WHY LIQUID ALPHA NOW?

JUNE 2022

GALAXY
FUND MANAGEMENT

The Galaxy Liquid Alpha strategy (the “Strategy”) seeks to provide access to the current and next generation of essential digital assets.

The Strategy offers capital appreciation with significant alpha enhancing opportunities using active management.

WHY LIQUID ALPHA NOW?

Billions of dollars have been invested in the blockchain technology industry in the last few years to disrupt the existing financial and technology incumbents. The previous year saw $33 billion in venture dollars invested in the blockchain industry, compromising 5% of all global venture investments.[1] We now see a maturation of innovation on the back of prior groundwork.

This convergence of blockchain technology and traditional industries brings ample opportunities for innovation and disruption. The increasingly digital economy will continue to challenge traditional industries and technologies, similar to past innovation cycles. Our long-term thesis is that blockchain will be the key underlying technology enabling this disruption. Blockchain is a relatively young industry but has already attracted millions of global users. Based on various on-chain metrics, there are between seven and 50 million active Ethereum users today.[2] This estimate puts crypto somewhere around 1995 when comparing its user adoption of the internet.

As for institutional participants, traditional financial incumbents are beginning to explore and participate in decentralized finance (DeFi), exploring how blockchain can provide a more efficient and transparent payment settlement system. Activity across DeFi establishes the sector as the 31st largest bank globally by deposits.[2]

For artists and content creators, NFTs have generated over $3.9 billion in revenue across 22,400 creators, compared to Youtube's $7 billion in creator revenue for 11 million artists and YouTube's $15 billion in creator revenue for 37 million channels.[2]

The current state of technology adoption and market cycle timing is primed for entry due to the growing number of quality companies and talent in the space. In a few years, blockchain and digital assets have matured from a relatively nascent industry to a largely accepted asset class. Nearly 20% of Americans have used or traded digital assets in these relatively early days.[3] A key characteristic of digital asset markets is the ability for companies to become liquid much earlier in their lifecycle through public tokens, which offers investors the opportunity to invest in crypto projects and protocols at stages where venture or growth equity could only access in traditional markets. While more democratic and open markets are beneficial for the space, it begets greater investing discipline and industry expertise to navigate the asset class. Liquid Alpha strategies uniquely offer investors access to the growth of the space by taking bets on secular winners while preserving downside risk.

WHY THIS STRATEGY?

Volatility is inherent to any market, and crypto has seen the explosion of new sectors. We look for a balance of large, secular winners and smaller, less well-known crypto assets that can drive alpha while maintaining a keen focus on risk mitigation to perform in any market environment. This differentiated approach is client-centric, led by our active management specialist team focused only on digital assets.

Targeting large secular winners and emerging crypto assets, the Strategy prioritizes diverse exposure to large-cap crypto assets (e.g., BTC, ETH) and emerging opportunities.

As the cryptocurrency environment continues expanding, experienced and dedicated crypto professionals can be a key differentiator in identifying the standout performers in this growing asset class.

The Strategy seeks to benefit from the expansion of use cases and the adoption of crypto globally. The active management specialist team monitors projects in four key areas: infrastructure, DeFi, gaming, and the metaverse. Portfolio construction and token selection occur through macro, fundamental, and quantitative/technical analysis.

INFRASTRUCTURE

Protocols intended to support the development of blockchains.

Layer 1s and Layer 2s, include but are not limited to storage, indexing, node infrastructure, data oracles, security, and developer tools.

The top blockchains secure over $600B in network value.

GAMING

Games built on blockchain with in-game NFT assets.

In-game NFTs are owned by players and can be sold for traditional, fiat money, traded on secondary markets, and transferred between games.

Traditional gaming is a $300B industry waiting to be disrupted.

DECENTRALIZED FINANCE

Peer-to-peer services that include lending, exchanges, derivatives, yield aggregators, and insurance.

DeFi's total value locked (TVL) has grown from $1B to over $75B in less than two years.

