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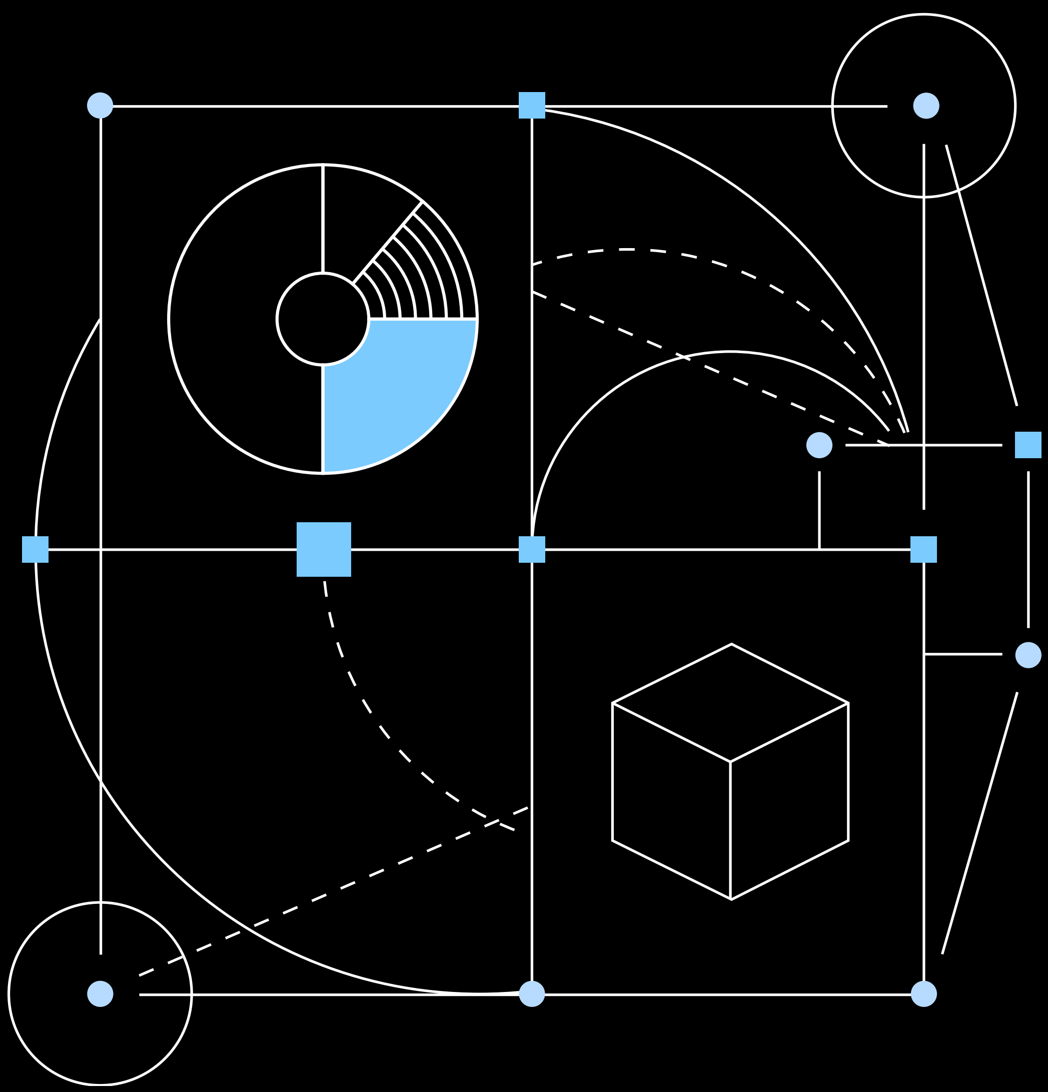
Galaxy Funds

Digital Assets Diversified

APRIL 2022



The world is rapidly digitizing, and blockchain is playing a critical role in this global transformation. For those interested in capitalizing on this trend, invest in the digital asset class and get diversified exposure to the major categories of blockchain technology.

Investing in index products has historically provided investors opportunities to capture the upside of new asset classes without having to pick “winners.” Investing in this new asset class is no different. Our index products allow investors to broadly participate in the overall trend of digitization through diversified exposure to digital assets.

What are digital assets?

In the mid-1990s, “digital assets” originated as a term encompassing items such as audio, video, images, and documentation. In the decades since, technological advancements have expanded the term’s use to cover a broader range of items. One particular technology, blockchain, evolved its use to include bitcoin and other digital assets across three main thematic categories: digital store of value assets, decentralized internet or “Web3” assets, and digitized payment assets.

