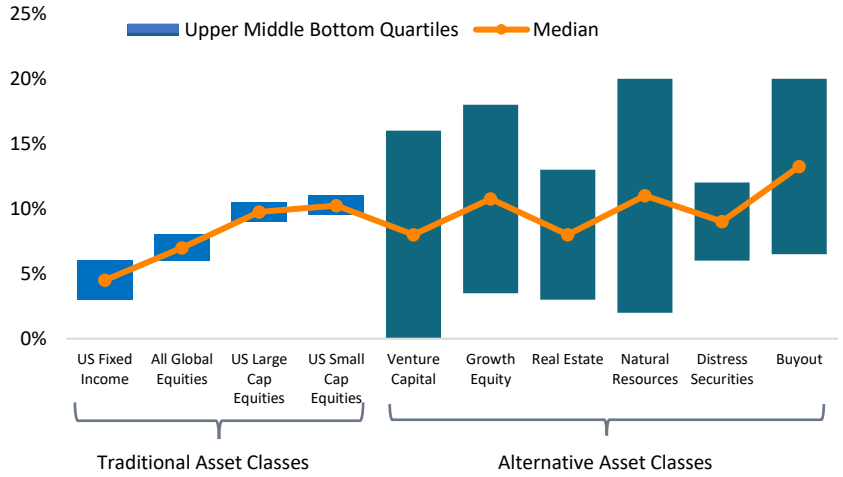
Pinnacle Liquid Enhanced Returns Commodities Strategy 50

Coinful Capital

Higher yield alternative strategies

Investors seeking higher returns are shifting from conventional investments in equities, bonds, and currencies. Recent market expansion has depressed yields in traditional asset classes making investors turn to alternative investments such as private equity, venture capital, managed futures, commodities and derivatives. However, at a higher risk because of longer investment periods, lack of liquidity and susceptibility to market turmoil.

Alternative investment managers have ***outperformed*** traditional asset managers; however, the performance variance is much larger.



Source: KKR, performance Net IRR, inception to date, % vintage years 2000-2015

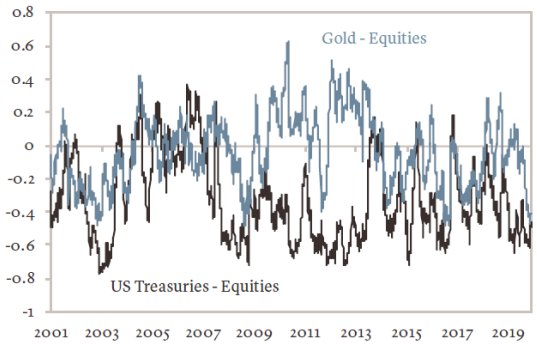
Analysists still forecast low interests; bubbles in certain sectors and a growing potential for a recession. Safe haven investments which are expected to retain or increase in value during times of market turbulence and limit exposure to losses are ideal for a well-balanced portfolio. However, most are low yielding.

Cash, offers no real yield and is impacted by inflation and negative interest rates. Bonds, due to the historically persistent negative correlation with equities are no longer attractive because of negative yields. Other safe haven investments such as certain stocks (utility, healthcare, biotechnology) and currencies (Swiss Franc) have proven to better withstand market downturns, but not unscathed to market turmoil.

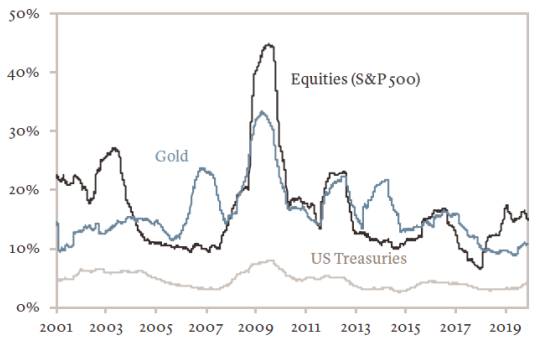
Would it be possible to have an alternative investment that has a higher risk-adjusted return, is relatively liquid; and has exposure to safe haven assets with negative correlation to equities?

Gold also a safe haven asset due to its ability to maintain or increase its value during market turmoil has been preferred by investors recently, despite the unstable negative correlation with equities its volatility akin to equities allows for possible higher risk-adjusted returns.

Gold vs US Treasuries: 3-month correlation with equities



Gold, US Treasuries, S&P 500: 1-year realized volatitlites



Source: Datastream, Lombard Odier

Gold backed ETFs have become popular for investors to gain exposure to the asset without the cost and practical difficulties of physical gold but still subjected to the volatility of the underlying asset price.

