1) Idea Generation

The Manager uses a number of tools and resources to conduct its research, including Messari, Coinbase, Arcane Research, Delphi Digital, Bloomberg and social media. The Manager uses these tools to filter the investment universe, removing illiquid and micro-cap cryptocurrencies, meme coins, Stablecoins and undesirable sectors. The Manager focuses on proven coins and tokens whose scalability and security have been proven.

The Investment Committee, which comprises the two MTC Directors, meet weekly to discuss the portfolio and new investment ideas.

2) Asset Selection

Additional research is undertaken on the investment ideas that pass the screening process. A research report is completed for each investment idea, which is presented to the Investment Committee.

The research report includes the following:

- Use Case - to what extent the coin/token is used and can disrupt an existing crypto asset and if there is a case for disruption, the barriers to the disruption or penetration of the coin/token.
- Adoption Rates - the level of takeup of a coin or token. The adoption rate is an important input into the Manager's investment decision.
- Developer Activity - the level of developer activity can be a significant signal as to the potential success of a cryptocurrency. Given crypto projects are open source, the level of developer activity can be accessed publicly.
- Tokenomics - tokenomics refers to the economics of crypto assets. The structure of a cryptocurrency's economy determines the incentives that encourage investors to buy and hold a specific coin or token. Before a cryptocurrency is released, its tokenomics are often outlined in a white paper that explains what the cryptocurrency will do as well as ho the underlying technology works. A project that has well designed incentives to buy and hold tokens for the long-term is more likely to outlast a project that hasn't built an ecosystem around its token. For more information regarding the core features of Tokenomics see Appendix B.
- Early Investors - the investors or backers of a platform are a key consideration for the Manager. Confidence is increased when large players with deep pockets are backing the projects/platforms.
- Competitor Analysis - there are over 10,000 coins/tokens on the market and as such there is significant competition. The Manager will seek to understand the drivers of the market and invest in the market leading assets.

3) Portfolio Construction

The Fund will comprise 15-25 positions in a portfolio of crypto assets. The Manager will have a bias towards proven protocols and the top 100 coins/tokens by market capitalisation with at least 90% of the portfolio invested in coins/tokens that have a market capitalisation greater than $1b.

The portfolio will be long only with the use of shorting and derivatives not permitted. No gearing will be permitted in the Fund.

The below tables the target asset allocation of the portfolio. The portfolio will be focused on coins that provide exposure to blockchain infrastructure with 40%-70% of the portfolio invested in those assets. Blockchain infrastructure is considered a lower risk asset and provides the ability to generate income as well as capital growth. For further information on the sectors tabled below, see Appendix A.

Target Asset Allocation		
Sector	**Target Allocation**	**Range**
Currency	15%	5%-25%
Blockchain Infrastructure	55%	40%-70%
Metaverse/Gaming/NFT*	10%	0%-20%
Web 3	10%	0%-20%
DeFi/CeFi	10%	0%-20%

*NFT = Non-fungible tokens.

Risk Management

The Fund will seek to maintain a diversified portfolio with 15-25 positions. In addition to diversification, to manage risk the Fund has some investment limitations. These include:

- Maximum gross exposure of 100% with the Manager seeking to be fully invested across most market conditions.
- Up to 10% of the portfolio can be allocated to Stablecoins.
- Maximum exposure of 5% of the portfolio to tokens outside the top 100.
- For single positions:
  - Maximum weighting of 25% to a single currency. In extreme market conditions the single currency allocation can increase to 50%;
  - Maximum 20% weighting to Smart Contract Platform; and
  - Maximum 10% weighting to Layer 2 assets. This may increase in future in the event new Layer 2 sectors are added as blockchain are developed and become investable.

In addition to the above, the Manager will seek to ensure there is sufficient liquidity in the underlying assets with a minimum daily traded liquidity above $50m per day for 90% of the assets.

4) Monitor & Review

The Investment Committee holds weekly meetings in which it monitors performance and the investment thesis and whether the position should be maintained. The Manager has a long-term investment horizon, however the dynamics of crypto assets can change quickly and the Manager may seek to enter or exit a position as a result.

PORTFOLIO

The portfolio is predominantly allocated to Smart Contract Platforms with 55% of the portfolio allocated to this sector as at 30 April 2022. This sector is considered lower risk than the Layer 2 sectors, being Meta/Gaming/NFT, Web 3 and Defi/Cefi. Further to this, the Smart Contract Platforms allow the Fund to earn an income through staking. Given Bitcoin is the inaugural and largest cryptocurrency on the market, we would expect the Fund to retain a position at the upper-end of the target allocation of 25%. We note the weighting will vary based on the prices of investments at any given time, which have historically been highly volatile.

Sector Weighting (as at 30 April 2022)		
Sector	**Portfolio Allocation**	**Target Allocation**
Currency	25%	5-25%
Blockchain Infrastructure/Smart Contract Platform	55%	30-60%
Meta/Gaming/NFT	4%	0-20%
Web 3	7%	0-20%
Defi/Cefi	8%	0-20%

The Fund will seek to provide exposure to a diversified portfolio of crypto coins and tokens with the portfolio comprising 18 coins and tokens at 30 April 2022. This is in line with the target number of holdings of 15-25. While the portfolio seeks to be diversified, the portfolio is concentrated to the top five holdings, which accounted for 75.9% of the portfolio as at 30 April 2022. As such, the portfolio performance will be highly influenced by the performance of the top holdings of the portfolio. To provide some additional information, we have provided the Manager's investment case for its holdings in Bitcoin and Solana in Appendix C below.

