



DIVERSIFICATION MATTERS Report 10

A new fund of funds eyes regulated digital currencies

The pandemic may be creating fertile ground for digital currencies. In a recent speech, Christine Lagarde, president of the European Central Bank, suggested that Europe's central bankers are close to a decision on creating a digital currency for the Eurozone. The effort would come alongside similar work already underway in China and the Caribbean.

In her comments, Lagarde noted that the pandemic accelerated the adoption of digital payments in the Eurozone which is a key step for the adoption of digital currency. To date, support for digital currency has largely been the domain of technology evangelists. Few people use digital currency for day to day transactions or even larger scale financial transactions. But, as people remained in their homes during the pandemic lockdowns, digital payments emerged as a critical stopgap. In her speech, Lagarde said it would be important for the Eurozone to stay on top of developments in digital currencies and the technologies that support them.

Alongside Lagarde's remarks, Mastercard announced that it has launched a digital currency testing platform designed specifically for central banks. The platform provides test environments for examining how digital currencies might be adopted by consumers based on current trends - like an uptick in consumer comfort with digital payments. The platform is designed to help central bankers run simulations exploring how digital currency would work with current localized financial infrastructure.

All of this is likely good news for digital assets investors. Digital assets have come under close scrutiny in recent months given their uneven investment performance during the pandemic. Digital currency evangelists predicted an extreme runup in value as well as performance that would be decoupled from the broader market during a drawdown, and none of that turned out to be true. However, support from central banks might generate new value.

The Portal Digital Fund from Portal Asset Management is a newly launched fund of funds attempting to capture the growth of digital currencies. The fund invests in managers that specialize in certain digital assets and strategies with the goal of creating a consistent but uncorrelated source of returns. The fund of fund structure also puts an additional layer between investors and the volatility of the digital currency market.

“Our core thesis is predicated on our firm belief that ‘everything is about to change’ as digital assets become the fourth superclass of assets,” said Portal AM CIO Mark Witten in a recent update to investors. “As the digital currency market formalises and becomes regulated, it represents a new frontier for accredited investors.”

This new frontier won't be without its challenges, however. Witten is broadly positive on the outlook for digital currencies heading into the back half of the year although volatility is expected to continue. The Portal Fund itself has a relatively high volatility profile compared to other strategies like equity long/short or actively managed fixed income. The Portal team argues that investors get paid for the risk. The fund is up 24.1% year to date through August and 31.0% over the past 12 months. Launched in January of 2019, the strategy targets returns of 25% p.a. over a rolling 5-year period net of fees.

The strategy is open to outside investors and Witten will be discussing how digital assets can add diversification to portfolios in our upcoming webinar “Diversification Matters: Outperforming Strategies” on September 22. More information and free registration is available [here](#).

Upcoming Webinar:

DIVERSIFICATION MATTERS - More outperforming strategies

Time: Tuesday, Sep. 22nd 10 am EST

Details and free registration here: www.opalesque.com/webinar/