

A decorative graphic consisting of a grid of squares. The grid is 5 squares wide and 10 squares high. The squares are arranged in a pattern that resembles a stylized 'S' or a series of connected lines. The colors of the squares are: Row 1: Gray, Gray; Row 2: Gray, Gray; Row 3: Gray, Gray; Row 4: Gray, Red, Blue; Row 5: Yellow, Orange, Gray, Gray, Gray; Row 6: Gray; Row 7: Gray, Website/Email text, Gray; Row 8: Gray, Gray, Gray, Gray, Gray; Row 9: October 2017, Gray, Gray.

SIFT Monthly Report



SMART INVESTMENT FUND
Smart **Blockchain** Trading and Managed Investment Portfolio

Website: SmartIFT.com
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October 2017

Results and Executive Summary

The fund's first month of trading (which covers the period from September 16th until October 28th inclusive) saw a profit of \$21,289.53. 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 \$10,644.77 and a dividend-per-SIFT of 1.4724 cents. Those that hold SIFT in their own wallet (and not in EtherDelta) as of November 6th 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 November 6th. Dividends will be paid over a 24-hour period and should all be paid by 10:00 GMT on November 7th.

The profit is a gain of 1.5% which is lower than the 4% per month that we hope to return on average. The reasons for this are discussed in this report.

A YouTube live stream will take place at 20:00 GMT on Wednesday 1st November to discuss this report. Questions submitted to ico@smartift.com before 23:59 GMT on 31st October 2017 will be answered during the live stream. The link to the live stream will be made available on 31st October via the SIFT website.

The biggest issues that the fund has faced this month can be summarised as follows:

- Fundamental shifts occurred in the markets both during and following the ICO due to regulatory news related to ICOs and cryptocurrencies from both the USA and China.
- The day that the ICO closed was one of the biggest down-days in recent cryptocurrency trading. The fund closed out to USD as agreed in advance at a favourable price and mitigated further short-term losses.
- This caused a significant reduction in trading volumes as well as shifts in trading patterns.

- These changes resulted in less liquidity, fewer valid trades confirmed by our algorithms and missed trading opportunities due to the times that they occurred.
- To mitigate losses and to reduce risk the fund traded extremely cautiously – rarely risking over 10% of the total fund value at any point in time.
- Recent regulatory concerns, twinned with the fund raising more money than early estimates, resulted in SIFT not being able to work with some banking partners and exchanges that were originally planned. This further reduced trading opportunities and liquidity.
- SIFT has decided to not hold any USDT at any point – even for short periods of time. This further reduced the number of exchanges that SIFT could work with.
- The Smart VSA algorithms have been developed to detect more risky trading scenarios in the current marketplace.
- As the fund raised more money than expected it has been possible to restructure the investment part of SIFT so that it is based as an offshore fund for taxation purposes. A RAIF based in Luxembourg (so it is still subject to European legislation) is being created. This will mean that trades have a 0% tax implication to SIFT-holders. Logical Trading Systems will cover the tax implications of trades during September-October period.
- Two votes have been held this month looking at how dividends should be paid and whether-or-not to redeploy the SIFT contract. Both these votes occurred successfully.
- To increase liquidity in the short-term, as well as to further benefit from the new investment fund that has been established, SIFT is proposing that the fund is able to trade forex pairs in addition to cryptocurrency pairs.
- Based on market analysis SIFT is not proposing an extension of crypto-crypto or crypto-fiat pairs in the near future.

- Logical Trading Systems' standalone cryptocurrency trading analysis platform is to be called Grail will be ready for alpha testers in December. The first batch of alpha testers will be chosen from SIFT-holders that apply.
- To increase trading opportunities, SIFT has been heavily developing an automated trading bot. SIFT will be revealing more details about this over the coming month and proposing that a portion of the fund is traded using the both.
- Some liquidity and exchange issues have been solved but the legal transfer of trading assets to the investment fund and the opening of new accounts will cause some delays over the coming weeks.
- SIFT expect cryptocurrency profits to be up slightly in November but still below the 4% target. The expectation is that cryptocurrency profits will begin to rise once the new legal fund entity is fully established in December.
- SIFT will be trading forex assets in November using \$100,000 of Logical Trading Systems' own funds. If SIFT-holders vote to allow the fund to trade forex pairs then any profit from these trades will be allocated to the fund. This would bring the monthly profit above target expectations.
- The fund holds a small balance of Bitcoin Gold that will be credited to SIFT-holders.

