

# DNA Tracker Fund

Fund up +169.9% from Dec '20 launch to 24 Aug

Investment Funds

30 August 2021

We update our review of the DNA Tracker Fund (the “Tracker Fund”), recently launched to Australian wholesale investors. The Tracker Fund is an unlisted feeder fund - open to Australian investors - for the Cayman Islands domiciled TCM Digital Asset Fund (the “Global Fund”) which invests in a narrow basket of crypto currencies (“crypto”, “token”). The Global Fund has been operating for over three years and is audited by KPMG. The Tracker Fund offers a more secure entry into crypto markets for investors with a medium to long term investment horizon. The Tracker Fund provides a professionally managed structure with Australian standard custody and trust structures to protect investors cashflows and security of fund investments. This year, since launching in Dec 2020, the Tracker Fund has performed broadly in line with an index of the top 10 crypto tokens (by market capitalisation) while providing a slightly less volatile return to investors via a secure, investment grade, structure. The Tracker Fund is aimed at high-net-worth investors aiming to allocate 1-5% of their portfolio into digital assets. The fund is available via the Australian Money Market online investment marketplace, or directly via the Mainstream hosted online application.

## Fund overview

The DNA Tracker Fund (the “Tracker Fund”) was established in December 2020 and was made available to investors in February 2021. The Tracker Fund is an Australian domiciled and regulated fund with an industry standard Australian Unit Trust structure. The Tracker Fund can only invest in securities in the TCM Digital Asset Fund (the “Global Fund”). Since starting the Tracker Fund the manager, Digital Native Assets, has moved the trustee role for the fund to Quay Wholesale Fund Services – an independent provider of services to wholesale funds. Mainstream Fund Services now act as administrator of both the Global Fund and the Tracker Fund, which has enhanced the accessibility of information and online experience for Tracker Fund investors. The Tracker Fund’s Investment Memorandum was launched on 21<sup>st</sup> May and marketing efforts stepped up subsequently. The Tracker Fund is now available to investors via the Australian Money Market online investment marketplace and directly via the Mainstream hosted online application.

## Performance update

We last reviewed performance to January 2021. Returns for the period to August have been volatile with a 38% drawdown in May – which nevertheless leaves fund performance since launch in December 2020 at +169.9%. The Crypto-currency market has been driven by strong reactions to global events and commentary in a generally unpredictable way and continues to exhibit extreme volatility. In this environment the Global Fund has successfully tracked the Bitwise 10 Large Cap Crypto Index measure of the market’s movements. The Tracker Fund has similarly delivered a close translation of the Global Fund performance to Australian Investors.

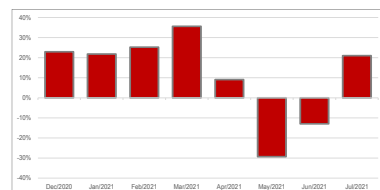
## Conclusion

The DNA Tracker Fund continues to offer an effective way for Australian wholesale investors to invest in crypto assets and currencies. The Global Fund is a quantitatively based means of tracking crypto market movement while managing liquidity and counterparty risk and offers an institutional grade investment vehicle. The recent changes to Trustee, Custodian and Administrator have increased the robustness of the investment structure.

### Fund details

APIR Code:	QWF1678AU
ISIN:	AU60QWF16788
Unit Price Est (24 <sup>th</sup> Aug 2021)	\$2.69

### DNA Unit performance since launch



### Investment strategy

The DNA Tracker Fund invests in TCM Global Digital Asset Fund which in turn invests in an underlying portfolio of Crypto assets and currencies

### Investment return objective/detail

- Provide an institutional grade investment solution to Australian wholesale crypto investors.
- Medium to long term investment horizon
- Minimum investment is \$10,000 from a qualified (wholesale) investor
- Fund is only available to those who qualify as wholesale clients or sophisticated investors (as defined by s 761G of the Commonwealth Corporations Act 2001)

### Fees and other costs

**Total cost to investors for DNA and TCM.**  
 Management fee – 2% of gross value of fund  
 Performance fee – 20% of fund return (after management fees and fund expenses) with a high-water mark.

