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2 July 2019

BLOCK20 FUND

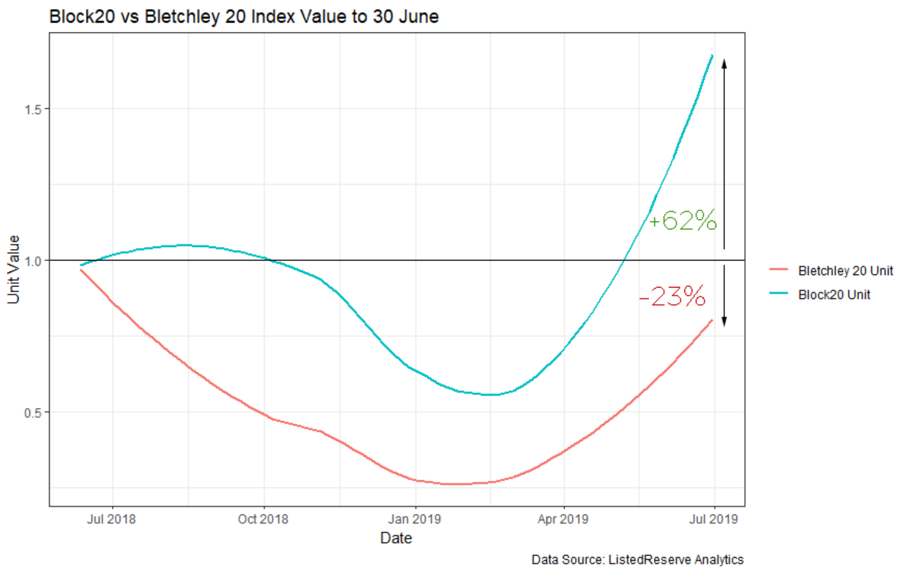
Dear Investor

This update for the BLOCK20 Fund covers our first full year, which ended on June 30, 2019.

Fund Performance

Unit prices[1] as of 30th June 2019 are $1.62, leaving the fund up 62% since inception. That rather masks the volatility of performance though and it is important to be aware that in January 2019 unit prices were $0.55c, so we are up 195% in the last 5 months, a volatile year.

Comparing our performance to the Bletchley 20 (a raw weighted index of the top 20), that index is down 23% for the year so we have significantly outperformed that benchmark.



Liquidity

The principle reason for our outperformance of the benchmark is our liquidity qualifier. In a new investment sector like this, liquidity is key. New assets launch all the time and return spectacular results but there is very little volume making buying and selling at scale extremely difficult and risky. BLOCK20 operates with strict liquidity conditions such that we under-index coins where liquidity is low relative to the major index component, bitcoin. This can mean we miss strong rallies in smaller coins but as you can see from the overall performance for the year versus the base index, it works. The top 30 single day gains all went to assets other than bitcoin in the last 12 months, for example Bitcoin Cash, gained 54% in a single day on December 15, 2018 but is down 44% for the year.

We plan to enhance the liquidity qualifier further and will circulate an update to the Information Memorandum explaining the change.

1. *Unit prices are determined at midnight, 30 June 2019, Australian Eastern Standard Time. The bitcoin price in USD at the time of valuation was USD 10,769 & AUD 15,180.*

Macro-Trends
If you follow our blog and weekly updates you will notice a strong monetary policy theme. Our fund is dominated by bitcoin which exists solely to provide a sound monetary base, where people can store value over time. Global monetary policy will remain one of the primary drivers of value in the fund.

Global Monetary Policy
The recent moves in monetary policy are providing a strong backdrop for our fund. In Europe a few weeks ago the President of the European Central Bank, Mario Draghi, received a standing ovation from European leaders when he announced that more accommodative monetary and fiscal policy is needed to restart the economy. I don't pass judgement on the wisdom or otherwise of Draghi here, simply I would point out that for our fund, more money printing and more government debt is good. The ECB's actions will debase their currency relative to short supply assets like bitcoin. I'm not sure how much more accommodative you can get than a zero interest rate and the ECB balance sheet being 40% of European GDP, but there is no turning back for the ECB now.

Similarly, the Federal Reserve has indicated they are prepared to drop their own interest rate further until inflation reaches their expectations. The fact is, the only way out of the debt spiral is for governments to surreptitiously print their way out and they are doing so and will continue to.

Accordingly, our view is that the more the printing presses run hot, the better for our fund.

Outlook

Institutions
We have written on a number of occasions now about institutional money entering this sector. That finally happened in 2019. The single biggest bitcoin fund in the world is Grayscale, in their latest report, they shared that 70% of all new inflows to their fund was from institutions.

