

A decorative graphic consisting of a grid of squares. The grid is 5 squares wide and 7 squares high. The top row has 2 squares. The second row has 1 square. The third row has 1 square. The fourth row has 3 squares: a grey square, a red square, and a blue square. The fifth row has 3 squares: a yellow square, an orange square, and a grey square. The sixth row has 1 square. The seventh row has 5 squares: a grey square, a grey square, a grey square, a grey square, and a grey square. The title 'SIFT Monthly Report' is positioned to the right of the grid, overlapping the second and third rows.

SIFT Monthly Report



SMART INVESTMENT FUND

Smart Blockchain Trading and Managed Investment Portfolio

Website: SmartIFT.com
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November 2017

Results and Executive Summary

Trading in the November 2017 period saw a profit of \$33,862.97. As no fees are currently due and Logical Trading Systems will cover the tax implications of this month's trades, this gives a distributable profit of \$16,931.49 and a dividend-per-SIFT of 2.342 cents. Those that hold SIFT in their own wallet (and not in EtherDelta) as of December 4th at 10:00 GMT will be eligible for dividend payments. The conversion rate will be based upon the value of ETHUSD at 10:00 GMT on December 4th. Dividends will be paid over a 24-hour period and should all be paid by 10:00 GMT on December 5th.

The profit is a gain of 2.45%. This is an improvement on the October 2017 period dividend but, as projected last month, is still below our 4% target.

A YouTube live stream will take place at 20:00 GMT on Monday 11th December to discuss this report. Questions submitted to ico@smartift.com before 23:59 GMT on 10th December 2017 will be answered during the live stream. The link to the live stream will be made available on 11th December via the SIFT website and Telegram chat room. The live stream will be later than usual due to James currently being in hospital.

The November period can be summarised as follows:

- A profit of \$33,862.97 was realised from cryptocurrency trading
- A small amount of forex trading occurred using Logical Trading Systems' own funds for a profit of \$4,404.77 with no more than \$2,500 margin used at any point in time
- The fund tested trading with CFDs at a small scale to help reduce liquidity issues that we had previously seen
- Numerous OTC and exchange trading options are now available to the fund meaning that liquidity is not posing the same problem that it was
- Progress has been made establishing the RAIF vehicle in Luxembourg but the legal process is not yet complete
- Logical Trading Systems is establishing a legal presence in Germany to gain access to banking partners that will allow instant OTC transactions
- The cancelled Segwit2x fork and market manipulation around BCH pricing led to difficult trading conditions

- The forex market has been slow with fewer trading signals than usual for the time of year
- Applications for Grail alpha testers are now open
- Numerous algorithmic changes have been implemented in Smart VSA
- Internal software to help SIFT enter and exit trades as well as automating trade reporting has been conducted with a new trading application developed
- Work has continued developing a trading bot, however it is not yet ready for public demo
- The Telegram chat room now has a formal community manager – Jelle
- We are proposing to change how daily trading updates are posted making the process less formal
- Several extensions are proposed to current trading techniques that fit within our risk profile – each of these will be voted upon between December 11th and 18th and include
 - Forex
 - Automated trade entries
 - Arbitrage
 - Position building
 - Market making
- December's results should be in-line with November's

Market Conditions

With Bitcoin gaining 80% of its value in a single month and single day losses in many cryptocurrencies of over 20% this has been an extremely volatile trading month. A lot of the volatility appears to have been driven by market manipulation and rumour speculation. The cancelled Segwit2x fork and the planned pump of BCH caused significant turbulence in the market. There were several days that the fund did not trade due to inherent unpredictability from hour to hour. The final two days of the month saw cryptocurrencies surpassing all-time highs followed major drops in their price within hours.

These conditions have impacted the fund in both positive and negative ways. There has been a greater liquidity of all major pairs this month. Whilst positions in DASH and XRP are still somewhat limited in their liquidity BTC and ETH have not proven difficult to enter or exit over the course of a few

minutes. This is far better than the 30 minutes to exit a trade we saw in October.

The unfortunate consequences to this the increase in volume appears to have been several exchanges having capacity issues at the busiest times of the month. This has been witnessed, in part, by huge pricing differences between exchanges with Bitcoin prices differing by over \$1,000 at various times between exchanges. After the cancellation of the Segwit2x fork the fund was unable to close a trade for profit at the time due to these issues. Whilst the trade eventually closed out for profit the fund was exposed to risk in the intervening time. Aside from technical issues to enter or exit trades the news has also presented some very high-risk trading periods where the fund has chosen not to enter trades.