To understand digital assets as a new investable asset class, it is essential first to understand blockchain technology basics. Blockchains can best be described as computing platforms or software that operate according to preset rules and are not controlled by any one party. Instead, a network of participants controls blockchains collectively. This is achieved via an incentive mechanism—an underlying native digital asset (e.g., a coin or token) unique to each blockchain—that incentivizes all network members to protect the respective ledger’s contents and support the network’s purpose. As more users join or interact with a given blockchain network, demand for that specific network’s underlying coin or token rises.

Bitcoin is the first widespread application of blockchain technology, and its native digital asset, bitcoin with a lowercase “b,” has become a global digital store of value akin to gold. But bitcoin is just one of the many emerging types of native digital assets enabled by blockchain technology.

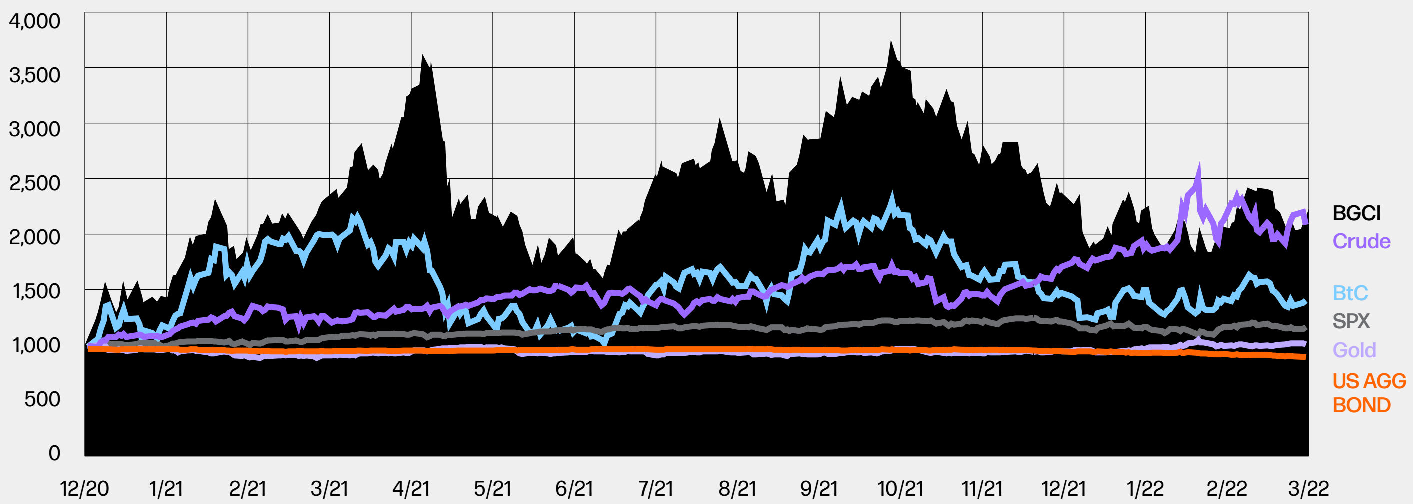
Why digital assets matter

Historically, society has sought the time-tested reliability of gold as a safe, durable store of value. Investors look to gold in times of market stress to preserve wealth and protect against inflation in the financial system. Gold has also played a central role in physical trade for thousands of years, but we now live in a digital world.

Bitcoin shares many of the same attractive properties of gold that have made it a great store of value for centuries. We see Bitcoin as an emergent store of value. In today's market, it's largely a risk asset, but it should trade similarly to non-fiat stores of value like gold in a steady state. Both gold and bitcoin are borderless and have no centralized power or government that controls their supply. Both are globally recognized, easily verifiable, and have limited supplies.

Yet, bitcoin has modernized and improved properties that position it as an attractive alternative to gold. Unlike gold, bitcoin is easily divisible into smaller units. While gold requires large and expensive storage facilities and is extremely difficult to physically transport, bitcoin does not require high storage costs and is weightless. Bitcoin can travel across borders in the same frictionless way that information is shared across the internet.

