



DIGITAL ASSETS

**DECODED**

AUGUST 2021 IN REVIEW



**GALAXY**  
FUND MANAGEMENT



# MARKET COMMENTARY



**PAUL CAPPELLI**  
*Portfolio Manager*

Digital assets rallied across the board in August as the market saw a boost spanning bitcoin, Ethereum, and rapidly developing sectors – mostly decentralized finance (DeFi) and non-fungible tokens (NFTs).

Sentiment swung back and forth in the early part of the month as digital assets took center stage on Capitol Hill. The asset class became a hotly contested part of the new infrastructure bill. For nearly two days, senators on the house floor debated amendments focused on the tax treatment for consensus mechanisms in the digital asset ecosystem. Ultimately, the provision did not make it to the bill, but many view this debate as a net positive. Crypto showed that it's ready for tax clarity while signaling it can find a loud, clear, and informative political voice on a grand stage. This activity came against the backdrop of elected officials signaling they are not interested in smothering this burgeoning asset class and its next wave of innovation via taxes.

The market rallied as we saw a unified voice emerge supporting an asset class ready to take its next steps into the mainstream. Performance across the asset class was positive throughout August with Ethereum achieving the highest price percentage increase across the crypto industry.

OpenSea, the largest marketplace for non-fungible tokens (NFTs), recorded a \$3.4B transaction volume in August, more than ten times their July figure.<sup>1</sup> This increase shows unprecedented interest in NFTs – digital assets with a unique digital fingerprint that cannot be replicated. As growing attention and demand increases the value of NFT collections, it also elevates Ethereum, Solana, and other smart contract blockchains that can host NFTs.

1) Source: [MarketWatch.com](https://www.marketwatch.com)



## NOTABLE NEWS

- Ethereum upgrade EIP 1559 was completed on August 5th, making transactions on the network more efficient. Following the upgrade, a deflationary feature activated, triggering a portion of transaction fee results in ETH to burn. We saw nearly \$500M transaction fees burned in the month following the update.<sup>2</sup>
- SEC Commissioner Gary Gensler signaled a possible approval of an ETF based on regulated Bitcoin Futures 40 act products. This news received mixed reviews from both the digital asset market and the ETF community.
- The crypto-friendly compromise amendment regarding how to best tax crypto to help pay for the Infrastructure Bill failed to make it into the final version of the Senate. Congressman Tom Emmer (MN) stated the House of Representatives “must consider amendments that exempt entities that don’t conduct crypto transactions and keep blockchain software development, cryptocurrency mining, and more in the United States.” This statement was a net positive, demonstrating ways crypto will be approached with thought and nuance as it emerges on the regulatory frontier.
- Neuberger Berman granted its commodity-focused funds the ability to invest in bitcoin and Ethereum Futures.
- Robinhood reported crypto now represents 41% of their revenue.<sup>3</sup>

<sup>2</sup>) Source: [Decrypt.co](https://decrypt.co)

<sup>3</sup>) Source: [CoinDesk.com](https://coindesk.com)



**PERFORMANCE ACROSS THE  
ASSET CLASS WAS POSITIVE  
THROUGHOUT AUGUST WITH  
ETHEREUM ACHIEVING THE  
HIGHEST PRICE PERCENTAGE  
INCREASE ACROSS THE  
CRYPTO INDUSTRY.**



- Coinbase teamed up with Japanese bank MUFG to launch a crypto exchange in the country.
- Coinbase and Circle announced a consolidation of Stablecoin USDC reserves into cash and US treasuries.
- US-based banking conglomerate Citigroup offers bitcoin futures trading for some institutional clients.



# DISCLAIMERS

The information (Information) contained herein is being provided to you solely for informational purposes and may not be reproduced or redistributed in whole or in part, in any format, without the express written approval of Galaxy Digital Capital Management LP (GDCM). By accepting this document, you acknowledge and agree that all of the Information contained in this document is proprietary to GDCM. While not explicitly referenced within this piece, GDCM manages the Galaxy Bitcoin Funds, Galaxy Ethereum Funds and the Galaxy Crypto Index Master Fund LP (each a "Fund") which invest in bitcoin and/or Ethereum. The Information is not an offer to buy or sell, nor is it a solicitation of an offer to buy or sell, interests in the Fund or any advisory services or any other security or to participate in any advisory services or trading strategy. If any offer and sale of securities is made, it will be pursuant to the confidential offering memorandum of the Fund (the Offering Memorandum). Any decision to make an investment in the Fund should be made after reviewing such Offering Memorandum, conducting such investigations as the investor deems necessary and consulting the investor's own investment, legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment. Except where otherwise indicated, the Information is based on matters as they exist as of the date of preparation and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof.

