BLOCKCHAINTRADERS LIQUIDITY FUND

INVESTING IN DECENTRALISED FINANCE THROUGH LIQUIDITY MINING*
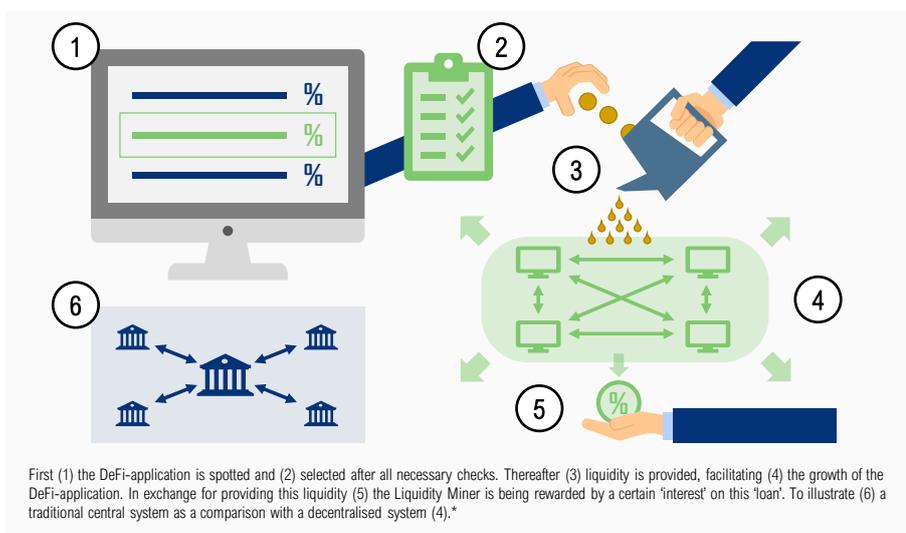
WHAT KIND OF INVESTMENT IS IT*

♦ The BlockchainTraders Liquidity Fund provides liquidity ('a loan') to **Decentralised Finance (DeFi)** in exchange for a commission ('the yield'). DeFi offers a decentralised alternative for conventional central banking and financing services.

♦ That said the fund applies **Liquidity Mining**, sometimes also referred to as **Yield Farming**. It is a way of generating rewards with **cryptocurrency** holdings. In simple terms, it means locking up cryptocurrencies and getting rewards.

♦ **Liquidity Miners** or **Yield Farmers** use very complicated strategies. They move their cryptos around all the time between different lending marketplaces to maximize their returns.

♦ The fund minimizes risks by providing liquidity only in **Stable Coins** – they have a fixed exchange rate to FIAT currencies like the US dollar – which eliminates the risks of being exposed to cryptocurrency rate changes.

♦ In that perspective the fund offers a **market neutral** – meaning that on average it moves independently of market directions – alternative to a directional investment in cryptocurrencies.

FIGURE 1 | LIQUIDITY MINING IN DECENTRALISED FINANCE*

First (1) the DeFi-application is spotted and (2) selected after all necessary checks. Thereafter (3) liquidity is provided, facilitating (4) the growth of the DeFi-application. In exchange for providing this liquidity (5) the Liquidity Miner is being rewarded by a certain 'interest' on this 'loan'. To illustrate (6) a traditional central system as a comparison with a decentralised system (4).*

▌OPPORTUNITY | BENEFITING FROM A REVOLUTION

⚲ **Unique access**: with the BlockchainTraders Liquidity Fund we offer an opportunity for investors to benefit from the revolutionary growth in Decentralised Finance.

⚲ **BlockchainTraders** possesses in-depth experience and knowledge of this market and a proven track record in managing cryptocurrencies.

⚲ The **strength** of the investment strategy lies in the **active management** of the Liquidity Mining activities in order to maximize return and minimize risks.

▌FONDS | STRUCTURE AND REGISTRATION

⚲ The BlockchainTraders Liquidity Fund is structured as a **fund for joint account ("fonds voor gemene rekening")** and **registered** with the Dutch Authority for Financial Markets (**AFM**).

⚲ The fund vehicles of BlockchainTraders do not have a license and are not subjected to the supervision of the AFM. The legal owner of the funds is Stichting Toezicht BlockchainTraders, by means of which your assets are separated and **safe**.

* For more background information, explanation of the terms used and other important information, refer to the latest page of this document.