Market Changes

SIFT launched at an inopportune time. During the ICO the SEC announced a negative stance towards ICOs and other regulatory bodies followed-suit. Towards the end of the ICO and early trading period China's new approach to ICOs, cryptocurrencies and related businesses created a large amount of fear in the markets.

These changes manifested in many ways. The most significant of which was a large reduction in trading volume and a lot of sideways

moving markets. As our trading algorithms heavily rely on market volume and trends based upon these, a lot of signals that presented were marked by our AI-advisor system as being invalid. Where trades were marked as valid we were unable to exit them at designated points due to poor liquidity and lower overall market trading volumes. We have seen trades of under \$100,000 that have taken more than thirty minutes to exit at near-market price. In an up-trend this is not a problem but when the exit-point is at the top of a market it creates a risk to loss of profit on a trade. Taking larger trades in this market could turn profitable trades in to losses.

New AI-based alerts and advisor warnings have been created to reduce the risk of these trades. This has prevented the fund losing out in new market conditions but has resulted in trades staying open longer than they normally would and has reduced the overall number of trades that the fund can make. As risk-mitigation is one of our highest priorities this has been more important to us than presenting many trades in the first month.

The market changes have also shifted what was previously a regular trading pattern. Whilst our systems can adapt to this immediately, the small team size has meant that it has not always been possible to enter these trades. With far fewer trades available than during previous months this has become more of an issue. We have considered advancing plans to take on additional trading staff but believe this would only have delayed trades further at such a critical juncture.

The uncertainty in the market, many ICOs cashing out and the Ethereum and Bitcoin forks over the last few weeks have also led to a large amount of climax bars. These are a certain type of bar that our systems categorises during significant news events. As these bars are typically risky we do not trade the bar or several bars after them. This gives time for the impact of unexpected news to settle before SIFT enters a trade. We have been seeing climax bars almost every

day during the past six weeks which has further reduced trading opportunities.

Statement on Tether

SIFT originally planned to hold USDT for short periods of time on exchanges that supported it. It was believed that such Tether funds would represent a small amount of the funds' overall money. Over the past few weeks the company behind Tether have released further audits. These have been a significant worry to SIFT.

Having considered Tether's previous financial statements, their connections to other entities, their banking relationships, the liquidity of Tether and the terms and conditions associated with the token we have decided that SIFT will never hold any Tether nor will it use any service that uses USDT as their only fiat-based connection.

After the close of the ICO a portion of the funds were temporarily held in Tether. Over the past six weeks we have gradually closed that out attempting to take advantage of natural trades to convert the tether into cryptocurrency and move it to other exchanges. All trading funds are now not exposed to Tether.

A portion of Logical Trading Systems' operational fund from the ICO remained in USDT and it was decided to purchase ETH, BTC, LTC and XRP using these funds. These trades were made outside of normal trading guidelines and are currently at a slight loss. Since these are not normal trading funds the intention is to hold them for a short period of time over the next fortnight. If these funds close for a profit then the profit from the transfer and hold will be credited to the fund to compensate for the issues that have occurred in the first month of trading.

Due to the decisions taken around Tether some exchanges can no longer be used by SIFT for trading. Logical Trading Systems strongly

recommend clients consider whether they wish to expose themselves to any potential risk of holding Tether.

Statement on Hard Forks

SIFT made profit at the time of the Bitcoin Gold fork. The system correctly identified long positions to take in altcoins as their prices decreased and accurately predicted exit points. It also predicted some of the smaller up-moves of Bitcoin itself during this time. Whilst Logical Trading Systems does not directly plan to trade using a long-term hold strategy there are obvious benefits to holding during a hard-fork.

Logical Trading Systems' strategy for future forks will be to take advantage of fund movement out of altcoins and into Bitcoin in such situations. Holding Bitcoin itself for the duration of the fork itself would only happen if the fund had signals to purchase at a low enough price with enough support that the ensuing price decrease after the fork did not leave the trade at a loss. It is most likely that the fund would profit from altcoins and not the main fork itself by gaining a balance on both sides of the fork.

However, if the fund were to ever hold a coin on both sides of a fork (such as with Bitcoin Gold recently) any profits from the sale of the new fork would be attributed to the fund. The sale of Logical Trading Systems' own USDT for crypto assets recently meant that 2.04 BTC was held at the point of the fork and consequentially the fund will own 2.04 Bitcoin Gold. When it is possible to sell this the profit of the sale will be attributed to the fund.

SIFT will not intentionally buy-to-hold Bitcoin in the upcoming fork but will be looking to profit from altcoin fund flows primarily. Any benefit that does come will always be passed to SIFT-holders.