METAVERSE

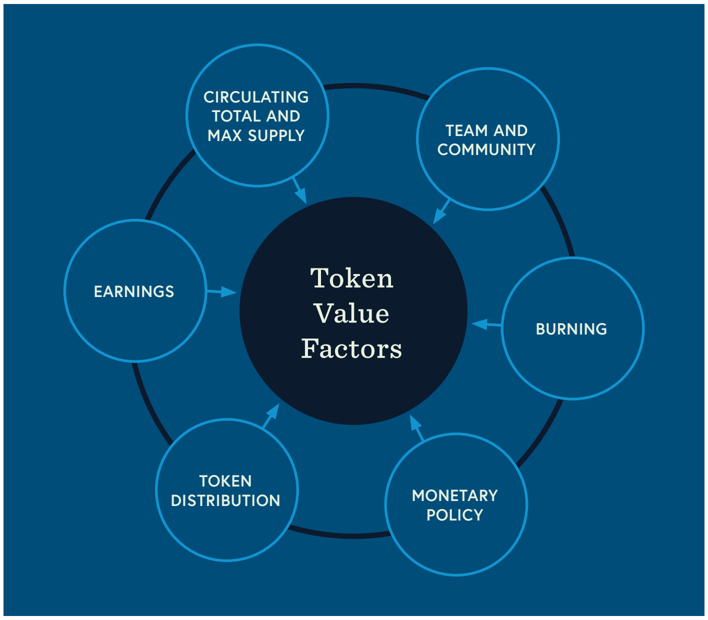
Virtual worlds built on top of blockchains.

All-time metaverse land sales total nearly $2B.[2]

THE CASE FOR ACTIVE MANAGEMENT IN CRYPTO

Digital assets are multi-faceted. Active portfolio management provides the ability to capture the upside potential of these developing digital assets through deep analysis and understanding of various token systems and their appeal. Discerning where to invest in this new asset class can be challenging, particularly considering the emerging use cases and applications.

The fast pace of digital asset evolution creates opportunities for active investment strategies that can benefit from mispricing opportunities while managing the idiosyncratic risk of the individual assets. Today, assets like bitcoin and Ethereum have established themselves as leaders within the store of value and smart contract platform lanes, respectively. However, like other emerging industries, we expect innovation will continue, with new protocols and networks challenging or complementing these larger incumbents.



Active management allows institutional investors to invest with managers who can study and understand the nuances of the digital assets market to identify opportunities. The rapid adoption of blockchain base layers and the nascent but exponentially growing use cases promote an environment where actively monitoring and changing investments in a portfolio of digital assets can enhance returns. Active managers that understand the development of new blockchain capabilities and monitor advancing projects can provide leverage for investors interested in staying current and nimble with their holdings.

Active strategies are also unique in achieving higher capital efficiency for specific holdings through staking and lending. Staking is where participating in proof-of-stake network validation is rewarded in the form of additional token compensation by the network. Lending describes when owners of tokens receive compensation for lending out their holdings to borrowers. Lastly, in an industry where many protocols and projects are liquid much earlier in their lifecycle, observant and thoughtful investors will be able to take advantage of opportunities for growth that venture can no longer capture. While utilizing diverse strategies to capture growth within the ecosystem, active management can dynamically adjust and mitigate portfolio risk to enhance long-term returns.

Over the past two years, we've moved well beyond bitcoin into an environment supporting multiple blockchain winners across Web3. Use cases such as store of value, the metaverse, digital payments, and gaming are just the start of blockchain potential. As crypto markets mature, sub-sectors and tangible use-cases will continue emerging. Differentiation between digital asset class sectors means investors can now approach crypto investing with a more sophisticated diversification strategy instead of buying a handful of "altcoins." When paired with lower intra-asset correlations, we now have a ripe environment for more thesis-driven, fundamental, or complex trading and investment strategies to drive alpha.

GALAXY FUNDS RISK FACTORS

Please note that the following are not all the risk factors associated with Digital Assets or the Funds (each, a "Fund"). Refer to the Offering Memorandum of the applicable Fund for more risk factors.

Investment Risks Generally. An investment in the Fund, involves a high degree of risk, including the risk that the entire amount invested may be lost. As discussed further below, the Fund will invest through other pooled investment vehicles ("Other Private Funds") in Digital Assets (such as Bitcoin, Ethereum, other cryptocurrencies or blockchain based assets, including those that represent the Decentralized Finance (or DeFi) portion or sector of the digital assets market) using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global Digital Assets markets and the risk of loss from counterparty defaults. The Fund's and the Other Private Funds' investment program may use investment techniques that involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject. All investments made by the Fund will risk the loss of capital. No guarantee or representation is made that the Fund's investment program will be successful, that the Fund will achieve its investment objective or that there will be any return of capital invested to investors in the Fund, and investment results may vary.

Different from Directly Owning Bitcoin, Ethereum or Other Digital Assets. The performance of the Fund will not reflect the specific return an investor would realize if the investor actually purchased a Digital Asset. Investors in the Fund will not have any rights that Digital Asset holders have.

No Guarantee of Return or Performance. The obligations or performance of the Fund or the returns on investments in the Fund are not guaranteed in any way. Any losses of the Fund will be borne solely by investors in the Fund. Ownership interests in the Fund are not insured by the Federal Deposit Insurance Corporation, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity.