RETURN PROJECTED[1]
15% - 20% YEARLY

RISK PROFILE[2]
LOWER THAN CRYPTO

INVESTMENT HORIZON
3 YEAR

INVESTMENT EXPOSURE
DEFI-APPLICATIONS

INVESTMENT STRATEGY
LIQUIDITY MINING

CRYPTOMARKET
INDEPENDENT

TARGET AUM[3]
€ 20,000,000

MINIMAL SUBSCRIPTION
€ 250,000

REGISTRATION
AFM

[1] Estimate based on the projected returns of the various DeFi-applications, for more details refer to the explanation on the latest page of this document.

[2] Risk profile calculated by using simulated returns of a hypothetical fund portfolio, for more details refer to the explanation at the end of this document.

[3] AUM refers to Assets Under Mangement.

Attention! This investment falls outside AFM supervision. No license and no prospectus required for this activity.

(Side tabs: MANAGEMENT SUMMARY · WHY · WHAT · PERFORMANCE · STRATEGY · FUND)

FOR WHAT

HOW

OBJECTIVE | ABOVE AVERAGE RETURN WITH LOWER RISK

- **General**: *higher return* than traditonal risk assets with significant *lower risk than* volatile cryptocurrencies (FIGURE 2.3).
- **Specific**: *market neutraal* alternative versus *directional* crypto investment, *independent* of crypto market moves. FIGURES 2.1 and 2.2 demonstrate the fund pays little attention to (negative) crypto market moves.
- **Market neutrality** is achieved because the returns arising from the commissions earned for providing liquidity are the dominant factor.
- **Attractive investment** *stand alone* but it can also *add value* in terms of *diversification* to portfolios consisting of non-crypto assets because of its different (more conservative) behavior, see FIGURES 2.2 en 2.3.
- **Projected annual return** *between 15% and 20%* with a *lower/comparable volatility* of that of stocks, currencies or commodities (FIGURE 2.3).

FIGURE 2.1 | VALUE ADDED MONTHLY INDEX*

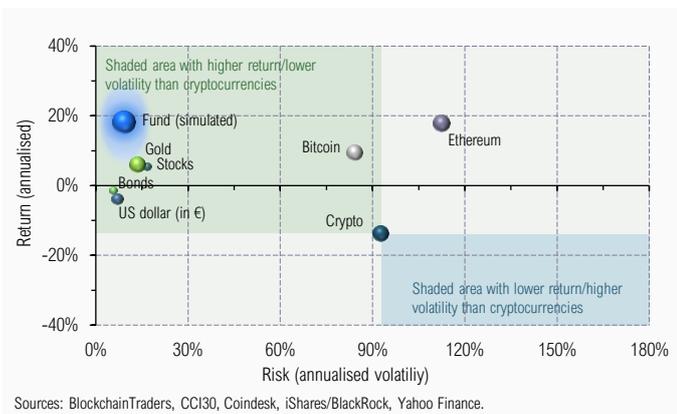Sources: BlockchainTraders, CCI30, Coindesk, Yahoo Finance.
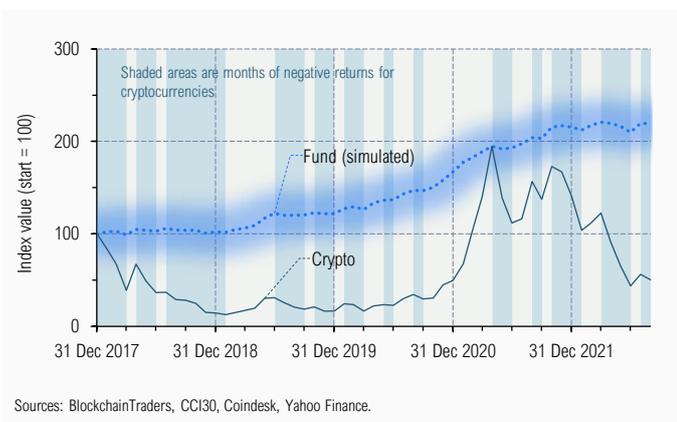
INVESTMENT PROCESS | ACTIVE BOTTUM-UP APPROACH

Active bottum-up process, consisting of the following ongoing steps:

1. **Selection and Due Diligence** of the DeFi-applications;
2. **Portfolio construction** using the selected DeFi-applications;
3. **Monitoring and active reallocation** of the DeFi-applications;
4. **Risk management**, which is a very important component of each step. Risk checks are performed at every step.

Selection and Due Diligence serves as the basis with a focus on Liquidity Mining *earning potential* and the *stability* thereof, and on the *growth* of the *DeFi-application* in order to maximize returns.

FIGURE 2.3 | RISK VERSUS RETURN*

Sources: BlockchainTraders, CCI30, Coindesk, iShares/BlackRock, Yahoo Finance.

