FCAM
Decentralised Digital Investing

Monthly Commentary

OCTOBER 2023 PERFORMANCE

TOTAL NET RETURN

PERIOD	FUND RETURN
1 Month	+3.62%*
Life to date	-21.86%*

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

The Fort Stable Fund generated a return +3.62% for the month of October 2023. ETH ended 9.5% higher at USD $1810.05.

It was a poor month for traditional financial assets. Global equity markets traded lower.

The ASX was down 3.68%, the S&P lower by 4.9% and the 10y UST note was 29bp higher at 4.88% after reaching a psychologically significant 5.00% during the month.

Digital assets traded higher on the month, largely driven by speculation that Blackrock's Bitcoin ETF was about to be approved. The rumours were unfounded, but the news was enough to unwind short positioning and volatility selling in the major crypto assets, BTC and ETH.

The fund benefitted from the higher implied volatility as well as the upside price movement. Implied volatility traded around 10 vols higher ending the month around 48% for the 29 December 2023 1700 calls we own. As we flagged last month we thought the use of options was the best way to express our views – "With implied volatility on ETH options still near recent lows we think this is the best way to position going into the final quarter of the year given the uncertainties around ETF approvals and various legal challenges to SEC enforcement actions." We expect that this pattern will persist for the foreseeable future.

Our ETH positioning over the month increased from 19% long to 30% long. While we are comfortable maintaining our long exposure at this level, we will adjust our options strikes to limit any downside losses while giving further upside exposure for the month ahead.

This month we will discuss the macro outlook and how that backdrop supported crypto as well as the idiosyncratic news on BTC.

Macro news and views:

Geopolitics, an inflationary outlook that remains in transition and a robust US economy with GDP at the top end of expectations were features of last month .

Geopolitics:

The sad, depressing state of affairs in the Middle East unnerved markets and remains a point of concern particularly with regards to energy security. While this crisis continues to unfold it will continue to be reflected in higher volatility and uncertainty.

The Resilient economy:

Viewing an economy through the lens of "in aggregate" vs "Anecdotal" remains the main challenge forecasters and participants. The FED are attempting to manage the economy at the aggregate, where the economy is largely doing ok according to the data points, while the media and the lived experience of many, is of an economy that is mixed at best. Expectations for an imminent recession that have been in the narrative for the last 12 months and that expectation remains elevated for many pundits, that expectation remains largely unfulfilled. Credit card debt exploding while people are paying more than 21%, Commercial real estate remaining distressed, and the Regional Banking system is propped up by FED support. The larger banks are still struggling under the weight

of unrealised losses in their bond books, all this limits credit creation. That's the anecdotal.

The aggregate story is that is that the US economy remains robust. Unemployment sits at historically low levels and corporate profits remain robust. The US economy remained resilient, GDP grew by 1.2% in the third quarter of 2023 and 4.9% YOY, faster than expected and a pickup from the 0.5% growth in the second quarter. Consumer spending accelerated, despite a fall in household disposable income, with government spending and an inventory build-up also contributing significantly to growth. Unemployment rate remained contained coming in at 3.5% in October, near a 50-year low. Inflation remains in flux, its cooled slightly in October, with the Consumer Price Index (CPI) rising in line with expectations, there are however some very large wage negotiations that have been agreed that will spook a few that we have self-sustained inflationary spiral driven by wages leading to higher costs etc. That seems unlikely for now but equally we are some ways away from the FED target of 2%. All items, less food and energy, the index known as core inflation rose 4.1% over the last 12 months.

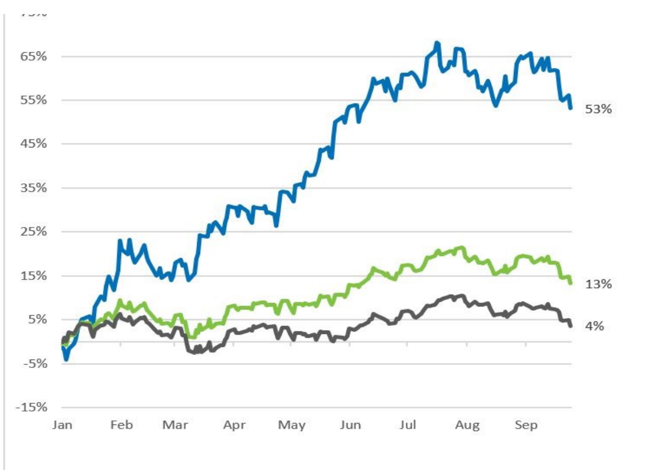
Post Covid the US and global authorities passed a lot of legislation that has offered support to the economy. Equally they have issued a lot of debt to facilitate this. There is a time lag between passing of policy and its impact on the economy and we are right there now, the sweet spot. The first nine months after the enactment of fiscal stimulus legislation have tended to lead to very little spending. The early quiet period is followed by a steep increase in spending in the first and second full years. From here spending plateaus before falling off. According to this pattern, 2023 is the first year of peak spending, which helps explain why the economy has shown such "surprising" strength and why recession continues to remain forever "on the horizon."