Bloomberg Galaxy Crypto Index returns



Source: Bloomberg, as of March 2022

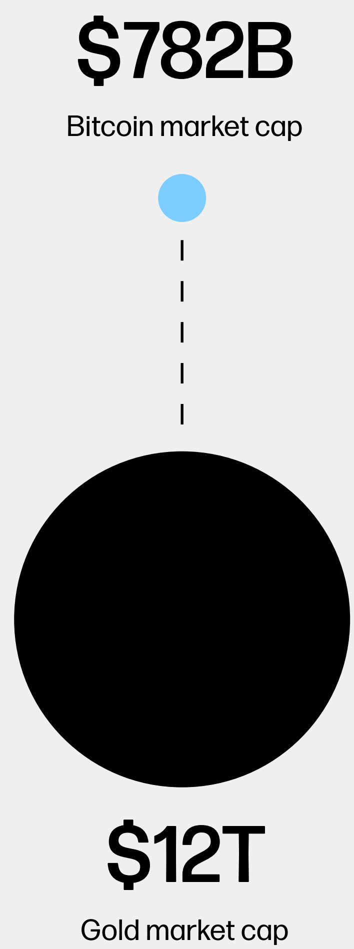
Digital store of value assets

Historically, society has sought the time-tested reliability of gold as a safe, durable store of value. Investors look to gold in times of market stress as a “flight to safety” to preserve wealth. Bitcoin shares many of the same attractive properties of gold that have made it a great store of value for centuries. Yet, bitcoin has modernized and improved properties that position it as an attractive complement to gold in a digital world.

Originally conceived as a peer-to-peer electronic cash for the internet, bitcoin has become a next-generation store of value resistant to political censorship or interference, governed by the mathematical principles of its open source code. Built on a long history of technological advancements in computer science, cryptography, and digital scarcity, bitcoin’s disinflationary nature is designed to facilitate trust through peer-to-peer transactions without a centralized intermediary in a highly secure and transparent way. 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 three major investor categories, two of which have largely avoided crypto to date: traditional hedge funds and wealth channels. Tesla, MicroStrategy, and Square all hold strong allotments of bitcoin on their balance sheet and other Fortune 500 companies have entered the crypto space, including Microsoft, Walmart, and IBM. Paypal has integrated bitcoin transactions for its 426 million users.[1] On the consumer side, Mastercard and Visa Inc allow USD Coin (USDC) to settle transactions on their payment networks.[2]

Two potential upsides to bitcoin allocation are the macro hedge against economic uncertainty and its value as a growth asset. Gold’s market capitalization is currently over $12T. Bitcoin’s value, on the other hand, has passed $782B, just under 7% of the gold market.[3] That presents a potential greater than 15x market expansion opportunity if bitcoin grows to gold’s level as an alternative, digital store of value asset.

15X market expansion opportunity as a digital store of value



1) Source: Paypal, September 2021
2) Source: Circle, July 2021
3) Source: 8marketcap.com, April 2022

Decentralized Internet or "Web3" Assets

The current internet infrastructure (known as Web 2.0) resulted mainly from the explosive growth of smartphones. That quickly led to increased demand for mobile computing by the centralized applications built on top of mobile operating systems. Most successful Web 2.0 companies are merely applications with pleasant user interfaces atop databases that aggregate vast amounts of user data and benefit from sharing and selling this data to undisclosed third parties.

The Ethereum blockchain launched in 2015 as a technology that builds on bitcoin's innovation, with some key differences. Bitcoin and Ethereum's blockchains allow users to transact digital value without payment providers or banks. But Ethereum's general programmability goes far beyond the Bitcoin blockchain's simple balance transfers. Ethereum is the world's first programmable blockchain, which is to say all value is programmable. "Smart contracts" implement if/then logic into assets themselves; they are like computer programs running on the blockchain that can execute automatically when certain conditions are met. Ethereum introduces this into every asset, and in doing so, it significantly expands the world's choices for interacting with money.

Web3 improves upon this legacy system by enabling the self-sovereign ownership of individual user data and reconstructing the base layer's rules to make things more open and decentralized. Building from the ground up, these new digital asset protocols create a more efficient operating system for the next iteration of the internet. Web3 is paving the road for the enormous transformation that is decentralized finance (DeFi). Ethereum (ETH) is a foundational tech stack for Web3 and the primary investable digital asset enabling the early success of DeFi.

The rise of DeFi has been in the making for some time. At the start of 2020, the entire DeFi industry was worth just $1B. As of April 2022, the total locked value in DeFi was over $77B.[4]

You'll often hear DeFi apps built on the Ethereum blockchain referred to as "killer apps." In order to be a "killer app," the app must be both disruptive and widely adopted. DeFi protocols and applications utilize Ethereum's "smart contracts." They're powered by native digital assets as built-in incentive mechanisms. These digital assets have been increasingly attracting attention since DeFi's explosion in mid-2020, with some touting market caps that rival those of fast-growing tech startups.

