

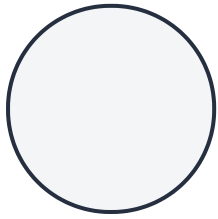
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Home > Crypto Strategy > CRYPTO SPECIAL REPORT – Bitwise: Leading Crypto Index Funds &

Crypto Strategy

# CRYPTO SPECIAL REPORT – Bitwise: Leading Crypto Index Funds & New Alpha Opportunity

August 21, 2020



David Grider

LEAD DIGITAL ASSET  
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**Bitwise Asset Management, Inc.** ("Bitwise" or "Company") is a San Francisco-based specialist asset manager founded in 2017. The Company pioneered the first and largest cryptocurrency index fund and is a rising-star provider of liquid, low-cost crypto funds. Bitwise is moving to have its flagship Bitwise 10 Crypto Index Fund and Bitwise Bitcoin Fund publicly tradable. Comparable products have traded at sustained premiums to fund Net Asset Value (NAV) ranging from 40% to 200%, with maximums as high as 2,000%. If listed, we believe Bitwise's products could justify trading with premiums corresponding to comps, creating a new potential alpha opportunity for funds & accredited investors. This report outlines approaches for capitalizing on such an opportunity (Slide 30).

- **Bitwise's professional organization resembles The Vanguard of crypto.** Bitwise has a strong team (Slide 8) managing a professionalized firm (Slide 3) that's well capitalized with backing from leading VCs (Slide 9). The Company's cutting-edge research (Slide 11) has allowed it to pioneer a robust index methodology (Slide 17) and best-in-class

smart beta funds (Slide 5). Bitwise has institutional-grade operations (Slide 4), industry-leading service providers (Slide 10) and an ongoing dialogue with top regulators (Slide 6). These factors offer signs that point to industry leadership and should instill investors' trust in the firm.


- **Funds are attractive passive vehicles for convenient, long-term exposure.** Bitwise 10 Crypto Index Fund (Slide 21), Bitwise Bitcoin Fund (Slide 26) and Bitwise Ethereum Fund (Slide 39) offer compelling ways to capture the long-term growth of crypto assets as a category. The funds charge no performance fee and have all in expense ratios below comparable crypto products (Slide 40). We believe low-cost beta products deserve a core place in investors portfolios (Slide 7) and see Bitwise as a leading solution for professionally managed, audited, custodial-insured crypto exposure via a traditional vehicle.
- **Bitwise 10 Crypto Index Fund offers smart beta exposure to large cap crypto winners.** Selecting the top performing assets or active fund managers is challenging. Bitwise 10 Crypto Index Fund offers market cap weighted passive exposure to ~80% of the market. A robust rules-based monthly rebalancing methodology provides exposure to large cap assets outperforming Bitcoin (Slide 18) while the index has outperformed the EurekaHedge Crypto Hedge Fund Index by 350% since inception (Slide 16).
- **Publicly listing Bitwise shares would open the door for retail and financial advisors.** Investors in the US have limited means for gaining convenient crypto exposure due to structural constraints (Slide 28). Bitwise is pursuing approval to have shares of its Bitwise 10 Crypto Index and Bitwise Bitcoin Fund publicly quoted and tradable in traditional brokerage accounts (Schwab, E\*TRADE, etc.) via OTCQX (Slide 42).
- **Shares have potential to trade at NAV premiums corresponding to GBTC and ETHE.** Bitwise's listed funds most comparable products would likely be GBTC & ETHE due to similar structures and ~90% – 100% underlying asset overlap. GBTC & ETHE have NAV premiums that currently sit at 24% and 102%, respectively, while both have sizable market caps and trading volume that evidence real demand (Slide 29). Listed Bitwise funds could trade at corresponding premiums.
- **Multiple Bitwise alpha strategies exist for hedge funds and accredited investors.** Investors could capitalize on a possible premium by purchasing Bitwise funds' shares in a private placement at NAV and selling them on the open market once tradable. We illustrate a range of hypothetical opportunistic, long-term, and crypto-hedged trade scenarios (Slide 31, Slide 32, Slide 33).
- ***What could go wrong?*** Listing approval delays or failure. Lack of secondary market liquidity. Negative or lower than expected NAV premiums. Actual returns may differ from our simplified hypothetical model. Crypto volatility. Hedging basis (Slide 34)

**Bottom line: Bitwise has an industry leading team and organization. Professionally managed passive products like Bitwise's have a core place in a portfolio. Bitwise 10 Crypto Index Fund offers a differentiated and attractive solution. Plans to list Bitwise**

funds create an opportunity for traders and hedge funds. Bitwise funds have NAV premium alpha potential.

