

SUBMISSION FROM HOLON INVESTMENTS AUSTRALIA LIMITED

Hearing under section 994J of the Corporations Act 2001

Holon Filecoin Fund

Background - Holon Investments Australia Limited

Holon Investments Australia Limited (“Holon”) is a wholly owned subsidiary of Holon Global Investments Limited. Holon was founded as a specialist digital asset fund manager to act as a regulated bridge between traditional financial services and digital assets.

Holon takes the role of regulation seriously and has a desire that there is greater regulation relating to digital assets in the Australian market. The Holon Filecoin Fund was founded so that Australian investors can participate in digital asset markets via a regulated Managed Investment Scheme, thereby avoiding some of the risks associated with holding digital assets directly or via an exchange.

Offering digital assets via a Managed Investment Scheme also allows digital assets to be brought into the oversight of Financial Advisers, therefore further minimising the potential harm to investors participating in digital asset markets.

Holon welcomes ASIC’s oversight of the industry and is hopeful that appropriate Legislation is enacted to further enhance investor protection in digital assets.

What is Filecoin?

Filecoin is a peer-to-peer cloud storage network designed to incentivise participants to store data reliably over time using a blockchain and its native currency, FIL. Data storage providers offer access to their storage hardware and use Filecoin collateral (in the form of tokens) to ensure that they protect that data. They receive incentives in the form of Filecoin token payments, as a reward for providing this service. These reward tokens allow them to fund new data storage capacity additions to keep growing their storage infrastructure. This incentive mechanism introduces decentralization to data storage, allowing any individual or company to build out storage capacity on the Filecoin network.

Filecoin has used many components of the IPFS source code. These components allow peers to store, request, and transfer verifiable data with each other. Filecoin has improved the design of the ecosystem by financially incentivising storage providers to continue adding new data capacity to the FIL network.

In simpler terms, Filecoin can be likened to the Airbnb of cloud storage. Anyone can join the network, provide storage or retrieval services, and be rewarded for doing so. The services are paid in Filecoin, whose price will fluctuate, based on supply and demand of the network’s services. Therefore, the price of Filecoin is coupled to the value of the network.

Further, opening the network allows operators to compete more aggressively with cloud storage providers. Filecoin is levelling the playing field for data providers across the globe by using a single protocol that all operators can support. Over time, we believe that utilizing a standard and open platform will provide greater value for users at a vastly cheaper cost.

FIL is the native currency of the Filecoin blockchain. It is used by storage providers that are required to provide collateral to protect customer data stored on the network, by customers as a form of payment in a service contract with a provider, and finally it is used as a reward to incentivise storage providers to continue to add new capacity onto the Filecoin network ecosystem.

Like many digital assets, determining the value of FIL tokens is influenced by variable factors across the Filecoin network. These factors include total number of FIL in circulation, the rate that new FIL tokens are added to the network, the permanent removal of FIL tokens through a process called “burning”, the demand from customers required to use FIL to pay for data storage and retrieval, and finally the demand from storage providers who need to use FIL as collateral to secure customer data for the duration of the storage contract.

The demand for data storage globally is high and only increasing as the process of digitisation continues.

Holon Global Investments is a Participant in the Filecoin network

Holon Investments Australia Limited is uniquely positioned to understand the Filecoin network. Holon Innovations, a related body corporate, is an enterprise grade storage provider in the Filecoin network.

Holon Innovations currently has 27 petabytes of data storage capacity at the Airtrunk datacentre in Western Sydney and is in the process of expanding its storage capacity with the establishment of operations in New Zealand. The expansion is necessitated by the large amount of client data that is currently looking to be stored on the Filecoin network.

Holon currently stores data on behalf of NASA, University of California Berkley, University of Southern California, CERN and the USC Shoah Foundation.

Holon TMD

In the preparation of the TMD, Holon has utilised the TMD Template and Guidance Note developed by the Financial Services Council (FSC).