Top 5 Holdings (as at 30 April 2022)		
Cryptocurrency	**Weighting**	**Sector**
Bitcoin	25.4%	Currency
Ethereum	19.5%	Smart Contract Platform
Solana	15.0%	Smart Contract Platform
Avalanche	10.5%	Smart Contract Platform
Polkadot	5.5%	Smart Contract Platform
	75.9%	

The Manager has a long-term investment horizon and as such there is expected to be a low level of portfolio turnover. However, the Manager will exit positions in the event the investment thesis changes or the coin or token does not grow in the line with expectations. To 30 April 2022, the Manager had exited four investments.

As at 30 April 2022, ~35% of the portfolio was locked-up in staking positions with the lock-up periods ranging from 30 days to 90 days. The percentage of the portfolio "staked" is expected to increase in the near-term as the Manager gains the ability to stake ETH, which they have been unable to do on Coinbase up until now. This will see ~51% of the portfolio staked. The interest on staked holdings ranges from 1%-17.5%p.a. There is typically a limited number of coins that can be staked at any given time and the interest rate will vary based on the platform and their desire to incentivise coin holders to lock-up their holdings and the period of time the coins are locked-up for. While the coins are locked-up for a short period, coin holders can unlock the position if required. Depending on the coin, this can take up to 28 days.

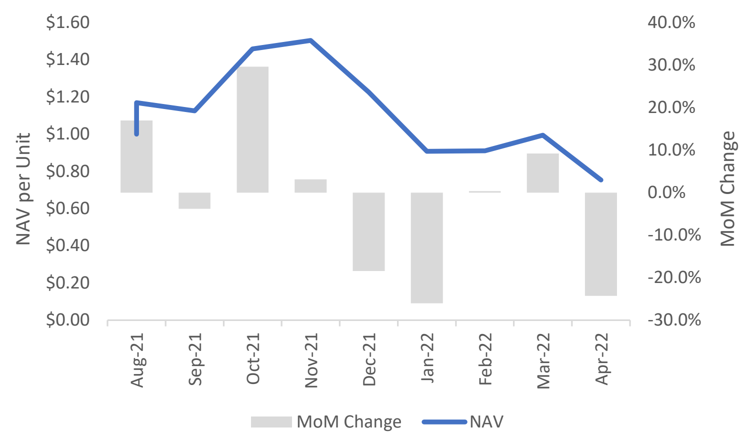
PERFORMANCE ANALYTICS

The below provides an analysis of the performance of the Fund to 30 April 2022. The Fund has a limited track record with the Fund being established in August 2021.

The Fund commenced trading on 18 August 2021 and had a strong start, however, the NAV has been on the decline since 31 October 2021, with the NAV declining 33.0% since inception to 30 April 2022. Given the decline in cryptocurrencies in May, we anticipate that the NAV has fallen further since April-end.

As is highlighted by the monthly NAV per unit change below, the Fund is volatile with the NAV per unit moving in excess of +/-15% in four of the nine months since inception.

Performance (Inception to 30 April 2022)

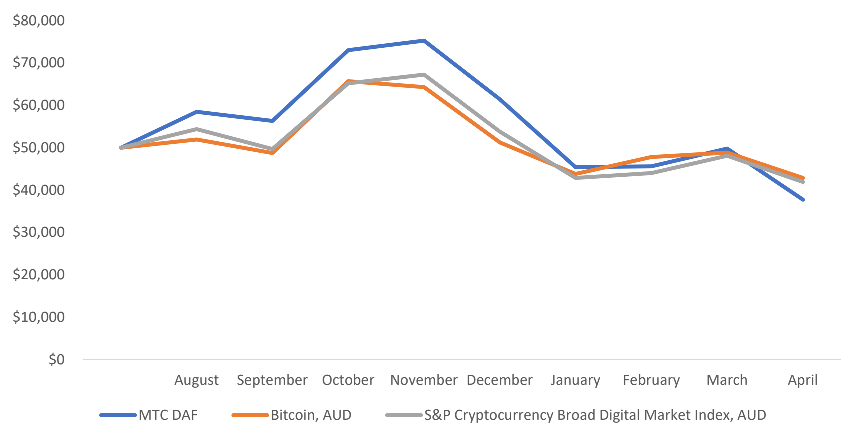


Source: Merkle Tree Capital/IIR

The below chart shows the growth of a $50,000 investment (minimum investment amount) in the Fund, compared to the benchmark, Bitcoin (AUD) and the S&P Cryptocurrency Broad Digital Market Index (AUD) ("S&P Crypto BDM Index"). The S&P Crypto BDM Index was launched in 2021 and provides a performance snapshot of the broader digital asset market. The index includes cryptocurrencies that are recognised on digital exchanges that meet the minimum liquidity requirements and market cap criteria. At the launch of the index there were 240 coins represented. As such, we view the S&P Crypto BDM Index to be an indicator of the broader cryptocurrency market.

In the early months, the Fund outperformed both the benchmark and the S&P Crypto BDM Index, however has experienced a stepper decline in CY'2022 to 30 April 2022 which has resulted in the Fund underperforming since inception to 30 April 2022.

