

# TCM Digital Asset Fund Australia

Fund Update

## Fund doubles, below-market volatility maintained

Investment Funds

26 April 2022

This is our third review of the DNA Tracker Fund – now renamed TCM DAF Australia following the merger between asset management firm TCM, and technology firm Trovio, to form Trovio Group. Following the merger, we believe the resources available to Trovio Group have substantially increased. TCM DAF Australia (the “Fund”) is an unlisted feeder fund - open to Australian wholesale investors - for the Cayman Islands-domiciled TCM Digital Asset Fund (the “Master Fund”) which invests in a basket of the leading cryptocurrencies (“crypto”, “token”). The US\$ Master Fund has been operating since January 2018, audited by KPMG. The Australian-domiciled Fund offers a more secure and familiar entry into crypto markets for investors with a medium- to long-term investment horizon. The Fund provides a professionally managed structure with Australian standard custody and trust structures to protect investors’ cashflows and the security of fund investments. Since launching in December 2020, the A\$ Fund has performed broadly in line with the Bitwise10 Index, while providing a less volatile return to investors via a secure, investment-grade structure. The Fund is aimed at wholesale investors aiming to allocate 1-5% of their portfolio into digital assets, whilst the US\$ Master Fund is aimed at institutional investors.

### Fund overview

TCM DAF Australia (the “Fund”) was established in December 2020. The Fund is an Australian-domiciled and regulated fund with an industry standard Australian unit trust structure. The Fund only invests in shares in the TCM Digital Asset Fund (the “Master Fund”). Changes since inception of the Fund include a change in trustee to Quay Wholesale Fund Services; Apex Group (following its takeover of Mainstream) now acts as administrator of both the Master Fund and the Feeder Fund; and a merger of the asset manager TCM and Trovio Technology to form Trovio Group. The Fund’s initial Investment Memorandum was launched on 21 May 2021 and relaunched after the merger and name change on 21 December 2021. The Fund is now available to investors via the Australian Money Market online investment marketplace and directly via the Apex-hosted online application. TCM is also looking to expand this availability across a number of leading wealth management groups and platforms within the Australian market.

### Performance update

We last reviewed performance to August 2021. Market and Fund returns were volatile then and have continued to be so. However, the Fund has continued to deliver to its mandate – to provide a familiar and secure means for Australian investors to invest in an emerging asset class with the requisite safeguards. Geo-politics and subsequent possible economic fall-out have roiled the crypto market in ways like equities, commodities and fixed interest. Generally, the crypto market has been more sensitive to these events, reacting with larger changes. The Fund has successfully maintained a lower volatility track record relative to the broader crypto market and delivered similar absolute returns.

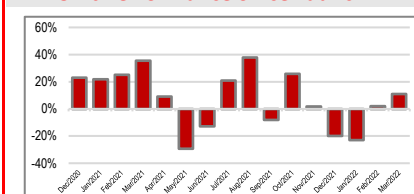
### Conclusion

The Fund continues to offer an effective way for Australian wholesale investors to invest in cryptocurrencies. The Master Fund is a quantitatively based means of tracking crypto market movements while managing liquidity and counter-party risk, and offers an institutional-grade investment vehicle. The institutional trustee, custodian, administrator, banks and auditor provide the robustness of the investment structure. The subsequent merger of related entities to form Trovio Group has clearly improved the corporate structure and increases the stability and capability of the manager.

#### Fund details

Fund name	TCM DAF Australia
APIR code	QWF1678AU
ISIN	AU60QWF16788
Unit price (31-Mar-2022)	\$2.335

#### DAF Unit Performance Since Launch



#### Investment Strategy

The TCM DAF Australia invests in the TCM Master Digital Asset Fund which in turn invests in an underlying portfolio of the leading digital assets

#### 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 s761G of the Commonwealth Corporations Act 2001)

#### Fees and Other Costs

**Total cost to Australian investors:**  
 Management fee – 1.5% of gross value of fund  
 Performance fee – 15% of fund return (after management fees and fund expenses) with a high-water mark

#### Investment Team

Jon Deane	CEO
Tom Barton	COO
Vimal Gor	CIO (June 2022)
Van Dang	Compliance
Kosta Kourkouvelis	Fund Operations Lead
Will Hamilton	Portfolio Management Lead

