



# WHY BITCOIN NOW?

AUGUST 2021





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Bitcoin has transformed from a relatively obscure digital currency into a globally recognized institutional asset. Since its inception over 12 years ago, the institutional infrastructure, awareness, and adoption of bitcoin has improved. Today bitcoin stands as a legitimate macro asset. Bitcoin has cemented its use case as digital gold, helping portfolios hedge against global uncertainty. Even as bitcoin surpasses all-time highs again and again, when compared to other assets, we believe bitcoin still has plenty of room to expand. Compared to gold's ~\$11.5T market cap<sup>1</sup>, or the US stock market's ~\$46T market cap, bitcoin's ~\$737B market cap seems relatively small, and its upside can therefore be quite large.

We are in one of the most active periods on record for crypto. New all-time highs in asset prices, user adoption, and trading activity are occurring, cementing a role for digital assets in mainstream fintech. And while crypto saw continued price volatility across 2020 – total market capitalization beginning the year at \$769 billion, peaking at \$2.4 trillion in May, and ending the period at \$1.4 trillion – a net gain of 86% year to date was registered.<sup>2</sup> There are two trends making bitcoin an increasingly compelling offensive and defensive play. First, bitcoin provides investors upside exposure to digitization. The world is digitizing at a breathtaking pace, and bitcoin is well-positioned to grow alongside that inexorable trend. Second, distrust in institutions continues growing globally and a wealth transfer is underway to millennials and generation Z. The shift in demographics towards digital-native generations introduces a new pool of potential investors who seek investment avenues

beyond centralized finance and are more willing to adopt digital assets. Moreover, bitcoin's fixed supply – there will only ever be 21 million bitcoin – stands in sharp contrast to the Federal Reserve's rampant money printing. The halving event in May 2020 lowered the coin's annual inflation rate from 3.6% to 1.8%, while the 2021 US deficit is estimated to exceed \$3T, 15.6% of GDP.<sup>3</sup>

Beneath this macroeconomic overlay lies a regulatory foundation that represents another accelerant for bitcoin's adoption and growth. In mid-2015, the New York Department of Financial Services (NYDFS) began granting cryptocurrency licenses and charters. Two years later, the US Commodity Futures Trading Commission (CFTC) approved platforms like the Chicago Mercantile Exchange (CME) and the CBOE Futures Exchange (CFE) to trade bitcoin futures. In mid-2018, the Securities and Exchange Commission (SEC) staff clarified bitcoin's status as a non-security, an important assessment as debate around cryptocurrency regulation was often focused on coins' status as securities. The Office of the Comptroller of the Currency (OCC) then clarified their stance on custody approving financial institutions for the custody of digital assets on behalf of their clients. Further advancing regulatory support for digital assets, Brian Brooks, Acting Comptroller of the Currency, testified on Capitol Hill to the US Senate about the importance of digital assets in November 2020, paving the road for the release of guidelines by the OCC for US banks to use public blockchains as settlement systems. These regulatory developments strengthen bitcoin as an investable asset.

1) As of 7/31/21.

2) Source: [Trading View](#), August 2021.

3) Per the [Committee for a Responsible Federal Budget](#), the fiscal 2021 US deficit is estimated to exceed \$3T, 15.6% of GDP.



Institutional infrastructure continues developing in tandem with regulatory advancements. Announcements from BNY Mellon, the oldest and largest traditional financial institution, and German-based Deutsche Bank to service and custody digital assets deliver validity from players looking beyond fiat currency. Additionally, names like Fidelity, BBVA, Bakkt (primarily owned by Intercontinental Exchange), and Anchorage continue to set new standards for the custody, trading, and settlement of digital assets. Anchorage became the first to receive a federal bank charter in early 2021. They are collectively subject to regulatory oversight. Additionally, they receive ongoing audits by Big Four accounting firms and have received SOC reports as a result of routine independent SOC exams. Galaxy itself has played a role in crypto's institutional infrastructure build; in partnership with Bloomberg, we launched the Bloomberg Galaxy Crypto Index (BGCI) in 2018 to improve data integrity and standardization among digital assets. In early 2021, the S&P Dow Jones announced its intention to provide indices for digital assets. These infrastructure improvements have, in turn, established the rails for institutional quality products like our Galaxy Crypto Index Fund and Galaxy Bitcoin Funds, a key reason our funds received a positive operational due diligence score from a prominent global investment consultant.