The FSC has done extensive work to help members with the Design and Distribution Obligations (DDO) regime. In producing the TMD Template and Guidance, it was the intention of the FSC to improve outcomes for advisers, investment platforms and issuers.

Given the complexity that arises from potentially hundreds of inconsistent approaches, the template and data standards facilitate the necessary flow of data between financial advisers, platforms and product issuers.

The FSC consulted with ASIC on the design and content of the template TMDs.

Implementation of the TMD Operationally

In implementing the TMD for the Fund, Holon has developed a series of knock out questions so that if an investor responds in such a way that they are not part of the target market, that

is questions that have a red indicator to an attribute on the TMD, then their application is unable to proceed.

If an investor were to respond to a question that suggests that they might not be within the target market, that is, their response to questions have an amber indicator to an attribute in the TMD, then their application will proceed but they will receive a warning email that directs them to review the TMD to ensure that they are part of the target market for the Fund.

A. That the target market potentially includes investors with a risk and return profile of “Medium” and includes investors with a risk and return profile of “High”.

Holon believes that it would be reasonable to conclude that, if the product were to be sold to a retail client in the target market as described in the TMD, being a retail client with risk and return profiles of “Medium or High”, that investment in the product would likely be consistent with the likely objectives, financial situation and needs of the retail client. Holon’s evidence is outlined below.

A.1 Fund in Isolation vs. Fund as part of a Portfolio

At Point 16 of the Statement of Concern, ASIC notes that Holon has defined the risk profiles on page 6 of the TMD. The risk profile definitions adopted by Holon originated from the Financial Services Council TMD Template. These definitions, as ASIC notes at Point 27, are based on the Standard Risk Measure Guidance Paper for Trustees.

ASIC is considering the volatility and risk profile of the fund in isolation not as part of an overall diversified investment strategy.

At Point 20 of the Statement of Concerns ASIC notes the historical performance of Filecoin and that it has been subject to extreme volatility and has the potential for severe negative returns. They note specifically:

- a) The price rose from approximately US\$22 in January 2021 to US\$191 at end March 2021, before declining to \$41 in July of 2021, and
- b) The price was approximately US\$113 in early May 2021 and subsequently fell to approximately US\$11 by early May 2022 (a 90% loss in one year).

Based on the analysis above, the conclusion reached at Point 22 is that:

Given these historical returns and risk characteristics of Filecoin, an investment in the Fund is incompatible with an investor who has a “Medium” risk and return profile (being an investor who seeks to minimise potential losses and has the ability to bear up to 4 negative returns over a 20 year period) and a “High” risk and return profile (being an investor who has the ability to bear up to 6 negative returns over a 20 year period).

And at **Point 23** in the Statement of Concerns:

Therefore, ASIC considers the Fund’s investments in Filecoin are such that it would not be appropriate for investors with either a risk and return profile of “Medium” or “High” to invest in the Fund.

The analysis above treats the fund in isolation as to whether it is a suitable investment for an investor with a Medium or High Risk profile, not in the context of a broader portfolio.

At **Point 5** of the Statement of Concerns, ASIC notes:

Under the heading “Investment Products and Diversification”, the TMD provides further information about the application of the TMD to an investment in the Fund:

A consumer (or class of consumer) may intend to hold a product as part of a diversified portfolio (typically with an intended product use of satellite/small allocation or core component). In such circumstances, the product should be assessed against the consumer’s attributes for the relevant portion of the portfolio, rather than the consumer’s portfolio as a whole. For example, a consumer may seek to construct a conservative portfolio with a satellite/small allocation to growth assets. In this case, it may be likely that a product with a High or Very High risk/return profile is consistent with the consumer’s objectives for that allocation notwithstanding that the risk/return profile of the consumer as a whole is Low or Medium. In making this assessment, distributors should consider all features of a product (including its key attributes).

