Galaxy Funds

# Why Bitcoin Now?

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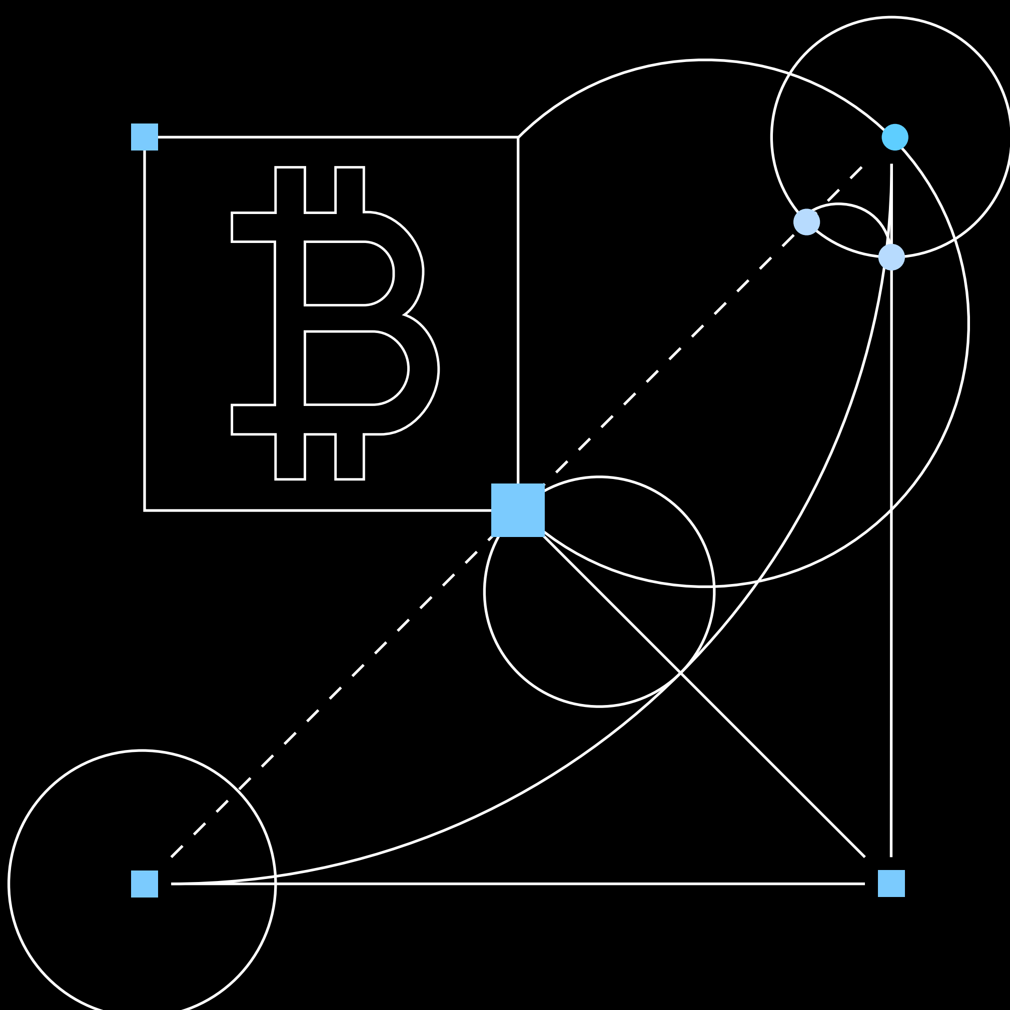

# Why Bitcoin Now?

Bitcoin has transformed from a relatively obscure digital currency into a globally recognized institutional asset. Since its inception over 13 years ago, the institutional infrastructure, awareness, and adoption of bitcoin have improved. Last year, Bitcoin eclipsed $3 trillion in payment transaction volume, surpassing Discover and American Express.[1] Today, bitcoin stands as a legitimate macro asset. Bitcoin has cemented its use case as digital gold. To that end, in November 2021, Bitcoin underwent the Taproot upgrade to revamp transaction efficiency, privacy, and support smart contracts initiatives. Despite the volatility reflected in bitcoin's current price level, when compared to other traditional assets, we believe bitcoin still has plenty of room to expand. Compared to gold's ~$11.2T market cap,[2] or the US stock market's ~$53T market cap,[3] bitcoin's ~$875B market cap seems relatively small, and its upside can therefore be quite large.[4]

We are in one of the most active periods on record for crypto. New all-time highs in asset prices, user adoption, and trading activity are occurring, cementing a role for digital assets in mainstream fintech. And while crypto saw continued price volatility across 2021 – total market capitalization beginning the year at $783 billion, peaking at $3 trillion in November, and ending the period at $2.3 trillion – a net gain of 180.9% year to date was registered.[5] There are two trends making bitcoin an increasingly compelling offensive and defensive play. First, bitcoin provides investors with upside exposure to digitization. The world is digitizing at a breathtaking pace, and bitcoin is well-positioned to grow alongside that inexorable trend. Second, distrust in institutions continues growing globally. The wealth transfer shift in demographics towards digital-native generations, like Millenials and Gen Z, introduces a new pool of potential investors who seek investment avenues beyond centralized finance and are more willing to adopt digital assets. Moreover, bitcoin's fixed supply – there will only ever be 21 million bitcoin – stands in sharp contrast to the Federal Reserve's rampant money printing. The halving event in May 2020 (the next projected halving is May 2024) lowered the coin's annual inflation rate from 3.6% to 1.8%, while the 2021 US deficit is estimated to have exceeded $3T, 13% of GDP.[6,7]

