

# SEVENS REPORT *alpha*

**Webinar #24: Blockchain and Crypto Update – Is There Value?**

**Date: Thursday, July 19, 2018**

**Presenter: Tom Essaye & Brian Kelly, PM of BKC Capital  
Management**

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## Goals for Today's Webinar

- Is there value in the crypto and blockchain space following the recent declines?
- Blockchain technology potential and crypto currency applications – has anything changed over the past six months?
- Active management in blockchain ETFs – why is it important?
- What makes BKC different?
  - Active management
  - Portfolio Snapshot
  - Potential diversification
- Brian's general market thoughts

## Concept Review

### WHAT IS BLOCKCHAIN & CRYPTOCURRENCY?

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- **Blockchain** is a way to securely “digitize” transactions and even physical objects.
  - Distributed ledger technology that records all transactions in a system
  - Decentralized to reduce central points of vulnerability and errors
  - Many potential applications to “digitize” our lives



- **Cryptocurrency** is a digital currency that uses cryptography for security.
  - Theoretically acts independently of traditional banking & government influence
  - Universal, fungible, and borderless
  - Accessible wherever there is an internet connection
  - Popular cryptocurrencies include Bitcoin, Ether, Ripple, Monero, Litecoin, and more

*The stocks in which the Fund will invest will be subject to the risks associated with cryptocurrency and blockchain technology, which is a new and relatively untested technology. The risks associated with cryptocurrency and blockchain technology may not emerge until the technology is widely used.*

## Bitcoin and Blockchain – Is there Relative Value?



## Potential of Blockchain

### THE PRESENT & POTENTIAL OF BLOCKCHAIN

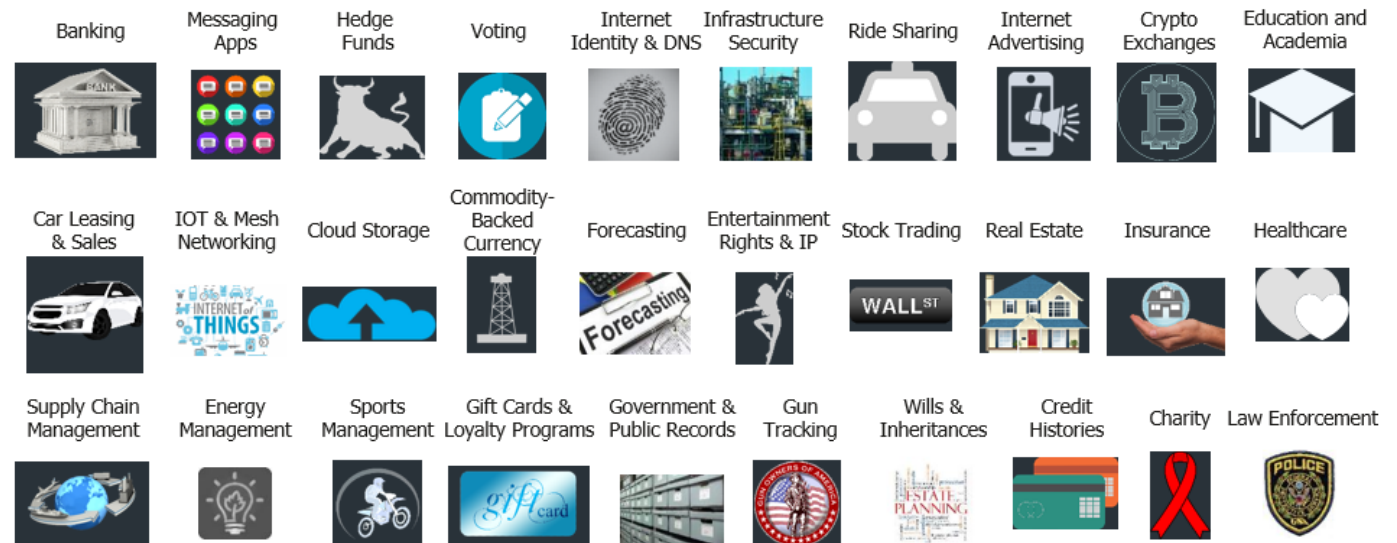
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Like the internet, we believe Blockchain can possibly disrupt dozens of industries.