The biggest problem the fund has had in November, with regards to entering trades, has been the timing of signals. The cryptocurrency markets were mostly stable with major signals happening around 2-4pm GMT. These have moved a few hours earlier in the day which have prevented James entering trades. Whilst we still do not believe it makes sense to spend the time training up a trader in another time zone at this moment we have proposed some technical solutions to this problem which are described later in the report.

We started forex trading with LTS' own funds this month. Only a small amount has been traded for demonstration purposes this month with the largest lot size traded being 5 full lots. November had far fewer signals than we would expect for this time of year. It is usual that forex trading slows down significantly in December but the impact has been felt slightly earlier this year. Nonetheless, the timing and liquidity in forex is not an issue and so entering with much larger lot sizes, if the fund does vote to trade forex, will not be an issue. The fund has only made entries based on daily signals this month but could extend this further to H4 analysis to trade on more short-term moves.

Statement on Ability to Trade

The main exchange order books have presented better liquidity over the last month which has removed some of the issues that were previously announced. Despite this, Logical Trading Systems has continued its

administrative processes to access new financial partners. This has addressed many of these issues.

In the last month the fund has seen several OTC partners come online. OTC allows large trades (over \$100,000 or \$250,000 depending on the trading partner) at a fixed price. Once a price is agreed the fund sends payment via bank transfer and the cryptocurrency is released once that transfer has been received. As most trades are conducted in USD this is typically via SWIFT and can take up to a week to complete. It is only somewhat possible to offset buys against sells whilst fund transfers complete. This means that the funds for the trade can be locked up for up to a week. With fixed pricing and an ability to exit before funds have completed means that the trade would not be exposed to risk for the whole of that time it does mean that the funding is locked in the banking system and that limits the potential to enter additional trades. We also have some OTC partners that do not trade during very chaotic periods in the market.

To best use OTC we have selected a couple of OTC partners and are in the process of opening bank accounts with the same banks as them. A couple of these banks are based in Germany. This does not require Logical Trading Systems to incorporate a sub-company in Germany but it does require a local presence and entry on the trade register. The company is currently going through this process prior to opening a bank account in the country. This should make instant OTC orders a possibility in early 2018. With current liquidity this is not a major concern but to mitigate against future periods where liquidity drops substantially we are taking these steps.

The fund also commenced some small-scale trading with cryptocurrency CFDs this month. CFDs allow a guaranteed price for entry and exit with no concern about liquidity. When entering a CFD SIFT does not actually own any cryptocurrency but is merely entering a contract to agree to pay or receive the spread between open and close prices. Order book liquidity and OTC size limitations generally mean that the fund can only enter large trades that are likely to move a few percentage points. Smaller projected moves can end up making a loss just due to the spread. CFDs mean that even a tiny move, if it is greater than the spread, can result in a profit. We tested small trades just moving between VSR levels when a valid signal was present and found that entries and exits were not a problem. This approach can give many more low-value trades per day. The fund is currently looking at proceeding further with CFD trading once the RAIF is established and we can open and fund new brokerage accounts.

The process of establishing the RAIF is proceeding. All legal documents are now complete, have been notarised in Luxembourg by those with power of attorney to complete the rest of the work of establishing the fund and initial 30,000EUR of share capital has now been contributed. We are still hoping that the legal process should be complete in December. At this point we will be able to open accounts and banking for the fund and move trades over.