STRATEGY | SIMILAR TO MARKET MAKING

- **Return drivers**: *Liquidity Mining* and only for a *small part* long only *holdings in Bitcoin and Ethereum* (FIGURE 3.1).
- **Dominance** of the returns generated by Liquidity Mining, facilitating *market neutrality* relative to the crypto market.
- **Market Making** at central exchanges is similar to Liquidity Mining, with the difference that Market Makers 'normally' benefit from from the difference between the bid and ask price (the 'fee' for providing 'liquidity') and a Liquidity Miner/Yield Farmer receives an *interest ('yield')* for providing liquidity.
- **Bottum-up selection and active management** of the Liquidity Mining activities in order to continuously achieve an optimal composition of the portfolio with the highest return potential and the lowest risk.

FIGURE 2.2 | ANNUAL RETURNS*

Sources: BlockchainTraders, CCI30, Coindesk, iShares/BlackRock, Yahoo Finance.
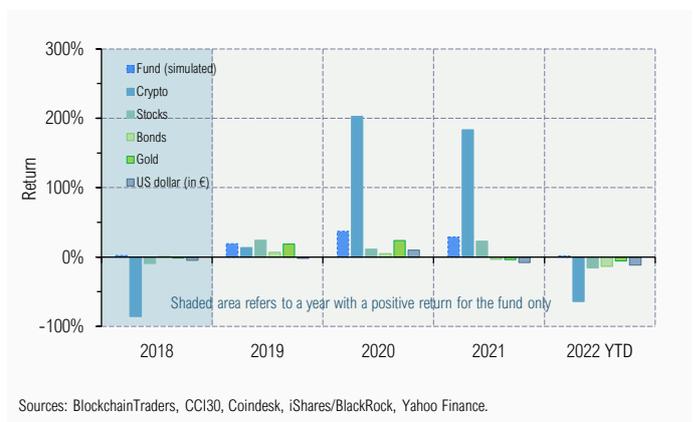
RISK MANAGEMENT | DUE DILIGENCE AND RISK MITIGATION

Risk management is crucial in the investment process with a focus on limiting the downside (also see FIGURE 2.4)**. Risks are strongly mitigated by:

- Only selecting DeFi-applications of which **Smart-Contracts** are **audited** by **renowned parties**[3];
- Only providing liquidity in **Stable Coins**: because of its fixed exchange rate to FIAT currencies, such as the US dollar, the risks of being exposed to cryptocurrency rate changes will be eliminated;
- There must be **ample liquidity** in the *DeFi-application* and *Stable Coins;*
- **Continuous monitoring** and **active re-allocation** of the *DeFi-applications*.

FIGURE 2.4 | SCENARIO ANALYSIS*

Sources: BlockchainTraders, Coindesk, Yahoo Finance.

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* For all details regarding the analyses and calculations, see the detailed explanation and disclaimer on the last page of this document.
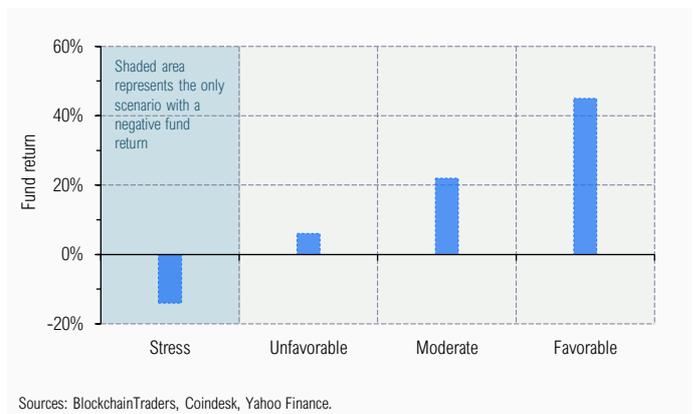** For further clarification, definitions/descriptions of various technical terms used can be found on the last page of this document.
[3] Such as Certik, Quantstamp, PwC Switzerland, Slowmist, also refer to: https://boxmining.com/top-blockchain-security-firms/.

OF WHAT

PORTFOLIO | SAMPLE SNAPSHOT

Below a snapshot of a possible portfolio composition at any given time in FIGURES 3.1, 3.2 and 3.3 (the last two focus on the Liquidity Mining part in the portfolio only). Viewed from a top-down approach, there is diversification across various return sources, blockchain platforms and DeFi-applications. TABLE 1 at the right provides information about which Stable Coins we focus on, in relation to risk mitigation and minimizing the volatility of returns.