Banking and Exchanges

SIFT originally planned to operate with as little as \$100,000, estimated that we would raise \$500,000 and had plans to be able trade significantly more if required. Banking partners and exchanges were briefed on this before the ICO.

During the ICO the regulatory statements that were made with regards to tokens-as-securities and an ever-growing set of requirements towards KYC and AML policies meant that some banking partners and exchanges decided that, in its present form, SIFT was not an acceptable customer. The only way that SIFT could have reversed this would have been to have introduced a stringent AML/KYC policy in the middle of the ICO. We did not feel that such a change mid-ICO was acceptable to existing investors and as such have had to deal with the consequences since this point.

SIFT has spent a significant amount of time over the past six weeks going through corporate verification with several exchanges and banks. The fund is still not at the point that we have sufficient partners that we feel able to spread trade volume between them but hope that we will be there by soon. The position on USDT has also increased the requirements for this.

The OTC arrangements that we had in place would have required more banking partners. We did not want to rely on week-long wire transfers and we had previously planned to hold bank accounts at the same institutions as our OTC partners to allow for same-day or instant fund transfers. The changes we've seen to banking have also meant that we have been re-evaluating our OTC partners and, where appropriate, looking at creating local branch offices in different countries to extend our banking options.

As we open new exchange accounts, start trading with new OTC partners and begin depositing funds in to bank accounts we take an

extremely cautious view to ensure that funds are not placed at unnecessary risk.

The combination of the above has significantly limited the fund's ability to take advantage of short positions with only a limited number of pairs able to offer this. This is something we are looking to take improve upon, however we expect that the majority of our trades for the near future will be longs.

Luxemburg Fund

With a reasonably small fund (\$500,000 or less) it was never going to make financial sense to establish a fund in an offshore jurisdiction. The one-time and annual costs of such a structure can be prohibitively expensive. The whitepaper and our discussions have always stated that local taxation would be deducted as part of the fees prior to any profit calculation for disbursement. In the United Kingdom, where Logical Trading Systems Limited is incorporated, a 20% taxation charge applies.

With a cautious growth plan of 4% per annum this could lead to \$12,000 in tax impact for the fund. With some of the larger growth plans that we envisage we could see annual taxation reaching tens of thousands of dollars. To mitigate against this Logical Trading Systems immediately began to look at places that a trading fund could be established and in such a way that all the original protections we advertised SIFT with would still be in place.

After much consideration SIFT decided to create a Reserved Alternative Investment Fund (RAIF) in Luxembourg. It will have a single investor, Logical Trading Systems Limited. The UK company will then invest all client funds into the RAIF. The RAIF will conduct daily trading activities and profits be passed back to Logical Trading Systems Limited and ultimately to token holders. This structure means that there is a 0% tax implication for investors in SIFT (apart

from their own personal income tax or capital gains tax as may apply).

The cost of establishing this fund has been substantial and paid for out of the operational fund that Logical Trading Systems started with. The process of establishing the RAIF is almost complete. Our legal advisors have just finished the final version of all appropriate articles of association. The RAIF should be established in the next week and have banking facilities shortly after that. At this point the RAIF will be able to apply for its own exchange and trading accounts and funds will gradually be invested by Logical Trading Systems Limited into the RAIF.

To compensate for the poor month of trading, Logical Trading Systems Limited will use its own funds to cover the impact that UK taxation would have on fund values this month. It may, however, take a few months for all funds to be moved to the RAIF and during this time there may be tax implications of 20% on profitable trades (offset against any losses) for trades taken by the UK business. As soon as possible all trades will be taken by the RAIF.

Proposed Extensions

The current trading conditions may be a long-term change in the cryptocurrency markets and as such we want to increase the number of trades that we can take. We have looked at a number of crypto-fiat and crypto-crypto pairs.

A deep analysis has been done of BCHUSD, ZECUSD and XMRUSD pairs. Despite large trading volumes none of these pairs are stable enough that we would propose trading them using our algorithms. There are many core signals that fail even with no advisor alerts. The market sentiment in these markets is driven primarily by smaller investors and as such our algorithms that try to follow the smart money fail as there is no smart money driving these markets. Changing our algorithms is an option here, but we feel that the

markets are not sufficiently rational at this point to be traded without increased risk to the fund. We will continually monitor this situation.

