PORTAL

DIGITAL FUND

PORTAL 2020 REVIEW AND 2021 INVESTMENT OUTLOOK

Highlights

- The Portal Digital Fund has delivered an excellent inaugural track record, returning 47% over the past 3 months and 70.1% since inception in May 2020.
- 2020 was a turning point in the global economy with the Pandemic exposing the inadequate returns of both equities and fixed income for the given risk.
- Digital currencies became accepted as a mainstream investment due to the perceived debasement of currency cause by unlimited printing of money in the form of quantitative easing.
- Issues for investors to consider when allocating capital in 2021:

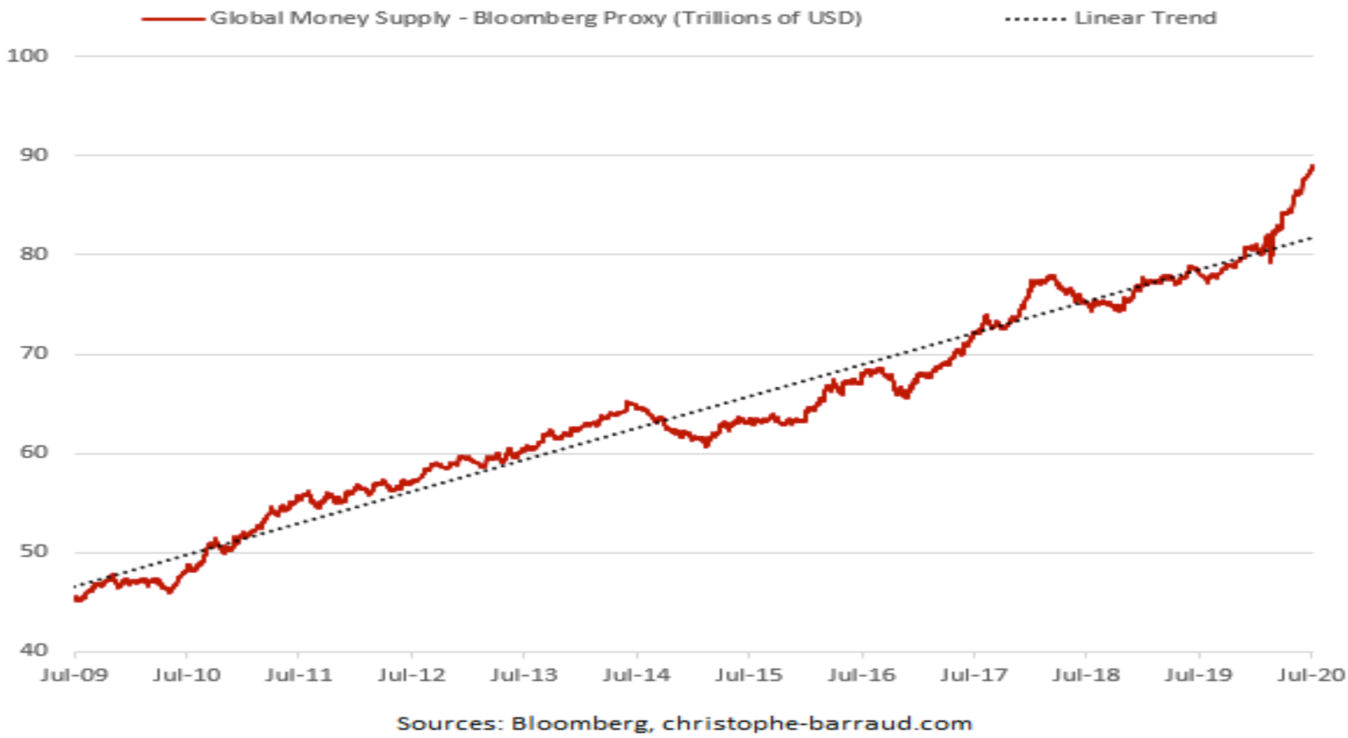
1. Whether a large monetary overhang can stoke consumer price inflation through the debasement of fiat currency?
2. Are corporate earnings going to justify the current lofty equity valuations?
3. Can interest rates go any lower or stay this flat indefinitely?
4. Is real estate immune from this crisis given the continued growth in online away from bricks and mortar and rising vacancies?
5. Is expansion of alternative uncorrelated investments in a portfolio an option or a necessity?