Software Development Update

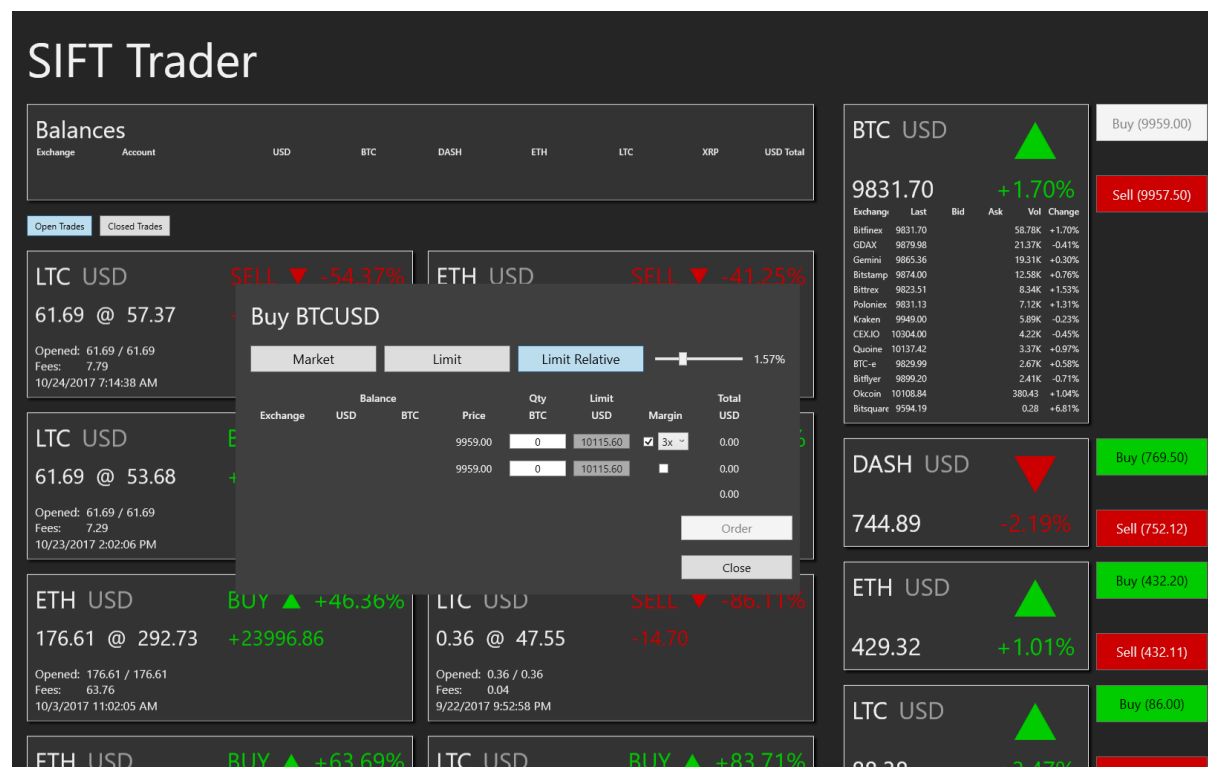
Behind the scenes there has been a lot of software development this month to support both Smart VSA and SIFT. To reduce risk, in order to support a future trading bot and to help automate the logic around entries, a number of improvements have been made to the Smart VSA algorithm. These include:

- Improvements that generate more finely-grained VSR levels
- Tightening of criteria for various signals to reduce the number of times they occur
- AI advisor has added several new alerts and changed restrictions on others – many of these are around ensuring the location of signals looks right when the market is trending in strange ways
- Visual improvements to help more rapid analysis

These changes reduce the number of signals that occur without an AI alert but increases the certainty of those signals as well as providing more fine-grained guidance on future price movement. SIFT is now benefiting from these changes.

To counter the issues we have seen with exchanges' capacity growth we have been working on an in-house trading application (currently termed SIFT Trader). This system presents a market-wide view of many exchanges, their order books and pricing information. It allows us to place orders on multiple exchanges simultaneously based on various criteria. Once an order is placed our systems then continuously retry order submission until they succeed or market conditions have significantly altered. This helps ensure that orders can be placed when they would otherwise fail and removes human error from the equation. This system is undergoing testing and should be in daily use by the end of the year. Only some of this will be of interest to SIFT-holders at this point, however it should be noted that such a system is also being developed to allow us to employ traders in the future without granting

them full access to trading accounts and fund money. We see this eventually becoming a plugin to Grail for full internal use as we grow the business further.



The development of Grail has also continued this month and now includes the enhancements made to SmartVSA as well as the capability to build bots on top of the software. This is discussed in more detail later in the report.

Finally, some preliminary work was done building the order processing engine for an exchange. EtherDelta's interface continues to pose problems for SIFT-holders and a combination of low market capitalisation, low trading volumes and the dividend-paying status of SIFT have resulted in many exchanges not being interested in listing SIFT. The Telegram community have taken it upon themselves to create a SIFT trading chat room and we are watching how the situation progresses.