Growth of $50,000 in Fund vs. Benchmark & S&P Cryptocurrency Broad Digital Market Index, AUD



Source: S&P Capital/Iress//IIR

Performance of MTC DAF vs. Benchmark & S&P Cryptocurrency Broad Digital Market Index, AUD (as at 30 April 2022)

	MTC DAF	Bitcoin, AUD	S&P Crypto BDM Index, AUD
1 month	-24.27%	-12.20%	-12.88%
3 month	-16.98%	-2.16%	-2.2%
6 Month	-48.34%	-34.75%	-35.73%
Since Inception	-24.66%	-14.23%	-16.16%

Source: Merkle Tree Capital/S&P Capital/IIR

Given the limited track record of the Fund, we provide the longer-term performance the S&P Crypto BDM Index to provide a more complete picture of the risk/return profile of the broader cryptocurrency market. The S&P Crypto BDM Index has a start date of 28 February 2017. As is detailed below, the cryptocurrency market has experienced high levels of volatility. Given the continued emergence of the asset class we expect the market to continue to be highly volatile. This is a key reason for the long-term investment view of the Manager. While the short-term performance of the market has been poor, over the longer-term the market has delivered strong absolute returns with a return of 93.3%p.a since inception to 30 April 2022. We note that past performance is not a forecast for future performance.

S&P Cryptocurrency Broad Digital Market Index, AUD

Source: S&P Capital/IIR

Performance of S&P Cryptocurrency Broad Digital Market Index, AUD (as at 30 April 2022)		
	Return	**Standard Deviation**
1 year	-25.1%	70.7%
3 year (p.a.)	88.2%	70.3%
Since Inception (p.a.)	93.3%	77.6%

Source: S&P Capital/IIR

We also provide the longer-term performance of the top 3 holdings in the portfolio, Bitcoin (BTC), Ethereum (ETH) and Solana (SOL). BTC and ETH are the two largest coins in the market and have the longest rack records. As is highlighted by SOL, a number of digital currencies are relatively new and therefore have limited track records.

Top 3 Position Inception Dates		
Inception Date	**Digital Currency**	**Code**
January 2009	Bitcoin	BTC
July 2015	Ethereum	ETH
March 2020	Solana	SOL

Bitcoin (BTC) was the first digital currency released to market with an inception date of 3 January 2009. BTC is the largest digital currency on the market with a market cap of USD$563.97b at 15 May 2022. The price of BTC has declined over the 12-months to 15 May 2022, however since 17 September 2014, BTC has increased 49.7%p.a. to 15 May 2022. As is highlighted below, a feature of cryptocurrencies is heightened levels of volatility.

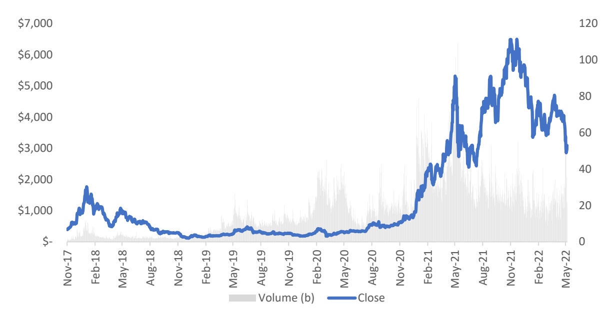
Bitcoin (AUD) - 17 September 2014 to 15 May 2022

Total Return:	
1 year	-25.07%
3 year (p.a.)	35.96%
5 year (p.a.)	50.38%
Since 17 September 2014 (p.a.)	49.73%
Standard Deviation:	
1 year	58.75%
3 year (p.a.)	63.38%
5 year (p.a.)	66.98%
Since 17 September 2014 (p.a.)	62.69%

Source: CoinMarketCap/IIR

Ethereum (ETH) is the second largest digital currency on the market with a market cap of in excess of USD$245b. ETH has experienced a greater decline over the 12-months to 15 May 2022 than BTC, declining 34%. Since inception ETH has returned 37.2%p.a. to 15 May 2022.

Ethereum (AUD) to 15 May 2022



Total Return:	
1 year	-33.99%
3 year (p.a.)	64.26%
Since Inception (p.a.)	37.21%
Standard Deviation:	
1 year	78.54%
3 year (p.a.)	81.42%
Since Inception (p.a.)	83.50%

Source: CoinMarketCap/IIR

Solana (SOL) is significantly smaller than BTC and ETH with respect to market cap with a market cap of USD$19.0b at 15 May 2022, however is in the top 10 coins on the market. SOL has seen a significant decline in value in CY2022, however remains up 51.4% for the 12-months to 15 May 2022.

Solana (AUD) to 15 May 2022

Total Return:	
1 year	51.44%
3 year (p.a.)	na
Since Inception (p.a.)	277.71%
Standard Deviation:	
1 year	121.12%
3 year (p.a.)	na
Since Inception (p.a.)	130.94%

Source: CoinMarketCap/IIR

When compared to equities markets, the broader crypto market has delivered extremely high returns over the five years to 30 April 2022, with extreme levels of volatility, as highlighted in the below table. On a risk/return basis, the returns per unit of risk over the five year period were actually below the MSCI World Index, AUD. The crypto market returns have had a low correlation to broader equity markets, suggesting that crypto could provide a level of diversification to an investors broader portfolio.