We have also analysed several crypto-crypto pairs. Whilst some of these pairs prove promising we have not been able to come up with a way to trade SIFT without substantially alternating our investment behaviour. A key premise of SIFT is that we do not hold client funds in cryptocurrency other than for the duration of a trade as that exposes the underlying fund value to risk. Any crypto-crypto trade will necessitate the fund being exposed to the intended pairing (i.e. BTCVTC) as well as an unintended pairing (BTCUSD in this case). The profits that we believe are possible from a crypto-crypto trade can easily be wiped out by an inverse move in the underlying crypto-fiat pair (i.e. in this case BTCUSD). With some pairs there are correlations that allow us to avoid these risks at certain times but often that is not the case. The only options for the fund are to hold a large amount of BTC or ETH on an ongoing basis or to take these risks. We do not believe either of these options are acceptable to SIFT's risk model and as such we will not be proposing any extension to crypto-crypto currency pairs at this moment in time.

SIFT is proposing that the fund starts trading forex pairs (such as EURUSD) in addition to crypto-fiat pairs. Had the fund done this over the last month with only \$100,000 we would have exceeded the monthly profit expectations and we would not have faced any of the same liquidity issues. Since this is not what the fund was originally advertised on, a vote will be required to allow the fund to commence trading using forex.

Logical Trading Systems already trade forex using their own funds. We will open a forex trading account for November with approximately \$100,000 opening balance. This account will report closed trades automatically using MyFxBook and the URL for reporting will be shared in due course. At the end of November, a

vote will be held asking SIFT-holders if, based on further information provided and a month of trading performance, they want SIFT to trade forex in addition to cryptocurrencies. If SIFT-holders vote yes then the fund will begin trading forex using SIFT money in December and any profits made during the November period will be allocated from Logical Trading Systems to SIFT. SIFT will be recommending the SIFT-holders vote yes for this vote and we hope that this will be a great way to expand profitability for the fund when cryptocurrency markets enter challenging periods. Any profits from forex trading will be applied in the same way as profits from cryptocurrency trading – keeping the same fee, reinvestment and dividend structure.

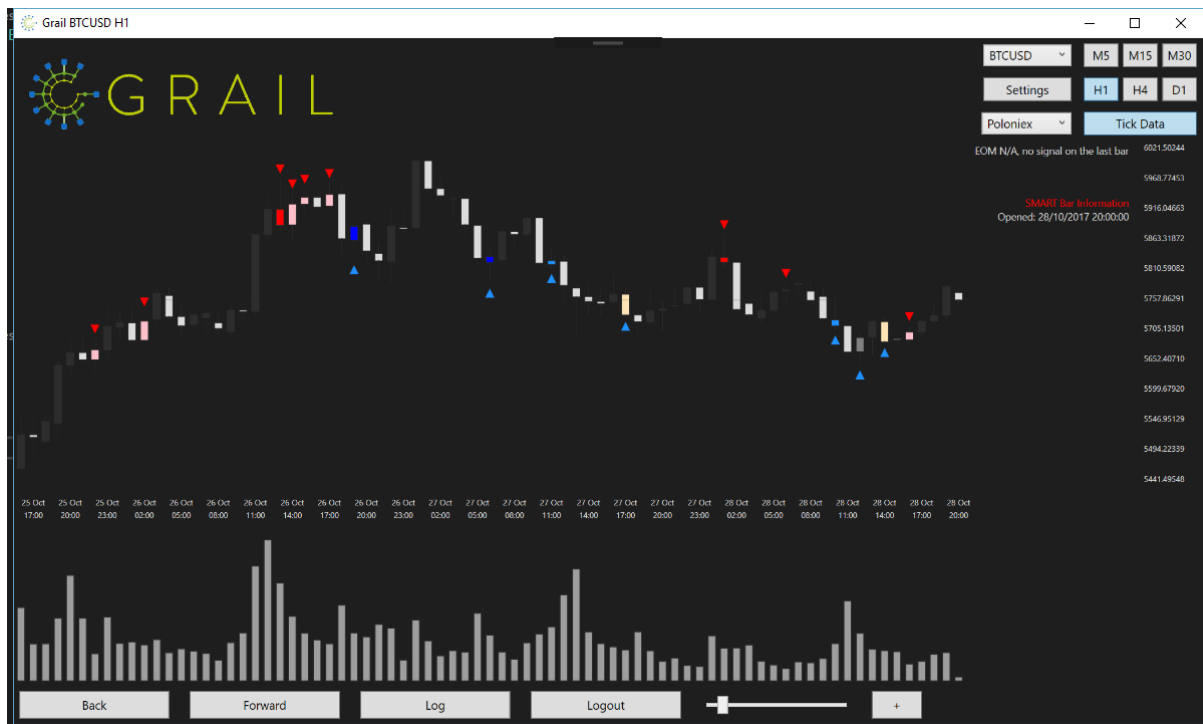
Grail

It has been previously discussed that Logical Trading Systems is working on creating a standalone cryptocurrency analysis platform to allow day traders to take advantage of Smart VSA themselves rather than having a fund trade it for them. We have been using this software in-house for the past six weeks to provide trading signals alongside our existing reporting systems and are extremely happy with the progress that has been made.