Pinnacle Liquid Enhanced Returns Commodities Strategy 50 ("PIERCE 50") is Coinful Capital Fund's solution to give investors exposure to relatively liquid higher yielding alternative investments, with gold as an underlying safe haven asset, with mitigated price volatility.

The PIERCE 50 opportunity: South Africa & Sub-Saharan Africa

South Africa is considered to be one of the most industrialized and regulated economies in Africa is also the second largest. The country is politically stable; has a well-capitalized banking system; abundant natural resources; well-developed regulatory system; R&D capabilities; and an established manufacturing base. In 2010, it joined BRICS (world's leading emerging market economies: Brazil, Russia, India, China and South Africa). South Africa is one of the world's leading mining producing and processing countries accounting for a significant proportion of the world's production and reserves. Gold trading is an important industry in South Africa, holding the world's second largest quantity of gold reserves and hosting some of the world's deepest and largest mines. Gold accounts for 14% of the total export value of South Africa, larger than platinum and diamonds. Until 2007, South Africa was by far the largest producer of gold in the world, then surpassed by China accounting for 12% of total world production. However, China holds much lower reserves compared to South Africa, albeit these reserves are in a few large, deep and complex to mine deposits and many smaller and very scattered pockets throughout the country.

Gold mining in South Africa has become more complicated because of operational and cost reasons as deposits are deeper and complex to mine making it more expensive. South African mining companies had to invest in high production/capacity and deep-level exploration capabilities requiring large inputs of capital and technology. This created a consolidation whereby more than 100 companies had been arranged into just a few large ones.

As such, currently the gold mining sector is dominated by a few large-scale mining powerhouses and a large tail of small and medium sized miners. It is not cost effective for large companies to mine many small and scatter deposits all over the country, a task that has been picked up by small and medium sized miners.

With gradual improvements in infrastructure in other neighboring African countries, there has been an outflow of large miners from South Africa expanding their operations to other countries where deposits are cheaper and easier to mine. From 2008 to 2018, gold production in Ghana (+62%), Tanzania (+34%), Zimbabwe (+375%), Zambia (+132%) have increased exponentially.

Furthermore, in South Africa, refineries are the only ones that are allowed to refine and export gold and because of strict controls, licenses are hard to obtain. As a consequence, there are only a handful of refineries and these only want to deal with large scale mining operators that commit to supply minimum volumes.

All of the aforementioned circumstances have created a situation in which the large South African gold reserves that are scatted throughout the country are not being mined by the large producers, rather by the small and medium sized producers which are unable to sell directly to refineries. The vast size of South Africa and the scattered nature of these producers has created an opportunity for reseller intermediaries to step in.

The small and medium sized producers have no choice but to sell to these intermediaries at deep discounts that in turn re-sell to other intermediaries that sell to others which aggregate the gold to volumes that are large enough sell to the refineries. These intermediaries are often not well funded leaving producers with unsold gold.

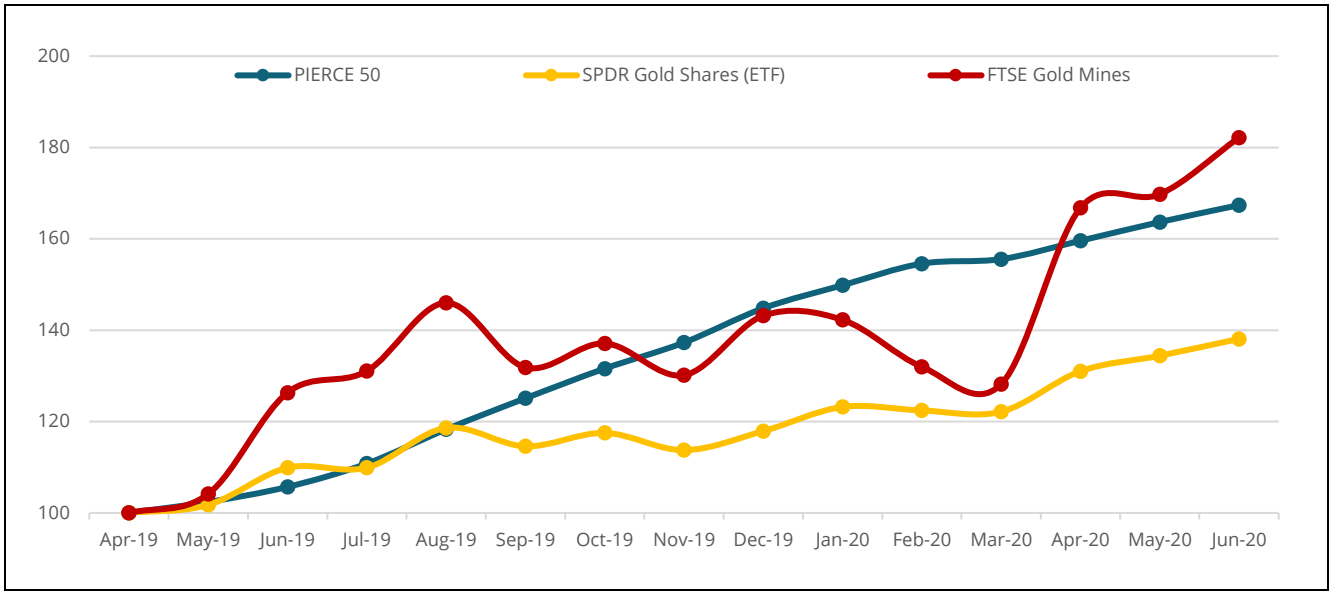
What PIERCE 50 does is take advantage of a direct relationship with a refinery and the market circumstances in South Africa eliminate the layers of intermediaries with a proprietary well-funded supply network throughout the country ready to buy gold from the small and medium sized producers at deep discounts and sell internationally at spot prices.