Key slides from this report...

Bitwise: Leading Crypto Index Funds & New Alpha Opportunity (Slide 1)...



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# Bitwise

August 20<sup>th</sup>, 2020

## Bitwise

Digital Assets Research  
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### Bitwise TL;DR

- Bitwise is the Vanguard of low-cost, passive, crypto indexing
- Funds offer an attractive long-term crypto exposure solution
- Bitwise 10 Crypto Index Fund is a leading smart beta product
- Publicly listing the Bitwise 10 Crypto Index Fund & Bitwise Bitcoin Fund for mass access
- NAV premium potential offers investors an alpha opportunity
- Risks: Listing or premium fail to materialize, illiquidity, volatility

### Key Statistics

Fund Performance	1M	YTD	12M
Bitwise 10 Index Fund	28.6%	63.7%	10.3%
Bitwise Bitcoin Fund	23.8%	57.0%	11.5%
Bitwise Ethereum Fund	52.6%	166.4%	60.0%

Note: Performance as of 7/31/2020

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## Bitwise: Leading Crypto Index Funds & New Alpha Opportunity

Bitwise Asset Management, Inc. ("Bitwise" or "Company") is a San Francisco-based specialist asset manager founded in 2017. The Company pioneered the first and largest cryptocurrency index fund and is a rising-star provider of liquid, low-cost crypto funds. Bitwise is moving to have its flagship Bitwise 10 Crypto Index Fund and Bitwise Bitcoin Fund publicly tradable. Comparable products have traded at sustained premiums to fund Net Asset Value (NAV) ranging from 40% to 200%, with maximums as high as 2,000%. If listed, we believe Bitwise's products could justify trading with premiums corresponding to comps, creating a new potential alpha opportunity for funds & accredited investors. This report outlines approaches for capitalizing on such an opportunity ([Slide 30](#)).

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Bottom line: Bitwise has an industry leading team and organization. Professionally managed passive products like Bitwise's have a core place in a portfolio. Bitwise 10 Crypto Index Fund offers a differentiated and attractive solution. Plans to list Bitwise funds create an opportunity for traders and hedge funds. Bitwise funds have NAV premium alpha potential.

Offering cutting-edge investable products, indices and research (Slide 5)...

