

# INSTITUTIONAL ADOPTION OF DIGITAL ASSETS

We see institutional investors gaining exposure to cryptocurrency at a rapid pace of adoption that is likely to increase in the coming years.





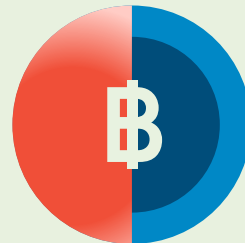
# INSTITUTIONAL ADOPTION IS GROWING

Institutional investment is impacting the crypto ecosystem by spurring improved infrastructure, increased focus on regulation, and other industry enhancements.

NEARLY

80%

OF INSTITUTIONS SURVEYED BY FIDELITY RESPONDED THAT CRYPTO AND DIGITAL ASSETS "HAVE A PLACE IN A PORTFOLIO."<sup>1</sup>

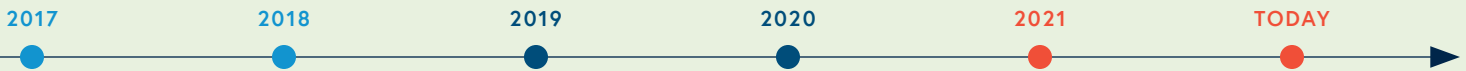


"BITCOIN IS ALMOST A YOUNGER GENERATION'S ALTERNATIVE TO GOLD, WHICH HAS MERIT AS A SMALL PORTION OF A DIVERSIFIED PORTFOLIO."

– RAY DALIO



The investable landscape has developed significantly over the last four years, advancing and maturing to build a stronger base for digital asset growth.



### 2017-2018: BIRTH OF CRYPTO ASSET MANAGEMENT

Fueled by a 2017 bull run, a wave of generalists launched 'go anywhere' funds.

The hybrid crypto fund model proliferated, where managers invest across both liquid tokens and private/illiquid tokens and equity.

ODD, risk management, side pocket complexities, and IR/reporting were generally not prioritized.

### 2019-2020: CRYPTO WINTER SEPARATES WHEAT FROM CHAFF

Active management struggled relative to beta, with only the more institutional players managing to hold on to investor capital.

Early stages of strategy specialization enabled manager and industry maturation.

Specialization evolved across liquid fundamental, quant, market neutral, and venture opportunities.

### 2021-TODAY: MATURATION OF CRYPTO MANAGER LANDSCAPE

Active management roars back, with asset selection driving outperformance. We are beginning to see early stages of sub-strategy specialization (e.g., cross-chain infrastructure, DeFi primitives, DAOs, and more).

We now see active managers institutionalize, focusing on the more robust middle and back offices, ODD, risk management, improved attribution, audits, and transparent reporting.

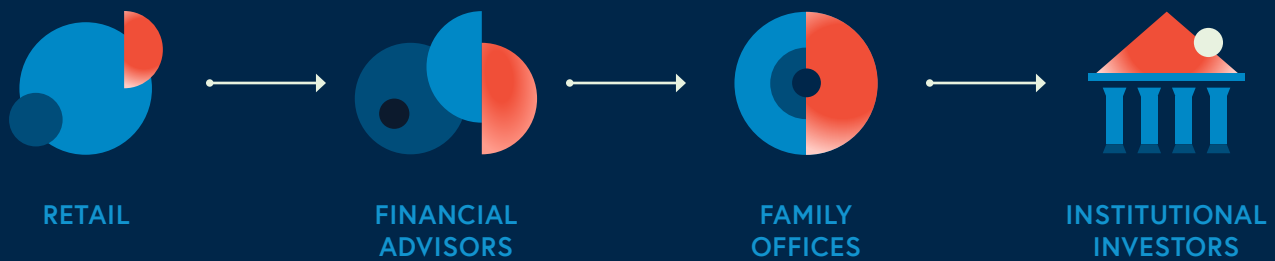


**PAUL TUDOR JONES COMPARED THE ROLE OF BITCOIN IN A CONTEMPORARY PORTFOLIO TO THAT OF GOLD IN THE 1970S. HE ANNOUNCED A 1-2% ALLOCATION AS HIS BEST BET AGAINST THE "GREAT MONETARY INFLATION."**