S&P Cryptocurrency Broad Digital Market Index, AUD vs. Broader Equity Markets (as at 30 April 2022)

	S&P Crytpo BDM Index	MSCI World Index, Net, AUD	ASX All Ords Acc. Index
Total Returns:			
1 year	-25.1%	4.9%	10.2%
2 year (p.a.)	121.1%	13.7%	21.5%
3 year (p.a.)	94.2%	10.1%	10.2%
5 year (p.a.)	91.7%	11.3%	9.5%
Standard Deviation:			
1 year	69.4%	11.3%	11.1%
2 year (p.a.)	70.8%	10.5%	11.3%
3 year (p.a.)	77.7%	12.0%	18.0%
5 year (p.a.)	105.9%	11.1%	14.8%
Return per unit of risk:			
1 year	(0.36)	0.43	0.92
2 year (p.a.)	1.71	1.30	1.91
3 year (p.a.)	1.21	0.83	0.57
5 year (p.a.)	0.87	1.02	0.64
Correlation:			
5 year	na	0.24	0.28

Source: S&P Capital/Iress/IIR

PEER COMPARISON

There are currently limited professionally managed investment offerings of crypto assets in the Australian market, however this is a growing space and we expect more funds will be issued in the short-and-medium term, both listed and unlisted.

In the unlisted space there are four other crypto specialist asset managers that provide funds with exposure to crypto assets for wholesale investors in Australia: (1) DigitalX Asset Management Pty Ltd (DigitalX); and (2) Apollo Capital Management Pty Ltd (Apollo Capital); (3) Digital Asset Capital Management Inc.; and (4) Monochrome Asset Management. Monochrome Asset Management has a single fund that provides passive exposure to Bitcoin. DigitalX also have a Bitcoin specific fund as well as a diversified crypto asset fund. Apollo Capital and Digital Asset Capital Management provide funds with exposure to a portfolio of crypto assets.

In the listed space, there are currently five ETFs available on domestic exchanges: (1) BetaShares Crypto Innovators ETF (ASX: CRYP); and (2) Cosmos Global Digital Miners Access ETF (CXA: DIGA); (3) ETFS 21Shares Bitcoin ETF (CXA: EBTC); (4) ETFS 21Shares Ethereum ETF (CXA: EETH); and (5) Cosmos Purpose Bitcoin Access ETF (CXA: CBTC). CRYP and DIGA provide exposure to a portfolio of listed companies that are active in the crypto asset space. The remaining three ETFs provide exposure to a single cryptocurrency.

Below we focus on the unlisted funds available for wholesale investors. As discussed above, the most relevant comparative funds for the MTC Digital Asset Fund are the diversified funds, of which there are three. We note the DACM Global Digital Asset Fund is a feeder fund that invests in the BVI Master Fund, a fund incorporated in the British Virgin Islands that invests in a portfolio of digital assets.

The fees of the funds are similar. The key differentiating factor for the MTC Digital Asset Fund is the performance fee has a hurdle of Bitcoin (AUD), while the other funds are all eligible for performance fees for performance in excess of the previous high NAV (High Water Mark). We view the performance fee structure for MTC Digital Asset Fund to be the preferred fee structure from an investor perspective.

Crypto Asset Funds Available to Australian Wholesale Investors

Fund	Manager	Inception Date	Management Fee (p.a.)	Performance Fee	Performance Fee Hurdle
DigtialX Digital Asset Fund	DigitalX Ltd	30 April 2018	1.5%	15%	High Water Mark
DACM Global Digital Asset Fund	DACM Australia Pty Ltd	1 December 2021	2.0%	20%	High Water Mark
Apollo Capital Fund	Apollo Capital Management	1 February 2018	2.0%	20%	High Water Mark
MTC Digital Asset Fund	Merkle Tree Capital	18 August 2021	2.0%	20%	Bitcoin, AUD

The funds each have a different investment thesis and invest in different crypto assets, however all funds have core positions in blockchain infrastructure or Layer 1 investments coupled with exposure to Layer 2 assets.

The below table compares the top 5 holdings of the MTC Digital Asset Fund with the DigitalX Digital Asset Fund and the DACM Global Digital Asset Fund using the latest available information provided by the funds. DACM Global Digital Asset Fund has a higher exposure to Layer 2 coins/tokens in its top 5 holdings compared to the other two funds. The MTC Digital Asset Fund and the DigitalX Digital Asset Fund's portfolios are heavily weighted to Layer 1 assets.

Top 5 Holdings

MTC Digital Asset Fund (as at 30 April 2022)		DigitalX Digital Asset Fund (as at 15 May 2021)		DACM Global Digital Asset Fund (as at March 2022)	
Bitcoin	25.4%	Bitcoin	33%	Cosmos	Not Provided
Ethereum	19.5%	Ethereum	22%	Ethereum	Not Provided
Solana	15.0%	Cardano	11%	Synapse	Not Provided
Avalanche	10.5%	Binance	9%	Terra	Not Provided
Polkadot	5.5%	Polkadot	8%	The Graph	Not Provided
Total	**75.9%**		**83%**		**67%**

Source: Fund websites

The Apollo Capital Fund doesn't provide its top five holdings, however provides a breakdown of its sector exposure. We provide a comparison of the sector exposure of the Apollo Capital Fund with the MTC Digital Asset Fund below. The Apollo Capital Fund has a much higher exposure to Layer 2 assets than the MTC Digital Asset Fund, which are considered riskier investments. The Apollo Capital Fund also provides exposure to market neutral crypto strategies through an investment in the Apollo Capital Opportunities Fund, which is designed to capture trading opportunities while limiting price risk. The Apollo Capital Fund has a much more opportunistic based strategy than MTC Digital Asset Fund which is a long-term investor.

