Investors' Chronicle

The investment trusts cautiously backing crypto

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The collapse of crypto platform FTX has shown once again how risky investing in crypto currencies can be, and provided some vindication for investment trusts that have shied away. But not all have ignored these assets entirely.

Chris Clothier, chief financial officer at CG Asset Management and co-manager for wealth preservation at **Capital Gearing Trust (CGT)**, has recently reiterated his view that "bitcoin is not an 'asset' that we are prepared to buy for our clients".

"Events [last] year culminating in the collapse of FTX have shown that… rather than creating a new financial system, crypto has simply recreated a facsimile of the old financial system it sought to replace and one rather worse than that of its predecessor," he writes.

Intentionally or not, Clothier's words remind us that some of its competitors were not always quite as cautious. In 2020-21, Ruffer, manager of **Ruffer Investment Company (RICA)**, built up a bitcoin portfolio that became the object of much debate. The manager has long since rethought its approach, and sold the exposure at a $1.1bn profit a few months later, recognising that at least in the short term bitcoin "was exhibiting the characteristics of a risky, speculative asset and therefore no longer fulfilled the role we wanted it for as a portfolio protection and diversifying asset".

For the handful of investment trusts that do still have crypto exposure, the predominant approach seems to be investing not so much in digital assets, but in companies that are part of the crypto ecosystem, as well as limiting the exposure to low single digits.

Another wealth preservation trust, **RIT Capital Partners (RCP)**, holds about 2 per cent of its portfolio in three crypto platforms. According to Numis, the trust had the option to invest directly in FTX, but the company never passed the managers' diligence threshold. "RIT views blockchain as a platform

technology that has potential over the long term, however [it believes] asset selection is critical as there will be significant volatility as the sector develops," Numis analysts explain.

Fintech venture capital trust **Augmentum Fintech (AUGM)** holds four crypto assets that account for about 7 per cent of its net asset value. The biggest holding is Gemini, a cryptocurrency exchange and wallet.

Chief executive Tim Levene says that staying ahead of the curve on fintech technologies is the trust's job as a fintech specialist, and that blockchain technology has a number of promising applications. "Our investment activity reflects a cautious approach, with focus on the most developed area – institutional trading of digital assets – and investment into infrastructure, as opposed to any directional bet on underlying assets," he says.

Baillie Gifford trusts **Scottish Mortgage (SMT)**, **Baillie Gifford US Growth (USA)** and **Edinburgh Worldwide (EWI)** also have small exposures (in the region of 1 per cent of less) to a few crypto exchanges and infrastructure companies. Specifically, SMT has positions in crypto giant Blockchain.com and infrastructure company Blockstream. Hedge fund **Third Point (TPOS),** meanwhile, has three blockchain companies in its portfolio.

Finally, as at June 2022, **BH Macro (BHMG)** had a 3 per cent exposure to foreign exchange strategies, which can include digital assets. These detracted 0.9 per cent from the trust's performance in the first half of the year.

As regulations evolve, and if blockchain technologies and cryptocurrencies become more widely used, crypto assets could still one day prove a more reliable holding for investment trusts. But until then, they are likely to remain a polarising topic, and investors might want to stick with managers that tread very carefully.