

DIGITAL ASSETS



Digital Assets Strategy

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Summary Statistics

Ticker	BITW
Price	\$93.0
NAV	\$20.2
NAV Premium	360%
ADV	\$55.9M

(1) Data as of 12/17 close. ADV represents average volume across first 7 days of trading
Source: Bloomberg, Bitwise

Bitcoin Hitting New ATHs: Remaining bullish on crypto but getting cautious on Bitwise 10 Crypto Index Fund (BITW) due to the high NAV premium

Bitcoin continues its climb, reaching new all-time highs (ATHs), and now sitting at ~\$23,000. Crypto markets more broadly have continued to rally as well, leaving many investors looking for a means to gain asset class exposure. Many have turned to exchange listed trust products like Bitwise, which has seen prices sore lately. The rally which cooled during the latest session, has led to a sizable NAV premium, and we would caution investors against buying at current levels.

- **Bitcoin and crypto bull market continues.** This week, Bitcoin pushed past \$20,000 resistance to reach new all-time highs. Bitcoin has room before reaching our possibly conservative price target of \$25,000 and we believe the crypto rally more broadly has room to continue. As underlying crypto prices have sharply risen, so has investor interest in gaining convenient cost-effective exposure to the asset class.
- **Exchange traded products fill a valuable market void.** Difficulties, delays and security considerations associated with opening accounts at crypto exchanges and purchasing assets directly are frictions many investors seek to avoid by instead owning an ETP. ETPs give investors indirect crypto exposure via listed stock products that hold underlying crypto assets and are available for trading in traditional brokerage accounts. Grayscale and most recently Bitwise, which we released a [report](#) on earlier this year, are the two main players offering such products.
- **Bitwise 10 Crypto Index Fund listed on OTCQX last week.** Last week, on December 9th, Bitwise 10 Crypto Index Fund (BITW) shares were listed for trading, making BITW the first publicly available crypto index fund for U.S. retail investors. Share prices have soared 451% since the listing, and an increasing premium to NAV has come along with it.
- **Recently increased premium offers increased downside risks.** Bitwise BITW has a NAV of \$20.2. The current price of \$93 is a sizable 360% premium. Although competing products do trade at more elevated premiums, and we think there should be a premium because of enhanced liquidity, we also think in a few months it will be lower than this current premium. We believe long term investors should consider gaining exposure at more favorable levels.
- **Altcoins may benefit from BITW premium which may later reignite rally.** We believe some accredited investors will opt to avoid the premium and purchase shares directly via a private placement, which would increase demand on underlying alt coins held by BITW and could later help drive the fund NAV higher.

Bottom Line: We remain bullish on Bitcoin and crypto. And while we continue to like Bitwise the firm, the team, and the 10 Crypto Index Fund (BITW) product, we're cautious of downside risks at these NAV Premium levels.

