RealUnit SCHWEIZ AG

Dear Shareholders,

So far, 2023 has been an extremely challenging year. The global economy, that never truly recovered from the covid crisis, has been showing increasingly clear signs of instability and very worrying, fundamental cracks, that should be alarming to all observant investors. The pressures from the ongoing war in Ukraine have been piling up, as have the human casualties, while the uncertainty it introduced to world order and security have deeply impacted not only the countries that are directly engaged in this conflict, but also ordinary citizens around the world.

A clear example is Europe, with the energy crisis which compounded the overall inflation crisis that pushed countless households to the brink last winter is once again looming large as temperatures once again begin to drop. In the US too, however, worries over the future of the USD have been compiling, as the growing divide between the West and the Sino-Russian sphere of influence have lent credence to de-dollarization scenarios and the prospect of a credible challenge to the dollar's status as the world reserve currency.

As if all that wasn't concerning enough, the attack against Israel on October 7th and the retaliation and subsequent humanitarian crisis it triggered in Gaza massively darkened the global economic and geopolitical outlook. Even beyond the ongoing tragedy and thousands of innocents that have already perished on both sides, there is also the threat of a spillover that could sink the entire region into a bloody conflict.

At RealUnit, we are keeping a close eye on all fronts and relevant developments. So far, our strategy has proven very effective in countering the present climate of uncertainty and instability, as was reflected last quarter in our NAV gains. We remain vigilant and ready to adjust our positions, when and if needed.

Finally, it was because of this prevailing, heightened uncertainty that we decided to dedicate this issue of the Fairwater Report to presenting one of our investments that might be surprising to some and to outlining our rationale behind it. For a company that prides itself in its commitment to real, tangible assets, the choice to allocate, even 2% as we did, to crypto might seem odd, but we have good reasons for it; hopefully you'll be convinced too after reading this report.

Vahan P. Roth

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Founder and Chief Investment Officer RealUnit Schweiz AG

THE CONSERVATIVE CASE FOR CRYPTO

Cryptocurrencies are not the "new kids on the block" anymore. They've been embraced by big banks and established financial institutions, they have earned their very own section in mainstream financial news platforms and they have been adopted by investors across different profiles and demographics. However, for many of us who insist upon the superiority of real, tangible assets over unstable, unreliable and manipulatable things like government bonds and fiat currencies, there is an argument to be made against Bitcoin and its kin.

Why would a purely real asset backed strategy like the one that RealUnit has developed also include Bitcoin? Next to physical metals, stored in vaults and outside the banking system, or next to investments in sound and robust Swiss companies like the ones we presented in our previous editions of our Fairwater Report, it's understandable how our BTC allocation, even if it stands at only 2%, could seem like the "odd one out".

FAIR SKEPTICISM AGAINST BITCOIN

For the first few years after its inception, all the way back in 2008 by the still elusive Satoshi Nakamoto, Bitcoin languished in relative obscurity. Out of the precious few who even knew about it, many dismissed it as a utopian concept or a "nerdy" but practically unworkable idea, while others recognized the elegance of the solution it presented and the genius behind the very notion of the decentralized ledger. Since the first wave of public interest in Bitcoin and the start of the first big bubble of 2016/2017, and certainly after the 2020 much more spectacular version of it, that dichotomy in opinion became essentially universal.

Especially among investors, the battle lines were drawn. On the bullish side, there were the widely derided speculators, who, though understanding next to nothing about it, still believed the cryptocurrency's price would skyrocket "to the moon" - but also on that same side were the true believers, who had done their homework and had legitimate arguments to support their positive outlook. On the other side, were the naysayers, the technophobes, the luddites, the "enemies of progress", those who rejected this (at the time) nascent asset class on principle alone, without ever even bothering to look into it; they simply hated it on sight, just because it represented something new, different, unfamiliar, intimidating and thus instantly perceived as dangerous. Of course, the other side, the "opposition" was not only comprised of obstinate, implacable, vengeful fanatics. The crypto-skeptic side also encompassed humble, decent, merely questioning people, who did bother to look into Bitcoin, to study it and to understand it, even to appreciate it, but still remained unconvinced of its actual, "real-world" value.

One of the major concerns was the question of security, which was easily dismissed by the very nature and structure of Bitcoin and all other truly decentralized private currencies. The whole point of the blockchain, after all, and what makes it stand apart, is the idea that it doesn't need a supervising and controlling authority - it manages and "regulates" itself, as it is up to multiple nodes or miners to verify a transaction and as the record of that transaction is recorded, transparent, and accessible by everyone.