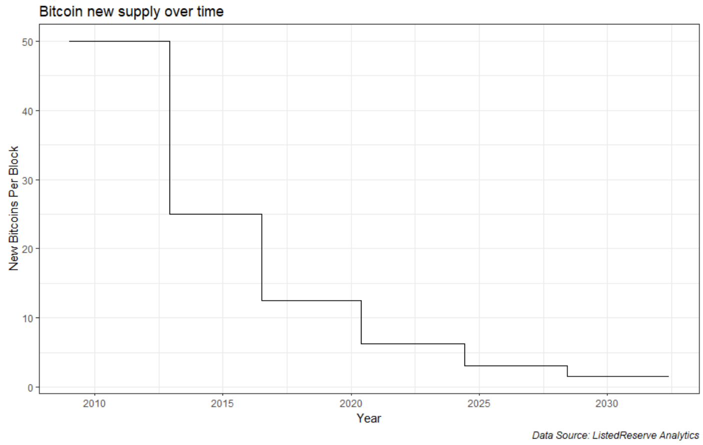
In addition, on the Chicago Mercantile Exchange, CME bitcoin futures have seen record volumes this year implying strong institutional engagement with the asset. An established futures market is also a requirement for the launch of an ETF. Speaking of which, it is worth pointing out that Grayscale typically trades at a 30% premium to Net Asset Value, so without an ETF, institutions are paying a significant premium for exposure to bitcoin.

Gradually, we expect more and more trading platforms to add bitcoin as an asset, particularly as the custody solutions go live giving these operators some confidence around holding the assets securely. We view the more on ramps and participants in the ecosystem the better.

Bitcoins halvening
Every four years the supply of new bitcoin, as coded by the protocol, drops by half. The impact of halvenings is little understood in the wider market and it is one of the most important features of bitcoin. That is simply because no other commodity based asset has a supply curve like bitcoin. Specifically, for any other asset (even gold) if the price rises, supply also rises, that cannot happen in bitcoin. This limited supply drives the price moves. Historically bitcoin has responded to these price moves through a rising price, albeit in the past, it has taken 6 months post halvening to take full effect.

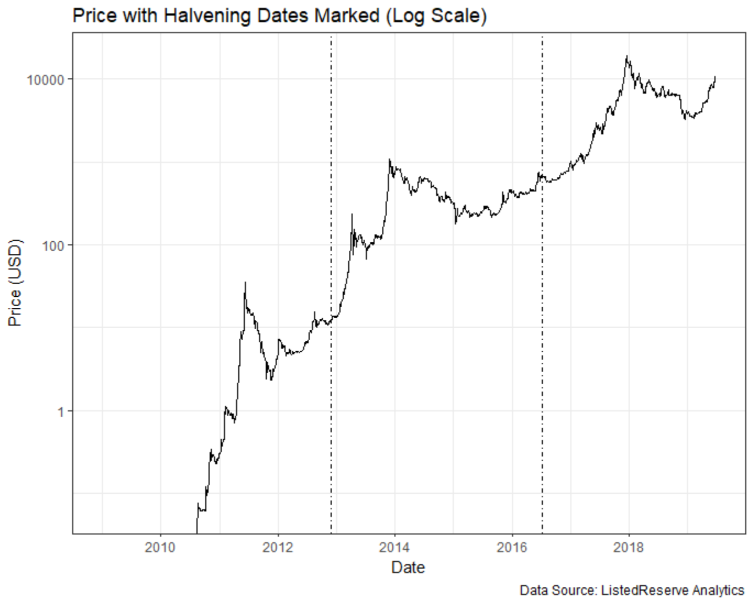
It is worth considering this declining supply curve, it is unique, a point lost on many financial commentators who generally denounce bitcoin. Definitionally, at constant demand, this would result in a rising price.

The next bitcoin halvening will occur in May 2020. After that date the new supply of bitcoin coming on to the market will halve to 6.25 coins every 10 minutes. This equates to an annual inflation rate of 1.79%, this will be lower than gold for the first time and it continues to fall every four years.



We are still very early in the halvening life cycle, having had two so far in 2012 and 2016. In the chart below (log price scale) we have seen strong price runs after halvenings. So, if history is a guide you would expect a stronger run in H2 next year than H1. That said, the market is learning and price might front run the 2020 supply cut this time around.

You will likely see and read a lot of halvening hype in the run up to May next year.



Facebook's Libra Coin

A recent entry to the digital currency market is Facebook's Libra initiative. Their whitepaper is extensive, the list of supporting companies is about as good as it could get and overall it was sweepingly ambitious. From the perspective of BLOCK20, our view is that Libra will be overwhelmingly positive and will keep digital currency at the forefront of people's minds. You can read more about Libra in our recent blog post here.

Crucially for BLOCK20, because Libra is backed by dollars, euros and bonds it will have unlimited supply. It is not hard money, simply slightly better than the average fiat currency and it will be debased by money printing in exactly the same way as the dollar and the Euro. Even more concerningly for Libra holders the basket backing the currency will include US and European government bonds, currently at all time high prices. When the bond market takes a nose dive, the value of Libra will go with it.

