FCAM
Decentralised Digital Investing

Monthly Commentary

OCTOBER 2022 PERFORMANCE

TOTAL NET RETURN

PERIOD	FUND RETURN
1 Month	+3.46%*
Life to date	+0.85%*

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

The Fort Stable Fund generated a return of +3.49 % for the month of October 2022.

A less volatile and better trending market this month saw ETH trade in a tight range around $1320 for the first 20 days only to rally and close the month at $1,590, up 19% on the month. The driver of the recovery was a macro change in sentiment as opposed to anything crypto asset specific.

As we discussed in our September Performance report, "We maintain a "core" exposure of around 10% long and would be looking to increase our exposure on any dips in price probably via the sale of options. While we mentioned some early signs of a decoupling of the ETH price from TradFi markets, the macro is still the most important near-term influence of price so we will be taking our cue from global economic events."

We increased our ETH exposure via the sale of puts and purchase of call options and by month end, our exposure was at 25% long as the call options moved more into the money. Our yield-based strategies earned 0.20% for the month and our long ETH position generated 3.26%. Life to date the Fund has returned +0.85%* (*Post management, performance and entry fees. Past performance is not indicative of future performance.)

Two things to discuss - The Macro and The Regulatory outlook.

Macro – The Central Banks of the world have a limited selection of tools. All they can control is the quantity and the price of money. What they are trying to manipulate through these two tools by either changing or equally signalling a change is the demand for money. The demand for money is driven by GDP, employment, inflation, risk seeking or avoiding attitudes. These are all, for want of a better phrase driven by, "animal spirits" or confidence. Given how financialised and leveraged the economies of The West have become the FED and Global Central Banks main challenge can often be managing psychology or confidence with these limited tools.

Global Central Banks are currently almost exclusively focused on inflation not becoming entrenched. The markets current concern is the risk that the Central Banks in curing inflation by destroying activity or demand are going to end up "crashing" or "breaking" an aspect of the Financial Markets. We can acknowledge that Central Banks have highly ineffective tools (except at the extremes - i.e. They can accelerate the economy from 0-100 faster than is responsible and equally shut it down) and therefore it perhaps wasn't a misplaced fear. The real question is what changed over the month of October that led to risk generally and equities and digital assets rallying globally?

At the beginning of the month, we had extreme positioning for negative outcomes. Bank of America has a survey of investor sentiment that in the middle of the month indicated that investors held cash levels not seen for 21 years. Equally there was Equity Put purchasing (options that benefit form a declining market) from professional investors outstripping Calls by a ratio of 3-1, again unheard of. Volatility in Global rates and equities markets were at extremes over the month, interestingly US equity vol was realizing more than BTC over the month. There was also a significant position of short in Digital Assets, notably ETH. Towards the end of the month we had a WSJ journalist who has been utilised previously as a mouthpiece to communicate FED "views" write a note where he flagged that some members of the FED were concerned with the "speed" of rate hikes. This was enough to set the markets to rebalance the positioning and hence the rally we saw.

Has anything changed? Not really, The Federal reserve hiked 75bp and Gov. Powell reasserted that his view was unchanged, he will hike until growth is tempered and inflation eases and from that point hold rates at an elevated level. However given the extreme positioning we can perhaps see a continuation of this adjustment.

The problem we still face is the path that interest rate hikes (and cuts) take to work their way through an economy are normally in the following order.

1. Housing - House prices, demand for construction and turnover – All of these have declined, however in Australia we still haven't taken back the Covid bump.
2. Orders – Demand from businesses to meet demand or grow their business – again slower but not disastrous. PMI's are teetering around 50 (above 50 is expansionary, below contractionary)
3. Profits – Again mixed, energy companies and banks doing very well, while we have seen headwinds in the tech industry and some bellwethers like Apple and Amazon warning us Q4 is looking weak.
4. Employment – still strong, some patches of weakness but generally the Western Economies are sitting at low unemployment levels with worker shortages plaguing many industries.

