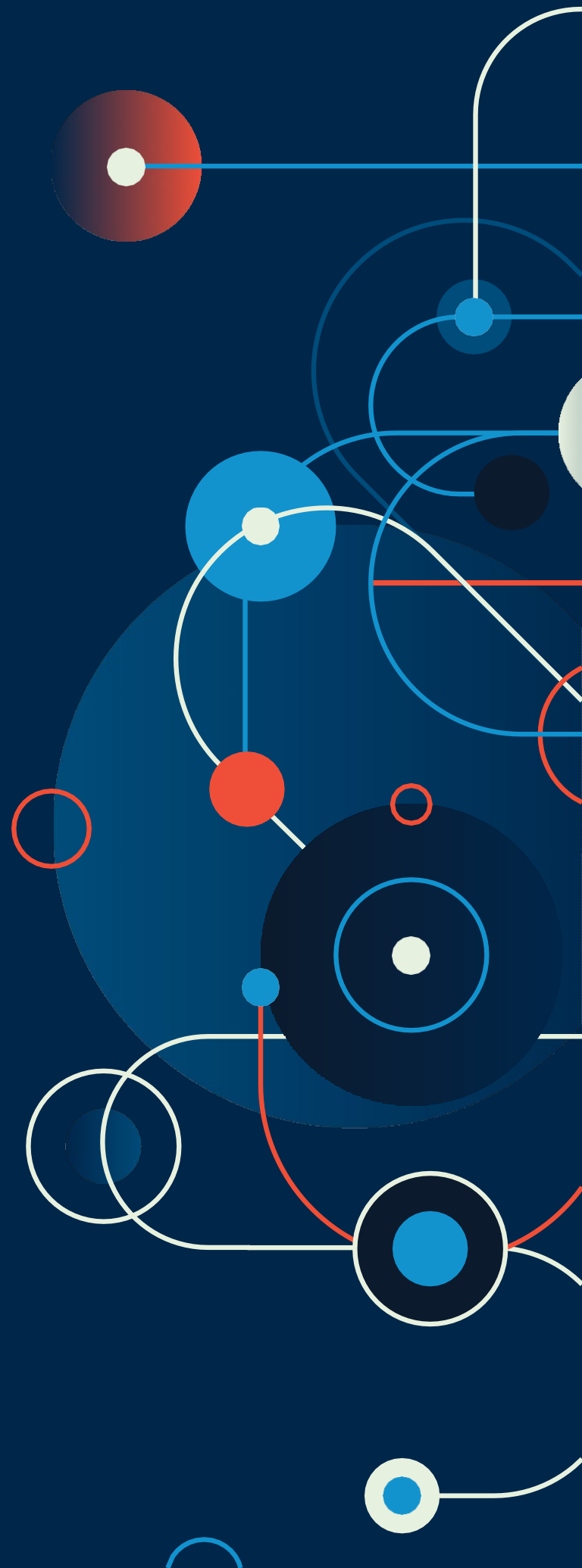




GALAXY FUND MANAGEMENT NEWSLETTER

OCTOBER 2020 IN REVIEW





MARKET COMMENTARY

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It is often said that success happens when preparation meets opportunity. When we look back on October 2020 and its impact on the bitcoin story, price may be the indicator that many point to as a signal of its success. However, those more familiar with the asset class know that preparation has been a constant over the 10+ years of bitcoin's existence. Preparation has come in many forms: the Satoshi white paper, viable exchanges, reputable data sources and research providers, institutional custody, and investor education to name a few. It has also come in the form of sophisticated investors' acceptance of a new asset class born out of code that lives on the internet.

Overall, it is now safe to assume that we are headed towards a new era for digital assets. In October bitcoin rose 26.32% while the Bloomberg Galaxy Crypto Index (BGCI) measuring the broader digital asset market rose 14.62%. These moves came on the heels of announcements and developments across three major themes:

1. Corporate cash entering the market
2. Institutional on-ramps and infrastructure
3. Central bank participation

In what has been a consistent theme over three months, bitcoin once again saw adoption at the corporate level as a tool for balance sheet management. As mentioned in previous newsletters, MicroStrategy (NASDAQ: MSTR) has made a \$425 million allocation, citing bitcoin as the best risk/return hedge against inflation. In October two more public companies announced allocations from their balance sheets for the same reason. Square (NYSE: SQ), led by long-time bitcoin proponent Jack Dorsey, made a \$50 million allocation, approximately 1% of its cash reserves. In addition to Square, London Stock Exchange-listed company Mode Global Holdings (LSE: MODE) has allocated up to 10% of its cash reserves to purchase bitcoin. This is the first publicly traded company in the United Kingdom to announce an investment in the digital asset.