That said, for some other assets, Libra presents more of a challenge. Libra will have its own programming language designed to address some of the issues that Ethereum and EOS have identified along the way when programming smart contracts and apps. For those protocols, Libra is a real risk as it promises to be far more efficient and have far wider adoption via the Facebook network. For example, if you were building a crypto based app for games the decision between Libra and EOS would be easy. I would choose Libra every time.

We will follow Libra's development closely, we have started to use the code on the testnet to see how it works and determine which assets in our fund it might positively and negatively impact so we can adjust accordingly.

Alt-coins

Many of the major alternative assets in the class are now approaching two years since launch and many of them still have limited useage and little to show for the amounts spent since their ICO raises. I expect liquidity to dry up in the longer tail assets and that is why we will be tightening our liquidity qualifier. Ultimately, likely in the next 12 months, there will be outright failures of coins currently in the top 20.

Equally, there will be successes here too. Binance, for example, is up 130% this year and has been the best performing fund component. We are also seeing some other newer tokens currently outside the top 20 showing promise.

Rather than go into detail here I have discussed the major alt coins in the fund in the appendix along with some performance graphs for those specific assets.

Price

I made two price predictions in our first letter in 2018:

1. That we would end 2018 in the range US$5,500 – US$7,500 for bitcoin. I got that wrong and the bear market was more aggressive with the year ending at $3,500, we didn't return to my expected range until March 2019.

2. That we would see a bitcoin price in excess of US$15,000 by December 2019. That looked outrageous in January this year when the price was US$3,400. It looks less outrageous at current levels and I'll stick with it.

Finally, I think worth adding that the possibility of these assets falling to zero remains real. Even so, there is an asymmetry around bitcoin in particular that I find compelling from an investment perspective. If bitcoin survives, the price must go up. So even today, if there is a 20% chance of $100,000+ and an 80% chance of total failure, my view is it remains a very attractive proposition.

Thank you for your investment and support over a volatile 12 months and if you do have questions at any point please feel free to contact us at investors@listedreserve.com.

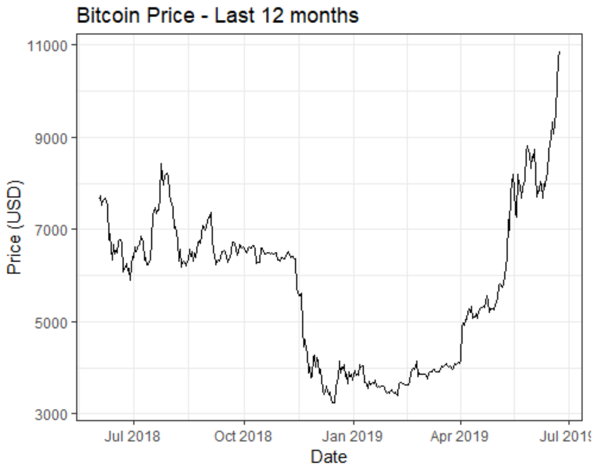
Yours Sincerely

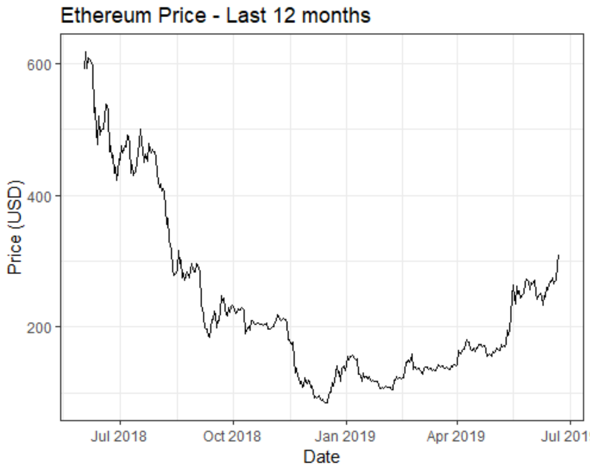
Daniel Pickering

Chief Investment Officer
ListedReserve

APPENDIX: Summary of major asset performance

I address below some of the factors impacting our major holdings which are Bitcoin, Ethereum, EOS and BNB.