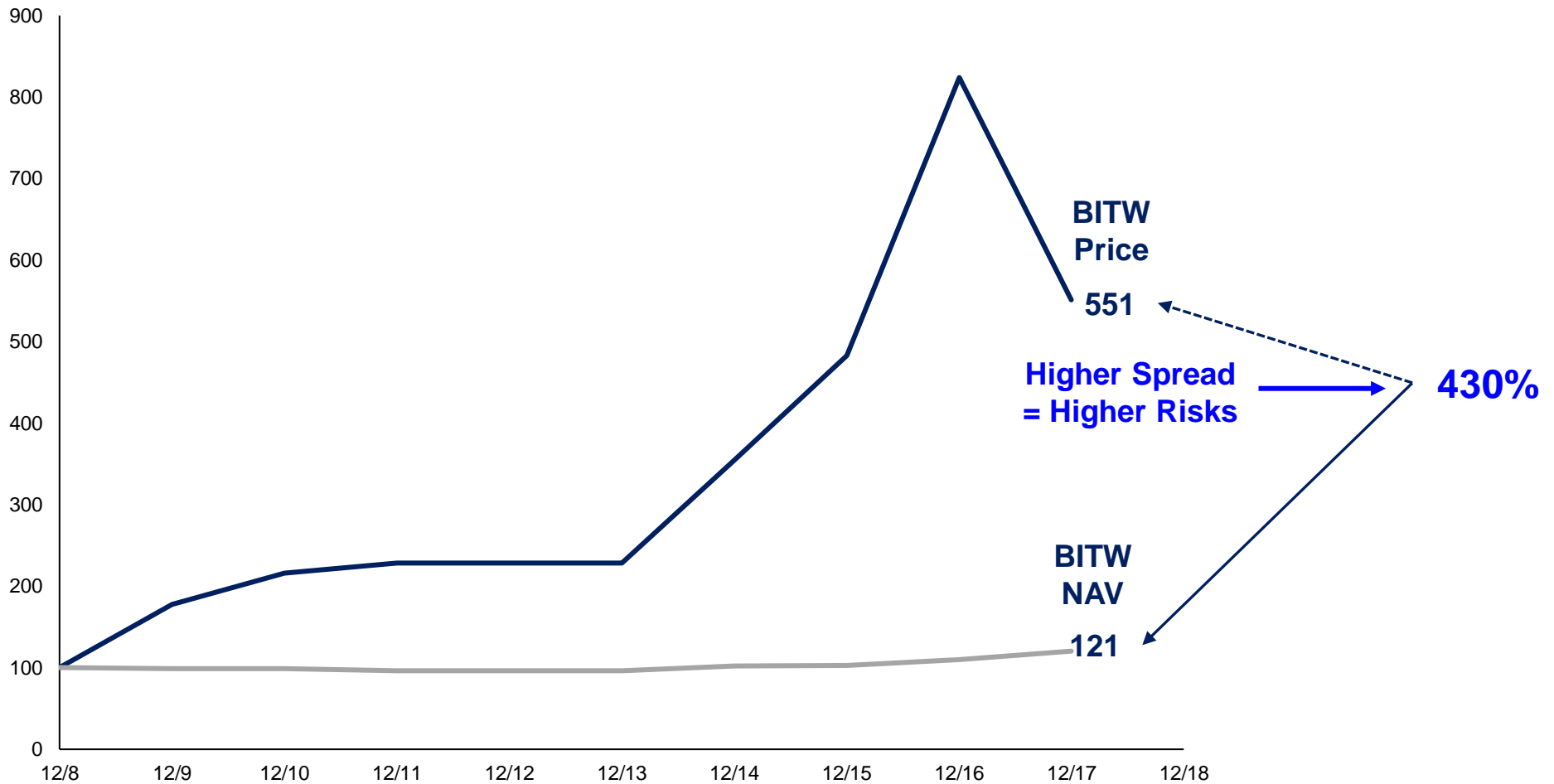
Bitwise Going Parabolic Post Listing But Risks Increasing Too

BITW price highly detached from its underlying NAV

- After listing last Wednesday December 9th, BITW has gained widespread attention and its share price has seen a substantial rise. Investors have been purchasing shares at an increasingly high premium above the NAV, but that rally started to chill during the most recent session, and it may be wise to wait for a more attractive entry point.

