Bitcoin Brief

HIGHLIGHTS.

- Crypto and the Infrastructure Bill
- Gensler and Bitcoin Futures Funds
- Bitcoin Futures Mutual Funds vs. ETFs

MARKET UPDATE

Bitcoin continued its strong price rebound in August and ended the month at $47,296, returning nearly 19%. Bitcoin is up over 62% year-to-date and more than 58% since July 20th, the low price during this most recent drawdown. While it still has some ground to cover to reach the record price of over $63K from back in April, bitcoin's drawdown and subsequent recovery have been characteristically swift.

Investors seemingly brushed off crypto reporting requirements in the $1 trillion infrastructure bill passed by the Senate and comments from SEC Chairman Gary Gensler at the Aspen Security Forum. Specifically, Gensler called out concerns related to tokens that are securities (not bitcoin), crypto trading and lending platforms.

Despite the focus in Washington, investor sentiment continues to be quite strong. A new report from crypto.com estimates that the number of users that have ever owned bitcoin hit 114M at the end of June, more than double the 54M users measured at the end of December. While a precise measure of bitcoin users has always been a challenge, growing adoption of an asset that has a pre-programmed, fixed supply continues to attract the attention of the most discerning institutional investors.

MARKET STATS.

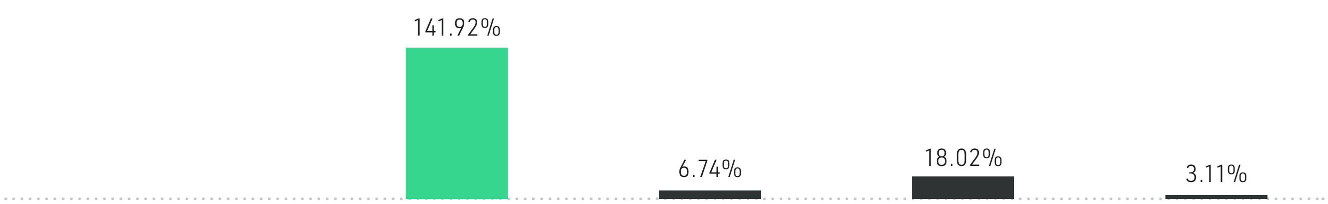
As of 8/31/21

BTC Price	$47,296
BTC Market Cap	$890B
% of BTC Total Supply in Circulation	90%
3M Average Daily Bitcoin Transactions	~226K

NOTEWORTHY HEADLINES.

- SIMON and NYDIG Partner to Deliver Bitcoin Education and Investments
- Wells Fargo Launches Passive Bitcoin Fund for Wealthy Clients
- JPMorgan Launches In-House Bitcoin Fund for Private Bank Clients
- 76% of Respondents Think Crypto Will Rival or Replace Fiat in 5-10 Years
- MassMutual and NYDIG Team Up for a New Partnership

5-YEAR ANNUALIZED RETURNS



	Bitcoin	Gold	S&P 500	Barc Agg
5 Yr Sharpe Ratio	1.42	0.47	1.12	0.62

CRYPTO AND THE INFRASTRUCTURE BILL

The infrastructure bill was a galvanizing moment for the crypto industry, and the engagement of key Senators on the topic of digital assets further legitimizes bitcoin. The bill forced important dialogue on this rapidly expanding ecosystem, on the floor of the U.S. Senate for that matter, and it demonstrated that the federal government is not looking to eliminate digital assets, but rather seeks to promote regulation, investor protections, and tax compliance.

The legislation includes language requiring 1099 reporting by crypto industry "brokers," which is defined as anyone "responsible for regularly providing any service effectuating transfers of digital assets on behalf of another person." Bitcoin miners, software developers, and wallet providers may inadvertently fall under this definition despite not engaging in these activities or even having access to the required reporting data. While industry participants impressively came together to lobby for changes to the language, proposed amendments failed to pass given the lack of unanimous support required.

The provision, which would become law in 2023, may be adjusted as the bill makes its way through the House or the U.S. Treasury Department may find that implementing said requirement is too onerous. Nonetheless, the provision and the associated response from legislators signals that bitcoin is here to stay.

GENSLER AND BITCOIN FUTURES FUNDS

At the Aspen Security Forum, Chairman Gensler indicated a preference for bitcoin futures mutual funds and ETFs over other crypto investment vehicles given they can be registered under the Investment Company Act ('40 Act). Many market participants believe this confirms that a spot bitcoin ETF, which would be registered under the Securities Act of 1933, may not be available to U.S. investors in the near to medium term. This may delay the ability for holders of Grantor Trusts that trade over-the-counter, like GBTC, to convert their holdings into a spot bitcoin ETF.