FIGURE 3.1 | RETURN SOURCES DISTRIBUTION

Ethereum
Bitcoin
Liquidity Mining

Source: BlockchainTraders. Distribution of total portfolio.
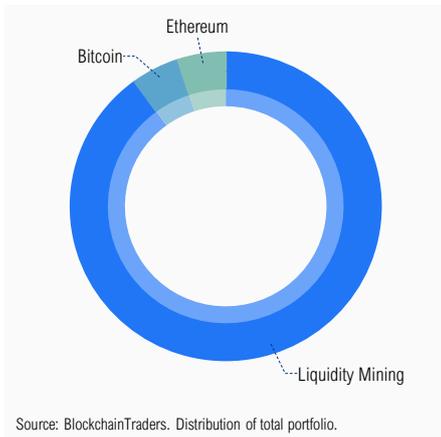
FIGURE 3.2 | BLOCKCHAIN PLATFORM DISTRIBUTION

Binance Smart Chain
Ethereum Layer 2
Ethereum Layer 1

Source: BlockchainTraders. Distribution within Liquidity Mining part only.
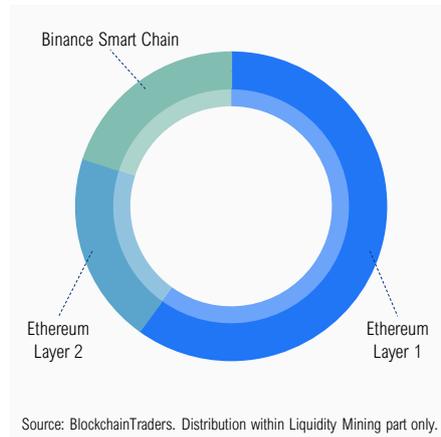
FIGURE 3.3 | DEFI-APPLICATION DISTRIBUTION

Venus
Balancer
PancakeSwap
QuickSwap
SushiSwap

Source: BlockchainTraders. Distribution within Liquidity Mining part only.
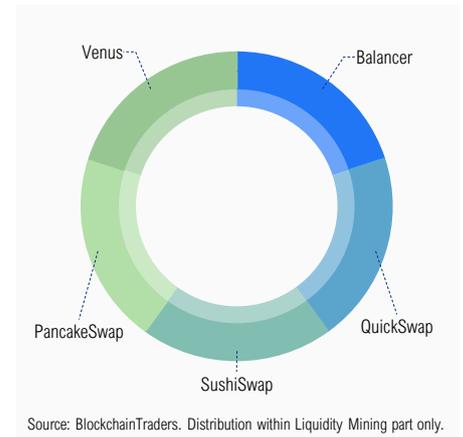
WHO

BLOCKCHAINTRADERS | ABOUT US

BlockchainTraders was founded in February 2018 by Michiel van der Steeg and Justin Kool. Both have been active in cryptocurrencies and the underlying blockchain technology since 2014. After jointly gaining a lot of experience in trading cryptocurrencies, participating in ICOs and mining cryptocurrencies from 2017 on, they decided to join forces. Since mid-2018, several investment funds have been managed with a focus on the fast-developing cryptocurrency market, building a successful track record. This has led to the creation of the new fund.

TEAM | OUR PEOPLE

JUSTIN KOOL – PORTFOLIO MANAGER
♦ **Experience**: Portfolio Manager/Trader, Miner and Consultant in Cryptocurrencies
♦ **Education**: Universidad Rey Juan Carlos, Hanzehogeschool Groningen
♦ **Contact**: ☎ +31 6 28 25 57 95 | ✉ j.kool@blockchaintraders.nl

MICHIEL VAN DER STEEG – CO-PORTFOLIO MANAGER
♦ **Experience**: Crypto Consultant, KnoWork (prize for best Startup), ComplianceWise
♦ **Education**: Universiteit Leiden/Utrecht, UvA, Rijksuniversiteit Groningen
♦ **Contact**: ☎ +31 6 21 97 17 38 | ✉ m.vandersteeg@blockchaintraders.nl

JEROEN CREMER – DIRECTOR STICHTING TOEZICHT BLOCKCHAINTRADERS
♦ **Experience**: Commercial Director ComplianceWise, Director of Legal owner
♦ **Education**: Nijenrode Business University, Hogeschool van Utrecht
♦ **Contact**: ☎ +31 6 20 11 79 08 | ✉ j.cremer@blockchaintraders.nl

CONTACT | MORE INFORMATION

If you are interested in learning more, you can contact us for more information and/or questions by e-mail at info@blockchaintraders.nl or by telephone on our number **+31 55 30 20 102**. Of course, you can also contact one of the two team members Jeroen or Justin directly. If you would like to stay informed, you can sign up for the monthly newsletter as well via our website **www.blockchaintraders.nl**.