#### How Blockchain can change business<sup>1</sup>:

- Reduce transaction time
- Streamline processes / increase efficiency
- Improve security
- Reduce errors
- Process more information
- Increase collaboration among companies
- Allow for Cryptocurrency usage

#### 30 industries where Blockchain technology<sup>1</sup> is already being explored



<sup>1</sup>CB Insights, [www.cbinsights.com/research/industries-disrupted-blockchain/](http://www.cbinsights.com/research/industries-disrupted-blockchain/)

Note: Blockchain technology may never develop optimized transactional processes that lead to increased realized economic returns to any company in which the fund invests.

## Cryptocurrency Applications

### CRYPTOCURRENCIES & WEB 3.0

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## Active Management in Blockchain

### WHY ACTIVE?

### NOT ALL COMPANIES EXPLORING BLOCKCHAIN ARE EQUAL

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BKC is "Actively Managed", meaning it does not have to follow an index.



Information asymmetry may be high in this early stage — industry connections are key.



Volatility can be high. Professional management may enhance risk/reward ratio.



The Blockchain landscape can change rapidly and portfolio decisions need to be made real time.



No need to wait for an index committee to change an allocation.

Note: The benefits of active over passive management can also be detractors if the manager is not successful in anticipating actual market, economic, and company movements..



## BKC – What Makes It Different?

### THE **BKC** EDGE: RESEARCH

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#### Brian Kelly's **360°** Experience



- **Multi-discipline Investing** – Brian Kelly has a unique combination of entrepreneurial experience, macro-economic track record, Blockchain & Digital Currency knowledge, and active fund management experience. BK has an equity trading background dating back over 20 years and currently manages a long/shot Cryptocurrency Hedge Fund.



- **Venture Capital Relationships** – Brian Kelly maintains close relationships with venture capitalists funding Blockchain & Crypto projects. These associations allow BK to stay on the forefront of new developments and information.



- **Informational Advantage** – Brian Kelly spent the last 5 years establishing direct relationships within the digital currency sector. He travels all over the world key-note speaking at conferences and meet with leaders in the space. This is exceedingly helpful when running a global portfolio, considering the advancements made in Asia & Europe. Brian has relationships with institutions and the Street, he's served on the Wallstreet Blockchain Alliance and CBOE Blockchain Futures Group's Board of Advisors.



- **Help from his team** – Brian's Chief Technology Officer was head of engineering at one of the first and largest bitcoin exchanges and has been a Crypto professional since 2013. He leads Technological Blockchain Protocol & Application research. Brian also has full-time analyst support.



- **Platform** – Brian Kelly's platform, centered on his CNBC appearances, makes BK the epicenter for information flow.

## BKC Investment Themes

### BKC INVESTMENT THEMES

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#### BKC's Blockchain Themes & Company Examples



##### Wall Street Disruptors

- Securities trading platforms
- Companies disintermediating venture capital



##### Crypto Miners & Traders

- Cryptocurrency exchanges and miners
- Cross-border payment solution developers
- Blockchain/Crypto-Mining hardware builders



##### Enterprise Blockchain Leaders

- Smart Contracts users<sup>1</sup>
- Blockchain for internal cost reduction
- Record Keeping & Data Storage