	 <b>Investable Products</b>	 <b>Crypto Indices</b>	 <b>Research &amp; Education</b>
<b>Products/Services</b>	<b>Bitwise 10 Crypto Index Fund</b> <ul style="list-style-type: none"> <li>Invests in Bitwise 10 Large Cap Index assets</li> </ul> <b>Bitwise Bitcoin Fund</b> <ul style="list-style-type: none"> <li>Invests in Bitcoin (BTC)</li> </ul> <b>Bitwise Ethereum Fund</b> <ul style="list-style-type: none"> <li>Invests in Ethereum (ETH)</li> </ul> <b>Bitwise 10 Index Offshore Fund</b> <ul style="list-style-type: none"> <li>Invests in cryptocurrencies in the Bitwise 10 Large Cap Index; available to non-US or tax-exempt U.S. accredited investors</li> </ul>	<b>Bitwise 10 Large Cap Index (BITX)</b> <ul style="list-style-type: none"> <li>Tracks total return of the 10 largest cryptoassets</li> </ul> <b>Bitwise 20 Mid Cap Index (BITW20)</b> <ul style="list-style-type: none"> <li>Tracks total return of the 20 largest cryptoassets not included in BITX</li> </ul> <b>Bitwise 70 Small Cap Index (BITW70)</b> <ul style="list-style-type: none"> <li>Tracks total return of the 70 largest cryptoassets not included in BITX, and BITW20</li> </ul> <b>Bitwise 100 Total Market Cap Index (BITW100)</b> <ul style="list-style-type: none"> <li>Tracks the total return of the 100 largest cryptoassets</li> </ul>	<b>Cutting Edge Research</b> <ul style="list-style-type: none"> <li>Industry research briefs, market commentary, and benchmark surveys</li> </ul> <b>RIA Dialogue and Education</b> <ul style="list-style-type: none"> <li>Discussion with hundreds of RIAs over the past two years regarding crypto assets</li> </ul> <b>Regulatory Engagement</b> <ul style="list-style-type: none"> <li>Frequent dialogue with SEC regarding Bitcoin and crypto asset ETFs</li> <li><a href="#">Presentation</a> to SEC in 2019 provides unprecedented clarity and insight into crypto market structure</li> </ul>
<b>Key Attributes</b>	<ul style="list-style-type: none"> <li><b>Simplified and secure ways to get exposure</b> to index funds and select crypto assets</li> <li><b>Low-Cost Leader:</b> All-in expense ratios provide transparent product pricing</li> <li><b>Best-in-class trading execution</b> - Counterparties include: <ul style="list-style-type: none"> <li>Genesis <small>A Digital Currency Group Company</small></li> <li>CUMBERLAND <small>A CIBC COMPANY</small></li> <li>Kraken</li> <li>coinbase   Pro</li> </ul> </li> <li><b>World-Class Custody Services</b> - Providers include: <ul style="list-style-type: none"> <li>coinbase   Custody</li> <li>Fidelity <small>DIGITAL ASSETS</small></li> </ul> </li> <li>Intention to quote shares of certain funds on OTCQX creates opportunity for secondary market trading of shares through brokerage accounts</li> </ul>	<ul style="list-style-type: none"> <li>Available for benchmarking and tracking</li> <li>Clear, rules-based crypto asset indices that are investable and replicable</li> <li>Oversight provided by the Bitwise Crypto Index Advisory Board, a panel of industry experts that routinely monitors and refines its <a href="#">index methodology</a> as needed</li> <li>Methodology includes criteria surrounding: <ul style="list-style-type: none"> <li>Crypto asset eligibility <ul style="list-style-type: none"> <li>✓ Sufficient liquidity</li> <li>✓ Regulated custodian support</li> </ul> </li> <li>Exchange eligibility <ul style="list-style-type: none"> <li>✓ Regulatory compliance</li> <li>✓ Sufficient volume; no significant downtime or known security issues</li> </ul> </li> <li>Crypto asset pricing methodology <ul style="list-style-type: none"> <li>✓ Bitwise Crypto asset Price (CAP) methodology</li> <li>✓ Treatment of distributions (hard forks, airdrops, etc..)</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Industry thought leader</b> for Bitcoin and crypto asset ETF <a href="#">research</a></li> <li>Setting new standards for <b>market transparency</b> and investor education through research efforts</li> <li>In constant dialogue with the US Securities and Exchange Commission (SEC) regarding ETF proposals</li> <li>At forefront of educating Registered Investment Advisors (RIAs) on crypto as an asset class</li> <li>Experienced sales organization with decades of experience leading investor outreach efforts and education</li> <li>Appearances on CNBC, Bloomberg and other financial media outlets</li> </ul> 

Source: FSInsight, Bitwise

Bitwise 10 Crypto Index has outperformed many active crypto hedge funds (Slide 16)...



# Bitwise 10 Crypto Index has outperformed many active crypto hedge funds

Investors looking for a way to gain managed exposure to the crypto asset class find themselves choosing between active and passive management solutions. Strong active crypto fund managers exist, but there are hundreds to choose from, and most have short crypto track records, while many have closed their doors. The Bitwise 10 offers a solution to this selection problem.