Beneath this macroeconomic overlay lies a regulatory foundation representing another accelerant for bitcoin's adoption and growth. In 2017, the US Commodity Futures Trading Commission (CFTC) approved platforms like the Chicago Mercantile Exchange (CME) and the CBOE Futures Exchange (CFE) to trade bitcoin futures. In mid-2018, the Securities and Exchange Commission (SEC) staff clarified bitcoin's status as a non-security — a critical assessment as the debate around cryptocurrency regulation often focused on coins' status as securities. In 2021, we saw even more signs of regulatory adoption happening worldwide. In September 2021, The Republic of Panama introduced a bill regulating cryptocurrency, and El Salvador made bitcoin legal tender. In Q4 of 2021, the Miami mayor and the New York mayor announced plans to accept paychecks entirely in bitcoin. Last October, the SEC approved the first U.S. based bitcoin futures ETF.[8] Since then, a total of six Bitcoin ETFs have been approved for trading. Most recently, at the beginning of March 2022, President Biden signed an Executive Order outlining the first ever, whole-of-government approach to harnessing the potential benefits of digital assets and their underlying technology. These regulatory developments strengthen bitcoin as an investable asset.

Institutional infrastructure continues developing in tandem with regulatory advancements. In December 2021, Visa launched a multinational crypto advisory service for banking clients and merchants to assist clients and partners with crypto.[9] At the beginning of March 2022, the Chicago Mercantile Exchange (CME) announced plans to launch micro bitcoin and ether options, opening the crypto derivatives market to smaller investors.[10] Galaxy itself has played a role in crypto's institutional infrastructure build; in partnership with Bloomberg, we launched the Bloomberg Galaxy Crypto Index (BGCI) in 2018 to improve data integrity and standardization among digital assets. In May 2021, the S&P Dow Jones launched indices to measure the performance of digital assets. These infrastructure improvements have, in turn, established the rails for institutional quality products like our Galaxy Crypto Index Fund and Galaxy Bitcoin Funds, a key reason our funds received a positive operational due diligence score from a prominent global investment consultant.

1) NYDIG Research, 2022.
2) As of 12/15/21.
3) Google Finance, as of 12/31/21.
4) Coinmarketcap.com, 12/31/21.
5) CoinGecko.com, February 2022.
6) Per the Committee for a Responsible Federal Budget, the fiscal 2021 US deficit is estimated to exceed $3T, 15.6% of GDP.
7) US Bureau of Economic Analysis, January 2022.
8) SEC, October 2021.
9) Visa, December 2021.
10) CME Group, March 2022.

Bitcoin's macro landscape, regulatory foundation, and institutional infrastructure have already caught investors' attention. It's clear that bitcoin has morphed from an early adoption phase into a rapid growth phase. We're seeing bitcoin adoption levels increase across multiple investor categories, all of which had previously avoided crypto: traditional hedge funds, family offices, institutional allocators, and wealth channels. In a letter to investors, macro expert Paul Tudor Jones compared bitcoin's role in a portfolio today to that of gold in the 1970s. He also bet that bitcoin would be the best-performing hedge against the current Great Monetary Inflation and subsequently disclosed a portfolio allocation of "1% to 2%" towards bitcoin as protection against the potential decline of the U.S. dollar.[11] The Tudor news means the proverbial Rubicon crossing for bitcoin is behind us, and the asset can now be considered another inflation-fighting tool for hedge funds. Following in Tudor's footsteps, Ray Dalio, financial thought leader and founder of Bridgewater, the world's largest hedge fund, penned his thoughts on bitcoin, claiming: "I believe bitcoin is one hell of an invention." And Stanley Druckenmiller, arguably the world's best macro investor, announced his bitcoin position on CNBC. We expect other hedge funds to follow in these footsteps.

Traditional wealth managers are also waking up to the potential benefits of bitcoin. Sixty percent of advisors now indicate that they are likely to allocate bitcoin to client portfolios within the next 12 months. Morgan Stanley is the first big U.S. bank to offer access to bitcoin funds to wealth management clients on its platform and many other platforms are following suit. Institutional advisors respond to increased end-client interest; 56% claim their perception of bitcoin is more positive over the past six months (13% more positive than RIA Channel surveys conducted in July).[12] On the consumer side, Visa Inc. allows the use of USD Coin (USDC) to settle transactions on its payment network.[13] PayPal has integrated bitcoin transactions for its 426 million users.[14] In addition, Tesla, MicroStrategy, and Square all hold strong allotments of bitcoin on their balance sheets.

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We are not surprised that heightened interest in bitcoin across all investor types coincides with the broad acceleration of digitization. Mastercard has enabled digital asset purchases through its partnership with Bakkt and announced plans to help central banks explore the development of a central bank digital currency (CBDC).[15] Apple Pay receives support from Bitpay's digital asset card payment system and Apple intends to roll out a new iPhone feature allowing merchants to accept crypto payments.[16] We believe in a future in which digital money (USD, China's digital yuan), digital payments, and digital stores of value (bitcoin) exist side-by-side. Each of these projects will require sustained investment in digital payment rails and infrastructure, a reality offering material support to bitcoin as a digital store of value thesis. Bitcoin's future is bright, and now is the time to start incorporating it into portfolios.

11) Paul Tudor Jones' Investment Letter, May 2020.
12) RIA Channel surveys, December 2021.
13) Reuters, March 2021.
14) Paypal, September 2021.
15) Mastercard, October 2021.
16) Apple.com, February 2022.

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# 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. The Fund will invest 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 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. For example, during the period from December 17, 2017 to February 5, 2018, Bitcoin experienced a decline of roughly 60%. 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.

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