##### Decentralized Internet Builders

- Decentralizing Apps
- Internet user data protection
- Transaction Privacy

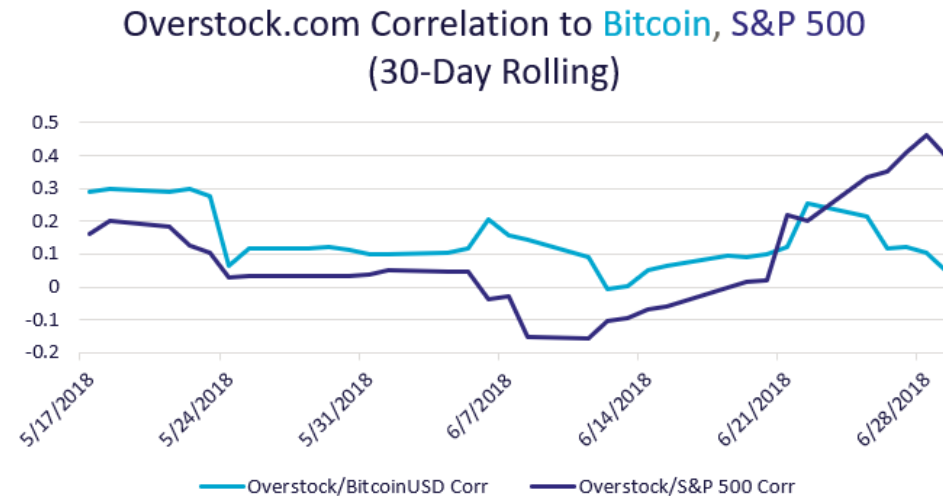
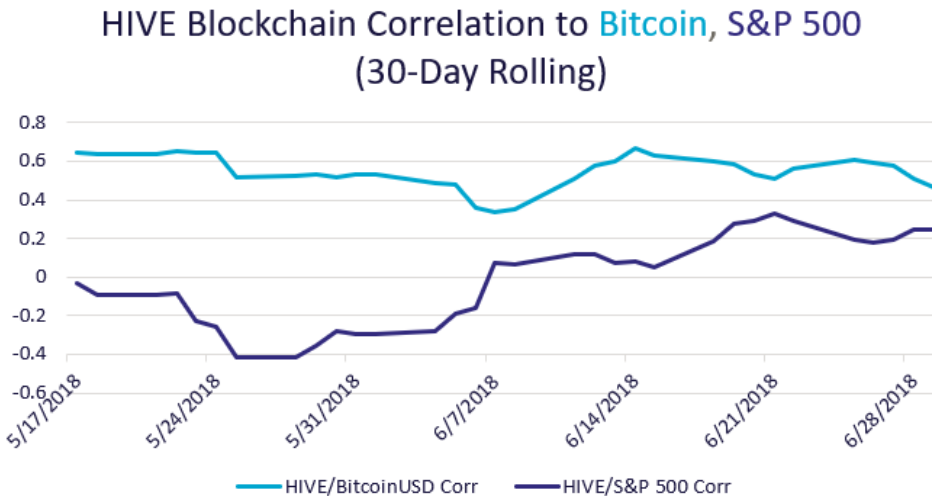
<sup>1</sup>Digital contracts stored and governed by a Blockchain system and verified by a network of computers.

## A Portfolio Diversifier?

### BKC MAY PROVIDE SOME EQUITY DIVERSIFICATION

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- BKC has owned HIVE Blockchain and Overstock.com since the Fund's inception.
- Both of these companies have been more tied to Bitcoin prices than to the S&P 500 index for a majority of the life of the fund.



As of 6/30. Diversification does not ensure a profit or protection against a loss.

## Portfolio Snapshot

### PORTFOLIO SNAPSHOT 7/13/2018

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#### High Conviction Portfolio

Over 48% in the top 10 holdings

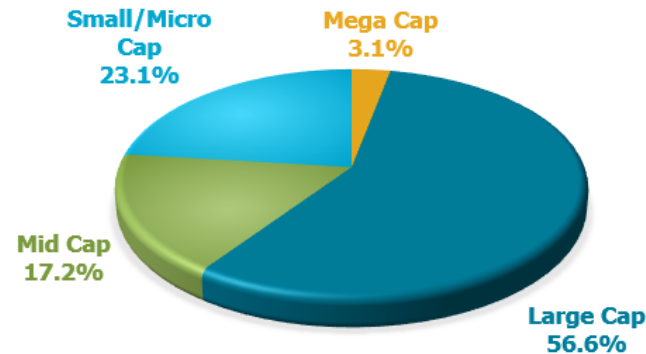
#### Top 10 Holdings

Global Unichip Corp	7.7%
Taiwan Semiconductor	7.6%
GMO Internet Inc	5.6%
SVB Financial Group	4.8%
Overstock.com Inc	4.5%
Advanced Micro Devices	4.2%
Signature Bank/New York NY	4.0%
Square Inc	3.7%
Micron Technology	3.3%
CME Group Inc	3.3%