At all times PIERCE 50 is either holding cash or physical gold, qualifying the strategy as a safe haven alternative investment, allowing it also to liquidate positions easily giving it increased liquidity. The ability to buy at deep discounts eliminates the volatility shown with gold-backed ETFs, also because of those deep discounts a high-yield return is achieved.

We envisage other sub-Sahara African countries developing the same as South Africa has, with market inefficiencies, cartels and oligopolies that create opportunities in a region where the most future production of gold will be centered. We have started in South Africa, but PIERCE 50 will expand to Botswana and Zimbabwe, consolidating the strategy for the long term.

Performance

At Coinful Capital we test each strategy for an extensive period before launching a portfolio. PIERCE 50 has been trading proprietary funds since May 2019, and trading with third party funds since January 2020, with an outstanding performance against our selected benchmarks.



	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
SPDR Gold Shares	1.8%	8.0%	0.0%	7.9%	-3.4%	2.6%	-3.2%	3.7%	4.5%	-0.6%	-0.2%	7.3%	2.6%	2.7%
FTSE Gold Mines	4.2%	21.3%	3.7%	11.4%	-9.7%	4.0%	-5.1%	10.0%	-0.6%	-7.2%	-2.9%	30.1%	1.8%	7.3%
Prop Trading / PIERCE 50	*2.4%*	*3.3%*	*5.1%*	*7.5%*	*6.8%*	*6.5%*	*5.7%*	*7.5%*	5.0%	4.7%	1.0%	4.0%	4.1%	3.7%

Note: the shown performance figures are calculated as gross returns (before expenses and fees).

This performance evidences a stable high yield return without the volatility seen in other instruments that utilize the same underlying asset. Although we look to outperform our selected benchmarks the strategy focuses primarily on consistency of returns and mitigating volatility.

Eligible investors (sophisticated, professional, accredited and institutional) gain interest in PIERCE 50 as portfolio risk diversification; capital appreciation in alternative investments and the opportunity for regular distributions to maintain liquidity.

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Terms & Service Providers

PIERCE 50 summary of terms and conditions as fully described in our private placement master offering memorandum and its supplement which may be requested from us at any time.

Terms	
Base Currency	USD
Acceptable Currencies	USD, USDT, USDC. Investments in any other currency than Base Currency will be converted at spot rate on date of funds received
Minimum Investment	US$ 100,000
Lock-Up Period	12 Months
Subscription Fee	1.0%
Management Fee	2.5% per annum
Performance Fee	30%
Target Returns (Annual)	40%
Distribution Payment	Quarterly in USD
Redemption Notice	3 months
Gate	25% Above 25% suspended for 1 Quarter
Hurdle	10%
Early Redemption Fee	10%
Reporting	Monthly NAV reporting with annual audit

We have selected outstanding services providers that assist us in our operations and keeping investors informed and engaged.

Service Providers	
Investment Manager	Lazarus Capital Partners
Fund Administrator	Circle Partners Support Services
Auditors	Cohen & Co
Legal Counsel	Loeb Smith
Custodian	Signature Bank
Digital Assets Custodian	Hex Trust

Contact

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