If we do see further problems with people wanting to trade SIFT then there is the potential that we will launch an exchange for SIFT-holders at that time. This would also mean we could pay anybody who was holding their dividends in our exchange at the time of dividend announcement. We have a proof of concept for the order engine and a lot of the technologies built out for Grail and SIFT Trader could be used. Despite this it is still a lot of work to develop a functioning exchange. If the current market remains functional then we will not work on this further, however our initial analysis has shown

it is possible for us to create our own zero-fee exchange for SIFT if required in the future.

Proposed Trading Extensions

Throughout November many SIFT-holders have asked whether liquidity problems are sorted and if that means the fund is trading with 100% of the fund's underlying value. The two issues are not necessarily linked. Whilst we can now enter larger trades that still does not mean we will enter them.

SIFT allocates a percentage of the fund as a reserve and then splits the rest between different cryptocurrencies so that there is a maximum exposure. These figures vary over time but currently stand as follows.

Type	Amount
Reserve	296,275
BTC	533,295
DASH	59,255
ETH	414,785
LTC	118,510
XRP	59,255

Whilst the prudent reserve is fixed the other values are maximums. This means that the total maximum exposure the fund will ever have to Bitcoin is \$533,295 based upon the current fund value. Within that we then make risk-associated calls to determine how much to invest in a single trade. This might mean that we determine a trade has a lower certainty level than another and, as such, we only place \$100,000 on the trade. A recent DASH trade made \$1,924.45 profit but only had 17% of the maximum trade entered. In this example a strong signal was present in a very unpredictable market that had already seen DASH rise and fall within a day. An assessment was made to only risk a small amount of capital. Whilst the fund could have seen a \$11,131 profit from this trade had the full amount been executed it could have also seen a loss of a similar amount based upon the market movements later in the day.

This risk analysis means that the only time we would ever have the entirety of the non-reserved fund involved in a trade would be when we had at least the following conditions across every single trading pair:

- A very strong signal with no AI-based alerts

- Good market liquidity
- Signal indication supported by short, medium and long-term market movements
- Range for price movement within VSR levels

As this would have to happen across all trading pairs in a reasonably short timeframe it is extremely unlikely we would ever see the entirety of the fund being used in trades at once.

There have been concerns the fund is not using all the money that has been raised. In the example of the DASH trade if we had initially raised \$160,000 rather than \$1.6 million then, despite having the funds available to enter a \$10,000 trade, the trade would have been entered for only \$1,000. The overall profit would have therefore also been a factor of ten lower.

Despite this, we do understand that this leaves a lot of the fund not being traded at any point in time. To improve the number of trades that the fund makes and overall profitability we are proposing several extensions to our trading methods that we believe still fit within SIFT's risk profile.

These will all be subject to a vote that runs from December 11th for a week. Any SIFT-holder that is eligible for the December dividend run will be eligible to vote.

The proposals are:

- Forex trading
- Automating trade entries
- Arbitrage
- Position building
- Market making

Forex Trading

The first proposed extension is forex trading and it was mentioned in the November report. This is to allow the fund to also trade forex pairs as well as cryptocurrencies. The fund will allocate a percentage of the balance to trades using a similar risk profile. Forex trading not only completely removes liquidity issues but works well over longer periods. The timing of forex charts means that the time of entry is not a concern whilst the fund's only trader remains based in America. Having only performed a small number of sample trades with minimal margin risked we've seen a good

return even during a quiet month. We believe that forex trading on an ongoing basis will allow us to increase the monthly profits and number of trades.

If SIFT-holders vote yes to this proposal then forex trading profits from November and December will be allocated to the fund's next dividend run. Full forex trading would commence in December. We will be recommending a yes vote to this.

Automating Trade Entries

The main reason we have missed some trades in November has been the timing of those moves – either overnight or at weekends. It is not practical to be present for all these moves and we often only get one strong signal in a 24-hour period. We are proposing automating the entries of a select number of trading signals with no human input.

A lot of the work done to Smart VSA over the last few months has made this possible. There are several new AI advisor alerts that invalidate signals. These perform additional location checks to ensure that everything “looks good” in the same way that a human trader assess a chart. In addition to this, the definitions of signals have been tightened up to prevent them triggering in certain market conditions and we have improved our market aggregate pricing and volume feed so that it best represents overall market trends.

This combination results in very few trades passing all the tests we would require for an automated entry. We may only see one or two signals per week that would be valid using these criteria. When we see them, however, they work very well. We are proposing automating the entries to certain signals under these very strict conditions. Only a portion of the fund will be used to enter these signals, alerts will be sent to people to monitor the trade from that point forward and all trade exits will be human. The automation will also only run during times that trading is not being conducted manually by James. This is very much a supplement to rather than replacement of the human factor.