### Investment Team

Steve Bellotti	CEO & CIO DNA
Fred Pucci	Legal & Compliance DNA & TCM
Tim Breen & James Walker	Distribution DNA
Jon Deane	CEO TCM
Bob Tucker	COO TCM
Kosta Kourkoumelis	Fund Operations TCM
Will Hamilton	Portfolio Management TCM

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## Key Points

- Tracker fund Trustee and Custodian moved to Quay Wholesale Fund Services.
- Administration now provided by Mainstream Fund Services.
- Performance volatile but strongly positive since Tracker Fund launch in Dec 2020.
- Global Fund closely tracks Bitwise 10 Index with lower volatility.
- Tracker Fund translates Global Fund performance efficiently.

## Target Investors

DNA and TCM are targeting investors who are interested in the returns and diversification benefits of holding crypto assets and currencies for the medium to long term but are averse to the risks and costs of investing directly. DNA's focus is on high net worth (and ultra HNW) investors and professional investors who are allocating 1-5 % of their portfolios into digital assets.

## Portfolio Structure

The Australian domiciled DNA Tracker Fund invests only in the Global Fund, so we focus on the Global Fund investment process.

The Global Fund aims to invest in a portfolio drawn from the top 20 tokens by market capitalisation, providing a core holding in the largest market capitalisations crypto assets, such as Bitcoin and Ethereum, while seeking to generate Alpha from its investment in the smaller market capitalisation crypto assets. TCM is actively focused on managing the operational risk of the Fund and continues to refine processes and engage with new service providers to take advantage of new capabilities in the industry. The Global Fund recently went live on the Coinbase platform for both trading and custody services, which offers best in class institutional grade trading and custody capabilities. Since Bitcoin and Ethereum are the dominant assets in the sector the manager maintains a core holding of 50 – 70% of the portfolio. Remaining investments are selected from the top twenty tokens based on market capitalisation. TCM runs a quantitative selection programme to identify the seven tokens with the highest momentum scores<sup>1</sup> and risk weights those scores to determine a capital allocation. The investment Committee applies a quantitative screen as an additional risk overlay on investment decisions.

## Global Fund Performance Update

We extend our performance analysis by an additional 6 months from January 2021. Using back-tested data gives a performance track-record of over five years. We again compare the Global Fund performance to the Bitwise 10 Index which commenced in January 2017. The index is constructed similarly to equity capitalisation weighted indices with some adjustments to reflect the nature of crypto vs equity securities.<sup>2</sup> We note that the Global Fund does not benchmark itself against the Bitwise 10 Index and uses a different token selection process.

Performance data presented below highlights the extreme volatility of crypto pricing and the remarkably high returns so far. The Bitwise 10 Index over 1 year is up 2.9 times while the Global Fund return is up 2.8 times. Despite the substantial return this remains a value detracting performance with an excess return of -10.9%. However, over the full actual performance of two years, the Global Fund is now ahead of the benchmark return by 22.8%.