Introduction

2020 will be marked by future generations as a pivot point in shocking the world away from the familiar global socioeconomic systems and philosophies that have dominated everyday life since the fall of communism at the end of the last century. Some have called this the "The New Normal" or "The Great Reset", but we believe this is an abnormality in the normal, steady evolution of mankind.

The global pandemic that began in January 2020 resulted in a synchronised global lockdown and cessation of almost all economic activity - from travel, tourism and entertainment to retail and manufacturing. This resulted in a 30% drop in Q2 2020 global real GDP, negative oil prices and a massive spike in unemployment. To counter the looming global depression, central banks printed US$8 trillion of money (aka "quantitative easing") and injected unprecedented and indeed previously unimagined liquidity as the "Great Reflation" continued the monetary policy experiment that started with the Global Financial Crisis (GFC) in 2008.

This has led to a concern about the future real value of Fiat currencies and resulted in an unnaturally inverted yield curve. What was risk-free return, is now return-free risk in the world of credit as rates went negative for the first time in history. Never before have global interest rates been pushed so hard towards zero across so many countries, with massive increases in fiscal deficits on top of historically high debt levels as per the chart below.



Outlook for the Global Markets

With the rapid development and deployment of a vaccine we think that 2021 will be defined by a return to more normal conditions, albeit with ever greater monitoring and surveillance of our movement and health. This feels odd to write, as the global pandemic rages and many lives remain disrupted with the second lockdown in effect in Germany, UK and the USA. But we think that it will be true. The two most important factors therefore for investors to assess in 2021 will be inflation and volatility in both financial markets and the economy

Aggressive policy action in the first half of the year by central banks and governments has engineered a strong rebound in equity markets and a general belief that the world will overcome the Covid crisis with less damage than initially expected.

Global equities have fully recovered their losses during the pandemic's first wave, despite global corporate earnings collapsing by almost 60% – catapulting the P/E ratio to 28X at current price levels. However, most of the gains have come from only three sectors: information technology, consumer discretionary and healthcare.

These sectors, together with communication services (which were expanded to include social media companies in September 2018), benefitted the most from the shift to online in the new virtual office and retail environment. There is however no visibility for a Main Street recovery as the second lockdown decimates an already struggling working class. We must remember that technology stocks themselves are cyclical and if the middle-class consumers that are their customers can no longer afford their product, they will see a rapid reversion in their very expanded multiples. The most powerful force in the markets over the long-term is reversion to mean. At some point the super normal growth expectations will become normalised.

The year ahead should see economic growth recover in the second half of 2021, as control of the virus improves and uncertainty declines. Challenges remain, 'new normals' will materialise at the micro level and although we doubt that the recovery will be a smooth, one-way street, we do think that things will be better than in 2020.

The Case for Alternatives and Crypto

We must remember that Bitcoin was born in the GFC of 2008, and during the Great Pandemic Recession of 2020 it has acted as a catalyst for digital assets as respected companies like Fidelity, MicroStrategy, Square and PayPal voiced their approval and put capital into digital assets. Digital currencies are at an inflection point as they are no longer just embraced by early innovators and adopters, but by the mainstream and institutions.

As above, the search for yield in a world of no inflation continues and with the amount of money being created, we will eventually see a real debasement of currencies. Owning Bitcoin is a great way to defend oneself against reflation, given the concerns expressed above. As Satoshi Nakamoto, the anonymous creator of Bitcoin stated in an online forum around the time he launched Bitcoin in 2008, *"the root problem with conventional currency is all the trust that's required to make it work. The central bank must be trusted not to debase the currency, but the history of fiat currencies is full breaches of that trust".*

The real opportunity though in the digital currency space lies in Decentralised Finance or "DeFi". The DeFi vision is to create a decentralised financial system that offers the same financial products and services seen in traditional finance without the need for a central authority. One of the core tenets of DeFi is composability, a design feature meaning that the components of a system can be connected to each other. In this way, the different products and services in the DeFi ecosystem can be linked together to create new products. The applications for this are indeed exponential and whatever valuations are currently applied to this space, they will be underestimated greatly in hindsight.

Asset Allocation Decision.