Bitcoin's macro landscape, regulatory foundation, and institutional infrastructure have already caught investors' attention. It's clear that bitcoin has morphed from an early adoption phase into a rapid growth phase. We're seeing bitcoin adoption levels increase across multiple investor categories, all of which had previously avoided crypto: traditional hedge funds, family offices, institutional allocators, and wealth channels. Last year, in a letter to investors, macro expert Paul Tudor Jones compared bitcoin's role in a portfolio today to that of gold in the 1970s. He also bet that bitcoin would be the best-performing hedge against the current Great Monetary Inflation and subsequently disclosed a portfolio allocation of "1% to 2%" towards bitcoin as protection against the potential decline of the U.S. dollar.<sup>4</sup> The Tudor news means the proverbial Rubicon crossing for

bitcoin is behind us, and the asset can now be considered another inflation-fighting tool for hedge funds. Following in Tudor's footsteps, Ray Dalio, financial thought leader and founder of Bridgewater, the world's largest hedge fund, penned his thoughts on bitcoin, claiming: "I believe bitcoin is one hell of an invention." And Stanley Druckenmiller, arguably the world's best macro investor, announced his bitcoin position on CNBC. We expect other hedge funds to follow in these footsteps.

Traditional wealth managers are also waking up to the potential benefits of bitcoin. 46% of advisors now indicate that they are likely to allocate client portfolios to bitcoin within the next 12 months. Morgan Stanley is the first big U.S. bank to offer access to bitcoin funds to wealth management clients on its platform and many other platforms are following suit. Institutional advisors respond to increased end-client interest; 43% claim their perception of bitcoin is more positive over the past six months (only 3% more negative; rest unchanged).<sup>5</sup> On the consumer side, Visa Inc. allows the use of USD Coin (USDC) to settle transactions on its payment network.<sup>6</sup> PayPal is integrating bitcoin transactions for its 325 million users. In addition, Tesla, MicroStrategy, and Square all hold strong allotments of bitcoin on their balance sheets.

We are not surprised that heightened interest in bitcoin across all investor types coincides with the broad acceleration of digitization. MasterCard plans to enable digital asset purchases for all merchants. Apple Pay will now get support from the digital asset card payment system, BitPay. We have also closely followed the revamped yet still significant plans to launch the Facebook-backed Libra project and bring digital wallets to Facebook's 2.5 billion users. We believe in a future in which digital money (USD, Chinese RMB), digital payments (Libra), and digital stores of value (bitcoin) exist side-by-side. Each of these projects will require sustained investment in digital payment rails and infrastructure, a reality offering material support to bitcoin as a digital store of value thesis. Bitcoin's future is bright, and now is the time to start incorporating it into portfolios.

4) Source: Paul Tudor Jones' Investment Letter, May 2020.

5) Source: RIA Channel surveys, July 2021.

6) Source: [Reuters](#), March 2021.



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**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 bitcoin using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global Cryptocurrency 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.** The performance of the Fund will not reflect the specific return an investor would realize if the investor actually purchased bitcoin. Investors in the Fund will not have any rights that bitcoin 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 & Supply.** Bitcoin is loosely regulated and there is no central marketplace for currency exchange. Supply is determined by a computer code, not by a central bank, and prices can be extremely volatile.

**Exchanges.** Exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Fund. Cryptocurrency 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 bitcoin, 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 bitcoin or the use of bitcoin as a form of payment. There is no assurance that bitcoin 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.** Bitcoin is created, issued, transmitted, and stored according to protocols run by computers in the bitcoin network. It is possible the bitcoin protocol has undiscovered flaws which could result in the loss of some or all assets held by the Fund. There may also be network-scale attacks against the bitcoin protocol, which result in the loss of some or all of assets held by the Fund. Advancements in quantum computing could break bitcoin's cryptographic rules. The Fund makes no guarantees about the reliability of the cryptography used to create, issue, or transmit bitcoin held by the Fund.

**Volatility.** Bitcoin's value has historically been highly volatile. For instance, during the period from December 17, 2017 to February 5, 2018, bitcoin experienced a decline of roughly 60%. More recently, during the period from February 13, 2020, until March 16, 2020, the value of bitcoin fell by over 50%. In addition, uncertainty related to the effects of bitcoin's recent "halving" could contribute to volatility in the bitcoin markets. The value of the bitcoin held by the Fund could decline rapidly in future periods, including to zero.

These are not all the risk factors associated with bitcoin or the Funds. Refer to the Private Placement Memorandum for more risk factors.



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Hedge funds and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency to investors of information as to share price, valuation, and portfolio holdings. Complex tax structures often result in delayed tax reporting and potentially materially different returns for offshore versus onshore investors. Compared to mutual funds, alternative investments are subject to less regulation and often charge higher fees.

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