Given that the TMD published by Holon has considered the Fund as a part of an overall portfolio and that the Fund volatility and drawdown comprises a small (satellite) and long term investment, the view was reached by Holon that as part of an overall diversified portfolio an allocation to the Fund is consistent with the likely objectives, financial situation and needs of a retail client with a Medium or High Risk Profile. This approach is in line with the FSC’s TMD Template and section 1. (Portfolio View) in its “DDO guidance on distribution of managed funds”¹ where the FSC states:

Question: How should a Target Market Determination (TMD) be considered where a managed fund is being held as part of an investment portfolio? For instance, if a customer wishes to have a portfolio that is overall low risk/return portfolio, then does that mean all the products in the portfolio should be low risk – and products that are not low risk are outside target market? And similar for other portfolio characteristics such as high risk/return, income distribution, investment timeframe, liquidity?

Answer: The TMD should be considered against the intended use of the relevant component of the investment portfolio and not against the customer’s desired characteristics of the whole portfolio.

Therefore, a high risk/return product can legitimately be a component of a portfolio that is overall low risk/return. If a fund meets the customer’s requirements for the relevant portion of the client’s portfolio, then the distributor could legitimately classify the customer as being in the target market for that component of the portfolio.

As part of portfolio construction, distributors, including financial advisers, can legitimately determine different parts of a customer’s portfolio should have different characteristics, such as a portfolio could have part allocated to low risk/return products, another part to medium risk/return and the remainder to high risk/return

¹ <https://fsc.org.au/web-page-resources/2514-fsc-ddo-guidance-for-distribution-of-managed-funds>

products. Similarly, some parts of a portfolio may have higher desired liquidity than other parts, and some may have more capital growth, longer investment timeframe and so on. In each case, investment products should be assessed against the relevant component of the overall portfolio.

A.2 Fund Returns vs. Current Market Conditions

As can be seen in the table below, for a one year period, there have been 360 observations of daily rolling one year returns for Filecoin. Of those observations, there have been 99 positive returns, representing 27% of observation and 73% negative rolling one year returns. The median rolling one year return was -86% and the largest draw down was 95%.

Table 1: Rolling 1 year returns for Filecoin

FIL	5 year	3 year	1 year
Observations	N/A	N/A	360
Average	N/A	N/A	-39%
Median	N/A	N/A	-86%
Max	N/A	N/A	173%
Min	N/A	N/A	-95%
# +ve	N/A	N/A	99
#-ve	N/A	N/A	261
% #-ve	N/A	N/A	73%

It is worth noting the current investment environment across all asset classes.

Current Investment Environment Across all Asset Classes²

- Large Cap US equity (-17.2%)
- Global Equity (-19.2%)
- Global real estate (-22.8%)
- Global High Yield Bonds (-19.5%)
- Emerging Market Debt (-30.9%)
- US Bonds (-14.6%)
- UK Bonds (-25.9%)³
- Aus Bonds (-11.9%)

Investment markets have performed very poorly across all asset classes and the past 12 months are unlikely to be representative of average performance over the next 20 years.

Holon believes that the past 12 month performance of Filecoin will not be representative of the next 20 years. Since inception, the return on the Fund has been (-1.36%).

² Source - <https://russellinvestments.com/us/insights/asset-class-dashboard>

³ <https://www.vanguardinvestor.co.uk/investments/vanguard-uk-government-bond-index-fund-gbp-acc/overview>

A.3 Holon’s Assessment of Fund Returns

As it would be imprecise analysing the asset from the perspective of limited historical returns, Holon has taken the approach of evaluating the asset using our deep knowledge of the space as a participant in the Filecoin network.

Data generation set to grow

Over the next few decades, the volume of data generated is set to materially increase as emerging technology platforms such as autonomous vehicles, IoT devices, and digital payments emerge. Holon estimates that by 2040 data generated by autonomous vehicles and IoT devices will be 1000 times larger than all data generated in 2020. The figure below illustrates this growth.