The four issues for investors to consider when allocating capital are:

1. Whether a large monetary overhang in the recovery phase will eventually stoke consumer price inflation through the debasement of fiat currency. Our prediction: Yes, sooner than we think. The transfer of wealth from Main St. to Wall St. and Silicon Valley continues.
2. Are corporate earnings going to justify the current lofty equity valuations and market multiples given the collapse in consumer demand? Our prediction: No, not possible given the destruction of wealth and savings we are witnessing as we go into Lockdown 2.0.
3. Can interest rates go any lower or stay this flat indefinitely, and what does this mean for the yield curve and investing in bonds? Our prediction: Yes, and No. At some point risk will need to be compensated for as inflation returns.
4. Is real estate immune from this crisis given the continued growth in online away from bricks and mortar and rising vacancies? Our prediction: No, real estate is commoditised space and exists to enable commerce, both retail and corporate, and manufacturing. Where does the income and cash flow to support rentals come from? This is the real bubble, along with corporate HY bonds.

As above, we have no confidence in the outlook for the traditional asset classes and believe that investors should tilt their portfolios to alternatives. We further believe that digital currencies provide a real solution to the current money-printing crisis and furthermore our fund provides a real uncorrelated risk-adjusted return in a world of no growth and no inflation.

Portal Digital Fund 2020 Review

The launch of the Portal Digital Fund was initially planned for March 2020 but delayed due to the panic and extreme volatility across all global securities markets in March and April. The PDF launched in May with US$500,000 and has since grown to US$2m in funds under management and has an excellent inaugural 7-month track record, returning 9.3% over the past 3 months and 35.6% YTD.

We have increased the funds we invest in from an initial five to a current eight and have built a solid database of funds that we follow on a monthly basis. We are in the process of internally launching a higher-volatility fund that will target returns north of 50% p.a. net of fees and will roll this out into a formal fund in H2 2021.

We are also in the process of adding additional members to our team, specifically on the business development side and have two part-time quantitative analysis who have been assisting in building out our factor screening models and portfolio construction tools. We are well poised for future growth in 2021 and wish you and your families a very Merry Christmas and all the best for the New Year.

Description

The Portal Digital Fund (the "Fund") is an actively managed Global Multi-Manager Fund focused on the digital currency investment space. The Fund seeks to achieve medium to long-term growth through investing in a diversified portfolio of 5-10 specialist fund managers running uncorrelated digital currency trading strategies. The Fund is focused on absolute returns and expects to generate substantial outperformance with lower volatility versus the CCI 30 Index, the benchmark for digital currencies. The Fund's targeted returns are 25% p.a. over a rolling 5-year period net of fees.

Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2019	1.9	1.9	2.1	10.5	12.7	9.4	2.8	3.2	-5.2	8.1	6.4	-3.3	61.6
2020	7.8	1.5	-0.9	8.1	3.7	-0.3	1.9	0.5	0.3	2.6	6.2		35.6

Fund Characteristics:

- Uncorrelated to global equity, currency and debt markets.
- Access to best-of-breed global fund managers specialising in digital currency-related strategies via a rigorous due diligence process.
- Absolute return investment objective with managed volatility, seeking consistent incremental growth in capital.
- A robust risk-management approach, with an unrelenting focus on capital preservation.
- High liquidity and low exposure to systematic market risk.

Investment Strategy

Our core thesis is predicated on our firm belief that 'everything is about to change' as digital assets become the fourth superclass of assets. As the digital currency market formalises and becomes regulated, it continues to represent a new frontier for accredited investors to seek superior risk-adjusted returns that are uncorrelated with traditional equity and debt markets. These markets are inefficient and represent substantial sources of alpha for skilled investment managers.

Our experienced team brings an institutional-grade investment approach combining both quantitative and qualitative investment analysis with prudent portfolio construction to provide access to this emerging space. We aim to consistently deliver positive performance with reduced volatility via uncorrelated strategies that achieve upside as the sector grows and which preserve capital in down-markets via diversification across differing systematic trading strategies.

Based on our comprehensive and rigorous due diligence process, we provide investors with access to the best global fund managers specialising in digital currency trading strategies via investment in a diversified Fund providing solid returns irrespective of the direction of the digital currency markets.

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