Sector Weighting Comparison

Sector	MTC Digital Asset Fund[1]	Apollo Capital Fund[2]
Currency/Store of Value	25%	14.1%
Blockchain Infrastructure/Smart Contract Platform	55%	43.1%
Meta/Gaming/NFT	4%	4.6%
Web 3	7%	na
Defi/Cefi	8%	22.8%
Market Neutral Strategies	na	12.6%

Source: Fund websites/Merkle Tree Capital

1. As at 30 April 2022

2. As at 31 March 2022

Crypto assets are an emerging asset class and as such all funds in the peer group have a limited track record. The Apollo Capital Fund has the longest track record with an inception date of 1 February 2018.

Total Returns of Peer Group (as at 30 April 2022)

	1 month	3 month	6 month	1 year	3 year
DigtialX Digital Asset Fund	-12.6%	3.0%	-33.3%	-56.9%	39.1%
DACM Global Digital Asset Fund	-16.1%	-9.3%	na	na	na
Apollo Capital Fund	-16.0%	0.4%	-26.9%	-7.3%	111.7%
MTC Digital Asset Fund	-24.3%	-17.0%	-48.3%	na	na

Source: Morningstar

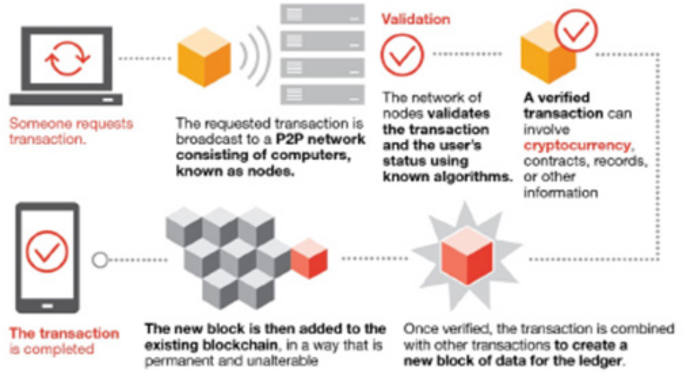
APPENDIX A - WHAT IS CRYPTO?

Below we seek to provide a high level overview of cryptocurrency and the key concepts, as well as provide some further detail regarding the sectors that the MTC Digital Asset Fund will be investing in, as detailed in the Portfolio section in the above report.

Cryptocurrency (Crypto) is a broad based term that refers to digital tokens or digital currencies. Crypto is typically decentralised and operates on a peer-to-peer basis, meaning crypto holders can transfer value online without the need for an intermediary such as a bank or payment processor. A transfer of crypto can be made directly from one person to another.

The decentralised nature of crypto is one of the key features of crypto and one of the key reasons many people get excited about crypto. Cryptocurrencies are managed by peer-to-peer networks of computers, running free, open-source software, in which anyone can participate. The peer-to-peer network technology infrastructure that allows for cryptocurrencies to be transferred/exchanged is know as Blockchain. Blockchain acts as the ledger to keep track of and verify cryptocurrency transactions. All blockchains have a native coin or token. The native coin for the Bitcoin blockchain is Bitcoin. The native coin for the Ethereum blockchain is Ether.

How a Blockchain Works



Source: PWC

The key concepts underlying crypto include:

- **Transferability** – people can make seamless transactions 24/7.
- **Privacy** – when paying with crypto you don't need to provide personal information to the merchant.
- **Security** – almost all cryptocurrencies are secured using Blockchain technology which is constantly checked and verified by a large amount of computing power.
- **Portability** – cryptocurrencies aren't tied to a financial institution or government. They are available no matter where you are in the world or what happens to the global finance systems major intermediaries.
- **Transparency** – every transaction is published publicly meaning there can be no manipulation of transactions.
- **Irreversible** – crypto payments cannot be reversed, this has benefits for both consumers and merchants, however can also be a drawback if someone mistakenly sends crypto to the wrong person.
- **Safety** – blockchains seek to be secure with the belief that the open source nature of cryptocurrencies provide additional levels of safety.

While the underlying key concepts regarding cryptocurrencies provide for a great deal optimism and offer an alternative to the traditional banking system, cryptocurrencies are a relatively new way to transact and while the concepts behind them are sound, the reality is that some of these concepts are not yet real world experience.

A key drawback in the industry to date has been a lack of regulation. As a result of inadequate legislation, there has been little to no oversight of crypto exchanges. There are hundreds of crypto exchanges and while blockchains are considered highly secure, crypto exchanges are not and this has resulted in exchanges being hacked and crypto assets lost for ever. The security of exchanges in improving, however the level of security differs greatly.

While blockchain technology offers security and privacy, in the event someone loses their private key to their crypto wallet, there is no way of retrieving the assets. This could be as simple as losing one's phone, resulting the loss of their crypto assets.

How are Cryptocurrencies Created?

Cryptocurrencies are typically created through "mining". Mining is the process by which cryptocurrency transactions are verified and new units are created. Each time a cryptocurrency transaction takes place, a cryptocurrency miner, who also serves as a node on the blockchain on which these transactions are taking place, tries to decrypt the block containing the transaction information. Decrypting the block not only authenticates the transaction, but also provides the information about who sent how many Bitcoins to whom and at what time and date. Once the block has been decrypted and has been accepted by most of the nodes on the blockchain as being authentic, the block is added to the blockchain. The mining process involves large amounts of computer hardware and software. Cryptocurrencies typically have a limited amount of coins available and therefore as coins are mined, it becomes more and more difficult to mine coins and the rate of coin release slows. The resource intensive nature has seen individuals pool their computing power and companies created solely to mine cryptocurrencies with some companies listed on global stock exchanges. The reason miners participate in the market is because of the reward mechanisms. In return for their services, the miner is rewarded with new units of the cryptocurrency that is being mined.

What Drives Crypto Value?