Figure: BITW Post Listing Price & NAV Change; Rebased 12/8/20 NAV = 100

Date: 12/17/2020



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

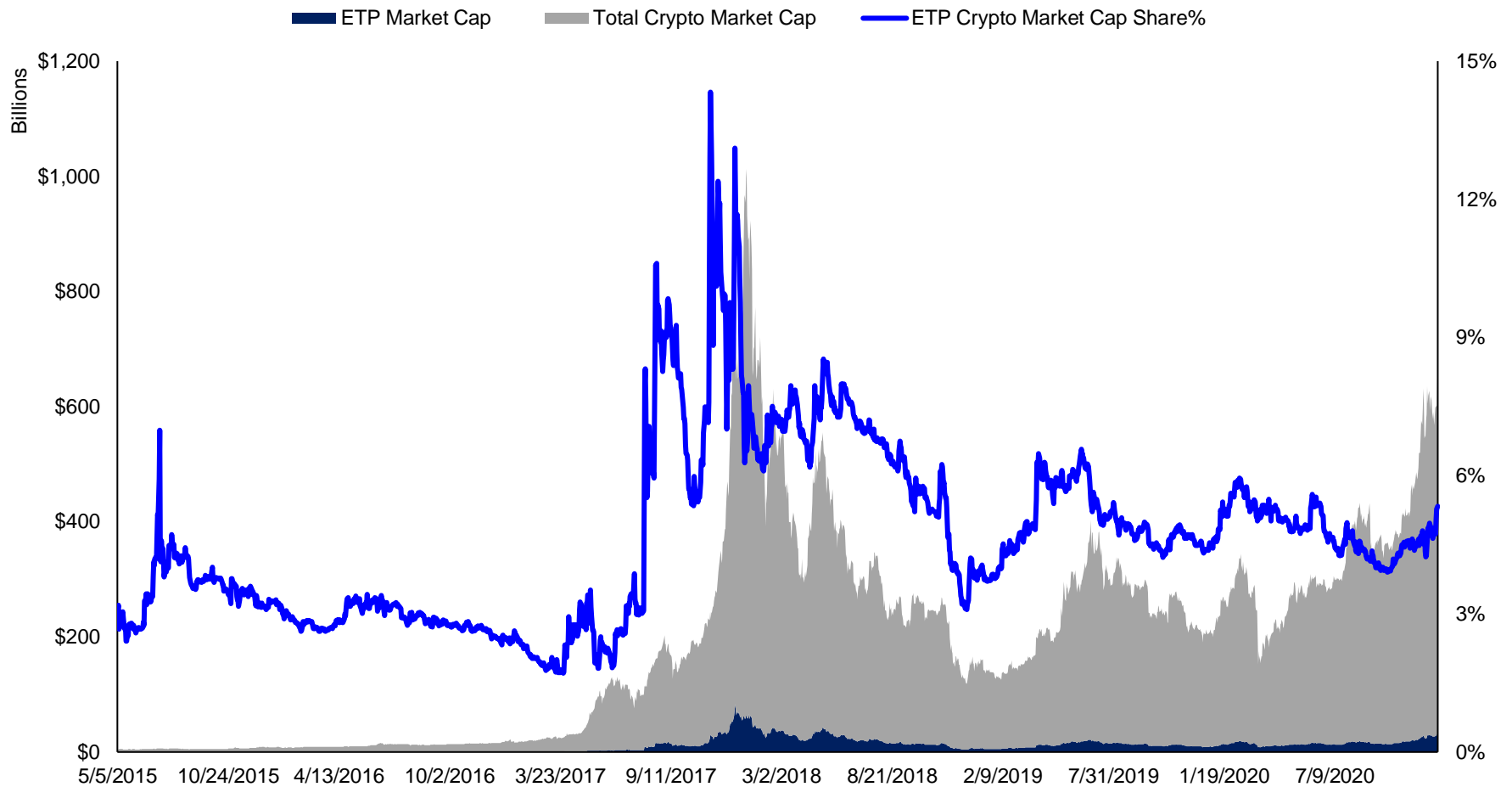
Crypto Exchange Traded Products (ETPs) Market Share

ETPs like Bitwise growing with market by filling product void

- We continue to like the product Bitwise is offering, as it fills a unique void in the market left by the very few options that exist for investors to gain crypto exposure through traditional brokerages and tax-advantaged accounts. BITW is the first crypto index product enabling investors to gain such broad-based crypto exposure.

Figure: ETP market cap vs Total Crypto Market Cap

Date:12/17/2020



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

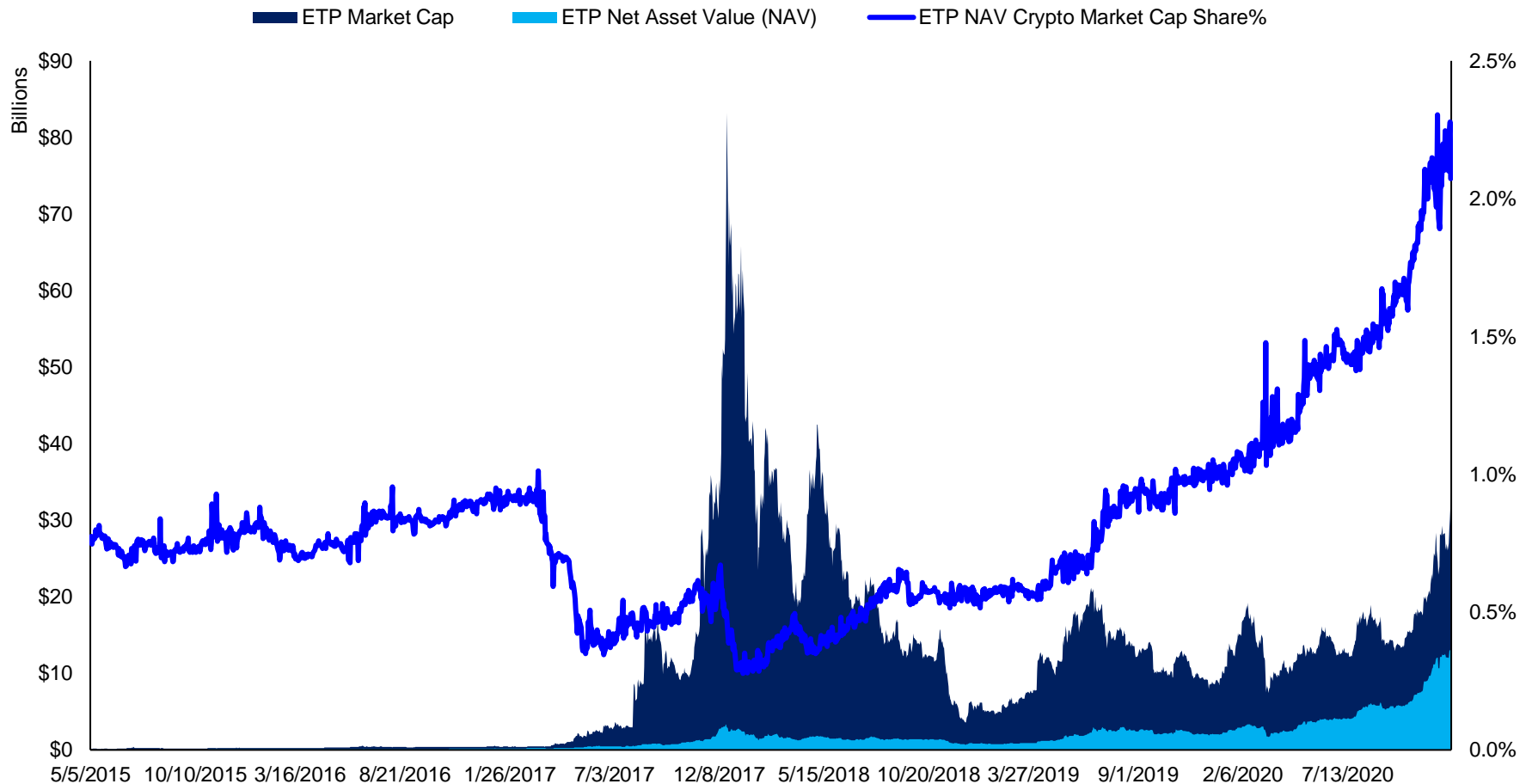
Crypto ETPs Net Asset Value (NAV) Growth