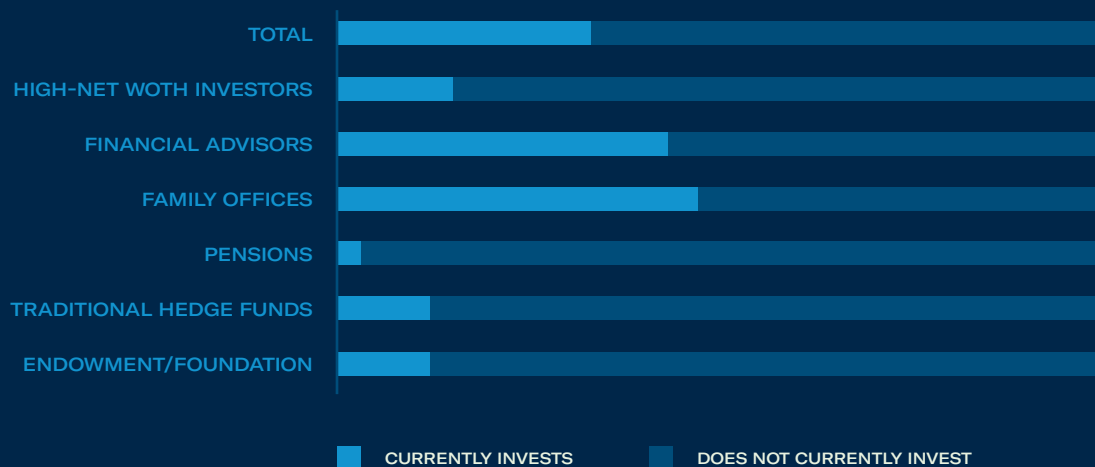
# CURRENT ADOPTION & CHANNELS TO EXPOSURE

The crypto investor base has developed in small cycles, similar to feedback loops building on each other.



This trend is reflected in the chart, showing how adoption is increasing across these segments.