However, even though the question of security is clearly resolved at that most fundamental level, we shouldn't dismiss those concerns. Exchanges have been hacked multiple times, resulting in steep losses for investors. There have also been countless fraud cases, various worthless "con coins" that swindled unsuspecting investors out of their money, cases of use and abuse of currencies by shady individuals and criminal organizations - certainly none of that helped boost people's confidence in crypto.

More poignantly and more recently, we saw the crash of FTX, which was a result of outright fraud. There's no denying that these events shook the faith of investors and gave rise to serious concerns and doubts not just over Bitcoin and its peers, but over crypto in general. However, there is also no doubt that every single one of these incidents was the result of human error, or simply human greed, deceit and self-interest. Put simply, it was never the code that failed, it was the people.

CRYPTO'S VALUE

It is obviously true that physical metals, stored in highly secure vaults outside the banking system, is the safest of havens for investors. One look at our own asset allocation will suffice to prove just how ardently we believe this to be true at RealUnit too.

Clearly, Bitcoin and its kin all come up dismally short in this particular regard. They are obviously not tangible and they are not real assets - not in the same way that a bar of gold is, anyway. They are not even backed by anything that holds real value. Bitcoin's "value", specifically, is derived from, determined and supported by an algorithm that ensures its finite supply and its diminishing returns from mining. It serves no purpose, it has no industrial uses, or any other practical utility. Nobody needs BTC in order to produce anything of actual value.

So, if Bitcoin has no intrinsic value, no use, no purpose in real life, it consumes energy and other resources for no practical or constructive reason and it only relies on artificially engineered, pre-programmed, illusory scarcity, how is it any better than fiat money? As an investment, how is it any better than any of the worthless stocks that speculators and market gamblers are attracted to, in their futile pursuit of short-term profits?

While all of these arguments and criticisms of Bitcoin and of the crypto space in general might be true, there is one unique advantage, one saving grace, that renders crypto assets indispensable for any sound, forward looking, sustainable and resilient portfolio. Sure, Bitcoin might not be tangible, it's not inherently or practically valuable, it is a "made up currency", backed by nothing but ones and zeros... but, for all its faults, it is decentralized. It is independent, incorruptible, it is transparent and it is indomitable.

A DIFFERENT KIND OF HEDGE

Most responsible savers and conservative investors focus on finding ways to protect their assets from volatile markets, from the impact of monetary experiments, from the fiscal largesse and recklessness of their governments, from the risks posed by unpredictable geopolitical developments and from worst case scenarios, unforeseen and unforeseeable threats.

Evidently, we share these priorities too. This is the very foundation that the RealUnit was founded upon. This is its raison d'être, this is why it was built around the idea of real assets, and why we keep the majority of said assets in physical form and stored outside the banking system. It is because we strive to provide the best possible protection against these exact same threats and because we know from years of experience that this is the best way to achieve that.

However, amid all the zeal and enthusiasm to cover all these bases and to set up contingencies and "back up plans" for doomsday scenarios, there is another, admittedly less bombastic, but still imperatively important consideration that goes unnoticed - and this happens way too often.

What is the use of being perfectly prepared for a catastrophic, cataclysmic crisis, or for a once-in-a-generation economic meltdown, or for a historic monetary collapse, if no thought is given to the more mundane, more pedestrian, yet much more common and persistent threats of everyday life? While you're busy conjuring up fantastical dystopian scenarios and bracing for pyrotechnic disaster, small, incremental changes and tiny shifts are taking place every day. Governmental authority grows inch by inch, privacy rights get corroded, individual financial sovereignty fades away... Centralization and concentration of power happen in slow, almost imperceptible, but steady steps. By the time the actual shift is noticeable, it is too late to do anything against it.

This type of threat is all too often overlooked or dismissed, even though it is the most prevalent and the most insidious. And it is this type of threat that crypto assets like Bitcoin can effectively and easily diffuse. It cannot be shut down without shutting the internet itself down. It can't be manipulated and inflated on the whim of any central banker and it cannot be outlawed or restricted, like cash is more and more. Crypto asset might not offer the stability of gold and reliability of gold, but they do offer another "way out", a way to preserve and protect ones's privacy and to be independent from the banking system. For these purposes, a very small allocation, like ours, suffices.