Regulation. Digital Assets, including Bitcoin, Ethereum and DeFi tokens, are loosely regulated. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the value of a Fund's investment. If any Digital Asset is determined to be a "security" under U.S. federal or state securities laws or a Digital Asset exchange is determined to be operating illegally, it may have material adverse consequences for Digital Assets due to negative publicity or a decline in the general acceptance of Digital Assets. As such, any determination Digital Asset exchanges are operating illegally or that any Digital Asset is a security under U.S. federal or state securities laws may adversely affect the value of a particular Digital Asset or Digital Assets generally and, as a result, the value of a Fund's investment.

Exchanges. Exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Fund. Digital Asset exchanges have been closed due to fraud, failure or security breaches. Any of the Fund's funds that reside on an exchange that shuts down or suffers a breach may be lost.

Value. Several factors may affect the price of Digital Assets, including Bitcoin, Ethereum and DeFi tokens, including, but not limited to: supply and demand, investors' expectations with respect to the rate of inflation, interest rates, currency exchange rates or future regulatory measures (if any) that restrict the trading of a Digital Asset or the use of a Digital Asset as a form of payment. There is no assurance that a Digital Asset will maintain its long-term value in terms of purchasing power in the future, or that acceptance of bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow.

Protocol. Many Digital Asset networks, including Bitcoin, Ethereum and DeFi tokens, operate on open-source protocols maintained by groups of core developers. The open-source structure of these network protocols means that certain core developers and other contributors may not be compensated, either directly or indirectly, for their contributions in maintaining and developing the network protocol. Lack of incentives to, or a failure to properly, monitor and upgrade network protocol could damage a Digital Asset network. It is possible that a Digital Asset protocol has undiscovered flaws that could result in the loss of some or all assets held by the Fund. There may also be network-scale attacks against a Digital Asset protocol, which could result in the loss of some or all of assets held by the Fund. Advancements in quantum computing could break a Digital Asset's cryptographic rules. The Fund makes no guarantees about the reliability of the cryptography used to create, issue, or transmit Digital Assets held by the Fund.

Volatility & Supply. Values of Digital Assets have historically been highly volatile, experiencing periods of rapid price increase as well as decline. For instance, there were steep increases in the value of certain Digital Assets, including Bitcoin, over the course of 2017, and multiple market observers asserted that digital assets were experiencing a "bubble." These increases were followed by steep drawdowns. During the period from December 17, 2017 to February 5, 2018, Bitcoin experienced a decline of roughly 60%. More recently, during the period from February 13, 2020, until March 16, 2020, the value of Bitcoin fell by over 50%. Bitcoin had a strong start to 2021, hitting an all-time high of nearly $65k in April. But, it closed H1 2021 down 47% from its record. Supply of Digital Assets is determined by computer code, not by a central bank. For example, uncertainty related to the effects of Bitcoin's recent and future "halving" could contribute to volatility in the Bitcoin markets. The value of the Bitcoin or other Digital Assets held by a Fund could decline rapidly in future periods, including to zero.

Decentralized Finance (DeFi) Risks. Decentralized Finance (or DeFi) refers to a variety of blockchain-based applications or protocols that provide for peer-topeer financial services using smart contracts and other technology rather than such services being offered by central intermediaries. Common DeFi applications include borrowing/lending Digital Assets and providing liquidity or market making in Digital Assets. Because DeFi applications rely on smart contracts, any errors, bugs, or vulnerabilities in smart contracts used in connection with DeFi activities may adversely affect such activities. DeFi lending is subject to counterparty risk and credit risk, but because lending is automated through the DeFi protocol, rather than individual decisions made by a portfolio manager on behalf of a Fund, such risks may be exacerbated, particularly if there are flaws in DeFi protocol's code or operation. DeFi applications may involve regulated financial products or regulated activities, however because of their decentralized nature, there is generally no entity subject to regulatory supervision. Accordingly, DeFi applications may be subject to more risks than engaging in similar activities through regulated financial intermediaries. In addition, in certain decentralized protocols, it may be difficult or impossible to verify the identity of a transaction counterparty necessary to comply with any applicable anti-money laundering, countering the financing of terrorism, or sanctions regulations or controls. All of these risks could cause the value of DeFi tokens held by a Fund to decline, including to zero.

IMPORTANT DISCLOSURES

1) Source: Galaxy Digital Research
2) Source: [A16z State of Crypto report](), 2022
3) Source: Thomas Franck. “One in Five Adults Has Invested in, Traded or Used Cryptocurrency, NBC News Poll Shows.”, CNBC, CNBC, 31 Mar. 2022

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