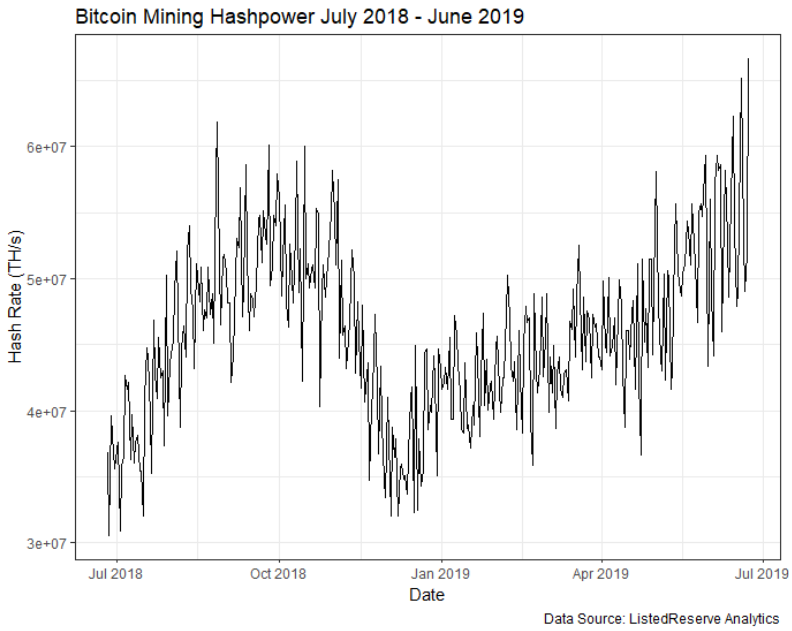


Bitcoin

A turbulent year. From its peak in December 2017 to trough in January 2019, the bitcoin price fell 85%. When an 80% + price fall happens it is a real test of the bitcoin ecosystem which relies on security and the hash-power of miners. As the price fell through 2018 it became increasingly unprofitable to mine bitcoin. Mining difficulty started to fall and in November we saw the hash rate 49% below all time highs.

The mechanism through which bitcoin accommodates these price falls is through something known as difficulty adjustment. Mining gets easier as difficulty falls and this facilitates recovery of both mining investment and price.

In the chart below you can see the decline in mining hash power late in 2018 followed by a steep recovery. That this is possible is a remarkable testament to the inventors of this code. The protocol is designed to accommodate these steep price falls, bitcoin having recovered now from five separate price falls of 80% or more. The recovery in hash power has also been mirrored in price, which is 77% up on 30 June 2018.



Bitcoin mining is a brutal business, it requires large up front capital investment in equipment that you must hope is not technically obsolete too quickly. Despite those risks, the investment in mining continues and hash rates hit new all time highs late in June 2019.

Ethereum

A weak year for Ethereum still down 80% from all time highs and down 33% in the year. The protocol is fraught with difficulties now and Ethereum 2.0 is scheduled to launch in 2020. Many stable coins such as Gemini use the Ethereum chain, so it has real and credible businesses operating on the technology and a large number of developers working on it (more, in fact, than bitcoin).

We host our own nodes at ListedReserve and we have particular trouble with the Ethereum node, it is incredibly large and difficult to operate and I think there are genuine questions about the long term sustainability of ETH. Much will depend on the quality of the releases next year.

EOS

EOS ran the most successful ICO of all time raising in excess of $4bn. They managed to poach the CFO of the Commonwealth Bank amongst other notable business luminaries on the board. EOS has also struggled this year being down 25%. It remains the best funded project out there (and will for while given the size of their raise) but it faces a number of issues, most notably

- The prohibitive size of its blockchain. It is difficult to run a decentralised model when the blockchain is ~4 Terabytes (20 times bigger than bitcoin). The main risk is that this chain will become unmanageably large if EOS is successful and require a technical solution that EOS do not have.

- Further, EOS has staff, a CEO, it is more a company than a blockchain (the associated company is known as block.one). Decisions are made by through a federated mechanism that relies on 21 “validators”. Is it really a blockchain? Compare it to bitcoin which has no staff and no expenses and never will.

Nonetheless, EOS is credibly run and as an alternative model it remains to be seen what it is capable of.

BNB
Binance coin has outperformed all other assets this year, up 130%. They have led the way as the most advanced exchange in the world and now lead in terms of daily volume, development capability as well as being highly profitable. They recently closed to US investors pending the launch of a US specific binance exchange.

Binance have an incredible development team, the rate and quality of their releases is amazing and they are on the cutting edge of new markets in cryptocurrency. I expect them to continue performing well.

However, the major issue with BNB is that their token is not equity in the business. The economics of the coin are valid but they do not grant rights to a permanent income stream on future profits so we continue to monitor the extent of our holding while the token economics play out.

Other assets

Across other assets in the fund, it is clear lower liquidity assets are performing less well. We believe the reason here is that as these projects mature they need to demonstrate use case and meaningful activity and many of them have not yet done so. In the chart below you can see the small assets benchmarked against bitcoin, only Binance outperforming over the past twelve months. We will continue to asses the quality of these projects on an ongoing basis and adjust our holdings accordingly, in many cases that adjustment will be downward and in some cases to zero.