TABLE 1 | TOP 5 FOCUS STABLE COINS

Stable Coin 1	DAI	1 DAI = 1 USD
Stable Coin 2	USDC	1 USDC = 1 USD
Stable Coin 3	USDT	1 USDT = 1 USD
Stable Coin 4	BUSD	1 BUSD = 1 USD
Stable Coin 5	UST	1 UST = 1 USD

TABLE 2.1 | FUND INFORMATION

Legal structure	Fund for joint account
Fiscal status	Untaxed
Transferability	Limited (under conditions)[4]
Minimal subscription	€ 250.000*
Lock-up	1 year
Dealing frequency	Monthly

TABLE 2.2 | FUND FEES

Setup fee	€ 985 (one-off)*
Management fee	0,4% (charged quarterly)
Performance fee	15% (lifetime HWM)*, [5]
Other	1% maximum[6]

TABLE 2.3 | SERVICE PROVIDERS

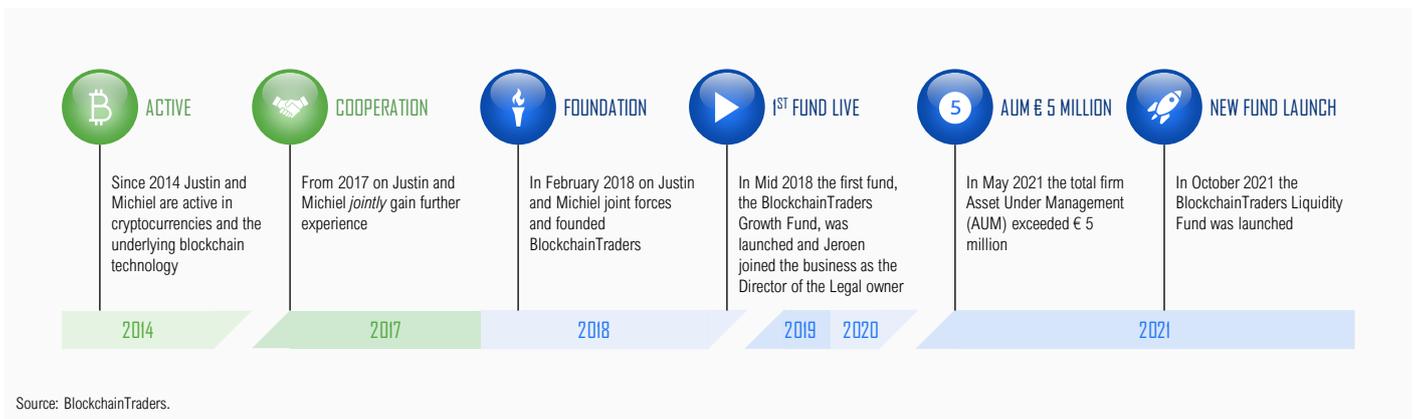| Fund manager | BlockchainTraders B.V. |
Legal owner	Stichting Toezicht BlockchTrad[7]
Accountant	Verseput B.V.
Bank	Bunq B.V.

* Applicable to the BlockchainTraders Liquidity Fund A.
[4] Subject to limited transferability, consult your advisor.
[5] HWM refers to High Water Mark, and no hurdle rate applicable.
[6] 'Other' refers to accounting costs, registration costs with the AFM.
[7] Full name is Stichting Toezicht BlockchainTraders.

▊ HISTORY | COMPANY TIMELINE

Below in FIGURE 4.1 a timeline overview with various milestones before and from the foundation of the company BlockchainTraders. It is important to note that the team members involved with the BlockchainTraders Liquidity Fund already worked intensively together before the foundation of the company and with previous funds.

FIGURE 4.1 | BLOCKCHAINTRADERS MILESTONES

ACTIVE	COOPERATION	FOUNDATION	1ST FUND LIVE	AUM € 5 MILLION	NEW FUND LAUNCH
Since 2014 Justin and Michiel are active in cryptocurrencies and the underlying blockchain technology	From 2017 on Justin and Michiel *jointly* gain further experience	In February 2018 on Justin and Michiel joint forces and founded BlockchainTraders	In Mid 2018 the first fund, the BlockchainTraders Growth Fund, was launched and Jeroen joined the business as the Director of the Legal owner	In May 2021 the total firm Asset Under Management (AUM) exceeded € 5 million	In October 2021 the BlockchainTraders Liquidity Fund was launched
2014	2017	2018	2019 2020		2021

Source: BlockchainTraders.

