



DIGITAL ASSETS

DECODED

DECEMBER 2021 IN REVIEW

GALAXY

FUND MANAGEMENT



MARKET COMMENTARY



PAUL CAPPELLI
Portfolio Manager

Digital assets sold off in December in a challenging market environment against the backdrop of year-end seasonality, portfolio rebalancing, profit-taking, and tax considerations. From a macro perspective, global markets saw choppy trading and varying volumes as the holidays, Omicron, and concerns regarding interest rate policy arose.

Zooming out to the broader industry, crypto custodial firms focused on the institutional market experienced a significant upswing in funding in 2021, including NYDIG, Anchorage, Fireblocks, and Ledger. The Block predicts the space will continue to grow as traditional financial institutions enter or expand their digital asset offerings, including custody, either directly or by partnering with an existing custodian.

Centralized exchanges reported over \$14 trillion in trading volume for the year, a 689% increase from 2020 volumes. Binance continues dominating the centralized crypto exchange market, facilitating 67% of total volumes in 2021. However, the volume reported by decentralized exchanges (DEXes) continues to close in on that gap. DEXes reported more than \$1 trillion in trading volumes in 2021, a massive 858% increase compared to 2020 volumes.



**CENTRALIZED EXCHANGES
REPORTED OVER \$14
TRILLION IN TRADING
VOLUME FOR THE YEAR,
A 689% INCREASE
FROM 2020 VOLUMES.**





NOTABLE DEVELOPMENTS

- Former Google CEO Eric Schmidt will become a strategic advisor for Chainlink Labs.
- Visa plans to launch a crypto advisory service as adoption grows.
- MicroStrategy bought 1,434 bitcoin for \$82.4 million at an average price of \$57,477. MicroStrategy also announced it is considering lending to generate yield on its 122,000 bitcoin. While the company has not taken any steps to do so, they are looking at ways to put the bitcoin on its balance sheet to work.
- Meta piloted instant crypto payments on WhatsApp using its Novi digital assets wallet.
- Twitch co-founder Justin Kan plans to launch a Solana-based gaming NFT marketplace.
- Public insurance firm Lemonade confirmed they hold bitcoin on their balance sheet.
- U.S. Senators asked the Treasury to release guidance for crypto brokers by year-end.
- Nike acquired NFT sneakers and collectibles studio RTFKT.
- Shopify is launching its beta version of an NFT marketplace.
- Instagram is considering NFT integration as mass adoption heightens.
- Pro-crypto U.S. Senator Cynthia Lummis is set to introduce an “expansive crypto bill” in 2022.
- Financial messaging giant SWIFT announced plans to explore the tokenized asset market in 2022.

In addition to this industry-wide news, we see a deeper focus on web3 emerging. “NFT” searches recently passed “crypto,” according to worldwide Google search trends. According to a release, Sotheby’s earned \$100 million from NFT sales in 2021. Notable auctions include NFTs from the Crypto Punks and Bored Ape Yacht Club collections. Sotheby’s is one of the first art institutions to lean into NFTs, which has paid off. Its sales from NFTs make up a sizable portion of the \$6 billion of revenue it did in 2021.

Zooming in on the DeFi sector of web3, we see an attractive rate of return relative to other sectors right now, including gaming, NFTs, and Layer 1 valuations. Stablecoin supply grew by 388% last year, according to The Block Research, due to demand from DeFi platforms. (Stablecoins are used to transact in synthetic dollars and dampen volatility when trading between tokens.) Demand increased for stablecoins due to users looking to generate yield in DeFi protocols. We are beginning to see the DeFi market refocus on projects with good fundamentals. These, along with other developments listed below, make DeFi a sector to watch.

DEFI DEVELOPMENTS

- DEX SundaeSwap launched on Cardano testnet.
- Polygon acquired Mir in a \$400 million deal to scale Ethereum and web3.
- Kickstarter announced a plan for a decentralized crowdfunding protocol built on Celo.
- Coinbase launched DeFi Yield Services outside of the U.S.
- Yearn Finance launched its YFI buyback program to distribute earnings to token holders.
- Switzerland’s SEBA Bank aims to use Aave’s institutional DeFi platform.
- DEX protocol Uniswap went live on Ethereum-scaling platform Polygon.
- Web browser Opera will integrate with Polygon, opening the decentralized app ecosystem to 80 million users.



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.