So if we agree that to target "end demand" i.e. cause unemployment in order to reduce inflation and we need to hike enough to reduce activity in the first 3 parameters. In the case of the FED they have some way to go to effect change given the current data.

The Regulatory back drop.

The noise around regulation is heating up which indicates that we are getting closer to resolving some of the outstanding issues. We have long advocated that a lack of clarity in regulation is an impediment to the full realisation of the Digital Asset class. Good regulation is clearly what we hope for, and the industry is heavily involved trying to direct the narrative.

First, let's start with the G20 – India are chairing the G20 for the next 12 months and the chair has indicated that Crypto regulation is high on the agenda. Given the fact that digital assets and distributed ledger technology are largely stateless it indeed does require a global approach. The Chief Economic Advisor to the government, V. Anantha Nageswaran, in a speech ahead of the G20 this month said "consensus-based solutions for accelerating the scale and scope of the response of the global community to many transboundary challenges such as regulation of virtual assets," would be the third objective of India's G20 Presidency. Ranking so highly on the agenda is a positive. Its particularly important to embrace the power of the technology to many of those currently unbanked in the world.

Moving on to the ECB who are close to finalising its Markets in Crypto Assets law (MiCA). What's been released so far is focused on how they plan regulate centralized entities, which is in line with other brokerages and trading firms.

They have however attempted to wrestle with more distributed forms of lending or investment in DeFi that are based on software protocols. They acknowledge that they technology has potential and are generally positive, what they want to protect against fraud and manipulation. The experts advice who seems to be most noted and regarded is a Professor Roukny an assistant professor from Leuven University in Belgium. He is quoted as saying "DeFi tools hold a credible promise for new forms of financial services adapted to a globalized, competitive, fair and digital economy," "At the same time," he added, "severe threats to consumers, producers and the economy at large accompany this opportunity."

He is pushing for what seems to be a voluntary authentication or verification by the ECB that the protocol abides by a number of rules that protect consumers. Enforcement against bad actors is difficult when you are interacting with protocols, but warnings or verification checks shows that regulators are coming to terms with the idea that the technology requires a different approach than we have currently have in place. If you are interested further details can be found here.

The US regulators have become more focussed on getting their legislation progressing through the channels of power, it seems largely as they realise others are doing the same and it may leave them disadvantaged. United States Senators Cynthia Lummis and Kirsten Gillibrand proposed their legislation. The Responsible Financial Innovation Act proposes a comprehensive set of crypto regulations for the digital assets sector. This has in turn seen many in the industry lobbying for and against proposals, engagement is indeed a positive.

Notably this month Sam Bankman Fried, the founder of the trading platform FTX and significant contributor to political candidates issued what he termed his crypto-regulatory manifesto "Possible Digital Asset Industry Standards." The proposals generated a great deal of debate. The debate morphed over weeks from quite hostile to eventually something constructive, or at least a consensus to agree to disagree on some key points.

The majority of the proposal was accepted or at least understood. What's a security? Some processes around hacks and rewards for the hackers in identifying the flaws. Ways to navigate OFAC lists and tainted coins that have been held in sanctioned addresses. Customer protections and suitability as well as changes to rules allowing those who pass knowledge based tests to trade as opposed to means testing. The main point of contention was his ideas around regulating the DeFi space.

The proposal that caused greatest consternation was as follows –

1. The following activities would potentially require some license/registration/etc.:

a. An American hosting a website on e.g. AWS that actively provides a front-end that encourages and facilitates US retail users to trade on decentralized protocols

b.Actively marketing DeFi products to US retail investors

WE THANK YOU FOR THE OPPORTUNITY TO STEWARD YOUR CAPITAL INTO THE FUTURE OF FINANCE

While in theory this sounds rather benign the reality is that undermines a large part of the ethos of the space. He acknowledges that maintaining free, decentralized validators and smart contracts is absolutely crucial for DeFi. But draws the line at the point where the on ramp happens. That is, it can be a throttle point to which the regulators can deny or approve access to the service. The idea is that DeFi is code, free speech and access should be restricted only by your lack of access to technology. You should under all circumstances be able to have access to financial empowerment regardless of your political, religious or economic standing. Lofty goals for sure and while for many the proposal would ensure some degree of safety the enforcement indeed seems nebulous and open to overreach.

