



GALAXY FUND MANAGEMENT NEWSLETTER

DECEMBER 2020 IN REVIEW





MARKET COMMENTARY

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December 2020 was another record-breaking month for bitcoin and digital assets, perhaps one that will be remembered as definitive to the staying power of the asset class. Growth is happening in price, market share, and, most importantly, adoption as investors continue embrace the digitization of finance. Bitcoin finished the month up 49.24% with a closing price of \$29,036.59 while the Bloomberg Galaxy Crypto Index (BGCI) measuring broader large cap assets rose 18.46% to a closing mark of 1051.10.

However, as I write this update, it is hard to ignore the feverish pace at which digital assets are moving in early January; bitcoin topped \$40,000 and now hovers in the \$35,000 range and the BGCI is wrapped around 1500. We are in uncharted territory with new highs and parabolic moves shaken off as the norm. This price action is spectacular, but we should focus on why it is happening and what is really defining this rally as we enter a new paradigm for the digital assets space.

December continued to build on the momentum of November's clear arrival of "the herd". We can define this rally with one word: institutional. As we look back on what happened in December and toward

2021, the repeated arrival of institutional capital will likely advance the current run further (with expected volatility along the way).

Here are recent developments supporting the institutionalization of digital assets:

Direct Investment

- MicroStrategy announced a \$400mm convertible bond offering to buy bitcoin; the deal upsized to \$550mm and closed at \$650mm
- Insurance giant MassMutual announced a \$100mm investment into bitcoin
- Asset manager One River disclosed a \$600mm bitcoin purchase, committing to a \$1bn position
- Ruffer, the \$27bn UK-based hedge fund, disclosed a bitcoin position of nearly \$750mm

Financial Sector

- JPMorgan estimated that a 1% allocation to bitcoin from pensions and insurance companies would require \$600bn of buying
- Fidelity announced that it will hold bitcoin as collateral for cash loans



- Guggenheim CIO Scott MinerD indicated that bitcoin's fundamental value could be \$400,000
- JPMorgan said gold will suffer for years because of bitcoin and made a \$146,000 long-term price prediction
- Jefferies strategists called for cuts to gold exposure in favor of bitcoin
- CME announced that Ethereum futures will launch in February
- Standard Chartered Bank launched crypto trading
- BBVA launched services for digital assets
- SBI acquired digital asset trading firm B2C2
- S&P Dow Jones announced its intention to provide indices for digital assets
- American Express invested in crypto trading platform Falcon X

Notable Happenings

- Coinbase filed an S-1, signaling its intention to go public
- Visa partnered with stablecoin USDC, enabling its 60 million merchants to use it
- Stablecoin Tether (USDT) attained a \$20bn market cap
- Spotify signaled its intention to possibly accept digital asset payments

As we digest the current market prices against the backdrop of increasing institutional adoption, the 2021 outlook is one of optimism and growth for digital assets—and a new frontier for investors in digitized financial applications and networks.



INDUSTRY INSIGHTS

Aside from raw price action, December was characterized by several regulatory decisions for crypto. The **STABLE Act**, announced in early December, attempted to get ahead of **Facebook's Diem** (rebranded from Libra) launch by designating stablecoins as dollar-denominated deposits. This subsequently places stablecoin providers like Tether, Centre, and Maker under the purview of banking licenses. The STABLE Act, introduced by Congresswoman Rashida Tlaib (D – MI), Congressman Jesus Garcia (D – IL), and Congressman Stephen Lynch (D – MA), has not yet made a splash in Congress.

Just before the holidays, the Treasury Department's **FinCEN** group proposed that all transactions to and from hosted crypto wallets (a wallet owned by an exchange, custody provider, or other entity on behalf of a customer) comply with new recordkeeping and reporting requirements on transactions above certain thresholds. Galaxy Digital and similar businesses have exercised an abundance of caution in following FinCEN guidance to date for the activities covered in the proposal. While there may be increased reporting cost and operational burden if the proposed rule were to go into effect, best

practices already involve gathering the information and reporting suspicious activity to the relevant agencies.

The **Securities and Exchange Commission** filed a lawsuit against **Ripple**, the California company behind XRP, for allegedly conducting an unregistered securities offering. Ripple quickly denied any allegations of wrongdoing.

Finally, in the first days of January, **the Office of the Comptroller of the Currency (OCC)** said that US banks may participate in node verification and use stablecoins on public blockchains. The OCC's ruling lays the ground for US banks to participate in crypto networks with full nodes and to conduct business in stablecoins on-chain. It eventually paves the way for banks to settle on public blockchains like Ethereum.