#### RaaS Advisory Contacts

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## Key Points

- In December 2021, TCM asset management entities merged with technology and advisory firm Trovio to form Trovio Group.
- The simplified shareholder structures and subsequent growth has added resources to the asset management business.
- Management fees have been reduced to 1.5%/15% due to the economies of scale of the larger group.
- Fund performance is like that of the Bitwise 10 Index, but remains less volatile than the market benchmark. Performance is consistent with the managers intention to “provide secure access to a basket of the top digital assets”.
- Corporate resources and processes have been enhanced by the merger and the group clearly has the resources to grow further.

## Changes To Legal Structure

### Prior to changes

At inception the fund was named the DNA (Digital Native Assets) Tracker Fund and managed by the AFSL holder Digital Native Assets P/L which was part of the broader TCM group. The fund still invests in the Cayman-registered master fund – the TCM Digital Asset Fund – which was and still is managed by TCM Global Asset Management Ltd (Bahamas) and advised by TCM Capital AM Pty Ltd (Australia).

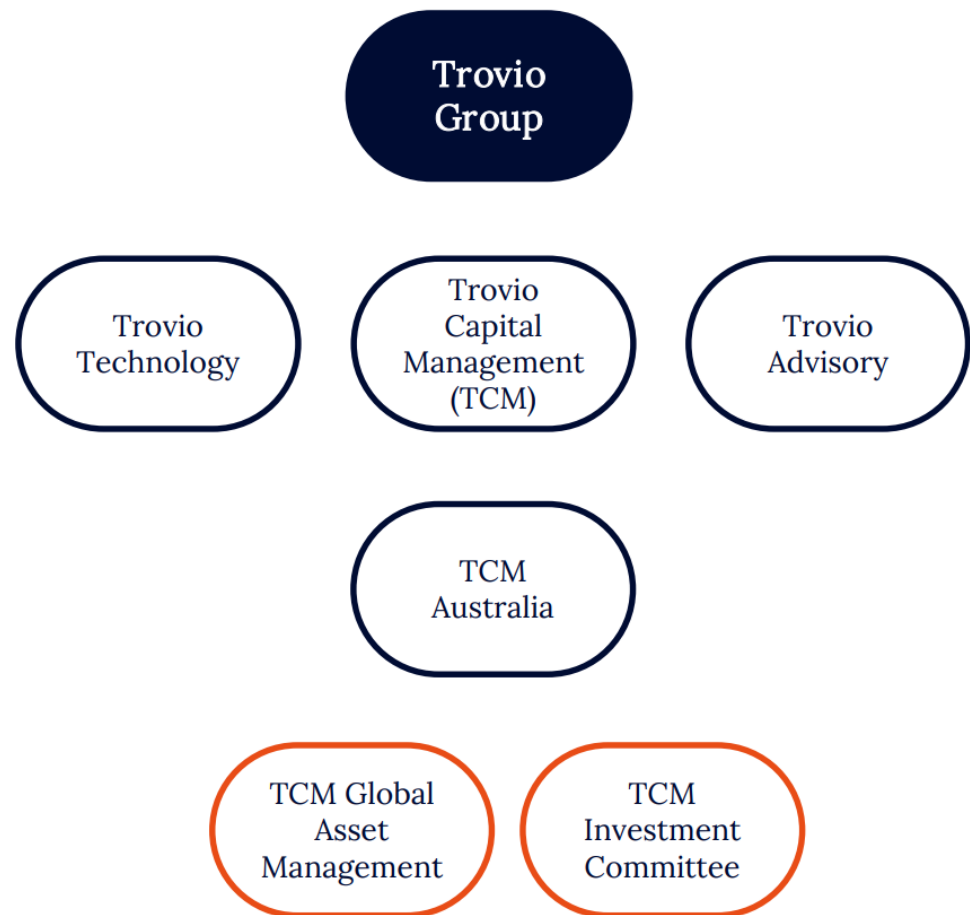
### Current structure

In December 2021 TCM and Trovio have acted to simplify investments and subsidiary holdings and at the same time raised equity and investment capital via a merger to form Trovio Group, capitalised at A\$200m at merger valuations. Shareholders now include Ellerston Capital, Sun Hung Kai Strategic, Amherst Holdings as well as other institutional investors. In the process, the Fund was rebranded in line with the broader Trovio Group. The group offers enabling technology, advice and capital management in digitisation, blockchain, crypto, commodities and ESG with separate wholly owned subsidiaries responsible for fund advice, Bahamas-registered asset management and Australian-registered funds management. An updated Information Memorandum was also issued in December 2021 for the A\$ Fund, and management fees for the Fund were also lowered from 2% and 20% to a 1.5% and 15% management/performance fee split.