ETPs attracting new assets despite market cap & premium volatility

- Despite premium changes, which are inherently reflected in market cap volatility, institutional and accredited investors continue to accumulate assets in these types of products by purchasing shares in the funds at the underlying NAV via private placements, waiting for lock up periods to expire and selling on secondary market.

Figure: ETP Market Cap, NAV vs Crypto Market Cap

Date: 12/17/2020



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

Market Cap vs. NAV Crypto ETP Share

BITW now 5th largest ETP but has 3rd highest NAV premium

- GBTC was the first of such products and has been the largest beneficiary of the unique market position. But as the crypto market has matured, new vehicles like BITW have emerged. BITW now represents the 5th largest ETP product by market cap, partially driven by the recent rise in its premium to NAV.

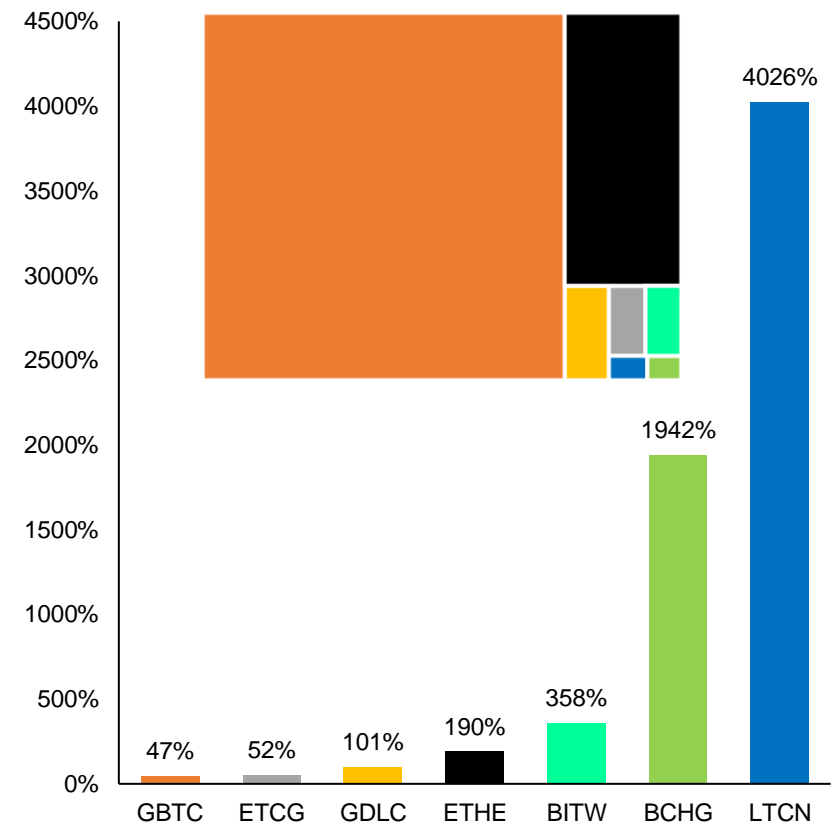
Figure: Crypto ETP Market Cap, NAVs & NAV Premiums