FIDELITY DIGITAL ASSETS INSTITUTIONAL INVESTOR SURVEY



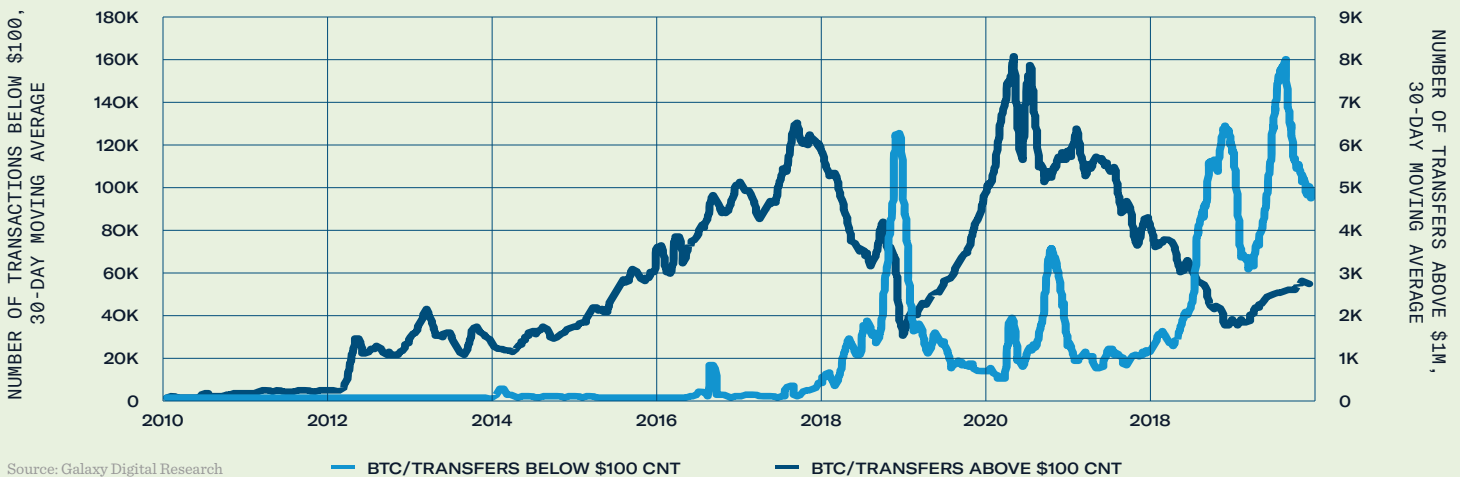


Grouping transactions by value is a common methodology used on Bitcoin to differentiate between types of economic activity on-chain. Transactions that transfer less than \$100 of bitcoin are often seen as a proxy for the payments use case of the network, whereas transactions that transfer more than \$1M are viewed as measuring the trading and investment activity of deep-pocketed players (such as institutional investors). The following chart illustrates how the economic activity on Bitcoin has shifted over the last four years as the number of smaller retail transactions has declined and larger institutional trading activity has grown.<sup>2</sup>

**"FRANKLY IF THE GOLD BET WORKS, THE BITCOIN BET WILL PROBABLY WORK BETTER BECAUSE IT'S THINNER AND MORE ILLIQUID AND HAS A LOT MORE BETA TO IT."**

**– STANLEY DRUCKENMILLER**

NUMBER OF BTC TRANSFERS BELOW \$100 AND ABOVE \$1M (USD)



Cryptocurrencies are still far from being huge markets, but bitcoin and Ether are now large and liquid enough that institutional investors can access them in relevant size.

	LIQUIDITY VS. US EQUITIES	VOLATILITY	VOLATILITY-ADJUSTED VS. US EQUITIES
CRYPTO	2.0%		11.1%
BITCOIN	1.4%	75%	7.6%
ETHEREUM	0.6%	75%	3.4%
GOLD	8.0%	14%	7.9%
IL BONDS	31.9%		16.9%
USA TIPS	15.9%	7%	8.1%
GBR ILS	9.6%	8%	5.7%
EUR ILS	6.8%	6%	3.1%
US LONG RATES	84.1%	6%	36.6%
US EQUITIES	100.0%	14%	100.0%

Source: Bridgewater Research January 2022

**BRIDGEWATER ESTIMATES:**

**~1M BTC**

**(AROUND 5% OF TOTAL ISSUED SUPPLY, ~\$42 BILLION BY CURRENT PRICES) ARE NOW HELD BY INSTITUTIONAL-LEVEL PLAYERS VIA CUSTODIAL INTERMEDIARIES.<sup>3</sup>**



# GALAXY FUNDS RISK FACTORS

Please note that the following are not all the risk factors associated with Digital Assets or the Funds (each, a “Fund”). Refer to the Offering Memorandum of the applicable Fund for more risk factors.

**Investment Risks Generally.** An investment in the Fund, involves a high degree of risk, including the risk that the entire amount invested may be lost. The Fund will invest in Digital Assets (such as Bitcoin, Ethereum, other cryptocurrencies or blockchain based assets, including those that represent the Decentralized Finance (or DeFi) portion or sector of the digital assets market) using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global Digital Assets markets and the risk of loss from counterparty defaults. The Fund’s investment program may use investment techniques that involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject. All investments made by the Fund will risk the loss of capital. No guarantee or representation is made that the Fund’s investment program will be successful, that the Fund will achieve its investment objective or that there will be any return of capital invested to investors in the Fund, and investment results may vary.

**Different from Directly Owning Bitcoin, Ethereum or Other Digital Assets.** The performance of the Fund will not reflect the specific return an investor would realize if the investor actually purchased a Digital Asset. Investors in the Fund will not have any rights that Digital Asset holders have.

**No Guarantee of Return or Performance.** The obligations or performance of the Fund or the returns on investments in the Fund are not guaranteed in any way. Any losses of the Fund will be borne solely by investors in the Fund. Ownership interests in the Fund are not insured by the Federal Deposit Insurance Corporation, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity.

**Regulation.** Digital Assets, including Bitcoin, Ethereum and DeFi tokens, are loosely regulated. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the value of a Fund’s investment. If any Digital Asset is determined to be a “security” under U.S. federal or state securities laws or a Digital Asset exchange is determined to be operating illegally, it may have material adverse consequences for Digital Assets due to negative publicity or a decline in the general acceptance of Digital Assets. As such, any determination Digital Asset exchanges are operating illegally or that any Digital Asset is a security under U.S. federal or state securities laws may adversely affect the value of a particular Digital Asset or Digital Assets generally and, as a result, the value of a Fund’s investment.