The merger and additional capital have allowed the group to work toward expanding fund offerings and staff, and enables Trovio’s intention of achieving significant influence on the digital asset economy. The Trovio Group now has more than 40 staff and is expected to grow in the short term. Most notably, Vimal Gor and the Alternative Duration Strategies Boutique team from ASX-listed Pendal Group have announced they will join Trovio in Q3 this year. Vimal was previously Head of Bond, Income & Defensive Strategies at Pendal Group managing over A\$22b in assets and brings nearly three decades of finance experience to the Trovio team. We expect there to be further product announcements in the short-term following the appointment of Vimal as Chief Investment Officer at Trovio in Q3 2022. Trovio has also launched a Digital Asset Income Fund which leverages decentralised finance to offer a market-neutral, high-yield, income-focused product.

We find these changes reassuring and supportive of the development of a strong business in alternative investment products. The Fund offers a safer and more transparent vehicle to invest in crypto than alternatives available to most Australian investors. The improved capitalisation and simplification of the corporate group has only strengthened that case.

#### Exhibit 1: Trovio Group Structure



Source: Trovio, RaaS

### Target Investors

Trovio continue to target 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. A focus on wholesale and professional investors who are allocating 1-5% of their portfolios into digital assets has been bolstered by institutional investment following the group restructure.

### Portfolio Structure

The Australian-domiciled Fund invests only in the Master Fund, so we focus on the Master Fund investment process - which is unchanged since our last review.

The Master Fund aims to invest in a portfolio drawn from the top-20 tokens by market capitalisation, providing a core holding in the largest market capitalisation crypto assets, such as Bitcoin and Ethereum, while seeking to generate Alpha from its investment in the smaller market capitalisation crypto assets. The Master Fund is long only and does not use leverage, derivatives or invest in small cap and more speculative digital assets (venture capital). Trovio 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. It is worth noting that the Master Fund was one of the first crypto funds to be audited by KPMG.

The Master Fund uses the Coinbase platform for both trading and custody services. Coinbase 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. Trovio 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 qualitative screen as an additional risk overlay on investment decisions that provides parameters for new assets held and excludes stablecoins, tokens facing regulatory concerns and any privacy or “meme” coins.

## Master Fund Performance Update

Trovio’s back-tested data gives a performance track-record of more than seven years with actual data from December 2018. We compare the Master 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 Master Fund does not benchmark itself against the Bitwise 10 Index and uses a different token selection process.

