PORTAL
ASSET MANAGEMENT

Market Commentary - November 2022

1. The FTX Fraud Showed the Importance of ODD, Custody and Counter Party Risk Assessment and Mitigation
2. Crypto Assets Impacted by a Centralised Financial Institution's Fraudulent Behaviour
3. Outlook - Initial Green Shoots Expected in 2023
4. The Institutions Keep Investing in Infrastructure
5. PDF Exposure to FTX Limited to 3.8% due to ODD Procedures

Market Overview

November was a month that will be remembered in the cryptocurrency and digital asset ("crypto assets") markets as the month FTX collapsed and the shock waves it sent through the crypto asset ecosystem. This all started back in November 2021 with the initial liquidity crunch and the pullback in risk assets sparked by sharply rising rates and has now come full circle.

The Portal Digital Fund (PDF) finished November down -9.7% net of fees vs the overall market as represented by the CCI30 Index down -17.7% and BTC down -16.3%. The PDF's exposure to FTX was limited to 3.8% of FuM, which was due to our rigorous ODD and stringent investment process.

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Most investors never truly analyse and assess the direct correlation between leverage, liquidity and volatility. Put simply, when volatility rises, liquidity falls as all investors rush to the exit, and leverage exacerbates the downward spiral with forced selling to cover margin. This is known as "Reflexivity", and reinforces the panic and fear inherent in behavioural economics.

The initial spark that caused a fire sale in risk assets was the Fed's eventual acknowledgement of rampant inflation in November 2021. This exposed the liquidity mismatch of Terra Luna, Celsius and leverage combined with poor risk management of 3 Arrows Capital

in May, June and July respectively, leading to their demise and further selling pressure in the crypto asset markets.
Most hedge funds and professional investors had reduced gearing and were conservatively positioned by August. As volatility fell and markets regained confidence, October saw a rally in risk assets. What was lurking in the shadows was the colossal depth of losses on Alameda's balance sheet caused by negligence, incompetence, mismanagement of risk, (not using "stop – long pause -losses") client funds laundered and directed to political donations, excessive marketing and even luxury real estate acquisitions, all covered with a fraudulent issue of FTT, FTX's native token, to balance out the hole on the balance sheet. In a bull market this would have gone unnoticed for a while longer, much as Bernie Madoff's ponzi scheme only unravelled once he faced redemptions post the 2008 GFC collapse. In a bear market, there is no liquidity and nowhere to hide.

Portal's Investment Thesis

We reiterate that the most important aspect of our DD process is how we address and mitigate the operational risks of investing in the crypto asset market, as well as how we navigate these in the future.

It must be noted that FTX collapse was due to mismanagement and fraud, not anything wrong with the crypto industry or blockchain technology and highlight that although this has been a hit to the industry and has resulted in a loss of confidence and reputational damage, it has not been an 'industry killer' and will be positive for the industry in the long run with increased oversight and regulation.

The market remains concerned with further contagion such as hedge funds and some more bankruptcies especially among trading firms, but we believe we have seen the worst of it and the market is in a bottoming phase. We want to be positioned to have cautious upside exposure in the next 6 months. Institutional investors will come back once they see contagion is gone as we have some momentum performance wise.

We remain cautiously confident: Many large, well-run institutions such as Goldmans and Fidelity are continuing to roll out infrastructure and invest in this space and although the perception as demonstrated by price is poor, the underlying news flow in the 'real' world is still positive as per the latest snippets below:

Goldman Sachs on hunt for bargain crypto firms after FTX fiasco
LONDON, Dec 6 (Reuters) - Goldman Sachs (GS.N) plans to spend tens of millions of dollars to buy or invest in crypto companies after

the collapse of the FTX exchange hit valuations and dampened investor interest.

[Fidelity Launches New Retail Crypto Trading Accounts]
Investment giant Fidelity has launched Fidelity Crypto, a new retail crypto trading platform. Fidelity is the third largest asset management company in the world, with $4.3 trillion assets under management and 40 million clients. These clients will now have an easy means to invest in crypto assets via the Fidelity Crypto platform.

[Morgan Creek Founder Predicts $250K Bitcoin Within Five Years]
Mark Yusko sees exponential growth in bitcoin through network adoption, the founder and CEO of investment-management firm Morgan Creek Capital Management, says bitcoin could reach $250,000 within the next five years.Yusko told CNBC's Trading Nation on Friday that's because bitcoin is more than just a store of value. It's "about network adoption and increased usage," he said. "This is a network, and networks grow in an exponential way. This is the fastest network in history to $1 trillion, right on the heels of the FAANGs that took 15 - 20 years depending on which one you look at."

Conclusion

We reiterate that we continue to believe that crypto assets provide the best long-term opportunity of all asset classes and will outperform significantly when global macro-economic conditions moderate and confidence in risk assets and this sector is restored.

The FTX debacle is negative for this young asset class as it has caused a substantial short-term loss of confidence, amid fears of contagion risk and general deleveraging and in some instances panic. We do believe that this is specifically a CeFi (centralized finance) problem and does not affect DeFi (decentralized finance) – which should benefit from these events as more people realize the risks associated with centralized entities in the digital asset sector.

The use of cryptocurrencies and crypto smart contracts continue to perform well and the global community using them continues to grow as adoption moves up the technology S-Curve, so it is inevitable that this young asset class will recover. Furthermore, as oversight and regulation are implemented, it will grow as large institutions and sovereign funds secure their stake in what we continue to believe is the future of banking, payment systems and a commerce tech platform.

Please feel free to contact me should you have any enquiries.

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