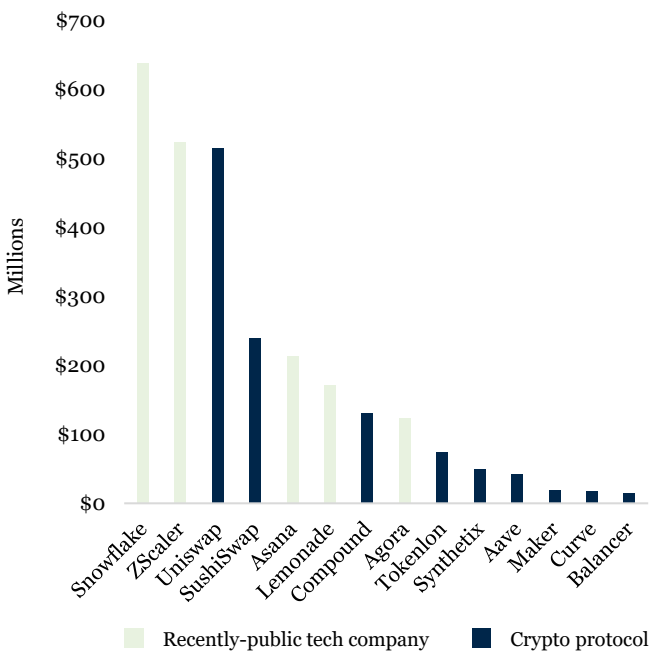
Decentralized Finance (“DeFi”) protocols on Ethereum continued to grow in December, both in their market capitalization and in their usage. Decentralized exchanges like Uniswap, SushiSwap, and Curve and lending protocols like Compound and Aave grew from a minor part of the crypto ecosystem



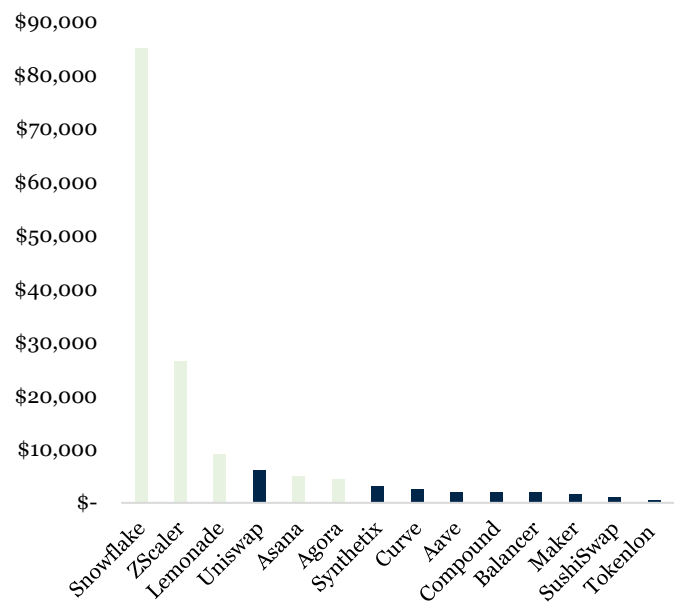
to perhaps its largest secular trend during 2020. Now, 30d annualized revenues compete with the annualized revenues of established public tech companies, suggesting crypto networks and the applications built on top of them are blossoming into systemically important products.

At the beginning of December, **Visa** announced an agreement with **Circle** to use the USDC stablecoin as a currency in its payment network, including as a means of exchange for Visa's 60 million merchants. USDC primarily operates on Ethereum but also exists in smaller amounts on other blockchains.

Annualized revenue of Protocols versus select Recently-Public Tech Co's (30d vs. quarterly annualized)



Market Cap of Protocols versus select Recently-Public Tech Co's (30d vs. quarterly annualized)



DATA POINT	12/31/2020	11/30/2020	DELTA
BGCI	1051.1	887.3	18.46%
BITCOIN	\$29,036.59	\$19,456.81	49.24%
ETHEREUM	\$742.94	\$607.60	22.27%
EOS	\$2.59	\$3.21	-19.54%
Bitcoin Cash	\$341.6	\$314.04	8.78%
Litecoin	\$124.34	\$86.813	43.24%
Total Market Cap	\$756.98 BN	\$535.31 BN	



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