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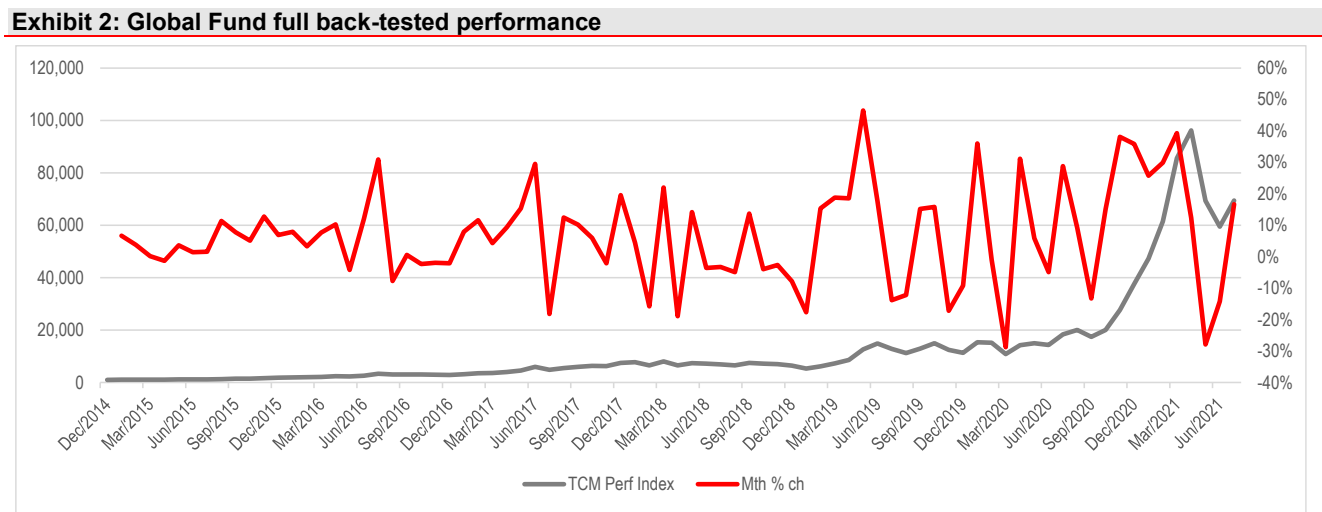
<sup>1</sup> Using z-score = no of standard deviations from the mean of the distribution to indicate rising or falling capitalisation momentum.

<sup>2</sup> <https://www.bitwiseinvestments.com/indexes/methodology>

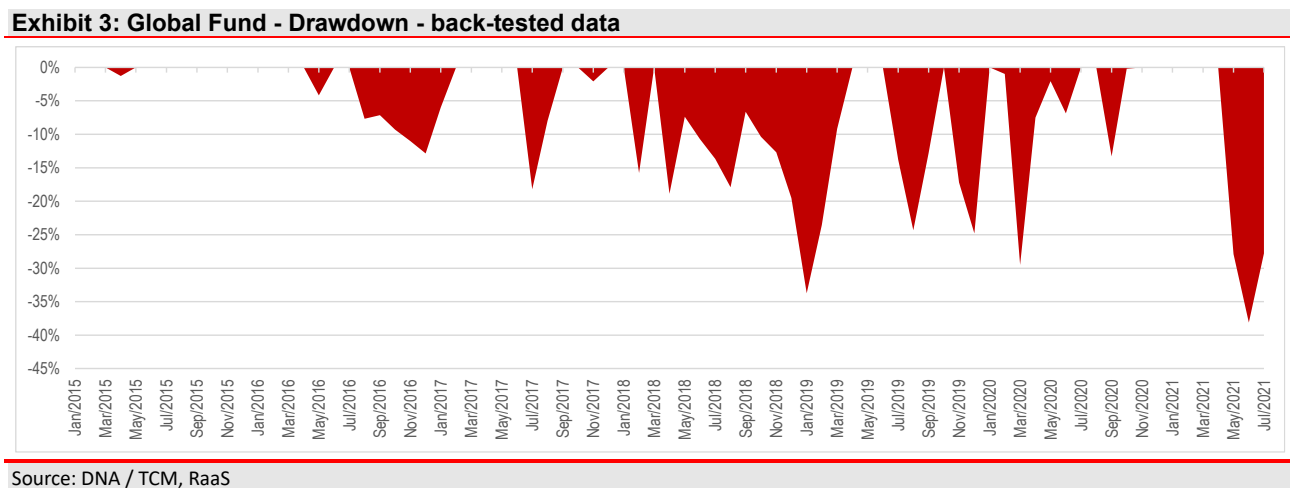
**Exhibit 1: Performance Table - Actual (A) and Back-tested (E) data**

Performance to 31/07/2021 US\$ basis,	1Mth A	3Mth A	1Yr A	2Yr A	3Yr E	5Yr E
Global Fund p.a. return	17%	0%	278%	133%	116%	84%
Benchmark - Bitwise 10 Index p.a. return	15%	3%	289%	110%	60%	n.a.
Excess Return	2.1%	-2.9%	-10.9%	22.8%	55.4%	n.a.