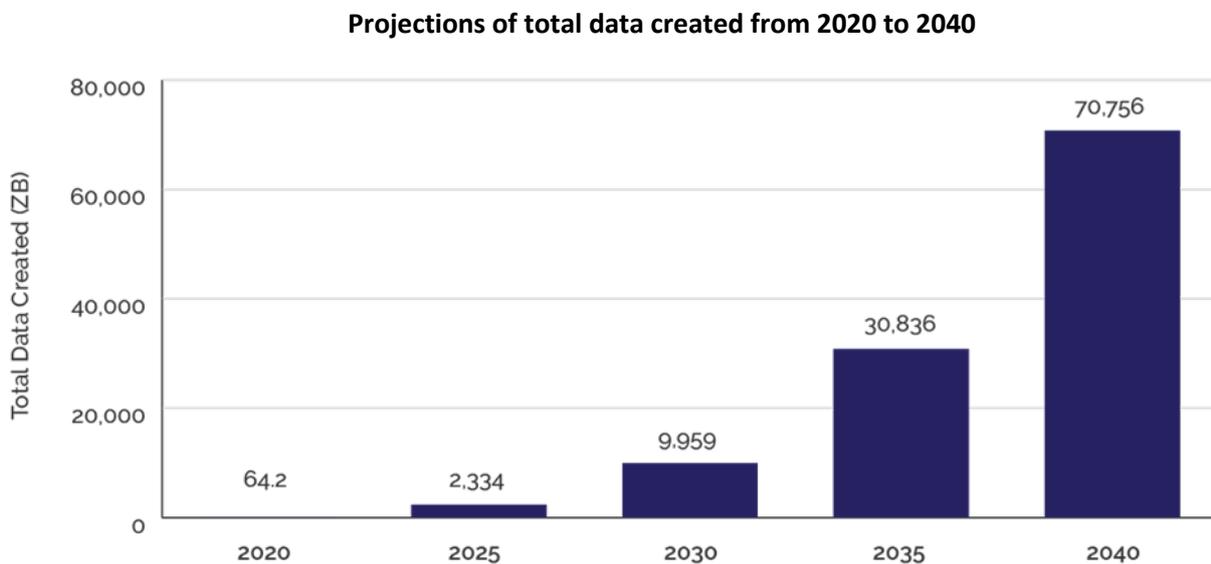


Chart 1 below shows the amount of data that is being stored on the Filecoin network and its growth over the last 12 months. Despite the price of Filecoin exhibiting significant volatility since it started trading, the demand for data storage which is enabled by Filecoin is growing rapidly. Just over 180 Petabytes (PiB) of data was stored into the network over nine months to 30 September 2022, an eight fold increase on the amount stored at the beginning of the year. As at the date of writing the network has passed through 250 PiB, or 10 times the starting year figure.