Investing in financial markets involves a substantial degree of risk. There can be no assurance that the investment objectives described herein will be achieved. Any investment in the Fund may result in a loss of the entire amount invested. Investment losses may occur, and investors could lose some or all of their investment. No guarantee or representation is made that GDCM's investment strategy, including, without limitation, its business and investment objectives, diversification strategies or risk monitoring goals, will be successful, and investment results may vary substantially over time. Nothing herein is intended to imply that the GDCM's investment methodology may be considered "conservative", "safe", "risk free", or "risk averse." Neither historical returns nor economic, market or other performance is an indication of future results. Investment in the Fund is different from the Bloomberg Galaxy Crypto Index. The performance of the Fund will vary from the performance of the Bloomberg Galaxy Crypto Index.

Market index information shown herein, such as that of the Bloomberg Galaxy Crypto Index, is included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that GDCM believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data. The information contained herein is provided for informational purposes only, is not complete, and does not contain certain material information about the Fund, including important disclosures and risk factors associated with an investment in the Fund, and is subject to change without notice. This document is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, shares or limited partnership interests in the Fund. Securities transactions are effected through Galaxy Digital Partners LLC, a member of FINRA and SIPC.

Certain statements reflect GDCM's views, estimates, opinions or predictions (which may be based on proprietary models and assumptions, including, in particular, GDCM's views on the current and future market for digital assets), and there is no guarantee that these views, estimates, opinions or predictions are currently accurate or that they will be ultimately realized. To the extent these assumptions or models are not correct or circumstances change, the actual performance of GDCM and the BGCI may vary substantially from,

and be less than, the estimated performance. None of GDCM, the Fund nor any of their respective affiliates, shareholders, partners, members, directors, officers, management, employees or representatives makes any representation or warranty, express or implied, as to the accuracy or completeness of any of the Information or any other information (whether communicated in written or oral form) transmitted or made available to you. Each of the aforementioned parties expressly disclaims any and all liability relating to or resulting from the use of the Information or such other information. GDCM does not provide tax, accounting or legal advice. Notwithstanding anything to the contrary, each recipient of this Information, and each employee, representative or other agent of such recipient may disclose to any and all persons, without limitation of any kind, the U.S. income and franchise tax treatment and the U.S. income and franchise tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. income or franchise tax strategy provided to such recipient by GDCM.

Certain information contained herein constitutes forward-looking statements, which can be identified by the use of terms such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe" (or the negatives thereof) or other variations thereof. Due to various risks and uncertainties, including those discussed above, actual events or results, the ultimate business or activities of GDCM or the Fund or the actual performance of GDCM or the Fund may differ materially from those reflected or contemplated in such forward-looking statements. As a result, investors should not rely on such forward-looking statements in making their investment decisions. None of the Information has been filed with the U.S. Securities and Exchange Commission, any securities administrator under any state securities laws or any other governmental or self-regulatory authority. No governmental authority has opined on the merits of the offering of any securities by the Fund, or the adequacy of the information contained herein. Any representation to the contrary is a criminal offense in the United States.

Certain information contained herein (including financial information) has been obtained from published and non-published sources. Such information has not been independently verified by GDCM, and GDCM does not assume responsibility for the accuracy of such information. Affiliates of GDCM own investments in some of the digital assets, protocols and companies discussed in this newsletter.

BLOOMBERG is a trademark or service mark of Bloomberg Finance L.P. GALAXY is a trademark of GDCM. Bloomberg Finance L.P. and its affiliates (collectively, Bloomberg) are not affiliated with GDCM, the Fund and their respective affiliates (collectively, Galaxy). Bloomberg's association with Galaxy is to act as the administrator and calculation agent of the Index, which is the property of Bloomberg. Neither Bloomberg nor Galaxy guarantee the timeliness, accurateness, or completeness of any data or information relating to the Index or results to be obtained. Neither Bloomberg nor Galaxy make any warranty, express or implied, as to the Index, any data or values relating thereto or any financial product or instrument linked to, using as a component thereof or based on the Index (Products) or results to be obtained therefrom, and expressly disclaims all warranties of merchantability and fitness for a particular purpose with respect thereto. To the maximum extent allowed by law, Bloomberg, Galaxy and its or their licensors, and its and their respective employees, contractors, agents, suppliers, and vendors shall have no liability or responsibility whatsoever for any injury or damages—whether direct, indirect, consequential, incidental, punitive, or otherwise—arising in connection with the Index, any data or values relating thereto or any Products—whether arising from their negligence or otherwise.