Most cryptocurrencies have a limited supply and as a result the value of a cryptocurrency is driven by the dynamics of supply and demand. The supply and demand for individual cryptocurrencies is primarily driven by the tokenomics of a coin or token. The main rationale for investment in cryptocurrency more generally at this stage is the belief that there will be wide spread adoption of cryptocurrency as a payment method, which will result in the continued increase in demand. There has been an increased level of adoption of some of the larger cryptocurrencies, namely Bitcoin, with some merchants allowing for payment via Bitcoin or other cryptocurrencies. We have also seen countries such as Venezuela make Bitcoin legal tender.

Types of Crypto Assets

There are varying types or sub-sectors of crypto assets. With regards to cryptocurrencies there are Layer 1 and Layer 2 assets. Layer 1 assets refer to the native coins of blockchains such as Bitcoin and Ether. Layer 2 assets are coins or tokens that use a blockchain network but are not native to the network. Layer 2 refers to a secondary framework or protocol that is built on top of an existing blockchain system. The main goal of these protocols is to solve the transaction speed and scaling difficulties that are being faced by the major cryptocurrency networks.

Below we provide an explanation of the crypto assets that the MTC Digital Asset Fund invests in. Note, that each of the sectors is accessed via a coin or token.

1) Blockchain Infrastructure/Smart Contract Platform:

As mentioned above, blockchain infrastructure is the peer-to-peer network powering cryptocurrencies. Smart Contracts are simply programs stored on a blockchain that run when predetermined conditions are met. Blockchain infrastructure is the infrastructure that cryptocurrencies are built on and is being used as the basis for Web 3 and other product developments.

2) Metaverse/Gaming/Non-Fungible Token (NFT):

- The Metaverse is a concept of an online, 3D, virtual space connecting users in all aspects of their lives. It would connect multiple platforms, similar to the internet containing different websites accessible through a single browser. The Metaverse remains a concept today, however is expected to become a reality based on technological advancements. The metaverse will be driven by augmented reality, with each user controlling a character or avatar. Besides supporting gaming or social media, the metaverse will combine economies, digital identity, decentralised governance, and other applications. Even today, user creation and ownership of valuable items and currencies help develop a single, united metaverse. Blockchain is expected to power this future technology. Cryptocurrency is expected to play a big part in the Metaverse with crypto expected to be the manner in which users of the Metaverse will transact.
- Games have coins or tokens that are required to be used to upgrade, upskill or move further in a game. The game will require a specific coin or token therefore the value of the coin or token is dependent on the take up of a game.
- NFT's are digital assets that represent real-world objects like art, music, in-game items and videos. NFTs are bought and sold online and exist on a blockchain. Instead of buying a physical object such as a piece of art, the buyer gets exclusive ownership to a digital file. NFTs have been around since 2014 and in 2021, the NFT market was worth $44b. The Fund will not likely participate to any meaningful degree in NFT's.

3) Web 3:

Web 3 is considered the next "iteration" of the internet. At the most basic level, Web 3 refers to a decentralised online ecosystem based on the blockchain. Platforms and apps built on Web 3 won't be owned by a central gatekeeper, but rather by users, who will earn their ownership stake by helping to develop and maintain those services, similar to how cryptocurrencies work. Web 3 is still in its infancy and for supporters they believe Web 3 provides the opportunity to take the internet back from the few companies who are viewed to control the internet at present. There are also a number of opponents to Web 3, with opponents citing the potential for low moderation and the proliferation of harmful content, the centralisation of wealth to a small group of investors and individuals, or a loss of privacy due to more expansive data collection. In the world of Web 3, cryptocurrencies are expected to be widely used. With Web 3 users will need cryptocurrencies and a wallet to transact. This differs from Web 2 (the current internet) in which you simply need a browser.

4) Decentralised Finance (DeFi)/Centralised Finance (CeFi):

Decentralised Finance (DeFi) is an emerging financial technology and refers to the decentralisation of financial products and transactions. DeFi uses blockchain technology to remove third parties from financial transactions. This compares to Centralised Finance (CeFi), which refers to the current financial system in which money is held and transactions facilitated by third parties, such as banks. While using the same concepts and underlying technology, individual cryptocurrencies are not DeFi, however they will be a part of DeFi. Tokens and coins provide exposure to DeFi applications. For example, FTT is the token for the FTX ecosystem, which is a cryptocurrency derivatives exchange. FTT will serve as collateral for futures positions, getting discounts on trading fees, receiving OTC rebates and more. The value of the FTT token is directly proportional to the future expansion and upgrades of the FTX platform.

APPENDIX B - CORE FEATURES OF TOKENOMICS

The below provides detailed information about tokenomics and is sourced from CoinDesk (www.coindesk.com).

Tokenomics determines two things about a crypto economy: (1) the incentives that set out how the token will be distributed; and (2) the utility of the tokens that influence its demand. Supply and demand has a huge impact on price, and projects that get the incentives right can surge in value.