**Exchanges.** Exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Fund. Digital Asset exchanges have been closed due to fraud, failure or security breaches. Any of the Fund’s funds that reside on an exchange that shuts down or suffers a breach may be lost.

**Value.** Several factors may affect the price of Digital Assets, including Bitcoin, Ethereum and DeFi tokens, including, but not limited to: supply and demand, investors’ expectations with respect to the rate of inflation, interest rates, currency exchange rates or future regulatory measures (if any) that restrict the trading of a Digital Asset or the use of a Digital Asset as a form of payment. There is no assurance that a Digital Asset will maintain its long-term value in terms of purchasing power in the future, or that acceptance of bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow.

**Protocol.** Many Digital Asset networks, including Bitcoin, Ethereum and DeFi tokens, operate on open-source protocols maintained by groups of core developers. The open-source structure of these network protocols means that certain core developers and other contributors may not be compensated, either directly or indirectly, for their contributions in maintaining and developing the network protocol. Lack of incentives to, or a failure to properly, monitor and upgrade network protocol could damage a Digital Asset network. It is possible that a Digital Asset protocol has undiscovered flaws that could result in the loss of some or all assets held by the Fund. There may also be network-scale attacks against a Digital Asset protocol, which could result in the loss of some or all of assets held by the Fund. Advancements in quantum computing could break a Digital Asset’s cryptographic rules. The Fund makes no guarantees about the reliability of the cryptography used to create, issue, or transmit Digital Assets held by the Fund.

**Volatility & Supply.** Values of Digital Assets have historically been highly volatile, experiencing periods of rapid price increase as well as decline. For instance, there were steep increases in the value of certain Digital Assets, including Bitcoin, over the course of 2017, and multiple market observers asserted that digital assets were experiencing a “bubble.” These increases were followed by steep drawdowns. During the period from December 17, 2017 to February 5, 2018, Bitcoin experienced a decline of roughly 60%. During the period from February 13, 2020, until March 16, 2020, the value of Bitcoin fell by over 50%. Bitcoin had a strong start to 2021, hitting an all-time high of nearly \$65K in April. But, it closed H1 2021 down 47% from its record. Supply of Digital Assets is determined by computer code, not by a central bank. For example, uncertainty related to the effects of Bitcoin’s recent and future “halving” could contribute to volatility in the Bitcoin markets. The value of the Bitcoin or other Digital Assets held by a Fund could decline rapidly in future periods, including to zero.

**Decentralized Finance (DeFi) Risks.** Decentralized Finance (or DeFi) refers to a variety of blockchain-based applications or protocols that provide for peer-to-peer financial services using smart contracts and other technology rather than such services being offered by central intermediaries. Common DeFi applications include borrowing/lending Digital Assets and providing liquidity or market making in Digital Assets. Because DeFi applications rely on smart contracts, any errors, bugs, or vulnerabilities in smart contracts used in connection with DeFi activities may adversely affect such activities. DeFi lending is subject to counterparty risk and credit risk, but because lending is automated through the DeFi protocol, rather than individual decisions made by a portfolio manager on behalf of a Fund, such risks may be exacerbated, particularly if there are flaws in DeFi protocol’s code or operation. DeFi applications may involve regulated financial products or regulated activities, however because of their decentralized nature, there is generally no entity subject to regulatory supervision. Accordingly, DeFi applications may be subject to more risks than engaging in similar activities through regulated financial intermediaries. In addition, in certain decentralized protocols, it may be difficult or impossible to verify the identity of a transaction counterparty necessary to comply with any applicable anti-money laundering, countering the financing of terrorism, or sanctions regulations or controls. All of these risks could cause the value of DeFi tokens held by a Fund to decline, including to zero.



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- 1) [The Institutional Investor Digital Assets Study](#), Fidelity Digital Assets, September 2021.
- 2) Galaxy Digital Research.
- 3) Bridgewater Research January 2022.

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