Date: 12/17/2020

Crypto ETPs Market Cap: \$28B



Crypto ETPs Premiums & NAVs: \$15B



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

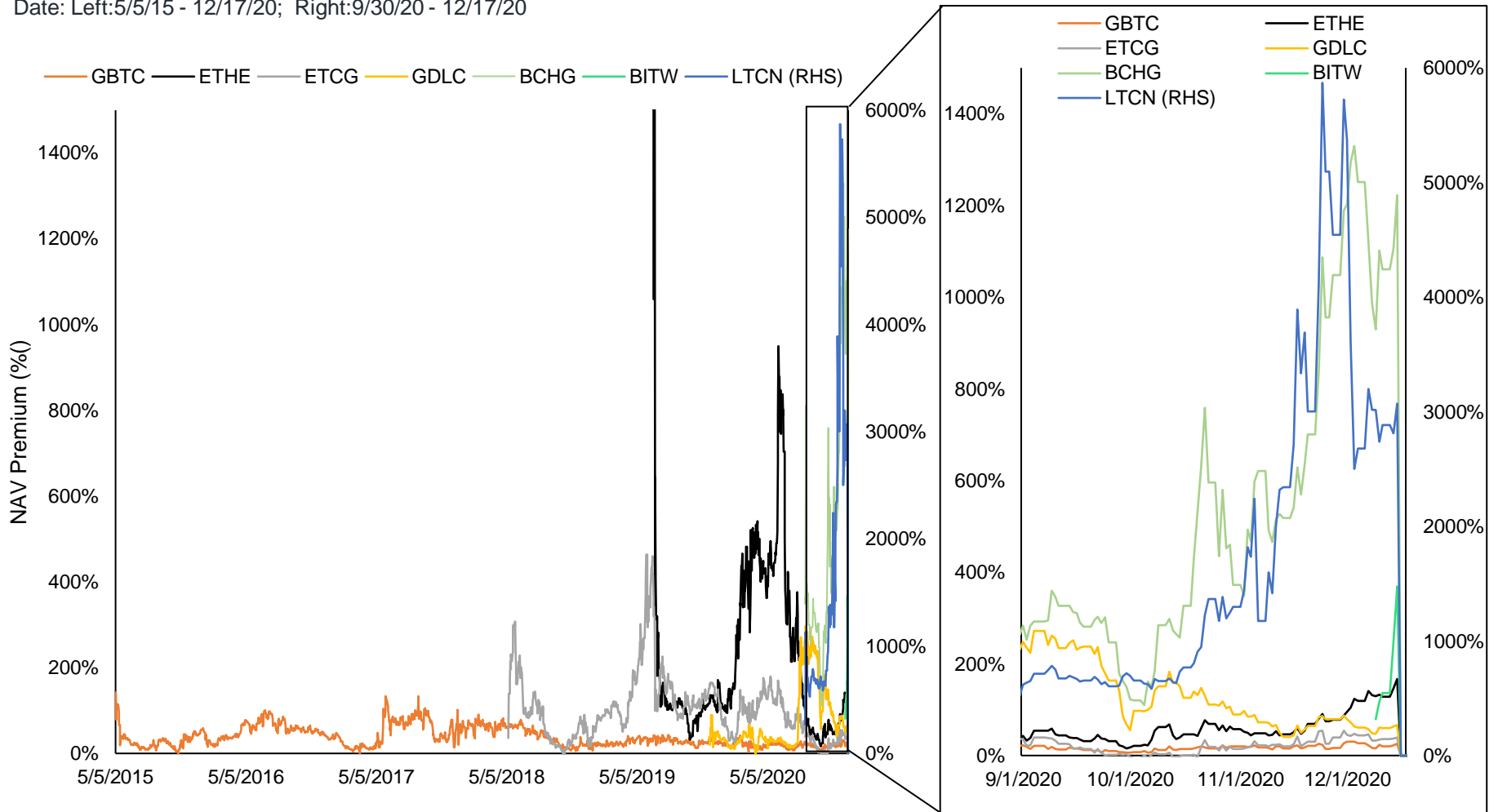
ETP NAV Premium Historical Evolution

Premiums fluctuate greatly but LTCN & BCHG are currently highest

- NAV premium for ETPs have fluctuated greatly over time, with some more recently listed assets reporting 1000%+ NAV premiums, but it has yet to be seen how long such eye-popping numbers can be sustained, and how much liquidity will be available to investors at those levels.