▊ BLOCKCHAINTRADERS GROWTH FUND | TRACK RECORD

In 2018 the BlockchainTraders Growth Fund was founded - with inception date 17 August 2018 – to offer investors *directional* exposure to cryptocurrencies with the following characteristics*:

- **Objective:** generating return by using various investing techniques in cryptocurrencies*;*
- **Investment strategy**: holding cryptocurrencies for a longer period of time, active trading in cryptocurrencies, participating in ICO's[8] and performing mining activities related to cryptocurrencies. The fund does *not use leverage*.
- **Returns** arise from the appreciation of the cryptocurrencies and ICO's in which the fund invests and by generating cryptocurrencies by special mining computers and software;
- **Minimum participation** of € 100,000 for *experienced* (crypto) investors and a recommended **investment horizon** of *at least 3 years*.

FIGURE 4.2 provides the track record since inception of the fund*.

**FIGURE 4.2 | TRACK RECORD PREVIOUS FUND***

Source: BlockchainTraders, iShares/BlackRock.
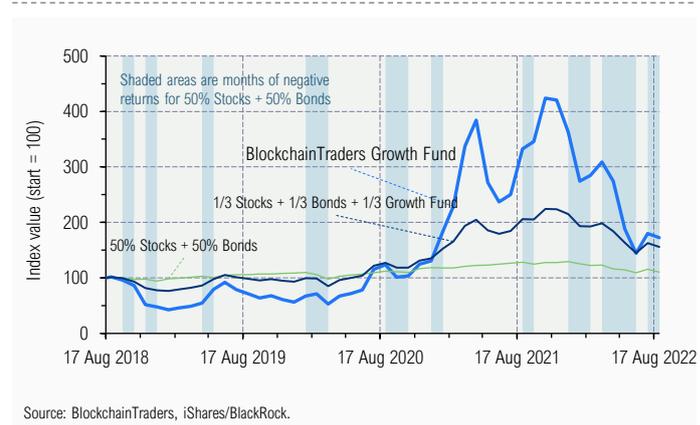
▊ BACKGROUND | UNDERLYING DEVELOPMENTS

The start of Bitcoin and subsequent blockchain technologies such as Smart-Contracts have fueled the rise of Decentralised Finance (DeFi). DeFi is currently driving tremendous innovation in the application of blockchains. DeFi-applications are unique in the way that anyone with an internet connection can interact with them. Moreover, there is no need to rely on intermediaries or custodians: in other words, they are 'trustless. DeFi provides a decentralised alternative to conventional banking and financing services systems, and it can function independently of this traditional financial industry and the political system. This will allow for a more open financial system and prevent potential cases of censorship and discrimination around the world. The DeFi-industry is growing fast, and the amount of liquidity needed in the market is increasing at the same rate. The total locked value within Defi-applications today exceeds $55 billion. At the beginning of 2019, this was only $40 million and last February it was about $40 billion. The idea that DeFi is booming therefore seems to be an understatement.

FIGURE 5 | 'TOTAL LOCKED VALUE' WITHIN DECENTRALISED FINANCE


Source: Defipulse.com.

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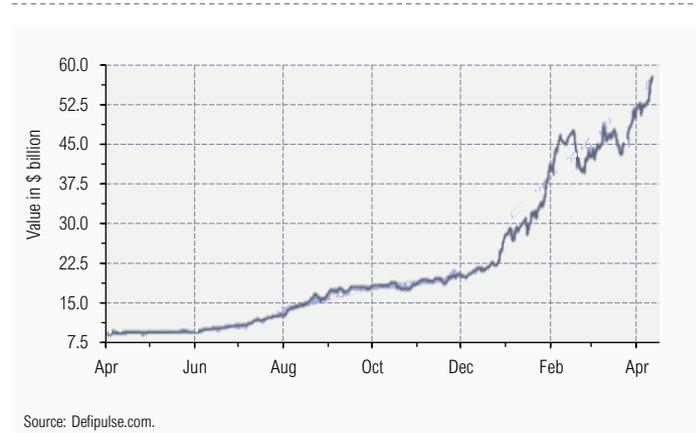
*   The track record is based on the month-end values of the Fund A version of the BlockchainTraders Growth Fund, with the exception that the first value of the fund is the value of Fund A at the inception date of 17 August 2018. For the other portfolios the same approach is taken. With that the track record period starts at 17 August 2018 until and including the date mentioned at the top of this document with the values obtained through the sources mentioned. The 50% Stocks + 50% Bonds and 1/3 Stocks + 1/3 Bonds +1/3 Fund A (index) portfolios are used to demonstrate diversification benefits of adding the fund to traditional assets, especially when traditional assets go down simultaneously (shaded areas). For equities and bonds the iShares MSCI World EUR Hedged UCITS ETF (Acc) in EUR and iShares Core € Govt Bond UCITS ETF in EUR are used, respectively. Each (index) portfolio has fixed weights by monthly rebalancing.

