



February 2018
Decentralization is No Tulip

Accredited Investors Only

“Those who fail to learn from history are doomed to repeat it.”

- Sir Winston Churchill, 1948

With all the noise created by many pundits concerning the innovation called the Blockchain and cryptocurrency, we found it very helpful to go back to first principles and analyze the genesis and evolution of the internet and the data set. Our thinking is that the global economy is at the intersection of three major themes: the Internet of Things, Artificial Intelligence, and the Blockchain. Together, these three concepts are important components of a theme we refer to as Web 3.0 or Decentralization.

As our society evolved from one based upon barter, to one based upon markets and manufacturing, a need to prove trust became necessary. Who was going to make sure that citizens or market participants could trust each other so that property rights could be transferred? In the analogue world, institutions, governments, and professions evolved to ensure that trust and property rights could be transferred. Thus our countries, cities, industries, and organizations were built to have a centralized benevolent dictator determine what was right and what was wrong. Our society has now reached a fork in the road. The rise of populism has put pressure on the existing institutions and social conventions. We are entering into a new regime, one characterized by the forces of “decentralization”. For investors, it is critical to recognize these evolutionary forces will be accelerated by three sub themes, the Internet of Things, Artificial Intelligence, and the Blockchain.

As the global economy continues to evolve from one that is centralized and built in an analogue world (with paper and humans at the center) to a decentralized digital world, one must accept the fact that the status quo will be under attack. Putting a computer chip into a machine, connecting the machine to the internet, having machines communicate to each other without human interference, while all the time learning, will have profound effects on society. Furthermore, the ability for machines to exchange value in a transparent,

permanent, immutable, reliable and decentralized process, only begins to foreshadow the disruption ahead of us.

So while many in the media point to the Blockchain and cryptocurrencies as a bubble similar to tulips, our research suggests that when computer scientists solved the Byzantine Generals Problem, a problem which outlines how difficult unanimous trust is to coordinate, a critical research triumph was achieved. This accomplishment will now allow the global economy, to evolve at a faster pace into its true native digital decentralized form. So yes, we think it’s folly to suggest that Web 3.0, as some refer to it, is analogous to the tulips bulb mania. We also think this regime we have just entered into, might be the most transformative of our generation.

A brief review of history: In the 1950’s, the internet was designed to be free and decentralized. It was born out of the concern, during the cold war, that the United States needed a back up communication system in the event the Soviet Union attacked the telephone lines. This evolved into the world wide web. Unfortunately, the only way that companies could make money was to aggregate or centralize data, a far cry from the libertarian aspirations put forth by the founders of Facebook and Google. The Blockchain is the critical technology that will allow our society to evolve into its true native digital form. To prove trust in the Blockchain we need computers solving mathematical questions, proof of their work, and then their reward is a token that can be use in the network or exchanged for fiat currency. This is hardly a tulip.

Dr. James E. Thorne
Chief Capital Market Strategist
& Senior Portfolio Manager

FUND DETAILS

INCEPTION DATE - SEPTEMBER 15, 2016

Management Fee	1.25%	RRSP Eligible	Yes
Performance Fee*	20%	Auditor	Deloitte LLP
Subscriptions	Monthly	Legal Counsel	McCarthy Tetrault LLP
Liquidity	Monthly	Administrator	SGGG Fund Services
Minimum Investment	\$10,000	Custodian	Caldwell Securities Ltd.

*Based on perpetual high watermark using series accounting, no reset, no hurdle rate.

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Dr. James E. Thorne is the Chief Capital Market Strategist and Senior Portfolio Manager at Caldwell Investment Management Ltd. He is also a member of Caldwell's Investment Risk Committee.

From February 2001 to September 2014, he held various senior investment management positions at M&T Bank and its wholly owned subsidiary, Wilmington Trust Investment Advisors, Inc. in the U.S., including Chief Investment Officer of Equities, Managing Director and Chief Capital Market Strategist. During his tenure, he was responsible for the management of approximately \$23 billion in assets and developed small, mid and large-capitalization investment strategies which employed a combination of quantitative and qualitative analysis and achieved top-quartile performance.

Dr. Thorne received a Ph.D. in Economics in the fields of Finance and Industrial Organization from York University in June 1993 and was subsequently employed as a Professor of Economics and Finance at the Schulich School of Business and at Bishop's University.

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