Figure: Historical NAV Premium Analysis

Date: Left: 5/5/15 - 12/17/20; Right: 9/30/20 - 12/17/20



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

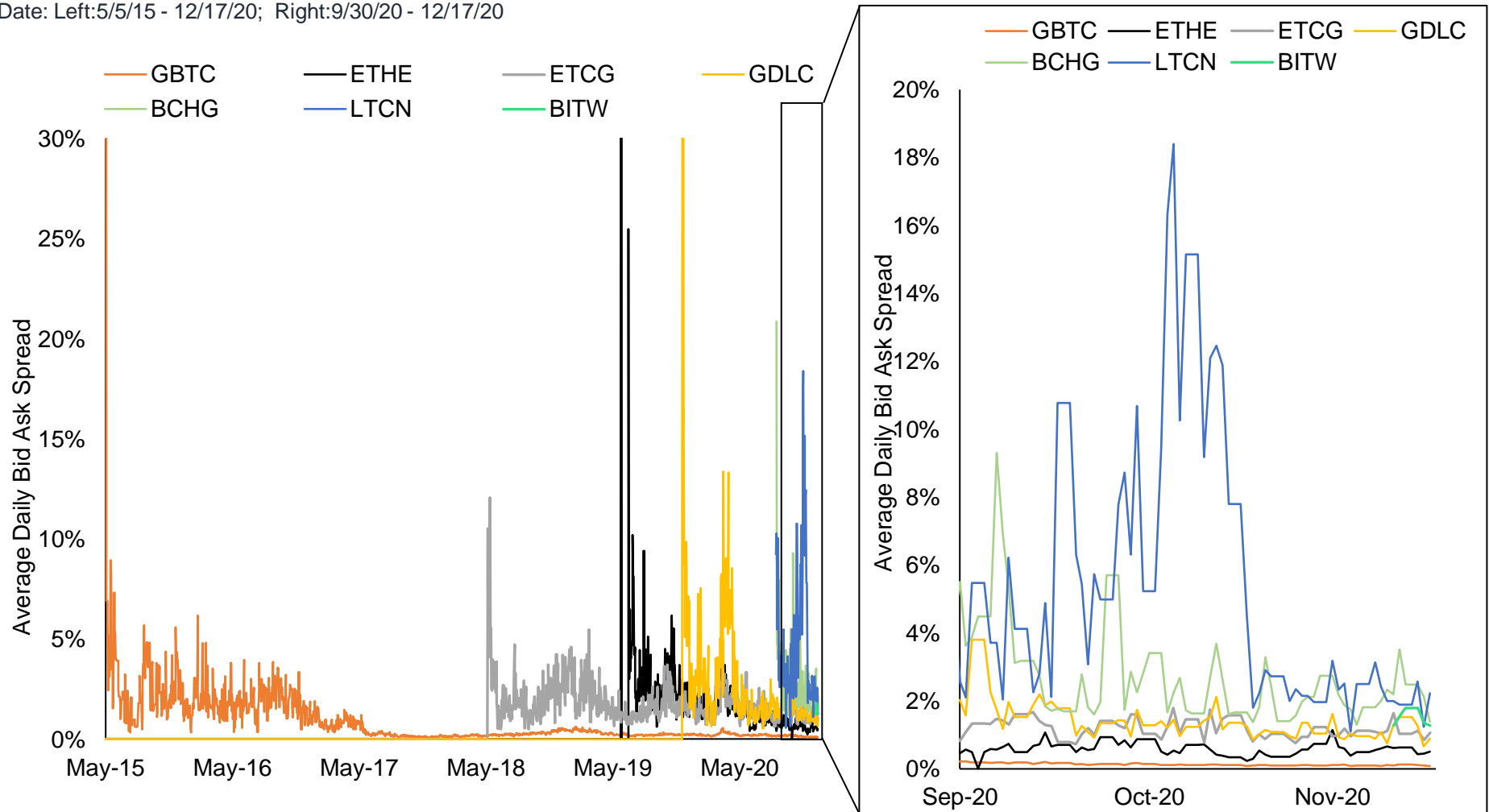
Liquidity Plays Key Role Influencing ETP NAV Premiums

BITW liquidity around peers despite increasingly high NAV premium

- Generally, most larger NAV premium prints tend to occur with lower levels of liquidity and have gradually moved down overtime as more shares come to market and pricing becomes more robust. Bitwise has been somewhat of an outlier in this area thus far, listing with an increasing premium but having spreads largely in line with other peers.