As we have flagged the poor US Bond Market performance and its volatility have been a feature of this year so far. US bond yields rose sharply in October, reaching their highest levels in over a decade. The yield on the 10-year Treasury note traded close to 5% most of the month, levels not seen since 2008. While US treasury secretary brushed away the idea that the rise in yields were driven by excess debt issuance rather they were a result of the "robust economy" kind of misses the circularity of the argument. Indeed the US economy is growing fast, but it's because of fiscal support, funded by debt issuance. Fiscal support has never been this high, 8% of GDP, while unemployment has been this low. The Treasury expects to borrow nearly $1.6 trillion in net new debt during the six-month period covering this quarter and next, it's hard to imagine that the move in longer dated bond yields is yet done for this cycle. Interestingly while the issuance is being absorbed mainly in shorter dates the concern the bond market is reflecting is that this patten of fiscal dominance isn't going to be reversed.

Globally there are significant headwinds economically in China, where the flagging property sector and weak consumption remains a headache for the PBOC. The RMB remains very weak and is being supported by the authorities. This is being done via the recycling of trade surpluses into buying the RMB versus buying US assets and bonds which further exacerbates the move in US yields as one of your largest buyers is absent. The Japanese equally see the YEN at extremely weak and potentially vulnerable levels, the BOJ are still yet to raise rates and while they are working on normalising their bond curve and adjusting their policy of Yield

This is weakening their currency and as such to supporting their currency will see them selling US Bond holdings. All in all there is very little support from the US treasury markets largest holders that will slow its selloff. In Australia the RBA's new Governor, Michelle Bullock, certainly seems to have inherited and economy that continues to have inflationary issues that will require her attention.

Lastly Equity markets had a tough month, trading off over 10%. The US has seen a very concentrated group of companies dominate the index returns, and while their earnings were generally good, their outlook was a little less clear. The magnificent 7 as they are being referred to are completely dominating the returns of the US indexes, this concentration is clearly a risk, many pundits flag an index having a lack of breadth is often a precursor to a correction. See chart below from Qontigo. During the month of October we had results from Amazon that were positive, Meta that were exceptional, Tesla and Google were viewed as disappointing, even given that better than expected quarter of returns equities struggled.



The FED has never tightened this aggressively with debt/GDP at 120%, deficits/GDP around 8%, or US Net international Investment Position at -65% of GDP. Volatility is likely to remain elevated for the foreseeable backdrop and participants will look for safe havens. Gold has traded well as has Bitcoin which leads us to commentary on the positive moves of the last month.

The Digital Asset Outlook

Its all about BTC ..

The narrative for the month was driven by the theme of Institutional adoption and acceptance of Digital Assets. The focus initially has been on the likely approval on the 12 pending applications for a Bitcoin Spot (BTC) ETF. While there have been applications submitted for consideration for a long time the attitude of the SEC appears to be different this time round. The SEC is engaging with the issuers it seems as they amend their applications seemingly after SEC feedback. The expectation is that the decision will be made by January 10th next year, however it could be before.

Larry Fink, the Head of Blackrock, was quoted over the month talking up the prospects of a BTC ETF but more importantly his view of its importance in a portfolio of assets. He flagged the non-correlative features of BTC to improve the risk adjusted returns of a portfolio and also its role as a safe haven. The safe haven aspect of the comments was for us the most interesting aspect of his comments. Particularly given the outlook that we can draw from the above macro outlook. A US treasury issuing $1.6trillion of bonds over the next 2 quarters, a long end that is exhibiting a great deal of stress and a political backdrop that remains globally uncertain.

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

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

BTC this month has de-correlated from risk assets and for now its attributes of scarcity have seen it buck the idea that it can't perform in an environment of higher rates. This may not last but as the levels of adoption and acceptance increase its value will also commensurately adjust. We have come a long way to have the head of the world's largest asset manager do a full 180 degree turnaround on his views on crypto assets and BTC specifically.

What's next on the ETF ?