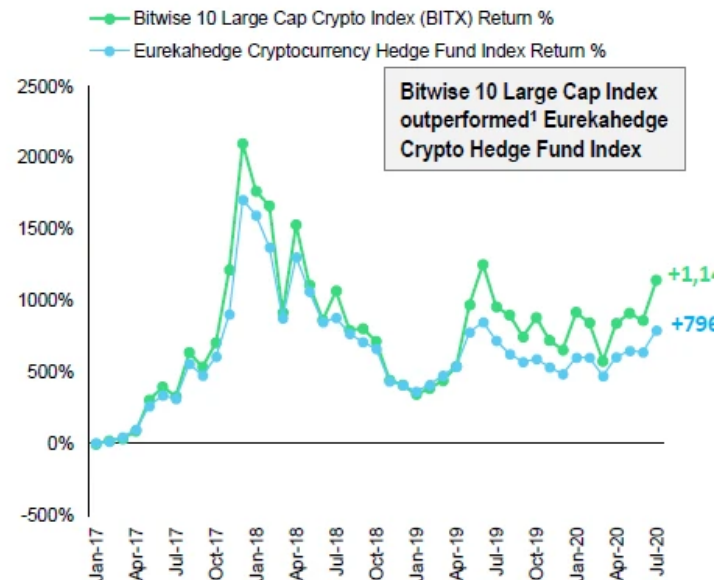
- Bitwise 10 Index outperformed actively managed crypto hedge funds, measured as the Eurekahedge Crypto Hedge Fund Index, by 350% since inception and has outperformed the index for most of its three-and-a-half-year history.

Figure: Bitwise 10 Index vs. Crypto Hedge Funds

*“Fund investors are confident that they can easily select superior fund managers. They are wrong.”*

— John C. Bogle

## Bitwise 10 Index vs. Crypto Hedge Funds



Source: FSInsight, Vanguard. <sup>(1)</sup> Bitwise 10 Large Cap Index return represents hypothetical index returns and does not include fees. Eurekahedge Cryptocurrency Hedge Fund Index performance presented net of all fees.

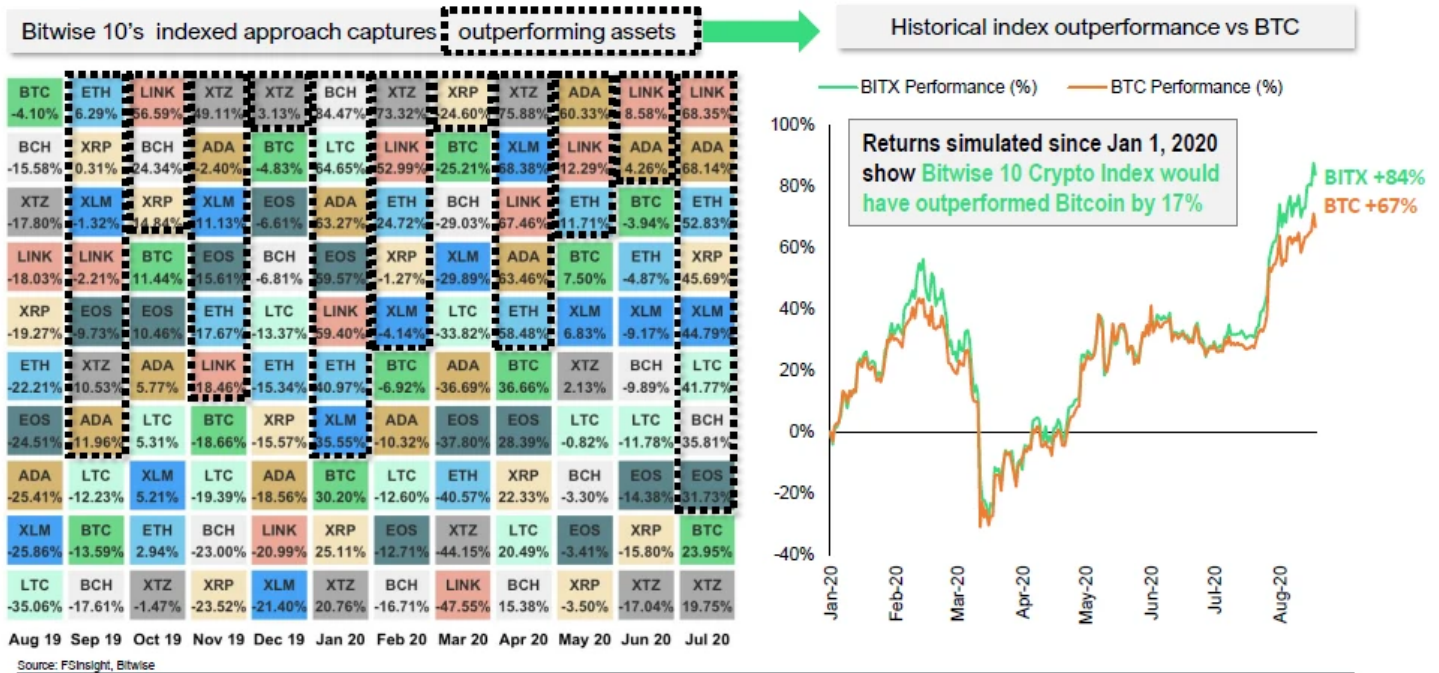
Bitwise 10 Crypto Index captures assets that are outperforming Bitcoin (Slide 18)...