The ethos of DeFi has far-reaching and revolutionary implications. DeFi is actively innovating to rebuild the current financial infrastructure in a way that is not only faster and more cost-efficient but also fully transparent. Growing market leaders in DeFi amplify the open alternatives to traditional financial services possible on Ethereum's blockchain. This is a future where transaction settlement is not only instant but openly verifiable and one in which counterparty risk no longer exists. DeFi is the future of global finance. And sophisticated investors see DeFi as the next frontier to disrupt and expand the possibilities of digital currency.

4) Source: Defipulse.com, as of April 18, 2022

Digitized payment assets

Growing awareness of digital assets has changed how many people think about money and helps accelerate their use as forms of digital payment. While people in the United States still primarily purchase goods and services with credit cards and cash, in China, payments are now dominated by WeChat Pay and AliPay QR readers, with over $17T in digital payment transactions in 2021 alone.[5] Across the world, cash is slowly getting phased out for more virtual forms of money that can be stored online in the form of a digital wallet or token.

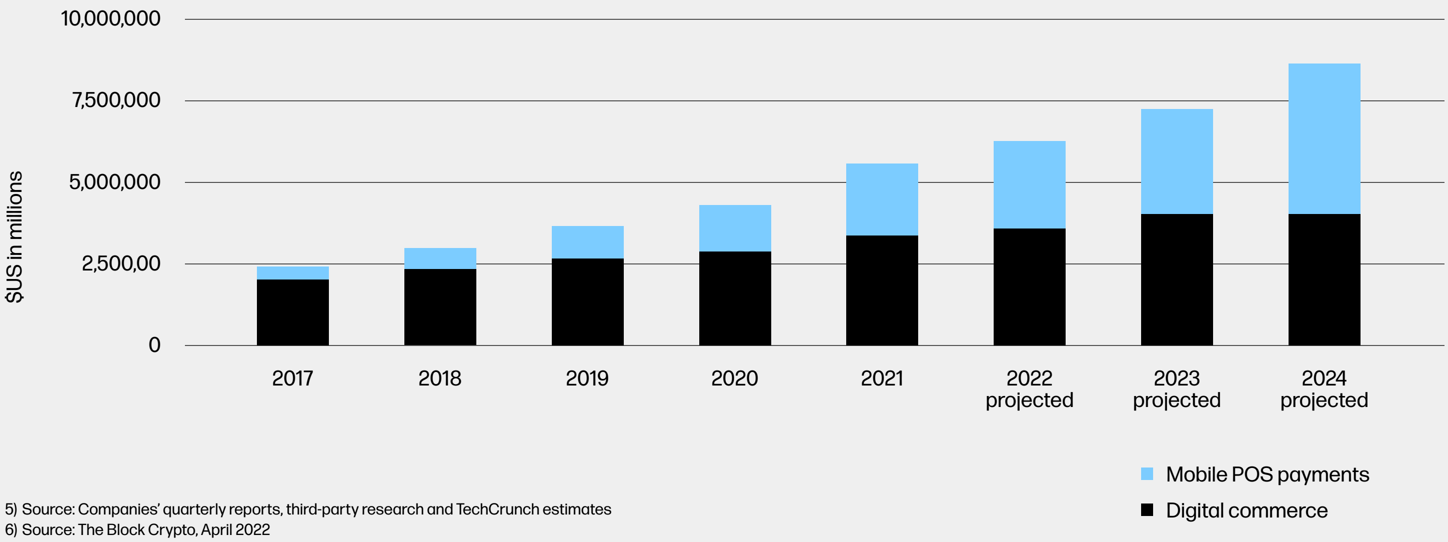
The idea that alternative means of global value exchange are now possible via digital tokens has led to increased innovation and competing platforms. Mastercard has enabled digital asset purchases. Apple Pay receives support from Bitpay's digital asset card payment system and Apple intends to roll out a new iPhone feature allowing merchants to accept crypto payments.

At the start of 2021, roughly $29B in stablecoins had been issued, By the end of 2021, the total stablecoin supply has increased more than fourfold to over $163B.[6] We believe in a future in which digital money, digital payments, and digital stores of value 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. These types of novel digital payment tokens and mediums of exchange are a solution to the friction in legacy global payment rails.

Public blockchain networks' ability to settle immense value across borders 24/7 is unprecedented in the history of money, positioning these technologies to look much more attractive relative to legacy financial infrastructure. Stablecoins have drawn attention recently for several reasons, including the possibilities of many countries developing their own central bank digital currencies (CBDC), hawkish language from regulators and policymakers, and increased transparency from issuers in the face of criticism. TerraUSD, an algorithmic stablecoin, plans to be backed by at least $10B worth of bitcoin, among other assets.[7]

Exposure to this expanding category of digital assets allows investors to achieve potential returns from the disruption of the legacy global payments infrastructure and the transition to digital payment solutions of the future.