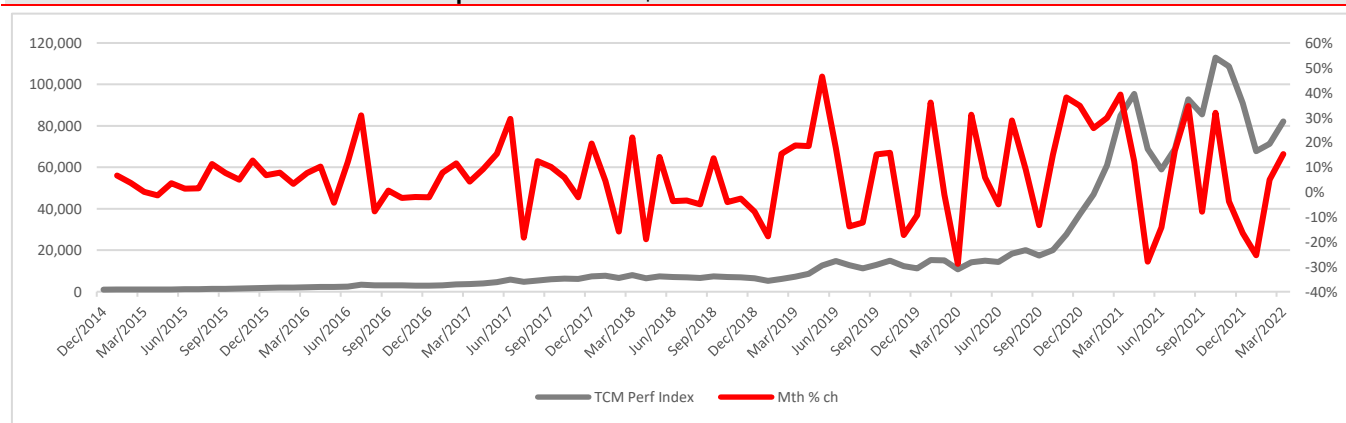
The crypto space has remained volatile despite increasing acceptance of digital assets. The Bitwise 10 Index over one year is down -9% (vs 2.9x when we last published in August 2021) while the Master Fund return is down -3%. Over a two-year period, the fund has underperformed the Index, rising 176% vs the Bitwise Index up 185%. Despite these substantial returns Trovio has not added performance-related value with an excess return of -9.3% p.a. over two years. However, the Master Fund over the full actual performance of three years exceeds the benchmark return by 7%, with a 125% p.a. return.

**Exhibit 2: Performance table - Actual (A) and Back-tested (E) data US\$**

Performance to 28/02/2022 US\$ basis	1Mth A	3Mth A	1Yr A	2Yr A	3Yr A	5Yr E
Master Fund p.a. return	15%	(10%)	(3%)	176%	125%	87%
Benchmark - Bitwise 10 Index p.a. return	12%	(6%)	(9%)	185%	118%	110%
Excess return	3.8%	(3.8%)	5.7%	(9.3%)	7.0%	(23.7%)

Source: Trovio, RaaS

**Exhibit 3: Master Fund full back-tested performance US\$**



Source: Trovio, RaaS

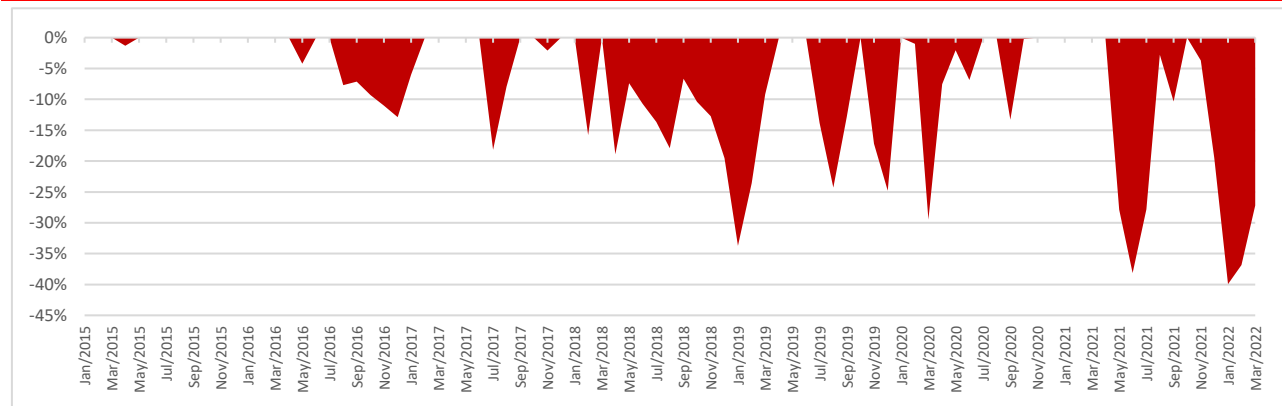
While recent returns have been weaker the Fund’s monthly movement has not exceeded previous levels with the range of monthly movements no more than the previously measured range from -29% to +46%. Volatility remains high but apparently not higher. The chart below emphasises this, showing a maximum drawdown