Chart 1 – Petabytes of storage of the Filecoin Network⁴

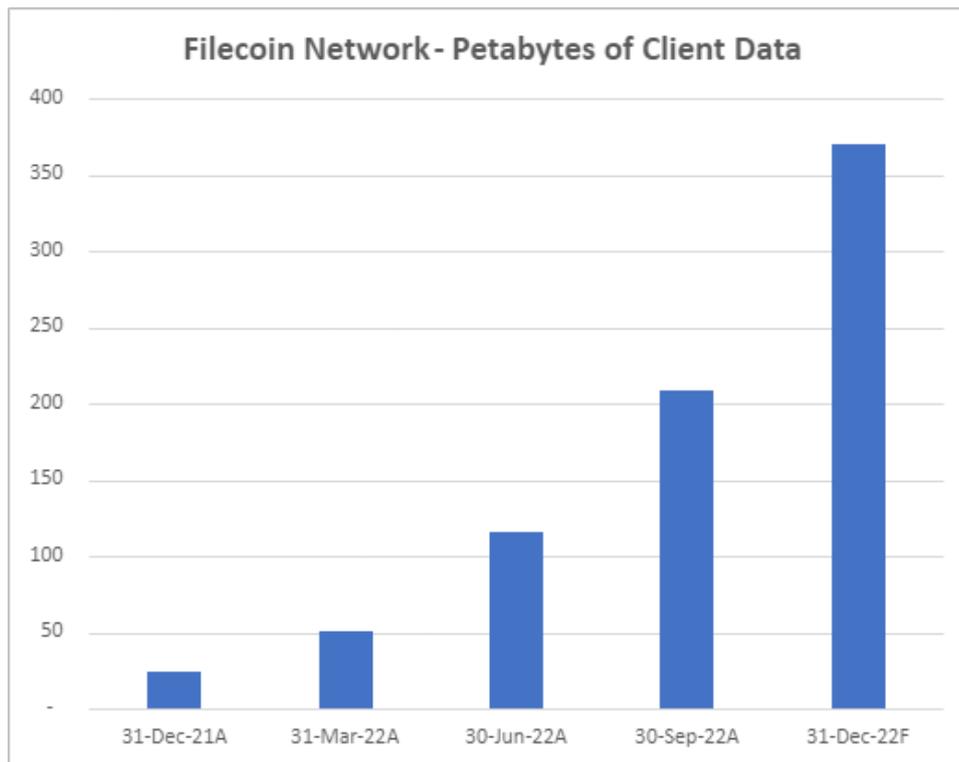
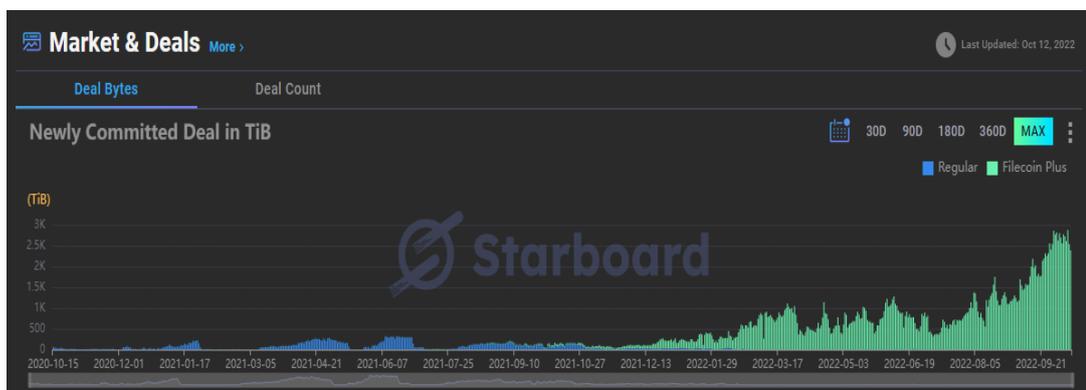


Chart 2 highlights that the data flowing into the network has done so at an increasing rate as the network grows. Currently onboarding data at rate of approximately 2 Petabytes per day. This puts the Filecoin network on-track to have over 350 Petabytes of client data stored by 31 December 2022, as shown in Chart 2. Holon is expecting the rate of data onboarding to increase from 2 Petabytes per day to 5 Petabytes by the end of 2023. Holon is an active participant in investing in the infrastructure enabling this to happen. At 5 Petabytes a day, the network would add approximately 2,000 PiB per annum and quickly (less than 8 years) absorb the existing 16,000 PiB of installed raw data capacity.

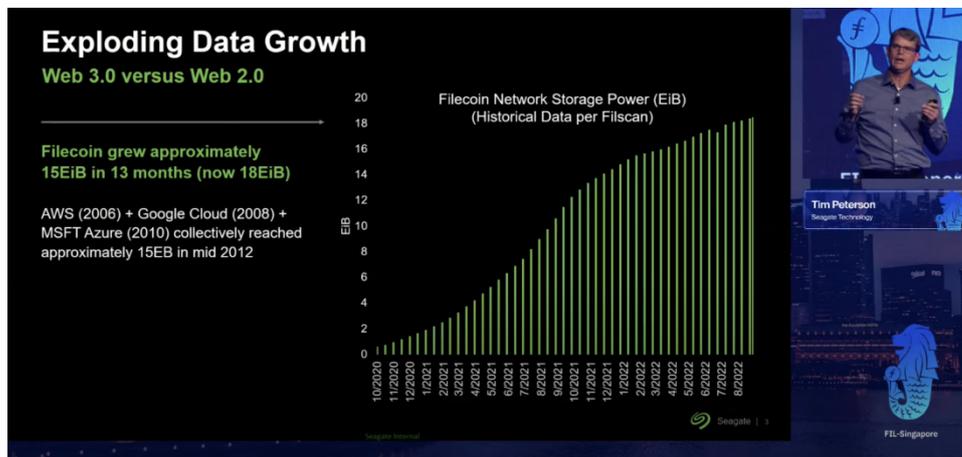
Chart 2 – Data storage deals on the Filecoin network⁵