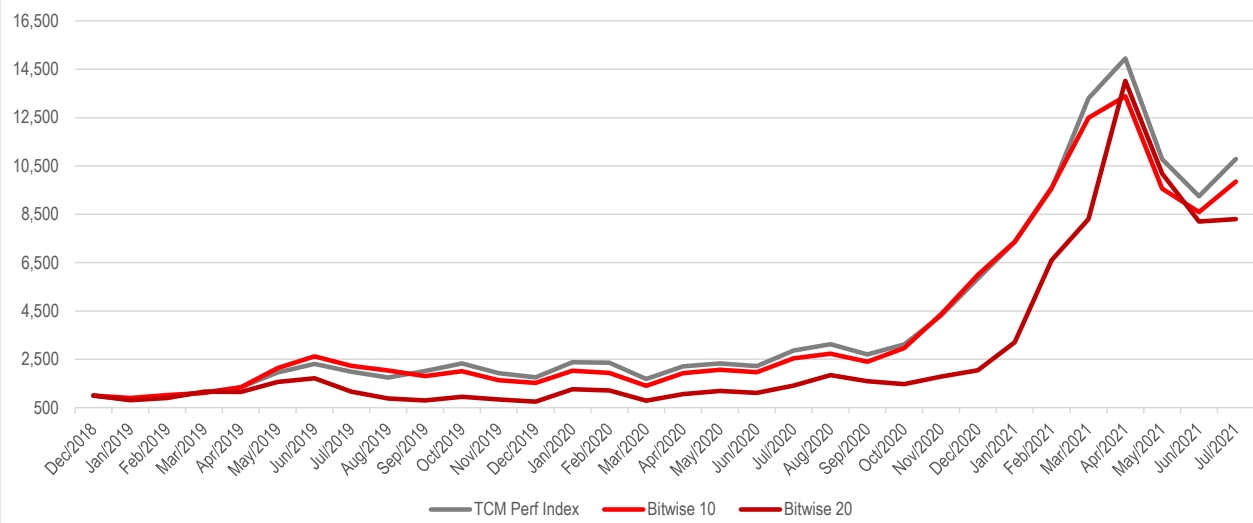
Source DNA, TCM, RaaS



The performance history shown above highlights the extraordinarily strong recent returns of the Global Fund but also highlights the scale of monthly movements - from -29% to +46%. Volatility remains high. The chart below emphasizes this, showing a maximum drawdown of -38.1% in May 2021.



**Exhibit 4: Global Fund Actual Performance vs Benchmarks**



Source: DNA / TCM, RaaS

Since our previous analysis fund tracking error has been stable at 3.44 and remains substantial. Correlation of returns rose from 41% to 44% improving the information ratio from 0.62 to 0.68.

**Exhibit 5: Risk: back-tested 12 Mth returns**

	Fund	Bitwise 10 Bmark
Standard Deviation 12 Mth Returns	1.49	3.83
Tracking Error = Standard Deviation 12 Mth Excess Returns	3.44	
Coefficient of Correlation 12 Mth Returns	44%	
Information Ratio 1 Year(s)	0.68	

Source RaaS

The actual fund performance data shows higher volatility of returns for the fund at 1.89 but still lower than the index - reducing the tracking error of excess returns to 0.46. I.E., the actual fund maintains a lower volatility than the index. Naturally, the correlation of returns is closer at 99% versus 91% up to January 2021.