# Bitwise 10 Crypto Index captures assets that are outperforming Bitcoin

Bitcoin is the largest crypto asset but that doesn't guarantee it will have the largest returns. Diversification is the only "free lunch" in investing according to Modern Portfolio Theory and it's likely to still be the best way to hedge risk while increasing returns in crypto.

- Over the past 12 months, Bitcoin has only been the top performing asset in the BITX index one month out of the year.
- Bitwise 10 Crypto Index has outperformed Bitcoin since inception by 124% due to its exposure to constituents that often strongly outperform relative to Bitcoin, even with assets entering and leaving the top 10.

Figure: Bitwise 10 Constituent Monthly Performance; Bitwise 10 Performance vs BTC



Bitwise plans to list its Bitwise 10 Crypto Index & Bitcoin Funds' shares for trading (Slide 28)...

## Bitwise plans to list its Bitwise 10 Crypto Index & Bitcoin Funds' shares for trading

The lack of a Bitcoin or Crypto ETF, regulatory hurdles, tax incentives, accessibility challenges, costs and several other structural market circumstances have left most retail and institutional investors with limited means for gaining convenient and cost-effective crypto exposure through traditional brokerage accounts and investment vehicles.

- Bitwise is in the process of reducing these challenges by seeking approval for the Bitwise 10 and Bitcoin Fund shares to be publicly quoted and tradable in brokerage accounts via OTC Markets.
- The company expects the process to be completed in Q3 – Q4 2020 for the Bitwise 10, and Q4 2020 – Q1 2021 for the Bitcoin Fund. It requires a FINRA Form 211 approval.
- Once approved, listing would make the Bitwise 10 Crypto Index Fund and Bitwise Bitcoin Fund shares tradable by all investors within traditional brokerage accounts like Charles Schwab, TD Ameritrade, E\*Trade, Fidelity & others.
- The private placement at NAV will also be ongoing. New and existing private placement shareholders would be able to trade their shares after holding for a period of one year from the date of investment.
- When trading begins, redemptions will no longer be possible. Instead, investors will access liquidity by selling shares on the secondary market where the price will be set by supply and demand, and may trade at deviations from the NAV of the shares.

Figure: Select Brokerage Account providers



Source: FSInsight



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August 20<sup>th</sup>, 2020 Slide 28