Holders of OTC Grantor Trusts are anxious to convert their Trust shares into ETF shares due to the benefits of more efficient trading (e.g., tighter premiums/discounts to net asset value) and lower fees.[1] But the timeline for this unprecedented conversion from an OTC Grantor Trust to an ETF appears to have been prolonged by Gensler's comments. In short, when combined with other federal securities laws, '40 Act funds provide significant investor protections, and Gensler said that he looked "forward to the staff's review" of '40 Act funds that own CME-traded bitcoin futures. In turn, at least seven bitcoin futures ETFs were filed with the SEC this month.

With spot bitcoin ETFs likely not on the near-term horizon, investors in OTC Grantor Trusts may want to explore alternative options. Time is of the essence, as GBTC, the largest such Trust, has underperformed spot bitcoin by over 120% over the last year.

BITCOIN FUTURES MUTUAL FUNDS VS. ETFS

Investors may begin looking more closely at bitcoin futures mutual funds (which are available today) and ETFs (which may be available in the future) given spot bitcoin ETFs appear a ways off from being an implementation option. As such, structural differences between the two warrant a closer look.

For example, a mutual fund structure is better suited to deal with the issue of capacity constraints that is encountered by all futures funds. The CME currently imposes a limit of 2,000 bitcoin futures contracts for the most liquid front month futures[2] which, if bitcoin were priced at $50K for example, may limit a single fund to $500M in notional exposure. Managers of mutual funds can easily limit investors and suspend subscriptions when the fund approaches the CME contract limit. However, suspending ETF share creations (aka subscriptions) when an ETF approaches the limit is not as easy. Furthermore, if ETF managers want to extend capacity, they may choose to use other instruments for bitcoin exposure (e.g., ETPs, OTC Grantor Trusts) which may compound the tracking error to spot bitcoin on top of the costs of rolling futures. Perhaps most importantly, if ETF creations were to be halted, trading in the secondary market could continue unabated. In such a scenario, the ETF may trade at a significant premium to net asset value (NAV), potentially eroding performance. Investors who want bitcoin exposure through futures in a commingled vehicle may be better served in a mutual fund over an ETF.

PERFORMANCE

	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	18.55%	32.09%	62.05%	303.28%	88.89%	141.92%
Gold	-0.03%	-4.89%	-4.46%	-7.84%	14.72%	6.74%
S&P 500	3.04%	7.95%	21.58%	31.17%	18.07%	18.02%
Barclays Agg	-0.19%	1.63%	-0.69%	-0.08%	5.43%	3.11%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	88.8%	1.42	-
Gold	13.3%	0.47	0.10
S&P 500	15.0%	1.12	0.23
Barclays Agg	3.3%	0.62	0.14

NYDIG, Bloomberg, last available data as of 8/31/21. All prices are 4:00 ET prices. Barclays Agg represents the Bloomberg Barclays US Aggregate Total Return Bond Index. Bitcoin returns based on month-end 4pm prices. Monthly bitcoin prices prior to October 2018 are based on Coinbase 4pm pricing. In October 2018, NYDIG began generating bitcoin prices in accordance with NYDIG Asset Management's valuation policy for its bitcoin funds. The monthly bitcoin prices used after October 2018 reflect 4pm prices determined in accordance with such valuation policy, which is the same valuation policy that is used for NYDIG's funds. As there are two different pricing sources for bitcoin reflected, the historical performance of bitcoin shown may be different if the bitcoin prices in accordance with NYDIG Asset Management's valuation policy were used for the entire period or if the Coinbase pricing were used for the entire period. Performance data quoted represents past performance of bitcoin. Past performance of bitcoin is not indicative of future results. Bitcoin has historically exhibited high price volatility relative to more traditional asset classes. The value of an investment in bitcoin or the funds could decline rapidly, including to zero.

[1]https://grayscaleinvest.medium.com/grayscales-intentions-for-a-bitcoin-etf-b11e4faf4c05
[2]One bitcoin futures contract corresponds to five bitcoin. While fund managers may gain futures exposure outside the front month, liquidity is concentrated in the front month and the CME imposes an additional limit of 10,000 lots for both futures and options across all months combined.