Having the asset available in this readily tradable ETF form will force the traditional investment advisory community and the market generally to engage with the asset class, it won't force them to buy, it's now just easily available. This engagement is positive and the institutional acceptance will further spur innovation and hopefully the perceived value.

There are still, however, a variety of issues however that need to be ironed out.

The potential market makers on the ETF is potentially limited to a small group, this is largely because the US banks, who are normally active in this space, are restricted by capital adequacy and accounting rules that make participation uneconomic. This in itself is not a huge problem but rather reflects that the acceptance and regulation of the asset class is not being conducted uniformly.

The second issue is that there is an expectation that all 12 of the applications would be approved at the same time to avoid conflicts of interest or accusations of favouritism. The Greyscale trust remains a sticking point. The structure was set up as a trust to allow access to BTC when ETF's weren't available, one of the features of a trust is the inability to redeem, rather you just need to find another buyer for your shares. This structure was fine in a bull market as people suspended the belief that it could ever decline and the idea you wouldn't find another buyer happy to hold the asset was laughable. The Trust for a long time traded at a premium as it was the only vehicle that was allowed inside a US investors 401K, over the last 18 months its traded at times at a significant discount. The manager of this trust is the DCG group who also ran the Genesis lending business that has a variety of legal issues and an overhanging threat of bankruptcy or restructure. The expectation is that this trust would also apply to be converted to an ETF however given their issues this remains a point of potential pain for the market and the regulators.

The price action while encouraging this month in expectation of approval was to a certain extent driven by positioning also. There have been some significant sellers of call options in all digital assets as holders looked to try an generate a yield or return on their holdings. The options market is still quite nascent in digital assets and the moves higher saw some significant buying demand as the sellers of these options had margin calls and had to unwind these positions and the dealers needed to manage strikes and short gamma positions.

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

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

The real interest for us is the medium term, Galaxy estimates that inflows to potentially approved spot bitcoin ETFs could reach $14.5 billion in their first year and more than $38 billion in their third year. This premised on the idea that most advisers will now engage with the asset class and become advocates for a small allocation of BTC purely for diversification reasons. There are numerous studies on the benefits, the costs have been the management of the exposure in a physical manifestation or the costs in a futures format. The ETF makes that decision easy to implement and mitigates the real issues that advisors highlighted. One of the significant players in the space is Ryan Rasmussen who heads Bitwise who are applying for a spot ETF, as indicated in the tweet below, is finding that financial advisors are encouraging in their reception to progress on the ETF.

Digital Assets have had a positive and interesting month. Markets are driven by many things and individual assets can mean different things to different investors. Digital Assets have unique characteristics, in the case of BTC it's a store of wealth versus currency debasement, it can be a safe haven asset like gold and equally it's aligned with a unique technological movement of blockchain. The last 12 months have seen the Digital Asset space held down under the weight of higher rates, they were viewed as a risk asset with no yield, facing regulatory headwinds and a lack of acceptance in the mainstream. Over the year the narrative has slowly turned, Global rates have seemingly peaked, while debasement of the USD through excessive debt issuance and fiscal dominance looks likely to continue and lastly, this month the noises around the ETF signal a level of mainstream acceptance. The momentum on the ETF is positive, but equally through periods of narrative transition there will likely be some volatility. We are hopeful that we are at the beginning of a more constructive phase.

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

FCAM
Decentralised Digital Investing

DISCLAIMER

GENERAL PRODUCT ADVICE/MARKETING DISCLAIMER (Fund)

Fort Canning Asset Management Pty Ltd ACN 644 513 431 (Fort Canning) is a corporate authorised representative (CAR) (CAR Number 1284461) of Boutique Capital Pty Ltd ACN 621 697 621 (Boutique Capital) AFSL 508011. CAR is an investment manager of the fund(s) described elsewhere in this document, or in other documentation (Fund).

This document contains general advice only and has been prepared by Fort Canning 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 Fort Canning and their directors, employees, advisers or agents. Fort Canning does not guarantee any particular rate of return or the performance of the Fund, nor does Fort Canning 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 Fort Canning's current portfolio construction approach. Fort Canning 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, Fort Canning may pursue other objectives or strategies considered appropriate and in the best interest of portfolio performance.

There are risks involved in investing in the Fort Canning'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, Fort Canning 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 Fort Canning. Whilst this document is based on information from sources which Fort Canning considers reliable, its accuracy and completeness cannot be guaranteed. Data is not necessarily audited or independently verified. Any opinions reflect Fort Canning's judgment at this date and are subject to change. Fort Canning has no obligation to provide revised assessments in the event of changed circumstances. To the extent permitted by law, Boutique Capital, Fort Canning 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 for 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