The main variables that developers change that affect tokenomics include:

- **Mining and staking –** For base layer blockchains, like Ethereum and Bitcoin, mining is the core incentive for a decentralised network of computers to validate transactions. New coins are given to those who devote their computing power to discovering new blocks, filling them with data and adding them to the blockchain. Staking rewards those who fulfil a similar role but by locking away a number of coins in a smart contract instead.
- **Yields –** Decentralised finance platforms offer high yields to incentivise people to buy and stake tokens. Tokens are staked in liquidity pools (pools of cryptocurrencies that power things like decentralised exchanges and lending platforms). These yields are paid out in the form of new tokens.
- **Token burns –** Some blockchains or protocols "burn" tokens (permanently remove them from circulation) to reduce the supply of coins in circulation. According to the laws of supply and demand, reducing a token's supply should help to support its price as the remaining tokens in circulation become more scarce. In August 2021, Ethereum started to burn a portion of tokens sent as transaction fees instead of sending them to miners.
- **Limited vs unlimited supplies –** Tokenomics determines a token's maximum supply. Bitcoin's tokenomics, for instance, dictates that no more than 21 million coins can ever be mined, with the last coin expected to enter circulation around the year 2140. Ethereum, by contrast, has no maximum limit, although its issuance each year is capped. NFT (non-fungible token) projects take scarcity to the extreme; some collections might mint only a single NFT for a piece of art.
- **Token allocations and vesting periods –** Some crypto projects account for a detailed distribution of tokens. Often, a certain number of tokens are reserved for venture capitalists or developers, but the catch is that they can sell those tokens only after a certain time. That naturally has an effect on the circulating supply of the coin over time. Ideally, a project's team will have implemented a system where tokens are distributed in such a way that it reduces the impact to the circulating supply and a token's price as much as possible.

Governance is an important consideration in tokenomics. Many tokens function as "governance tokens", in which holders are granted voting rights to influence the rules and decisions of a project. This reflects the decentralised nature of cryptocurrencies, instead of a centralised group of developers deciding what happens, coin/token holders can vote on how the platform is run.

APPENDIX C - INVESTMENT CASE FOR BITCOIN & SOLANA

Below we provide MTC's investment case for Bitcoin and Solana, two of the largest holdings in the portfolio. The below has been extracted from the research reports compiled by MTC as part of the investment process and as such reflects only the views of MTC.

Bitcoin (BTC)

The Manager believes there are a number of factors will drive the increased use of Bitcoin including:

- Medium of Exchange - Bitcoin makes an excellent currency on the basis of its durability, divisibility, fungibility, portability, can be held in self custody, transferred without the use of third parties and counterfeit resistance. However to date its price stability, or rather lack of, has negatively impacted this use case. It is a clear evolutionary step in currency much better than fiat and the gold backed currencies that preceded fiat and which were an improvement on the gold and commodities that preceded that.
- Store Of Value - Bitcoin can preserve value due to its scarcity, similar to a commodity like gold. BTC has a limited supply of 21 million, and a known and decreasing annual supply (i.e. not subject to manipulation by a central authority or central bank).
- Network - Applications can be built on top of the network, much like the internet which will add value to the bitcoin network.
- Banking Product - BTC will likely bank the unbanked, rather than bricks and motor banks rolling out to the 1.7 billion people who are unbanked a BTC backed system will be more efficiently rolled out to the 1.1 billion of these unbanked who currently own a phone.
- Global Reserve Currency - the trend of de-dollarisation continues, this represent the opportunity for nations that don't want to conduct trade in USD and might prefer not to choose EUR or CNH to use a decentralised alternative. The war in Ukraine has also highlighted the need for a censorship resistant, trustless global currency.

With respect to adoption metrics of Bitcoin, the Manager views the Lightening Network (LN) as the primary scaling solution for Bitcoin. First introduced in 2015, LN aimed to solve the scaling issues by using a Layer-2 payment channel network anchored to the base protocol. Midway through 2021, the LN had its debut on the world's main stage when El Salvador announced its adoption of Bitcoin as legal tender and released their state-backed wallet, Chivo, built on the LN. Shortly after, Twitter included Lightning into their tipping feature. More recently the Central African Republic has also legalised BTC as legal tender, further developing nations are expected to join this year.

Following a period without any Bitcoin upgrades since SegWit in 2017, Taproot was activated in November 2021. Taproot allowed for signature aggregation which offered increased privacy and improved scalability for Lightning transactions, leading to cheaper fees when settling on the base layer.

In early 2022, Cash App integrated Lightning-enabled payments and transfers into their app. This major milestone helped increase the number of users with access to Lightning payments from 10 million in October 2021 to over 80 million in March 2022. Soon after, Kraken integrated LN deposits and withdrawals into their services, and within a month, their node had become the sixth largest on the LN.

At the Bitcoin 2022 conference, Strike announced a major partnership with Shopify, NCR (the world's largest point-of-sale supplier), and the payments firm Blackhawk. Strike is an application on the LN that separates bitcoin the asset from Bitcoin the network. Their goal is to disrupt global transactions and remittances by sending fiat-to-bitcoin-to-fiat payments, using the LN as a payment rail. Users could pay in bitcoin without being exposed to price volatility, tax liabilities, custodial challenges, and node/channel management. If these integrations become a reality, Strike could provide merchants with an experience superior to traditional card networks by offering globally instant-settled payments with near-zero fees.

In conclusion, MTC views BTC as a buy. As the first crypto currency Bitcoin has more data than any other project. In addition to its many uses cases it is increasingly being added to corporate balance sheets and pension funds. BTC can also be used a currency and derisking position in the ecosystem as the most commonly quoted trading pair and the lowest volatility digital asset. BTC should form a core position in any diversified portfolio of digital assets. Institutional adoption entered the mainstream in 2021 as did nation state adoption. MTC expects these trends to continue in 2022.