Some of the criticism was personal flagging his role as donator to politicians. Adam Cochran of Synthetix and Yearn Finance called the rules “a moat that lets centralized entities control at least part of the flow into DeFi.” Others pointed out that you can’t claim to believe in effective altruism, as Bankman Fried does, and impose rules that exclude marginalized at-risk people in far away nations. To his credit he engaged in the conversation with his detractors.

What it indeed highlighted was there will need to be compromises made, regulation is inevitable. While the purists argue from their libertarian perches that we need to let markets sort out the order. On the other side we have the incumbents looking to protect their centralised fee generating patches. These two opposing positions both are looking to expand the opportunity set of digital assets and appealing to the politicians who at best are regulating to protect investors and as worst are regulating to be voted back in. At FCAM we remain hopeful that the regulatory touch remains light and can allow the full potential of the space to be realised.

In the words of Joseph Joubert - The aim of argument, or of discussion, should not be victory, but progress.

WE THANK YOU FOR THE OPPORTUNITY TO STEWARD YOUR CAPITAL INTO THE FUTURE OF FINANCE

Disclaimer

Fort Canning Asset Management Pty Ltd (CAR) is a corporate authorised representative of Boutique Capital Pty Ltd (BCPL) AFSL 508011, CAR Number 1284461. CAR is an investment manager of the fund(s) described elsewhere in this document, or in other documentation (Fund).

To the extent to which this document contains advice it is general advice only and has been prepared by the CAR for individuals identified as wholesale investors for the purposes of providing a financial product or financial service, under Section 761G or Section 761GA of the Corporations Act 2001 (Cth).

The information herein is presented in summary form and is therefore subject to qualification and further explanation. The information in this document is not intended to be relied upon as advice to investors or potential investors and has been prepared without taking into account personal investment objectives, financial circumstances or particular needs. Recipients of this document are advised to consult their own professional advisers about legal, tax, financial or other matters relevant to the suitability of this information.

The investment summarised in this document is subject to known and unknown risks, some of which are beyond the control of CAR and their directors, employees, advisers or agents. CAR does not guarantee any particular rate of return or the performance of the Fund, nor does CAR and its directors personally guarantee the repayment of capital or any particular tax treatment. Past performance is not indicative of future performance.

The materials contained herein represent a general summary of CAR's current portfolio construction approach. CAR is not constrained with respect to any investment decision making methodologies and may vary from them materially at its sole discretion and without prior notice to investors. Depending on market conditions and trends , CAR may pursue other objectives or strategies considered appropriate and in the best interest of portfolio performance.

There are risks involved in investing in the CAR's strategy. All investments carry some level of risk, and there is typically a direct relationship between risk and return. We describe what steps we take to mitigate risk (where possible) in the Fund's Information Memorandum. It is important to note that despite taking such steps, the CAR cannot mitigate risk completely.

This document was prepared as a private communication to clients and is not intended for public circulation or publication or for the use of any third party, without the approval of CAR. Whilst this report is based on information from sources which CAR considers reliable, its accuracy and completeness cannot be guaranteed. Data is not necessarily audited or independently verified. Any opinions reflect CAR's judgment at this date and are subject to change. CAR has no obligation to provide revised assessments in the event of changed circumstances. To the extent permitted by law, BCPL, CAR and their directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions.

This Document is informational purposes only and is not a solicitation for units in the Fund. Application for units in the Fund can only be made via the Fund's Information Memorandum and Application Form.

Contact Information info@fcam.io +61 2 9258 1085 www.fcam.io