⁴ Source - [Filecoin Network Health Dashboard \(starboard.ventures\)](https://starboard.ventures.com/filecoin-network-health-dashboard) and 31 Dec 2022 forecast is the current data run rate extended over the quarter.

⁵ Source - [Filecoin Network Health Dashboard \(starboard.ventures\)](https://starboard.ventures.com/filecoin-network-health-dashboard)

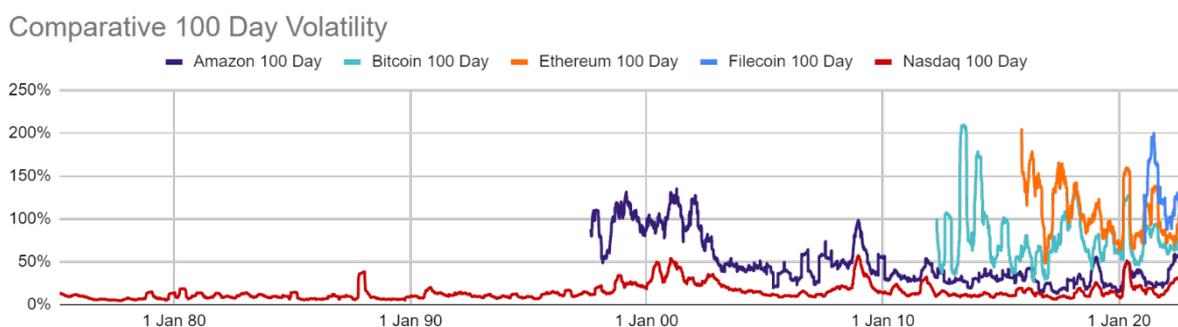
As highlighted by an Executive from Seagate Technology (the largest provider of data storage devices in the world) in the presentation slide below⁶, the Filecoin network grew to 15,000 Petabytes (15 EiB) of storage capacity in just 13 months. Amazon, Google, and Microsoft grew to the same level collectively, over a period of 6 years. The incentives and the value proposition of Filecoin are driving a much faster pace of development. Web 3.0 networks are economically designed to work in this way. Filecoin is on a similar development timeline to Bitcoin and Ethereum, but for data.



As more data is stored on the network, there will be less Filecoin in circulation as storage providers need to commit collateral in the form of Filecoin to be able to store client data and earn the associated block rewards. As the demand for storage increases, the demand for Filecoin increases.

With a greater number of participants in the ecosystem in the form of storage providers, clients, and developers, all requiring Filecoin, Holon has the expectation that the volatility of Filecoin will reduce over time.

The comparative 100 day volatility comparison below demonstrates the reduction in volatility over time for Filecoin. The Amazon chart demonstrates that in the early days of the business, its share price was significantly more volatile, as the business expanded, diversified and increased its customer base, the volatility declined. Bitcoin and Ethereum when they first started trading exhibited greater levels of volatility than they do today, Filecoin appears to be tracking a similar path of volatility which is expected to decline over time.