8   ICO is the abbreviation for 'Initial Coin Offering', which means as much as the first coin offering. An ICO is actually the crypto version of crowdfunding. Investors buy coins that belong to a starting blockchain startup. If the startup becomes successful, these coins can become more valuable. For more details, please refer to the definitions on the last page of this document.

MONEY FLOW

PARTICIPATION | EXAMPLE INVESTMENT ROADMAP

Below a strongly stylised and simplified example of what would happen with the investment once participating in the fund. The visualised components correspond with the return sources, blockchain platforms, DeFi-applications and Stable Coins mentioned in FIGURES 3.1, 3.2 and 3.3. and TABLE 1, respectively.

FIGURE 6 | INVESTMENT MONEY FLOW
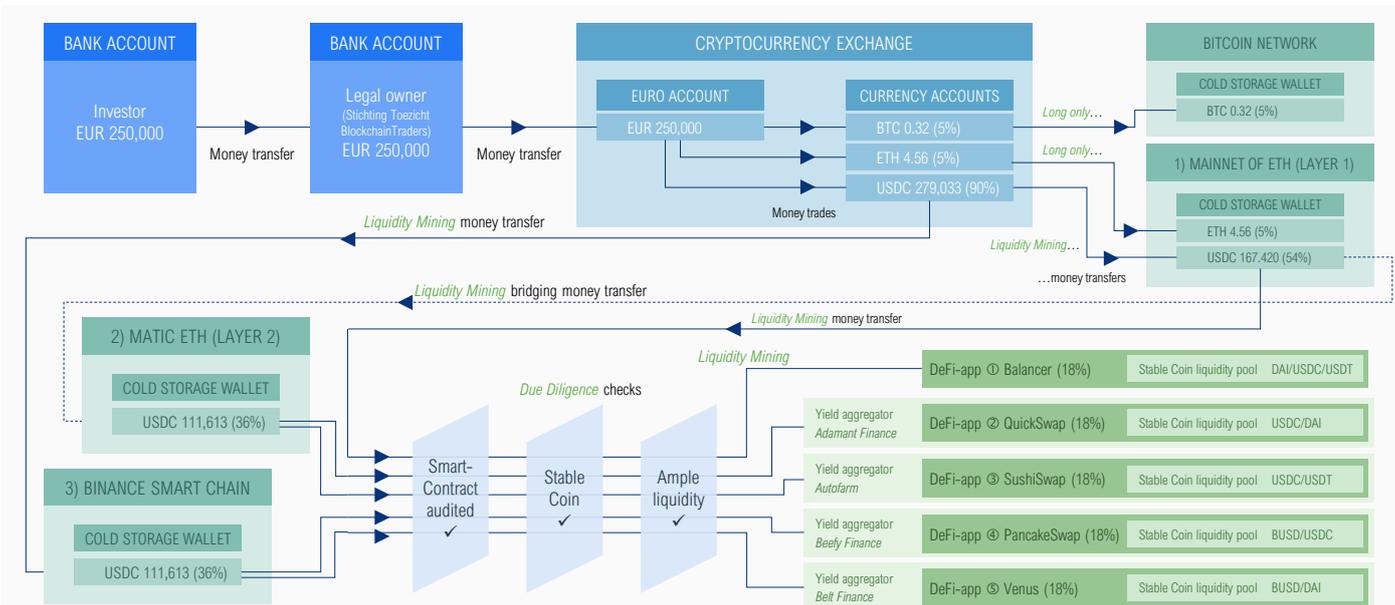
Source: BlockchainTraders. Percentages between parentheses are based on the original capital invested, for example EUR 250,000 (100%). *Yield aggregator* reinvests money made by the DeFi-app. BTC, ETH: Bitcoin, Ethereum, respectively.