Whilst there is always some risk to automation, we believe that the numerous restrictions we have placed on these entries reduces this risk to be in-line with our existing risk profile. Automated trade entries, if agreed to, would likely start in January 2018. We will be recommending a yes vote to this.

Arbitrage

Arbitrage opportunities sometimes present themselves to the fund. Arbitrage is where a price difference exists between two exchanges. There are opportunities for near-zero-risk arbitrage that appear. These trades happen with a short-sell at the exchange with a higher price followed by a buy on the exchange with a lower price. The cryptocurrency is then transferred over and the short-sell is settled. Not all exchanges support settling shorts but these opportunities do exist each month and present easy profit for the fund if USD balances were already in place.

There are further arbitrage opportunities that we could also take advantage of. We currently have accounts approved with exchanges located in China, Japan and Hong-Kong. We do not use these for day-to-day trading but often see a continuous price discrepancy of more than 3%. When markets are moving sideways the fund could take advantage of these price differences. The fund would be exposed to risk for the duration of the transfer (up to an hour with Bitcoin or minutes for Ethereum) at which point the trade could be closed. Since we don't usually trade from these exchanges we would then need to transfer funds via SWIFT and SEPA before redepositing it at EU/US exchanges. This whole process can take a week. The risk of price changes during the move can be further reduced by only taking advantage of arbitrage when a strength signal is received by Smart VSA. We do not open trades on all strength signals but there are some that occur regularly that would give enough confidence, when twinned with a 3% price difference, that the move was safe.

A daily arbitrage of 100,000 USD with an average gain of 2% would see around 60,000 USD per month in profit assuming it operated daily. Performing arbitrage on this scale would likely tie up approximately \$500,000 of the funds' money at any point in time as \$100,000 per day would be in the SWIFT system. This would still leave ample trading opportunities.

We have been studying arbitrage opportunities, particularly when twinned with Smart VSA strength signals for entry points, for some time and believe it to be eminently viable. If SIFT-holders vote for this the fund would commence arbitrage once the RAIF was fully established in January. We would envisage gradually increasing up to a 100,000 USD daily arbitrage fund over Q1 2018. We will be recommending a yes vote to this.

Position Building

The main way that SIFT trades is by finding high-certainty Smart VSA signals and entering based on a risk profile. The fund only trades a certain percentage of signals and avoids trades around other signals to keep in line with the risk profile of the fund. This approach, whilst risk-averse, does mean that the unique nature of cryptocurrency markets is not captured as fully as it could be.

To take advantage of other movements, SIFT are proposing that we formally add accumulation and position building to the trading mix. This is the process of SIFT determining a market direction and slowly building the position over a target number of days. Rather than just accumulating at defined intervals or price points we would use Smart VSA signals to determine accumulation points. For example, if we determine that Smart VSA indicates a medium-term up-trend in BTC we may accumulate up to \$100,000 in Bitcoin over a 7 day period adding \$5,000 each time we receive a strength signal at the bottom of a short-term down move on thirty-minute charts.

There are many reasons to do this:

1. Having the fund in trades more of the time
2. Take advantage of more of the funds' value
3. To utilise more of Smart VSA's signals
4. Further reducing liquidity concerns with staggered buy-ins

We aim to buy in to positions in larger quantities after down moves. Overall this tends to give positions that have a lower average buy price and, as a result, are of lower risk with a higher profit.

A similar approach to this was tried during the accumulation for the Segwit2x fork but maintaining current trading rules to only buy with very strong signals. This gave a dollar-value averaged price of highs and lows and an eventual exit target that was reached.

By combining traditional concepts of accumulation with Smart VSA we can take advantage of medium-term market moves and see more of the funds' value involved in trades at any point in time.

Where a strong signal comes to enter a trade in-full we would be able to conduct that in parallel to the accumulation.

If the fund votes yes to position building using Smart VSA we would commence this technique immediately across all coins. We will be recommending a yes vote to this.

Market Making

Market making is providing both buy and sell side orders in a market. During times of sideways movement markets tend to see approximately half the orders going to the sell side at any point in time whilst half go to the buy side. Offering both a buy and a corresponding sell side order allows a trader to profit from the spread on an ongoing basis. Whilst this is often a small amount per trade it can be replicated all day, every day, to become a much a larger amount.

