

April 2018

*Portfolio Manager's comments*

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After a difficult first quarter markets entered the second quarter on a much better mood. The crypto market had a strong April with the fund up 57.74% and Bitcoin up 32.51% fueled by a catch-up rally on Alt coins. The fund is currently outperforming both Bitcoin and the portfolio of the TOP10 highest market caps.

Historically the first quarter has been challenging for the crypto market as shown in the table below (data from the past 5 years when it became more tradable):

YEAR	1Q	2Q	3Q	4Q
2013			37,7%	466,9%
2014	-39,4%	40,0%	-39,5%	-17,3%
2015	-23,7%	7,7%	-10,3%	82,4%
2016	-3,2%	61,6%	-9,4%	58,1%
2017	11,2%	131,5%	74,9%	226,3%
2018	-50,7%			

This year the crypto tax burden on Americans was very high due to the massive capital gains during 2017. It is estimated that approximately \$25 billion of *Crypto Tax* was paid on a base of approximately \$145 billion. The SEC is still discussing how to regulate this new frontier, but Uncle Sam is very happy.

During April we were very active trading BTC x Alts. As we diminished our Alts underweight during the March sell-off we started the month practically neutral. During the first 2 weeks we went overweight in Alts which paid off handsomely. During the last few days we reduced again our Alts overweight to lock in the gains which generated the bulk of the Alpha for the month. One can think about Alts as a higher Beta play so it is an important leverage mechanism to time the market. We continue to be overweight operational systems (via EOS) and underweight money movers (via Ripple). Due to market conditions we didn't trade our Gamma Book but we decreased our cash position to capture the market improvement, we are currently 97% long. We also did a few intra Alts swaps that did quite well, to name a few: we reduced our overweight Litecoin position into Tron; we decreased our underweight IOTA position after their [partnership news](#) became public; we reduced our BCH position x BTC given the strong outperformance during the month.

This month we signed the SAFT (Simple Agreement for Future Tokens) for the KEEP ICO and settled the transaction. Tokens should be available late on 2Q and these will be marked at cost until they get listed on exchanges. We have been invited to participate on the second round of [Dfinity](#) ICO (another ICO that was led by Andreessen Horowitz and Polychain Capital) and are finalizing our analysis on their utility vis a vis valuation.

In May we will participate in the main crypto conference event of the year called [CONSENSUS](#), Last year they announced some great projects of which [EOS.IO](#) was an important one.

EOS is our largest overweight position since Day 1 of the fund. When we initially bought them, it wasn't even in the TOP10 highest market caps but slowly made its way to 5th position (overtaking Litecoin) with \$14.5 billion market cap after a 100% YTD nominal return and a staggering 193% return during April alone. [Block.one](#) is the company behind this protocol, which we follow closely since their initial equity raise in June 2017 to start development and build their roadmap. They have a well-known team and solid track record lead by their CEO [Brendan Blumer](#) and their CTO Dan Larimer. EOS structured their ICO very differently from the industry standard., for a 350-day period they are issuing tokens daily (ending in June 2018). They used this unique format to spread their tokens among a wide community and to avoid the notorious pump & dumps that unfortunately happen with many ICOs. They have raised an astonishing [\\$3 billion](#) so far. On April 5<sup>th</sup> they announced the latest version of their code, [Dawn 3.0](#) that was very well received by the developer community. This third-generation protocol is the foundation where developers can build Decentralized Applications (DAPS) with massive scalability. They have also announced several strategic JV Partnerships:

- \$325mm JV with Mike [Novogratz's Galaxy Digital](#) for EOS.IO Fund

- \$200mm JV fund with Michael Cao and Winnie Liu to Accelerate Asia-Focused EOS.IO Ecosystem Development, called [EOS Global](#)

- \$100mm [FinLab AG](#) JV to Accelerate Development of EOS.IO Projects in Europe

- JV with VC firm [Tomorrow Blockchain Opportunities](#) to form Blockchain Focused Fund

We continue to be very excited with this project. We will be following it closely as they are less than 5 weeks away from launching their blockchain.

This month we participated in a very interesting webinar organized by Cumberland with several crypto hedge fund managers and the main discussion was Institutional Investor participation in this ecosystem. It is becoming clearer everyday that it is no longer a question of *IF* but *WHEN* these investors will enter. The infrastructure to service these clients is being built, interesting [podcast](#) on this subject by an ex-State Street employee.

For those who are interested there is a great 5-episode documentary from 2013 called [The Ascent of Money](#) by Niall Ferguson, which is a great lesson on financial history.