The total transaction value in digital payments is steadily increasing[8,9]



5) Source: Companies' quarterly reports, third-party research and TechCrunch estimates
6) Source: The Block Crypto, April 2022
7) Source: Founder & CEO of Terraform Labs, March 14, 2022
8) Source: Statista: Digital Payments Worldwide
9) Source: Square company filings.

Comparing the two largest digital assets

	Bitcoin (BTC)	Ethereum (ETH)
ROLE IN THE PORTFOLIO	▪ Hard asset similar to gold (but with many improved properties)	▪ Growth asset, like a venture investment ▪ Investing in ETH is like investing in the future of the internet
MARKET CAPITALIZATION	$782B[10]	$375B[10]
ADOPTION CYCLE	▪ Finished product with track record of outperforming traditional assets over one-, five-, and ten-year periods ▪ Increasingly adopted by institutional investors for pensions, endowments, corporate treasuries, etc. ▪ Widely adopted among young retail investors	▪ Nascent and scaling technology ▪ Decentralized Finance and stablecoin adoption are significant tailwinds ▪ Natural second step for investors with bitcoin exposure
BLOCKCHAIN TECHNOLOGY	▪ The Bitcoin blockchain maintains each user's BTC balance, making bitcoin an excellent non-sovereign store-of-value with unique monetary properties ▪ Security mechanism: proof of work ▪ Only 21 million bitcoin will ever exist, a fixed supply hard-coded into the Bitcoin blockchain; today, around 19 million bitcoin have been mined and the last bitcoin is expected to be mined in 2140	▪ Ethereum takes Bitcoin's blockchain technology further; on Ethereum, all value is programmable, also known as "general programmability" ▪ Security mechanism: proof of work, transitioning to proof of stake ▪ Upon inception, 72 million ETH were created and distributed in an initial crowdsale; to control the rate of new supply issuance, Ethereum's disinflationary mechanism caps supply at an additional 16 million ETH per year
ALLOCATION SIZING	▪ Per Modern Portfolio Theory, Sharpe optimizes around a 10% allocation with the strongest marginal improvement occurring in the 1%-2% range[11]	▪ If you conceptualize ETH as analogous to an index of high-growth technology stocks, you might consider sizing it accordingly

10) Source: CoinMarketCap, as of April 13, 2022
11) Source: Galaxy Digital Research, as of June 30, 2021

Digital assets tomorrow

Digitization is accelerating rapidly, and digital assets enable investors to participate in different areas of this technological progress. It is tough to predict what the digital world of the future may look like, and no one can say with absolute certainty which investments or assets will emerge victoriously. Bitcoin has a significant head start as the leading global store of value alternative to gold. Ethereum asserts dominance across the asset class, fueling the expanding world of decentralized finance (DeFi), which we see gaining quick traction and interest among investors.

Billions of dollars of investments have been made in the last few years to support the industry's growth and provide institutional investors the tools and opportunity to invest, trade, and instantly transact with billions of dollars in daily liquidity. From Goldman Sachs and Tudor Investments to IBM and Morgan Stanley, major financial institutions have made and continue to make sizable investments in the industry. As mainstream awareness and participation continue to grow, we expect this increased demand to create a strong tailwind for digital assets as an asset class. A basket of digital assets could be attractive for investors seeking to achieve proper diversification and broad exposure to key growth themes in the space.

We are entering a time when instant transaction settlement is openly verifiable and see a future where counterparty risk no longer exists. Web3 expedites operating systems, delivering self-sovereign ownership of individual user data, decentralizing the reliance on early foundations of the internet. Ethereum, the basis of Web3, rises as the primary investable digital asset enabling the early success of DeFi, while bitcoin strengthens its utility as a long-term store of value. Bitcoin's modernized properties, resistant to political interference, position the asset onto center stage, right beside gold, as an attractive store of value. And a variety of digitized payment assets offer users cost- and time-efficient routes for everyday personal and business digital transactions on blockchains. Digital assets are the future of global finance. The disruptions and market expansion creating this new digital frontier are happening now.

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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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Hedge funds and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency to investors of information as to share price, valuation, and portfolio holdings. Complex tax structures often result in delayed tax reporting and potentially materially different returns for offshore versus onshore investors. Compared to mutual funds, alternative investments are subject to less regulation and often charge higher fees.

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