Market making is not related to Smart VSA but does allow a portion of the fund to be used at any point in time across numerous exchanges. Market making is at the lowest risk in when Smart VSA performs its worst during sideways movements. Adding market-making trades to SIFT during these times would help to keep the fund involved in trades every day.

To effectively use market making the entire process needs to be automated and tied in with the rest of SIFT's systems. A vote for us to commence market making would likely not result in this being part of our daily activity until Q2 2018 whilst we develop and test the inhouse systems to support this.

As market making does not directly use Smart VSA (other than to indicate what times we should be market making in a low-risk fashion) we remain neutral on this position. We see this offering increased profits without a major change to our risk profile but are also aware that this may be construed as a change to SIFT's overall offering. As such we remain neutral and will leave this decision up to SIFT-holders themselves.

Summary

The level of trading we have seen this monthly is likely to increase over time to the 4% per month returns that we have predicted. Despite this most of the funds' value will not be in use at any one point in time. To better take advantage of this we are proposing several changes that will allow us to use more of the fund more often and increase profit levels.

With any of these changes SIFT will remain a risk-averse trading fund that uses Smart VSA to analyse markets. That will continue and at no point are

we suggesting that the current cryptocurrency trading paradigm stops or changes. These proposals are to supplement them to make the most effective use of capital whilst keeping within our risk profile.

Grail

The Smart VSA cryptocurrency trading platform was announced last month. Work has continued to develop the system to such a point that we've integrated the latest Smart VSA changes and increased the stability of the system.

We are opening applications for alpha testing to 10 SIFT-holders. Applicants must be eligible for this month's dividends. We are looking for people that are traders, will be trading on a regular basis and actively want to provide feedback on both grail and the trading accuracy to Logical Trading Systems.

Applications can be completed at <http://bit.ly/GrailAlphaApplication> now.

Bot Trading

In October we mentioned that we had been developing a bot and would be showcasing its results in due course. The focus this month has been on completing the major software changes mentioned in this document. We have now created the Grail plugin for bot trades as well as a back-testing capability within this. We are now looking at a few of our different bot profiles to determine which works best.

We are hoping to start running these in December or January and will report back in due course. Where we can create demo trading accounts with certain brokerages we will aim to run the bot for a full month to show performance in real-time.

Communications

We have now formally appointed a community manager. Jelle now forms part of the SIFT team and has been doing an excellent job as an intermediary between the SIFT founders and those in our Telegram room as well as generally helping everyone out. Welcome to the team Jelle – it's great to have you aboard.

We are currently looking at changing how we report our trades. We are committed to the weekly report but are looking at reducing the formality of our daily trading updates. Most SIFT-holders that view the daily trading report on our website tend to be those already using Telegram. Anecdotally several users have said they don't see much added from the daily trading updates whilst others want even more updates. In the medium-term (likely when SIFT Trader is completed) we will relay trades in real-time as they close. For now, we are considering replacing the formal daily update with an informal post in the main Telegram chat once a day from James and trades being reported as and when they close, rather than once per day. The weekly update would remain unchanged but this would remove the formal daily update.

If you have thoughts about the format of the daily update please contact ico@smartift.com or leave a message in the Telegram channel. We will use this to inform our decision about how best to communicate trades to SIFT-holders.

December Trading

Expectations for December should remain around the 2% profit target. Whilst we have many proposals for increasing trading opportunities and have already worked through several issues December will be a challenging month for several reasons:

- Holiday time over the Christmas period means the fund will be formally closed during the main Christmas week
- Forex markets are extremely quiet for the majority of December significantly reducing trading opportunities
- A lack of institutional investors over this time removes a lot of the signals that Smart VSA generates
- James is currently in hospital further removing some trading days at the start of the month
- Any of the proposals to extend our trading patterns will not come into effect until late in December or in January

It should be noted that whilst Logical Trading Systems has covered the tax implications of trades in September, October and November it is not possible to carry this on in the long-term. The fund always stated that tax would be deducted before allocations and Logical Trading Systems choosing to cover

the tax implications has been a gesture of goodwill. In the longer term this is what the RAIF is for. This means that in December that tax will be deducted and reported upon. This means that there will be a 20% reduction in profits for the month. This will be included on the trade spreadsheet. As soon as the RAIF is established the tax impact will once again be removed from SIFT-holders.