CALCULATIONS | EXPLANATION

The analyses and calculations for this document are based on realized monthly returns from January 2018 until and including the date mentioned at the top of this document obtained through the sources mentioned. The simulated returns for the fund are largely based on these same returns. For equities, bonds and gold, iShares MSCI World EUR Hedged UCITS ETF (Acc) in EUR, iShares Core € Govt Bond UCITS ETF in EUR, and iShares Physical Gold ETC (USD) are used, respectively. For cryptos/cryptocurrencies, the CryptoCurrencies Index 30 and Bitcoin, Ethereum in USD are used. The fund's returns are in EUR and based on a hypothetical constant composition such as in FIGURE 3.1, using the 'yield' percentages of 3 DeFi-applications. As a result, the volatility is mainly caused by the volatility of the positions in Bitcoin, Ethereum and the US dollar. Furthermore, regarding the expected return and risk profile we have the following additional comments. The (main) risks for lower returns than expected are (1) Smart-Contract risks/hacks, (2) commission rates go down harder/sooner than expected, (3) risk of changes in exchange rates between FIAT currencies. We expect that the Liquidity Mining returns will go down over the coming years and we have taken that into account in the expected returns. Besides, we continuously switch between different DeFi-applications and/or platforms to maximize the returns.

DEFINITIONS | TERMS USED

♦ **Decentralised Finance** (or simply **DeFi**): refers to an ecosystem of financial applications that are built on top of blockchain networks. More specifically, the term Decentralised Finance may refer to a movement that aims to create an open-source, permissionless, and transparent financial service ecosystem that is available to everyone and operates without any central authority. The users would maintain full control over their assets and interact with this ecosystem through decentralised applications.

♦ **DeFi-applications** (or abbreviated **DeFi-app**): decentralised applications (DApps) are applications that run on a distributed computing system, that is, a blockchain network. While there are various ways of defining a DApp, they are usually described as applications that have the following characteristics. Open source; the source code is intentionally made available to the public, meaning that anyone is able to verify, use, copy, and modify the code. Decentralised; since DApps run on blockchain networks, they are not controlled by a single entity or authority. Instead, they are maintained by multiple users (or nodes). Cryptographically secure: the application is protected by cryptography, meaning that all the data is recorded and maintained in a public blockchain. There is no single point of failure.

♦ **Smart-Contract**: Nick Szabo first described Smart-Contracts in the 1990s. Back then, he defined a Smart-Contract as a tool that formalizes and secures computer networks by combining protocols with user interfaces. Szabo discussed the potential use of smart contracts in various fields that involve contractual agreements - such as credit systems, payment processing, and content rights management. In the world of cryptocurrencies, we may define a smart contract as an application or program that runs on a blockchain. Typically, they work as a digital agreement that is enforced by a specific set of rules. These rules are predefined by computer code, which is replicated and executed by all network nodes.

♦ **Stable Coin**: Stable Coins are digital assets designed to mimic the value of fiat currencies like the dollar or the euro. They allow users to cheaply and rapidly transfer value around the globe while maintaining price stability. These assets see negligible price movement and closely track the value of the underlying asset or fiat currency that they emulate. As such, they serve as reliable safe-haven assets amid volatile markets.

♦ **Market Making**: providing liquidity on a defined asset by submitting both bid and ask limit orders on an exchange. Market makers make a profit by spreading the bid-ask over multiple trades. Fast and stable technology and good risk management are essential to make this successful.

♦ **Liquidity Mining/Yield Farming**: Liquidity Mining, sometimes also referred to as Yield Farming, is a way to generate rewards with cryptocurrency holdings. In simple terms, it means locking up cryptocurrencies and getting rewards. Liquidity miners/Yield farmers will use very complicated strategies. They move their cryptos around all the time between different lending marketplaces to maximize their returns.

♦ **ICO**: is the abbreviation for 'Initial Coin Offering', which means as much as the first coin offering. An ICO is actually the crypto version of crowdfunding. Investors buy coins that belong to a starting blockchain startup. If the startup becomes successful, these coins can become more valuable. It is an innovative approach for raising funds through the use of digital currencies (cryptocurrencies). Such a strategy is more prevalent in cryptocurrency projects that are yet to fully developed their blockchain-based product, service, or platform. The funds collected on ICO events are normally received as Bitcoin (BTC) or Ethereum (ETH), but in some cases, fiat currency may also be taken as payment.

Source: Binance, for more and detailed information refer to: https://academy.binance.com/nl/start-here.

DISCLAIMER | IMPORTANT INFORMATION

BlockchainTraders

FUND MANAGER
BlockchainTraders B.V.
CoC: 70864640
Bank: Bunq B.V.
BIC: BUNQNL2A
IBAN: NL95 BUNQ 2042 3306 39

CUSTODIAN FUND ASSETS
Stichting Toezicht BlockchainTraders
CoC: 71065547
Bank: Bunq B.V.
BIC: BUNQNL2A
IBAN: NL02 BUNQ 2042 7927 72

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