⁶ Source - <https://www.youtube.com/watch?v=y8F46p9NTTU> (at 4.43 minutes)

Holon's submissions in relation to the Holon Bitcoin Fund and Holon Ethereum Fund have demonstrated that inclusions of the assets with portfolios for "Medium" and "High" risk / return profiles is consistent with the likely objectives, financial situation and needs of the retail client. As a result of these findings, Holon formed the view that Filecoin is likely to follow a similar volatility trajectory over time and is therefore likely to have a similar impact on the risk / return characteristics of portfolios across risk profiles.

A "Medium" risk investor is defined as follows.

"Medium: The consumer is moderate or medium risk in nature, seeks to minimise potential losses (e.g. has the ability to bear up to 4 negative returns over a 20 year period (SRM 3 to 5)) and comfortable with a moderate target return profile. Consumer typically prefers a balance of growth assets such as shares, property and alternative assets and defensive assets such as cash and fixed income."

A "High" risk investor is defined as follows.

"High: The consumer is higher risk in nature and can accept potential losses (e.g. has the ability to bear up to 6 negative returns over a 20 year period (SRM 6)) in order to target a higher target return profile. Consumer typically prefers predominantly growth assets such as shares, property and alternative assets with only a smaller or moderate holding in defensive assets such as cash and fixed income."

Based on the analysis outlined above Holon believes that it would be reasonable to conclude that, if the product were to be sold to a retail client in the target market as described in the TMD, being a retail client with risk and return profiles of "Medium or High", that investment in the product would likely be consistent with the likely objectives, financial situation and needs of the retail client.

Holon has enhanced the "Consumer's Risk (ability to bear loss) and Return profile" section in the TMD (as attached) to further demonstrate when a "Medium" or "High" risk and return profile is appropriate.

B. The Fund is not suitable for an investor with a 'Very High' risk and return profile as defined by the TMD

ASIC has based the analysis of the Fund on a one year historical track record as opposed to the method that is outlined in the "Standard Risk Measure Guidance Paper for Trustees". The risk measure is defined as the number of negative annual returns which would be expected over any 20 year period.

When the Fund is combined with a diversified portfolio of other assets as a satellite exposure over the long term, Holon's expectation is that it will be consistent with the likely objectives, financial situation and needs of a retail client with a "Very High" risk / return profile. The TMD defines a "Very High" risk / return profile as:

"Very high: The consumer has a more aggressive or very high risk appetite, seeks to maximise returns and can accept higher potential losses (e.g. has the ability to bear 6 or more negative returns over a 20 year period (SRM 7) and possibly other risk factors such as leverage). Consumer typically prefers growth assets such as shares, property, alternative assets and cryptocurrency."

Based on the growth of Filecoin, its broad reaching utility and the fact that the past 12 months are unlikely to be representative of the next 20 years, Holon believes that it would be reasonable to conclude that, if the product were to be sold to a retail client in the target market as described in the TMD, being a retail client with risk and return profile “Very High”, that investment in the product would likely be consistent with the likely objectives, financial situation and needs of the retail client.

C. Retail clients that intend to use the product as a Satellite / Small Allocation (<25% of their investible assets)” in their investment portfolio

In preparing the TMD of the Fund, Holon adopted the TMD template from the Financial Services Council on the understanding that the aim was to have standardisation across the industry.

In a video published to the FSC website titled “FSC Engage – April 2022: A message from CEO Blake Briggs” Mr Briggs said

“To lessen the compliance burden and the cost that will be borne by customers and the industry, the Financial Services Council is urging consistent adoption of standards across the industry the FSC has developed templates for target market determinations:

Given the complexity that arises from potentially hundreds of inconsistent approaches, the template and data standards we have developed will assist companies to write TMDs for the products that they issue and facilitate the necessary flow of data between financial advisers, platforms and product issuers.

“The FSC also thanks ASIC for the supportive role they’re taking to help the industry comply with the regime. ASIC is also providing helpful guidance particularly as the FSC consults with them on the design and content of our template TMDs to support broad based standardisation of DDO compliance.”⁷

In selecting the appropriate portfolio weighting for what should be deemed to be a Satellite allocation for an investor in a portfolio, Holon was informed by the FSC template which was understood to be an accepted industry standard as what constituted an appropriate allocation for a Satellite exposure.