#### Small/Mid Cap Tilted

40% in small & mid cap stocks

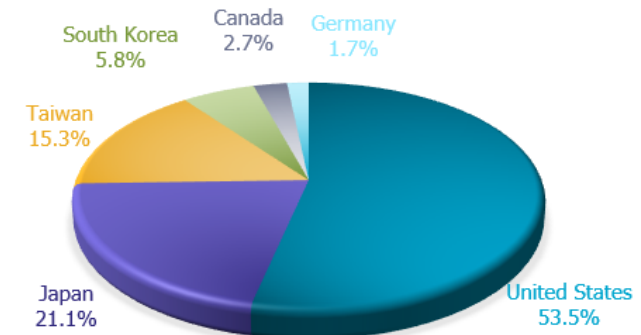
#### Market Cap<sup>1</sup>



#### Tilted Toward Asia

Over 40% in Asian countries

#### Country Weights<sup>1</sup>



**Subject to change. Market cap categorization:** Microcap: \$50m-\$300m, Small Cap: \$300m - \$2,000m, Midcap: \$2,000m - \$10,000m, Large Cap: \$10,000m - \$200,000m, Mega cap: \$200,000m+, Country data was provided by Bloomberg L.P.

Currently, there are few public companies where blockchain technology represents an attributable and significant revenue stream.

Exchange Traded Concepts, LLC serves as the investment advisor and Vident Investment Advisory & BKCM Funds, LLC serve as sub advisor to the fund. The Funds are distributed by Foreside Fund Services, LLC., which is not affiliated with Exchange Traded Concepts, LLC or any of its affiliates.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Rex NAVs are calculated using prices as of 4:00 PM Eastern Time. The closing price is the Mid-Point between the Bid and Ask price as of the close of exchange. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. In emerging markets, these risks are heightened, and lower trading volumes may occur. Investments in smaller companies typically exhibit higher volatility.

There is little regulation of cryptocurrency and blockchain technology other than the intrinsic public nature of the blockchain system. Any future regulatory developments could affect the viability and expansion of the use of cryptocurrency and blockchain technology.

**Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' summary and full prospectuses, which may be obtained by calling 1-844-REX-1414. Read the prospectus carefully before investing.**

**Blockchain Technology Risk.** The stocks in which the Fund will invest will be subject to the risks associated with blockchain technology, which is a new and relatively untested technology. The risks associated with blockchain technology may not emerge until the technology is widely used. Blockchain systems could be vulnerable to fraud, particularly if a significant minority of participants colluded to defraud the rest. Access to a given blockchain requires an individualized key, which, if compromised, could result in loss due to theft, destruction or inaccessibility.

Cryptocurrency and blockchain technology systems may operate across many national boundaries and regulatory jurisdictions; therefore, cryptocurrency and blockchain technology may be subject to widespread and inconsistent regulation. Current IRS guidance indicates that digital assets such as cryptocurrencies should be treated and taxed as property, and that transactions involving the payment of cryptocurrency for goods and services should be treated as barter transactions. This treatment may create a potential tax reporting requirement in any circumstance where the ownership of a cryptocurrency passes from one person to another.

Generally, cryptocurrency and blockchain technology is not a product or service that provides identifiable revenue for companies that implement or otherwise use it. Therefore, the values of the stocks in which the fund will invest may not be a reflection of their connection to cryptocurrency and blockchain technology, but may be based on other business operations.

An investment in the Fund is subject to risks including loss of principal. There can be no assurance the Fund will achieve its investment objectives. The Fund can be more volatile than broad market averages. Additional risks for the Fund include: emerging markets risk, foreign securities risk, geographic risk, geopolitical risk, liquidity risk, non-diversification risk, technology risk, and valuation risk. For a complete description of these risks please read the prospectus carefully.