Figure: Historical Average Daily Bid / Ask Spread

Date: Left: 5/5/15 - 12/17/20; Right: 9/30/20 - 12/17/20



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

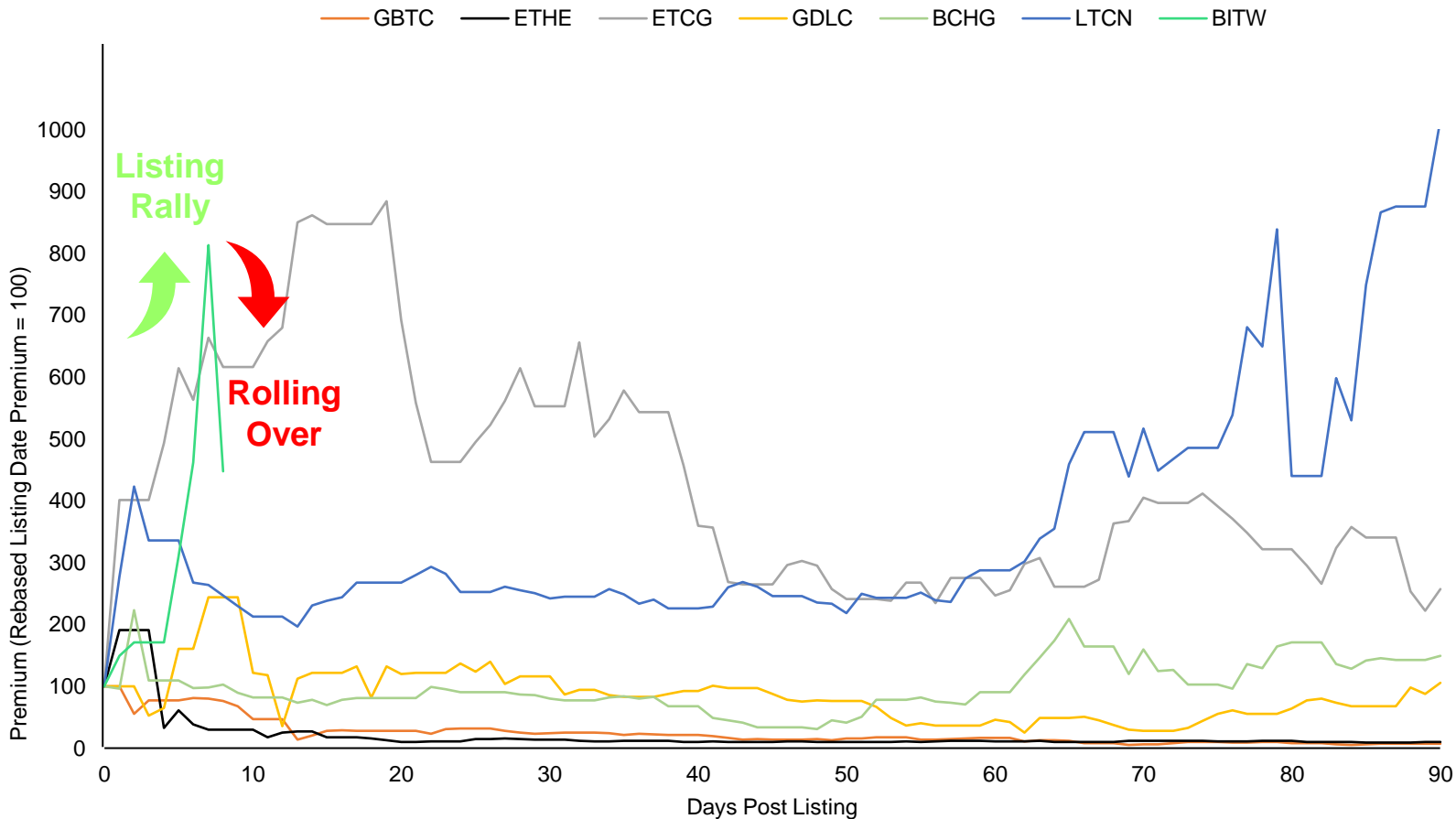
ETP NAV Premiums Following Public Listing

BITW benefiting from listing rally effect but now near peer highs

- Many of the comparable ETP products have followed a similar path as BITW, rapidly increasing in price following their initial listing. However, all rallies eventually settled down to more sustainable levels, and Bitwise may follow this same trend, and this gives reason for investors to start getting more cautious.