<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>

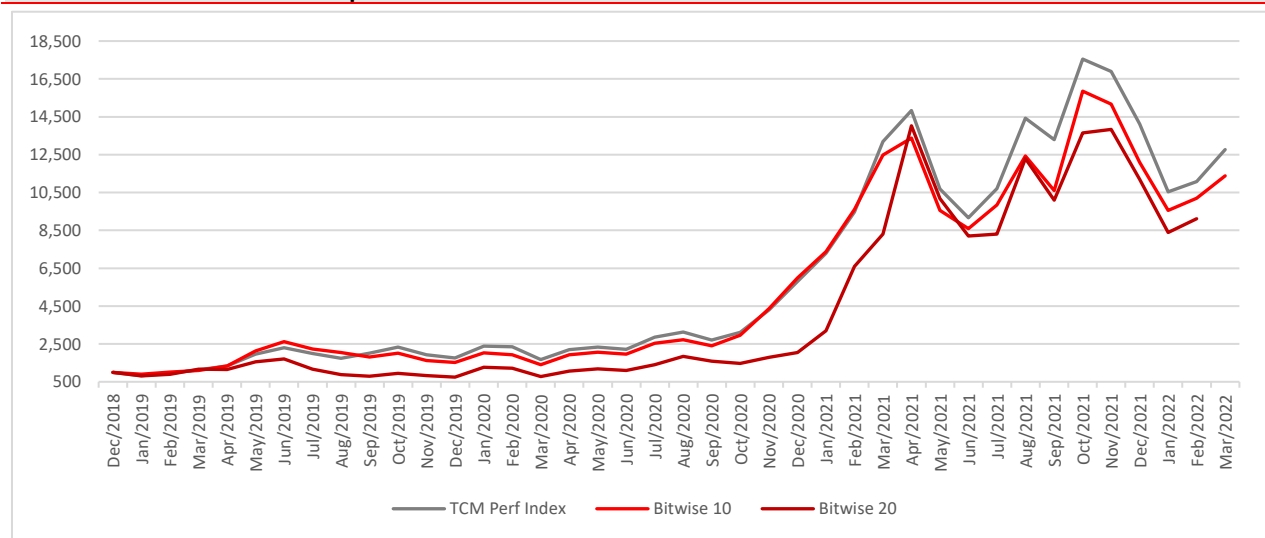
from a previous high of -38.1% in June 2021 and slightly more in January and February 2022. The crypto market is a challenging and potentially dangerous place for an individual investor. Strong movements in other markets still tend to generate movements in crypto token values which are multiples of the changes in more traditional securities markets.

**Exhibit 4: Master Fund - drawdown - back-tested data US\$**



Source: Trovio, RaaS

**Exhibit 5: Master Fund actual performance vs benchmarks US\$**



Source: Trovio, RaaS

Since our previous analysis, fund tracking error relative to the Bitwise 10 Index (including back-tested data) has decreased from 3.44 to 3.18 highlighting the small performance gap. Correlation of returns was largely unchanged at 46% raising the information ratio from 0.68 previously to 0.73.

**Exhibit 6: Risk: back-tested 12-month returns for Master Fund**

Period: Dec 2014–Mar 2022	Fund	Bitwise 10 Benchmark
Standard deviation 12-month returns	1.56	3.57
Tracking error = standard deviation 12-month excess returns	3.18	
Coefficient of correlation 12-month returns	46%	
Information Ratio 1 Year(s)	0.73	
Source RaaS		

The actual Fund performance data suggests a high volatility of returns for the Fund at 1.83 – steady versus the previous 1.89 and lower than the Index at 2.05. The tracking error of excess returns was likewise steady at 0.44 I.E., the actual fund maintains a lower volatility than the Index. Correlation of returns is largely unchanged at 98% versus 99% previously.