We are hoping to launch the product as a pay-monthly service in mid-2018 but will be opening a free alpha test to SIFT-holders in December 2017. Applications to take part in the alpha test will be available to SIFT-holders that are eligible for this month's dividend. The initial test will only be open to ten different individuals that we will select from those that apply. As we increase the systems' stability, functionality, trading pairs and performance we will open it up to more SIFT-holders that were eligible for the October 2017 dividend over the coming months.

The first version that will be made available to alpha testers supports BCH, BTC, DASH, ETH, LTC, XMR, XRP and ZEC paired

against USD and is able to report from three exchanges. Further pairs, including crypto-crypto analysis, our exchange “Smart Feed” that aggregates many exchanges and additional functionality will all be added over the coming months.



The alpha test is free. We want to make this available to as many SIFT-holders that also day trade as possible but want to do this in a way that benefits the product as well. This means we will be looking for active day traders with existing market experience and a willingness to provide us with feedback on the product. Full details on applying for the alpha test will be released over the next few weeks. All alpha testers will be given training on how to use Grail.

Bot Trading

Logical Trading Systems has been working on trading bots some time. We have existing bots in the forex space and have been looking at how to use a bot successfully with crypto-fiat pairs for some time. We have developed various bots in the past but consider their risk profile generally too high for use with SIFT.

The difficulties that the fund has faced entering trades in the past six weeks due to the timing of signals has increased our need to look at automating aspects of SIFT's systems. As such we have spent a lot of time this month working on an automated bot that can enter very specific trades in extremely limited circumstances. All trades are then alerted to humans to be watched and closed manually to complete the loop. The intention is not a fully-automated bot-based trading system but, rather, as an entry tool to assist SIFT.

We will continue looking at how this bot performs and hope to propose it as a solution to these issues soon.

Communications

We have been broadly happy with the communication patterns that we have established during the past six weeks but are aware that they take a larger amount of time at an extremely busy time for the fund. Maintaining open communications is of paramount importance to the fund but we are looking at how best to optimise this.

Those that use our Telegram chat room will have noticed that Guy and James have been far less present for general conversation over the past couple of weeks than before. We expect that this will continue to be the case as the primary focus is the operations of SIFT.

The daily trading updates, weekly fund updates and monthly reports will all remain as they are. We are looking to automate the reporting of closed trade updates in the future and to remove the website updates that reflect that. We hope to relay such trades to the blockchain as well when we make this change. We do not envisage any immediate changes to daily trading updates but may make timing tweaks or change it so that updates are only provided on days with closed trades (rather than on days without closed trades). We will continue to look at how we do this to balance this appropriately.

To assist with communications, we are also considering taking on a community manager and potentially Telegram channel moderators. The community manager role will be paid whilst we are looking for volunteer moderators that can primarily deal with spam. We envisage that we will have a couple of members of the community with full moderation rights whilst we have a single community manager that is our primary point of contact. Any feedback from SIFT can be relayed through a single community manager helping to reduce our burden whilst ensuring all questions are addressed and answered. We are currently looking at the best way to handle this and hope to have a system in place by the end of this year or very start of next year.

Votes

Our first month of trading saw SIFT vote on two different issues. These votes are described in separate documents available via the website and will not be described in more detail.

We feel that the votes were a success from a technological implementation perspective but there are opportunities for us to learn here. In the future we would like to develop a more user-friendly web-based approach to voting. To do this, however, would take a substantial amount of development time that we simply do not have available now. Additionally, we do not want to make voting part of a regular process as it takes up a large amount of time to manage.

We envisage that further votes will happen over the next few months as we optimise the instruments that SIFT trades and these votes will likely be organised in the same way as SVP001 and SVP002.

November Trading

We continue to work through the issues described in this report as well as establishing the RAIF in Luxembourg. These processes are not going to be fully completed before the end of November. A further Bitcoin fork in November is likely to include more climax bars and unpredictable market swings that SIFT will not trade. For these reasons we believe that cryptocurrency profits will still be below our monthly 4% target. There are certainly going to be opportunities to exceed this but we want to give realistic expectations to SIFT-holders considering the contents of this report.

If SIFT-holders vote to trade forex as well as cryptocurrency assets we believe that the 4% target for November will be exceeded when LTS' forex profits for the month from the \$100,000 account are added to the fund.