Figure: NAV Premium Post Listing; Rebased: Listing Date Premium = 100

Date: 90 Days Post Fund Listing



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

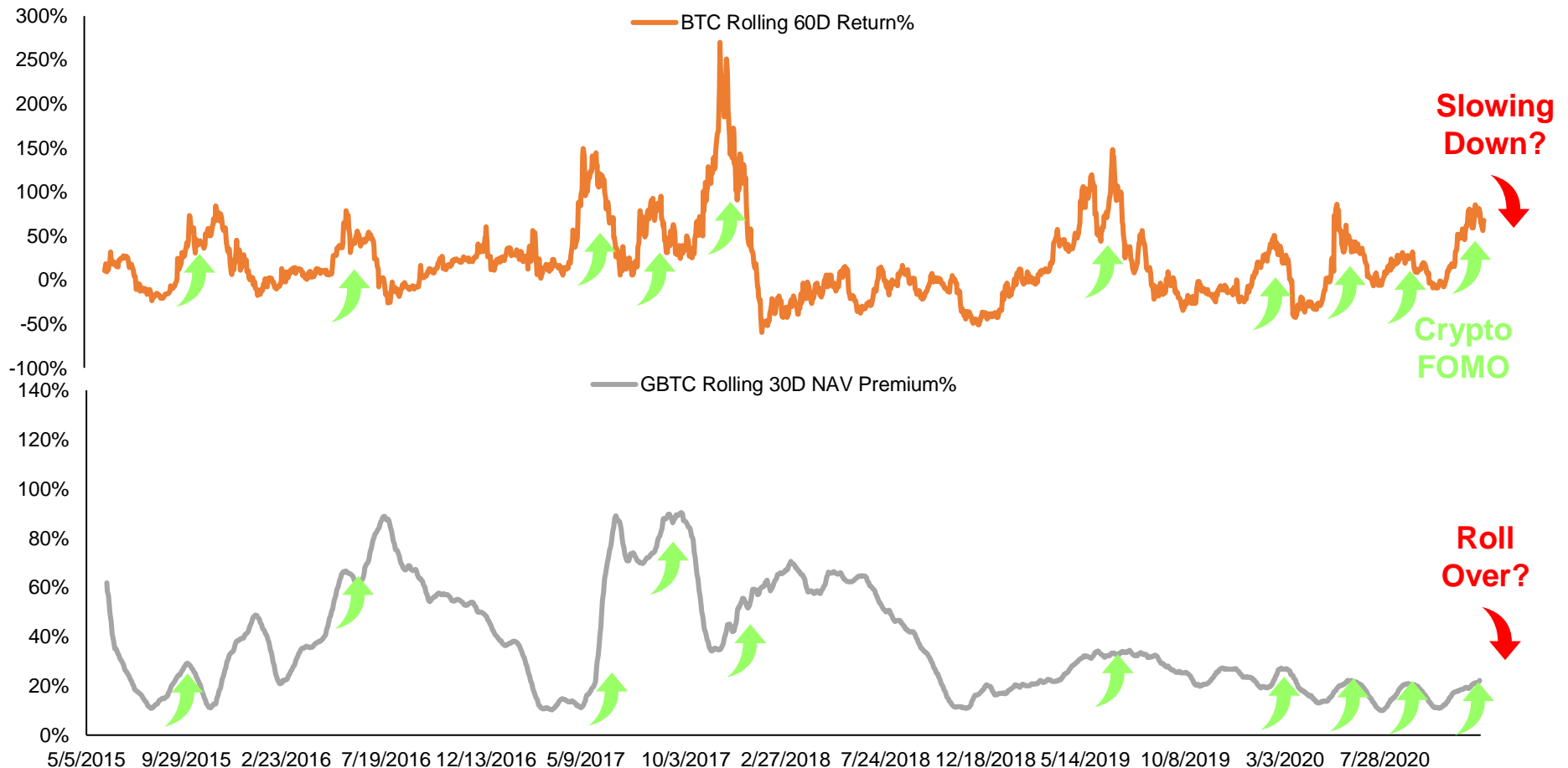
Crypto Market Underlying Returns Drive Premiums

BTC rally fulling premium expansion but run may be slowing

- **Crypto ETP NAV premiums have been influenced by the performance of the underlying assets, with sharp rallies creating a sense of perhaps retail FOMO, chasing premiums higher. With Bitcoin and crypto on a tear as of late, BITW has likely benefited from this effect as well. But it looks like growth may be at least momentarily slowing, which could lead to downside risk beyond the underlying price change of the assets if the BITW premium contracts.**

Figure: BTC Rolling 90D Return & GBTC Rolling 30D Average NAV Premium

Date: 12/17/2020



Source: FSInsight, Bloomberg, Coinmetrics, Coinmarketcap

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