AUGUST 2022 PERFORMANCE

TOTAL NET RETURN

PERIOD	FUND RETURN
1 Month	-1.87%*
Life to date	+0.46%*

*Post management, performance and entry fees. Past performance is not indicative of future performance.

The Fort Stable Fund generated a return of -1.87 % for the month of August 2022.

The range of ETH over the month was another wide 28.5% from the highs just over $2,000 to the lows of $1,430. We started the month rallying on the prospects of The Merge but that narrative ran into the realities of the macro backdrop and actions from the regulators on Tornado cash that we will deal with in this month's research note on privacy. In the early part of the month we established a protective Risk Reversal over our core long position which performed as we hoped protecting us from a more significant drawdown. Our yield-based strategies earned 0.15% for the month while our long ETH position detracted -2.02%. Life to date the Fund has returned +0.46%

Market

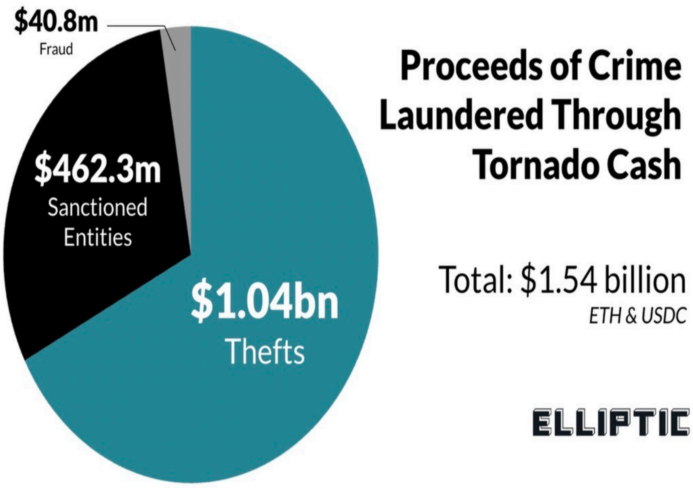
The backdrop remains volatile and challenging with Global economies completely unsynchronized. Europe is constrained by the cost of its energy with record inflation seeing the ECB likely to continue to hike rates. The Chinese economy remains extremely sluggish with the property sector a headwind as is its continued Covid policy, this month saw authorities start cutting rates and adding fiscal support to the economy. The US and to some extent Australia remain a conundrum with many forward indicators indicating a slowdown however employment and consumer spending remains robust. Inflation eased during the month in the US driven by oil prices declining, and while the FED didn't meet in August and subsequently hike rates they did meet at Jackson Hole, their annual retreat. Jerome Powell's speech was short and direct, 2 A4 pages and delivered in 10 minutes of his allotted 30. He indicated that the FED would continue to hike rates and likely stay higher for longer and that would cause pain. Markets moved to price 75bp for the September meeting and while still pricing cuts in 2023 Asset markets a wrestling with likely impact and uncertainty.

The second half of the month in Digital Assets was dominated by regulatory headlines. As we have flagged, we have been expecting a response from regulators to the headlines and corporate failures of the last few months. The US Treasury acted decisively to sanction Tornado Cash, a decentralised protocol, via the Office of Foreign Assets Control (OFAC) which is normally reserved for targeting individuals. It's a controversial move that is potentially going to create existential issues for the industry and perhaps raises more questions than it answers. We will address the topic in greater detail in our next research note but perhaps can lay out a few of the facts and challenges here. Firstly, what is Tornado Cash?

Tornado cash is a decentralised protocol that was created to mask and anonymise the ownership of tokens. Decentralised open systems mean that everyone's assets and activity is transparent for anyone to see. There are circumstances where you may want your activity and ownership masked and this is what Tornado Cash did for you. You would send your assets into Tornado Cash, also referred to as a mixer, and from there recover them after a period of time anonymised and free to move to another wallet not associated with your original wallet.

As with any tool, and that's all Tornado cash is, they can be used for good or bad purposes, a Hammer can be used to hit a nail or as a weapon, banning Hammers must be weighed up measuring the inherent good for society vs the inherent risk. Let's look at the inherently good uses of anonymizing your assets; Say you hold a strong personal view that may not be politically acceptable in the place you live, for example The Right to Life movement. There is an inherent risk of donating to a cause in which you believe using either your credit card or your public ETH address. You run the risk of having your views made public and potentially impacting your family, your career, and your life in your community. This example played out exactly as above with regards to the Canadian Trucker protest where those who donated to the Truckers were doxed and harassed for their support of this movement. Most people would agree that in a democracy individuals should have the right to express their views and support causes in which they believe. But as we alluded to tools can equally be used for bad purposes.

The bad - The US Treasury has indicated that the banning of Tornado Cash is directed at organised crime and malicious political actors such as the North Korean regime. It's estimated that indeed $1.54bn has been laundered using Tornado cash, what's also equally relevant is that a total of $7bn has flown through the network, that's 22% that's been provably illegally gained assets that have been made untraceable.



Unintended consequences and the challenge with enforcement.

1. OFAC rules are used against people or states. They mean that we, as law abiding individuals, need to avoid financially interacting with these actors otherwise we are breaking the law. The enforcement here is relatively straightforward and the penalties are onerous. The issue with the Tornado case edict is that interacting with any wallet that's engaged with Tornado Cash potentially sees one liable and breaching the rules. It's hard to know the history of any user or wallet and technically intent doesn't matter. To highlight the flaw in the thinking some "tainted" wallets have transferred extremely small amounts ETH to famous people in the space (Coinbase CEO / Vitalik Bueterin etc) that have now placed them technically in breach of the rules.

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2. Legally what's also not clear is if you can sanction a protocol, its neither a person or an entity and as such there are arguments that under previous judicial rulings that "code" is protected under the constitution as free speech. This is clearly something that will be resolved in the courts. For a nice summary read here.

3. As Tornado Cash is a decentralized mixer, its smart contracts are 100% public. They are not owned by anyone and can easily be copied to create identical mixers with identical functionality. The benefit that Tornado Cash had was that it had reached a critical mass which meant that it worked. What is uncertain is whether new ventures will easily be able to accumulate the liquidity necessary to act at the scale that Tornado Cash did.

The visceral reaction from those in the community is understandable given the background of many in the space. The anti-establishment, libertarian bent of many participants means that regulation will likely be resisted. We understand the US Treasury clearly needs to try and restrict the growth of products that circumvent their policies with regards to crime and state sponsored terror. The question remains what and who gets caught up in this dragnet that shouldn't, the time it takes to resolve and the limits that it places on the growth of decentralized infrastructure. At FCAM we are not operating in a manner that would have us interact with Tornado cash, the protocols and infrastructure we do use have set in place structures to avoid dealing with the obvious wallets and therefore immunised themselves as best they can.

For now, the fear is that regulators will be overzealous in their application of the laws at their disposal to try and regain control of the agenda and slow the speed of change such that they can catch up.

The macro-outlook remains challenging. We remain constructive on the progress of The Merge which is due around the 15th of September and remain long around 15 % ETH with some upside and downside optionality. Markets have corrected somewhat post the Jackson Hole Symposium however given that Central banks are warning and wanting lower asset prices we can be naïve to think that digital assets won't be impacted and remain at best in a wide range.

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