Perhaps the biggest announcement in October came from payments giant PayPal (NASDAQ: PYPL). Following a previous indication that the company would make bitcoin available to its 346 million users, they released an official announcement specifying plans for users to begin buying, selling, and holding digital assets on its platform. In addition to bitcoin, PayPal will also provide the option for users to



access Ethereum (ETH), Litecoin (LTC), and Bitcoin Cash (BCH) via their platform. This is major news that not only brings digital assets to the masses globally, but also promotes the adoption of payments using digital assets; PayPal included in its announcement that it will enable its 26 million merchants to use cryptocurrency as a funding source for digital commerce. PayPal will likely continue to grow its presence in the space by building out more user-friendly on-ramps and making interesting infrastructure moves organically and/or via acquisition.

On a subtler but still important note, Central Bank Digital Currencies (CBDCs) continue to be a major theme in the digitization of cash. As we mentioned

last month, the EU made comments around the likely issuance of a digital Euro in the near term. In October the Financial Stability Board issued a high-level recommendation around the oversight of a “global stablecoin”, while the Bureau of Industry and Security published information listing several G7 countries and the potential benefits of their producing a CBDC. In 2021, look for central banks to play a major role in furthering the adoption and acceptance of digital assets.

As the value of major digital assets continues to increase and announcements around the development of the space continue to support them, remember: success does not come without preparation. Digital assets are ready.



INDUSTRY INSIGHTS

From a pure **cryptocurrency performance** perspective, October was a fantastic month, particularly for bitcoin which gained 26.3%. Though Ethereum trailed bitcoin this month, it still gained 7.8%. PayPal's announcement, discussed above, was a catalyst for gains in the two cryptoassets in a year full of catalysts for the digitization of financial services. ETH is up 235.3% YTD, Square +180.1%, BTC +118.7%, PayPal +89.1%, Mastercard +6.6%, and Visa +5.7%. Legacy players lagging the innovators are down: Western Union -19.6%, JPMorgan -22.4%, Bank of America -28.7%, Citigroup -43.9%, and Wells Fargo -56.8%. Broadly, the secular trend towards the digitization of finance is only strengthening.

Central bank digital currencies are an emerging part of that story and will become ubiquitous faster than most think. The People's Bank of China started pilot programs of its digital Yuan in October that have now scaled up to more than 4 million transactions cumulatively totaling 2 billion Yuan, said Yi Gang, Governor of the People's Bank of China, at Hong Kong Fintech Week. Gang also made notable comments at the event: that Fintech companies have key advantages over commercial banks in terms of developing a customer base and

managing risk, and that access to financial services in remote areas has been boosted by new technologies like microloans and mobile payments.

Russia is not waiting around for other countries to develop their own digital currencies or cryptocurrency capabilities. Gazprombank, the banking arm of Russian energy behemoth Gazprom, received approval to provide crypto services out of their Switzerland arm in October. The services will initially include custody and trading and be accessible by a limited number of clients. Meanwhile, Head of the Central Bank of Russia Elvira Nabiullina says that Russia could release its own digital Ruble by the end of 2021, adding that "maximum trust and maximum confidentiality" are goals for the project. China and Russia's digital currency strategies are part of a wider currency battle being waged globally. Both countries are actively trying to de-dollarize their economies. In Q1 2020, China paid for 50.8% of its imports from Russia in euros and just 33.0% in dollars. That figure was 0.7% in euros and 87.8% in dollars as recently as Q1 2018.

Separate from broader geopolitical movements, **US-based corporates** have proven that inclusion of



digital currency in their services can increase their revenues today. Square's CashApp generated \$1.63 billion of revenue and \$32 million in gross profit via its bitcoin business in Q3 2020. It was a 186% gain over Q2 bitcoin-related revenue and roughly a doubling of profits. MicroStrategy notably announced a series of balance sheet bitcoin purchases over \$100 million this summer and fall, and their stock was up 22.6% in October.

Executives of **BitMEX** were charged by the Department of Justice with violation of the Bank Secrecy Act, claiming that its operators flouted Anti-Money Laundering rules. The Department of Justice claimed that BitMEX "failed to implement and maintain even basic anti-money laundering rules...

one defendant went as far as to brag the company incorporated in a jurisdiction outside the U.S. because bribing regulators in that jurisdiction cost just 'a coconut.'" Bitcoin's ability to shake this event off was a signal of its bullish momentum.

The technology side of the space continues to press forward. **Filecoin** launched this month, three years after its \$257 million ICO, and quickly became one of the largest cryptocurrencies by fully diluted valuation. Filecoin is an incentive system for the IPFS decentralized storage protocol, and its system now comprises as much as 650 terabytes. Additionally, the long-awaited **NuCypher** project, a decentralized key management system, launched its mainnet on October 15.

DATA POINT	10/30/2020	9/30/2020	DELTA
BGCI	546.34	476.66	+14.62%
BITCOIN	\$13,543.64	\$10,721.92	+26.32%
ETHEREUM	\$383.49	\$355.75	+7.80%
XRP	\$0.2385	\$0.2395	-0.42%
EOS	\$2.51	\$2.56	-1.90%
Bitcoin Cash	\$260.96	\$225.99	+15.47%
Litecoin	\$54.00	\$45.95	+17.52%
Total Market Cap	\$403.11 BN	\$343.99 BN	



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Sources: Forbes, The Block, Filecoin, Department of Justice

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