

# Galaxy Fund Management Newsletter

AUGUST 2020 IN REVIEW

## MARKET COMMENTARY

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To those just beginning their foray into the digital assets space, August may not have appeared to be much more than a flat month.

Bitcoin rose a modest 3.32% amidst consistently strong spot volumes in the \$1B - 2B range while pushing towards a high of \$12,400 mid-month, finishing with a closing mark of \$11,731.42. It continued to build around its narrative as tech stocks in the NASDAQ 100 pushed to record highs, gaining another 10.94% while the S&P 500 rose 6.98%.

The broader market had more overt activity. The Bloomberg Galaxy Crypto Index (BGCI), which measures the broader digital assets market, rose 11.21% to 558.82 for its highest monthly close of 2020. This was largely driven by the continued out-performance of Ethereum, which finished with a price of \$438.16, an increase of 27.10%. Decentralized finance (DeFi) growth continued to “lock in” billions while investors expanded their exploration of DeFi applications. For peer-to-peer primitive financial functions such as lending, debt issuance, and compounding interest, ETH continues to benefit as the backbone for these transactions’ operations.

Back to bitcoin: unbeknownst to many casual observers, August saw one of the most seminal and legitimizing events for the space to date. MicroStrategy Inc., a business intelligence software firm publicly traded on the NASDAQ (ticker: MSTR), announced a balance sheet investment of \$250 million into bitcoin. This represents nearly 20% of the firm’s overall cash position, with CEO Michael Saylor citing that cash returns were fading amidst a weakening greenback. While it is unclear how many other companies have chosen to use working cash to invest in bitcoin under the current macro environment, this could be an indication of what is yet to come as a sophisticated base of investors consider the long-term impact of inflation due to COVID-19, unprecedented government stimulus, and global political, social, and economic uncertainty. Note also that this announcement came after an earnings call in which the CEO said the company was considering gold, bitcoin, and other alternative investments. This seems to indicate that, after careful consideration, bitcoin became an asset of choice to mitigate inflation concerns for the company.

In closing I’d like to highlight some notable quotes from Mr. Saylor:

“This investment reflects our belief that bitcoin, as the world’s most widely-adopted cryptocurrency, is a dependable store of value and an attractive investment asset with more long-term appreciation potential than holding cash... MicroStrategy has recognized bitcoin as a legitimate investment asset that can be superior to cash and accordingly has made bitcoin the principal holding in its treasury reserve strategy.”

Saylor continued, “We find the global acceptance, brand recognition, ecosystem vitality, network dominance, architectural resilience, technical utility, and community ethos of bitcoin to be persuasive evidence of its superiority as an asset class for those seeking a long-term store of value... Bitcoin is digital gold—harder, stronger, faster, and smarter than any money that has preceded it. We expect its value to accrete with advances in technology, expanding adoption, and the network effect that has fueled the rise of so many category killers in the modern era.”

## INDUSTRY INSIGHTS

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- The Decentralized finance (DeFi) ecosystem on **Ethereum** saw its hottest month ever in August with the “Total Value Locked” in associated Ethereum smart contracts climbing from \$4.1 billion to \$9.6 billion. **Yearn.finance**, a protocol for maximization of yield on cryptoassets that optimizes across lending protocols, is one reason why. Yearn.finance grew to \$967 million locked in its smart contracts in just over 30 days since its inception. Yearn.finance is a community-driven money manager, where strategies for optimizing yield are discovered and implemented by the community, and its token **YFI** endows holders with the rights to the revenues of the fund and governance over the fund’s parameters.
- In some of the early M&A activity in the crypto world, **FTX** acquired **Blockfolio** for \$150 million. FTX is a derivatives exchange while Blockfolio is a mobile-based price tracker and portfolio monitor notable for its ability to attract retail users who use the application to track prices and receive news and notifications. Blockfolio after the acquisition is expected to act as an on-ramp for retail traders to FTX, which has traditionally been populated by professional traders. **Galaxy Digital’s** Investment Banking team acted as a financial advisor to Blockfolio. The deal is the start of what is expected to be a lively market for M&A as the heavily fragmented space begins to consolidate.
- As transaction fees have become unsustainably high on Ethereum, other general-purpose compute chains gained traction in August. **Serum**, a new decentralized exchange (DEX) backed by FTX, will be

based on Ethereum competitor **Solana**, which is a highly-optimized Layer 1 blockchain. Serum's main advantage is that it can run a full orderbook on-chain due to the tremendous speeds of Solana. **Jump Trading** recently announced that it would make markets on Serum. In early September, **Tether** also announced it would partially operate on Solana. Meanwhile, transfers were enabled on **Polkadot** in August. Polkadot, another high-profile Ethereum competitor, delivers a sharded network architecture several years ahead of Ethereum 2.0, which is Ethereum's next-generation project to enhance throughput on the network, attempting to raise Ethereum to Visa-like throughput beyond its current 20 transactions per second mark.

- **Hester Peirce** was sworn in for a second term as **SEC** Commissioner in August. Peirce has been constructive when it comes to cryptocurrencies and blockchains, previously proposing that a three-year window to achieving full decentralization should be afforded to early stage projects who suffer from a chicken-and-egg problem. SEC Commissioner terms run five years, which means she will preside over important future regulation. In an interview this August she opined, "The goal of DeFi, as I understand it, is to eliminate intermediaries and to allow people to engage with one another directly. And typically, the way regulators have regulated the financial system is to regulate intermediaries." In this sense, Peirce hints that there could be some friction going forward.

Data Point	8/31/2020	7/31/2020	Delta
<b>BGCI</b>	558.82	502.5	11.21%
<b>Bitcoin</b>	\$11,731.42	\$11,354.56	3.32%
<b>Ethereum</b>	\$438.16	\$344.73	27.10%
<b>XRP</b>	\$0.2822	\$0.2554	10.41%
<b>EOS</b>	\$3.2533	\$3.10	4.80%
<b>Bitcoin Cash</b>	\$274.66	\$302.27	-9.13%
<b>Litecoin</b>	\$61.36	\$58.13	5.07%
<b>Total Market Cap</b>	\$361.76 BN	\$346.84 BN	

Sources: Decrypt, CoinTelegraph, The Block, Defi Pulse

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