Holon does not believe that investors should allocate up to 25% of their investible assets in the Fund.

Holon has amended the definition of a Satellite / Small Allocation in the TMD to be less than or equal to 5% of their investible assets as opposed to the FSC standard definition of less than 25% of their investible assets. We note that diverging from the FSC TMD Template could potentially impact the flow of data between financial advisers, platforms and product issuers.

⁷ <https://www.fsc.org.au/resources/target-market-determination-templates>

D. Retail clients that intend to use the product as a Solution / Standalone Allocation (75-100% of their investible assets)” of their investment portfolio are in the target market.

At point 39 of the Statement of Concerns ASIC notes that:

“The TMD states on page 3 under the heading “Product description including key attributes’ with respect to the “Consumer’s intended product use (% of Investible Assets)” that: “Investors should use the Fund as a Solution/Standalone allocation”

At Point 40 ASIC notes that:

...this is inconsistent with the red “TMD indicator” that is given to the “Solution/Standalone (75-100%)” in respect of the “Consumer’s intended product use (% of Investible Assets)”.

Holon agrees with ASIC’s Point 43 that it would not be reasonable to conclude that, if the product were issued or sold to a retail client in the target market, being an investor who looks to allocate 75 % to 100 % of their investment portfolio in the Fund, would be likely to be consistent with the likely investment objectives, financial situation and needs of the retail client.

This was an editing error, and it was never Holon’s intention to include retail investors that intend to use the Fund as a “Solution / Standalone Allocation (75%-100% of their investible assets)” of their investment portfolio within the target market.

This assertion is supported by the fact that Holon has implemented a knockout question as part of the application process that specifically excludes an investor who indicates that they intend to use the Fund for an allocation of between 75-100% of their portfolio. That is, the investment cannot proceed because of the investor being knocked out of the application process.

Holon has made the appropriate amendment to ensure that the TMD is consistent in the disclosure that a retail investor is not part of the target market for the Fund if they intend to use the Fund as a “Solution / Standalone allocation (75%-100% of their investible assets).”

Conclusion – Reasons why the Delegate should not make Final Orders

That the target market potentially includes investors with a risk and return profile of “Medium” and includes investors with a risk and return profile of “High”.

Based on the analysis provided in this submission, Holon maintains that it is reasonable to conclude that, if the product were to be sold to a retail client in the target market described in the TMD (being a retail client with a “Medium” or “High” Risk and Return Profile), that investment in the product would likely be consistent with the likely objectives, financial situation and needs of the retail client and is therefore not a breach of s994B(8)(b).

Holon has enhanced the “Consumer’s Risk (ability to bear loss) and Return profile” section in the TMD (as attached) to further demonstrate when a “Medium” or “High” risk and return profile is appropriate.

The Fund is not suitable for an investor with a 'Very High' risk and return profile as defined by the TMD

Based on the analysis provided in this submission, Holon maintains that it is reasonable to conclude that, if the product were to be sold to a retail client in the target market described in the TMD (being a retail client with a "Very High" Risk and Return Profile), that investment in the product would likely be consistent with the likely objectives, financial situation and needs of the retail client and is therefore not a breach of s994B(8)(b).

Retail clients that intend to use the product as a Satellite / Small Allocation (<25% of their investible assets)" in their investment portfolio

Holon has amended the definition of a Satellite / Small Allocation in the TMD to be less than or equal to 5% of their investible assets as opposed to the FSC standard definition of less than 25% of their investible assets but note that diverging from the FSC TMD Template will potentially impact the flow of data between financial advisers, platforms and product issuers.

Retail clients that intend to use the product as a Solution / Standalone Allocation (75-100% of their investible assets)" of their investment portfolio are in the target market.

Holon has corrected the TMD to be consistent in the disclosure that a retail investor is not part of the target market for the Fund if they intend to use the Fund as a "Solution / Standalone allocation (75%-100% of their investible assets)."