Solana (SOL)

Solana is a public base-layer blockchain protocol that optimises for scalability. Its goal is to provide a platform that enables developers to create decentralised applications (dApps) without needing to design around performance bottlenecks. Solana features a new timestamp system called Proof-of-History (PoH) that enables automatically ordered transactions. It also uses a Proof of Stake (PoS) consensus algorithm to help secure the network. Additional design goals include sub-second settlement times, low transaction costs, and support for all LLVM compatible smart contract languages.

SOLs have two primary use cases within the network:

(1) Staking: Users can stake their SOL either directly on the network or delegate their holding to an active validator to help secure the network. In return, stakers will receive inflation rewards. Solana has not enabled inflation rewards yet, but it intends to unlock inflation in late 2020 or early 2021.

(2) Transaction Fees: Users can use SOL to pay for fees for sending transactions or running smart contracts (interacting with applications).

Developer activity is growing with events in Solana Lab's Github repository continued to grow (34.2%) quarter over quarter. Though in a monthly downtrend, the quarterly number of events indicates that the network's core is collectively stronger than in prior quarters.

Currently, the Layer-1 space is a competitive race between new and legacy protocols to be the fastest, cheapest, and most secure network. Each competitor has focused on maximising these activities while making a range of trade-offs regarding centralisation. The ideal blockchain would be fast, secure, widely used, and adequately decentralised.

Technical advancements, core developer activity (Solana is leading its peer group), and ecosystem growth strategies may separate one L1 from another in terms of network usage and financial performance.

Even though the network recorded new highs across several aspects, the ecosystem experienced an exploit of the Wormhole bridge in February and further instances of degraded network performance throughout the quarter. The core platform upgrades are expected to continue as mitigation strategies have been outlined. Once Solana is fully released, these network performance concerns should be addressed to a is fully released, these network performance concerns should be addressed to a great extent.

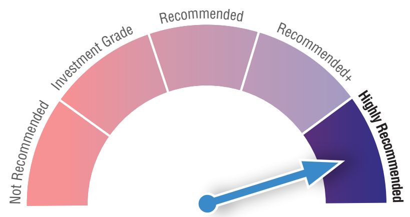
Ultimately, despite intermittent network congestion, the ecosystem continued to execute on growth strategies and showed signs of further adoption heading into Q2. The Solana ecosystem will likely proceed with its efforts to drive growth. With developments ranging from Solana Pay and OpenSea to the Neon EVM, expansion into various sectors and a fully Ethereum-compatible environment appear to be on the horizon for Solana.

APPENDIX D – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

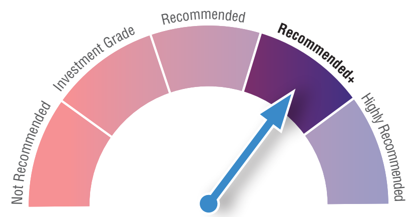
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**



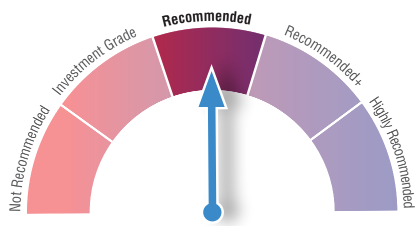
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	**79–83**



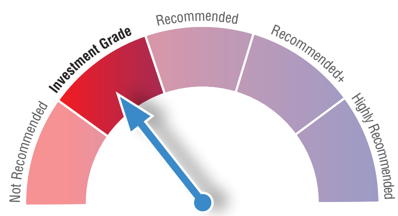
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	**70–79**



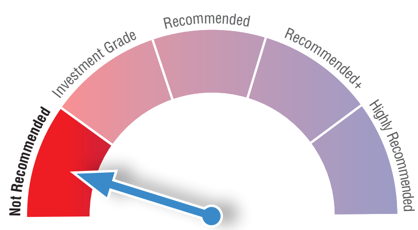
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	**60-70**



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	**<60**

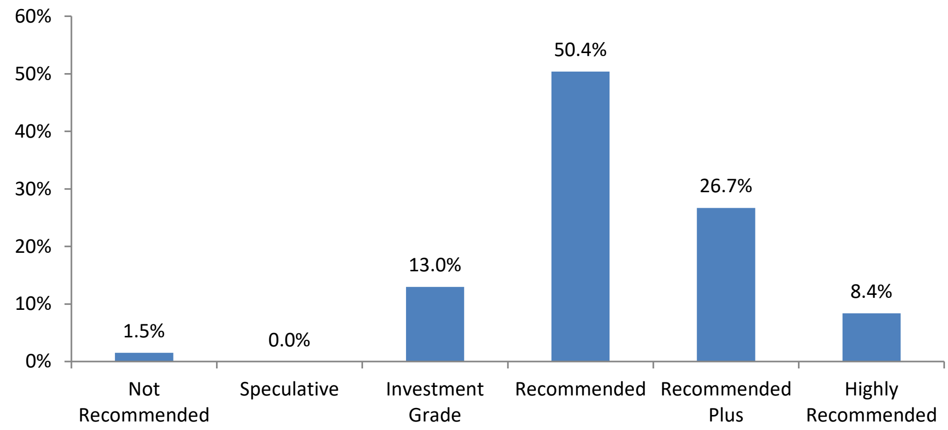


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX E – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



DISCLAIMER

(a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR", Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

(b) Disclosure of Interest

General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

(c) Copyright Protection

All Content at this web site is protected by copyright. Apart from any use permitted under the Copyright Act (Cth) 1968, you must not copy, frame, modify, transmit or distribute the material at this web site, without seeking the prior written consent of the copyright owner. Content on this web site is owned by the business Independent Investment Research. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

(d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

(e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

(f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: client.services@independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215