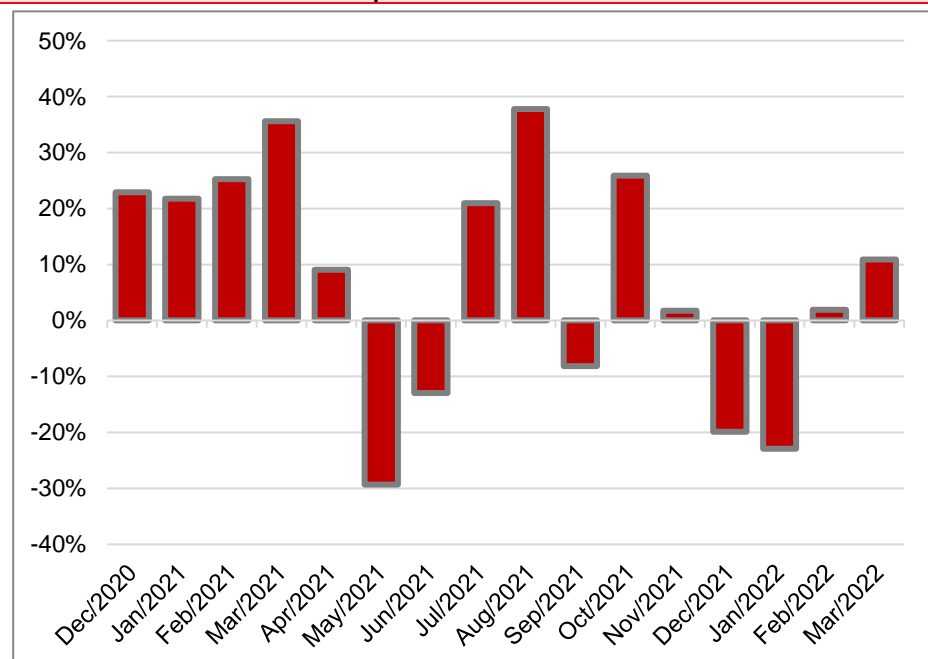
**Exhibit 7: Risk: 12-month actual returns for Master Fund**

Period: Dec 2018–Mar 2022	Portfolio	Bitwise 10 Benchmark
Standard deviation 12-month returns	1.83	2.05
Tracking error = standard deviation 12-month excess returns	0.44	
Coefficient of correlation 12-month returns	0.98	
Source: RaaS		

Overall, the Master Fund is delivering returns like the Bitwise 10 Index but does not consistently exceed the benchmark. Fund returns do remain less volatile than the broader crypto market index while still delivering substantial absolute positive returns when markets move upward. The portfolio construction methodology is performing well delivering a consistent volatility and correlation relative to the market index. The main reasons for investing in the fund remain the difficulties inherent in buying and holding crypto directly, or fees associated with attempting to match the index performance as an individual investor. However, the Master Fund is delivering a lower volatility return as well.

The TCM DAF Australia performance history from the Fund's more recent launch date is presented below in local AUD terms. Currency movements clearly also have a substantial impact on returns delivered to Australian investors. The manager does not hedge the currency nor actively manage currency exposures.

**Exhibit 8: TCM DAF Australia- actual performance since launch A\$**



Source: Trovivo, RaaS

## Key Fund Details

**Feeder Fund Name:** TCM DAF Australia (Australian Trust)

APIR:	QWF1678AU
Eligible Investments:	Shares in the Master Fund
Arranger:	TCM Macro P/L (AFSL 515 204) (Australia)
Administrator:	Apex Group
Trustee and 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
Follow On Investment:	AUD 5,000
Eligible Investors:	Wholesale Investors (Australia and New Zealand)
Fees:	1.5% management fee pa/15% performance fee
Subscription:	Monthly
Redemption:	Monthly
Lock-up:	None
Inception:	1 <sup>st</sup> December 2020

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

Eligible Investments:	Top20 crypto assets, as defined by the Manager
Investment Manager:	TCM Global Asset Management Ltd (Bahamas)
Investment Advisor:	TCM Capital AM Pty Ltd (Australia)
Administrator:	Apex Group
Auditor:	KPMG (Cayman)
Custodian:	Coinbase Global, Inc. (US) (primary) Kingdom Trust Company (US) (secondary)
Legal:	DLA Piper (US) Stuarts Walker Hersant Humphries (Cayman)
Regulator:	Cayman Islands Monetary Authority (CIMA)
Bank:	Signature Bank (US)
Minimum Investment:	USD 100,000
Fees:	Incurred at the feeder fund level
Subscription:	Monthly
Redemption:	Monthly
Lock-up:	None
Inception:	1 <sup>st</sup> January 2018

Source: TCM DAF Information Memorandum

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**RaaS Advisory Pty Ltd**

**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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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

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

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