**Bitwise funds offer an opportunity for investors across several strategies (Slide 30)...**

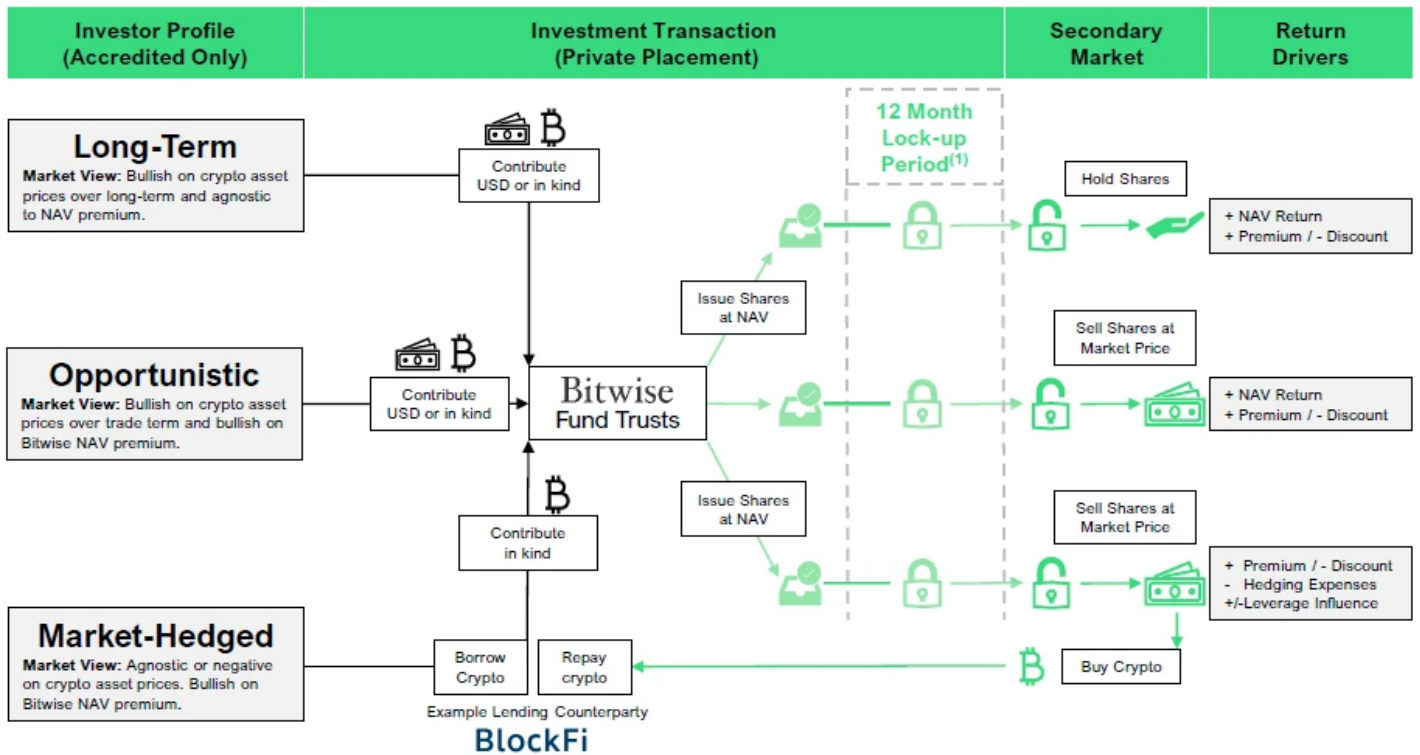


# Bitwise funds offer an opportunity for investors across several strategies

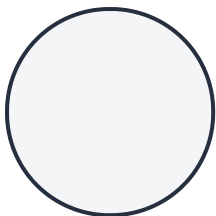
NAV premiums on listed crypto products have allowed accredited investors and hedge funds to capture significant relative and absolute alpha by investing in comp fund trust private placements at NAV and later selling at a premium to NAV in OTC markets.

- We see a similar opportunity unfolding for Bitwise along with a range of strategies that long-term, opportunistic and market hedged investors can use to capitalize on, which are illustrated below.

Figure: Hypothetical Bitwise Investment Opportunities



Source: FSInsight; <sup>(1)</sup>If Bitwise successfully quotes fund shares on OTCQX, it intends to cease all share redemptions; Thus, there could be a period where investors are unable to redeem their shares and are unable to liquidate shares on the secondary market prior to the expiration of SEC's Rule 144 12 month holding period requirement. Prior to listing, shares can be redeemed weekly at NAV.



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