**Exhibit 6: Risk: 12 Mth actual returns**

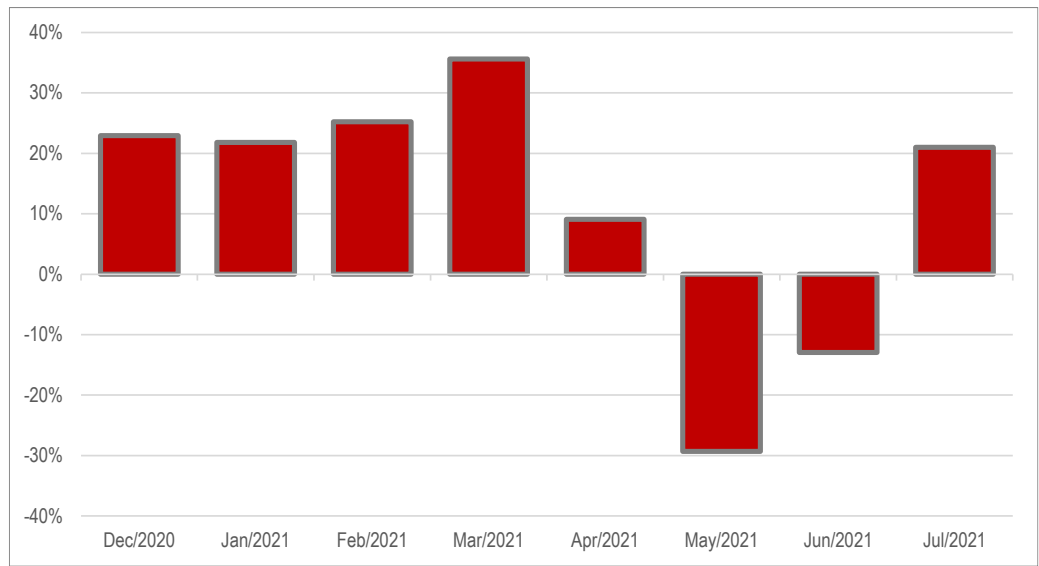
	Portfolio	Bitwise 10 Bmark
Standard Deviation 12 Mth Returns	1.89	2.19
Tracking Error = Standard Deviation 12 Mth Excess Returns	0.46	
Coefficient of Correlation 12 Mth Returns	99%	

Source: RaaS

Overall, the fund continues to match the Bitwise 10 Index returns but does not exceed the benchmark over the last 12 months, however over two years the fund is ahead. The main reasons for investing in the fund remain the difficulties inherent in buying crypto directly or attempting to match the index performance as an individual investor.

The DNA Tracker Fund performance history from the Fund’s more recent launch date is presented below in local AUD terms.

**Exhibit 7: DNA Tracker Fund - Actual Performance since launch**



Source: DNA, RaaS

## Key Fund Details

**Name:** DNA Tracker Fund (Australian Trust)

Eligible Investments:	Shares in the Global Fund
Distribution:	153 East Partners Pty Ltd (Australia)
Arranger:	Digital Native Assets Pty Ltd (AFSL 515 204) (Australia)
Administrator:	Mainstream Fund Services (Australia)
Trustee & Custodian:	Quay Wholesale Fund Services Pty Ltd
Legal	Baker McKenzie
Regulator:	Australian Securities & Investments Commission (ASIC)
Bank:	Westpac Banking Corporation
Minimum Investment:	AUD 10,000
Eligible Investors:	Wholesale Investors (Australia & New Zealand)
Fees:	1% management fee pa
Subscription:	Monthly
Redemption:	Monthly
Lock-up:	None

**Name:** TCM Digital Asset Fund (Regulated Mutual Fund Co)

Eligible Investments:	Top 20 crypto assets, as defined by the Manager.
Investment Manager:	TCM Global Asset Management Ltd (Bahamas)
Investment Advisor:	TCM Capital AM Pty Ltd (Australia)
Administrator:	Mainstream Fund Services (Australia)
Auditor:	KPMG (Cayman)
Custodian:	Coinbase Global, Inc. (US) (primary) Kingdom Trust Company (US) (secondary)
Regulator:	Cayman Islands Monetary Authority (CIMA)
Bank:	Signature Bank (US)
Legal:	DLA Piper (US) Stuarts Walker Hersant Humphries (Cayman)
Fees:	1% management fee pa / 20% performance fee

Source: Digital Native Assets Fund Information Memorandum

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**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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