Interesting announcements/comments:

- [Nasdaq](#) is considering becoming a digital currency exchange
- [Reuters survey](#) shows 56 Finance Firms preparing to get involved in cryptos
- Bitcoin becomes [Shariah Law compliant](#)
- [Samsung](#) starts building ASIC chips for mining
- [Germany's](#) second biggest stock exchange unveils crypto trading app
- [Soros and Rockefeller](#) funds prepare to start trading crypto currencies
- [Andreessen Horowitz](#) is preparing to launch a separate fund for crypto investments
- [Monex Group](#), Japanese online brokerage in Japan takes over Coincheck
- [Russian Hotels](#) will accept Bitcoin payments during World Cup
- [European](#) countries join Blockchain Partnership

### Monthly estimated return

	Jan	Feb	Mar	Apr	May	Jun	YTD 2018
<b>Genesis</b>	-16.00%	-5.17%	-37.38%	57.74%			-21.31%
<b>Bitcoin</b>	-27.80%	1.73%	-32.93%	32.51%			-34.73%
<b>TOP10</b>	-21.20%	-12.40	-41.64%	53.12%			-38.32%

### Tech corner

When analyzing different protocols one often comes with the discussion of which Consensus Algorithm it uses. No consensus algorithm is perfect, but they each have their strengths. In the world of crypto, consensus algorithms exist to prevent *double spending*.

There are many different Consensus Algorithms and we will try to briefly explain the most used ones in today's crypto community.

Consensus Algorithms	Description	Pros	Cons	Protocols
<b>POW (Poof-of-Work)</b>	Is the first blockchain consensus algorithm. In PoW, miners solve hard, useless problems to create blocks. PoW runs on a system of "the longest chain wins." So assuming most miners are working on the same chain, that one will grow fastest will be the longest and most trustworthy.	It works	Slow throughput, energy inefficient	BTC, ETH (*), LTC
<b>POS (Proof-of-stake)</b>	The blocks aren't created by miners doing work, but by minters staking their tokens to "bet" on which blocks are valid. In the case of a fork, minters spend their tokens voting on which fork to support. Assuming most people vote on the correct fork, validators who voted on the wrong fork would "lose their stake" in the correct one.	Energy efficient, attacks more expensive, more d ecentralized	Nothing at stake	DCR

<b>DPOS (Delegated Proof-of-Stake)</b>	Token holders don't vote on the validity of the blocks themselves, but vote to elect delegates to do the validation on their behalf. There are generally between 21-100 elected delegates in a DPoS system. The delegates are shuffled periodically and given an order to deliver their blocks in. Having few delegates allows them to organize themselves efficiently and create designated time slots for each delegate to publish their block. If delegates continually miss their blocks or publish invalid transactions, the stakers vote them out and replace them with a better delegate.	Cheap transactions, scalable, energy efficient	Partially centralized	EOS Steemit BitShares
<b>POA (Proof-of-Authority)</b>	Transactions are validated by approved accounts, kind of like the "admins" of the system. These accounts are the authority that other nodes receive their truth from. PoA has high throughput, and is optimized for private networks. You're unlikely to see PoA running on a public chain due to its centralized nature.	High throughput, scalable	Centralized	POA Network
<b>PoWeight (Proof-of-Weight)</b>	Is a broad classification of consensus algorithms based around the Algorand consensus model. The general idea is that where in PoS, your percentage of tokens owned in the network represents your probability of "discovering" the next block, in a PoWeight system, some other relatively weighted value is used.	Customizable, scalable	Incentivation can be challenging	Filecoin

<b>BFT (Byzantine Fault Tolerance)</b>	There's this classic problem is distributed computing that's usually explained with Byzantine generals. The problem is that several Byzantine generals and their respective portions of the Byzantine army and have surrounded a city. They must decide in unison whether or not to attack. If some generals attack without the others, their siege will end in tragedy. The generals are usually separated by distance and have to pass messages to communicate. Several cryptocurrency protocols use some version of BFT to come to consensus, each with their own pros and cons.	High throughput, low cost, scalable	Semi-trusted	XLM XRP Hyper-ledger
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(\*) ETH is in the process of changing from POW to POS in the coming months.  
 Next month we will explain Lightning Network and the impact that it may have.

*Fund Characteristics*

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Minimum Investment	\$100,000
Subscription	Monthly
Redemption	Monthly with 15 days pre-notice
Administration fee	2% p.a.
Performance fee	20% over Libor with High Water Mark
Administrator	MG Stover
Auditor	Cohen & Co
Legal Counsel	Walkers Global and Freitas Leite
Contact	<a href="mailto:genesis.block@blpasset.com.br">genesis.block@blpasset.com.br</a>

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