

Off the Chain Capital

Fundstrat Digital Assets Research

OFF THE CHAIN
CAPITAL

TL;DR

- An asset investment manager using a value-oriented approach to alpha generation
- OTC leverages deep industry relationships to source deals
- OTC invests in late-stage private blockchain-related companies at seed valuations and sources BTC at discounted prices
- **Risks:** Regulation, competition, and execution risk

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Off The Chain Capital: A Unique Approach to Crypto Investing

Off The Chain Capital, LLC (“OTC,” or the “Company”) is a value-oriented investment manager that invests in digital assets and blockchain companies. OTC leverages industry relationships to acquire shares in late-stage private blockchain companies at early-stage valuations and uses innovative methods to source Bitcoin at discounted prices. Off the Chain, LP’s (“the Fund”) strategy has resulted in outperformance relative to common investment benchmarks and comparable private funds since its inception in 2016.

- **As crypto adoption increases, investors will demand more investment options.** In 2021, the total crypto market cap surpassed \$2 trillion, and recent data suggests that there are over 100 million cryptoasset users globally ([Slide 3](#)). As digital assets emerge as a standalone asset class, institutional investors will look to gain an edge via unique investment strategies. Currently, the most commonly available strategies include trusts (e.g., Grayscale), index funds (e.g., Bitwise), hedge funds (e.g., Arca), and venture funds (e.g., a16z) ([Slide 4](#)).
- **The OTC approach brings a traditional value lens to a burgeoning industry.** Off The Chain aims to provide a unique, value-centric investment solution for those looking for differentiated exposure to digital assets. As it pertains to its investments in private blockchain companies, OTC sources its deals from early investors and employees to create positions in cash-generating, low-leverage companies at early-stage prices, filtering out failure risk and shortening the path to liquidity. Similarly, OTC employs creative solutions to procure bitcoin at discounted prices ([Slide 7](#)).
- **Examples of OTC’s investment strategy applied:**
 - *Blockchain company equity* – The Fund was able to secure a 7% ownership in Bitpay, a large provider of Bitcoin and cryptocurrency payment services, at Seed round pricing after it had closed its Series B round ([Slide 11](#)).
 - *Bitcoin at a discount* – Mt. Gox, an early crypto exchange that was hacked and drained of its custodied cryptoassets is currently subject to bankruptcy proceedings. OTC leveraged its industry knowledge to acquire said bankruptcy claims via the Fund and procure BTC at an estimated 46% discount to market prices ([Slide 12](#)).
- **The OTC strategy has resulted in a blended portfolio demonstrating historical outperformance.** The OTC approach has resulted in a portfolio of investments across different areas of the crypto industry ([Slide 13](#)). Since inception, the Fund has outperformed both the S&P 500 index and Bitcoin ([Slide 14](#)).
- **Key Risks:** Industry relationships deteriorate, the market to acquire BTC at discounted prices becomes crowded or disappears for regulatory or economic reasons, increased competition from other digital asset investment firms decreases alpha derived from its strategy, changes in the regulatory climate that impede the progress of the crypto industry and/or the ability to invest in cryptoassets ([Slide 19](#)).

Bottom Line: OTC provides institutional investors access to a unique digital asset investment solution. Its innovative approach has a proven track record and a model that is difficult to replicate due to the Company’s crypto expertise and deep industry relationships. While past performance is not indicative of future results, OTC presents a unique opportunity to buy into a high-growth industry at a discount.

Introduction

Off the Chain Capital

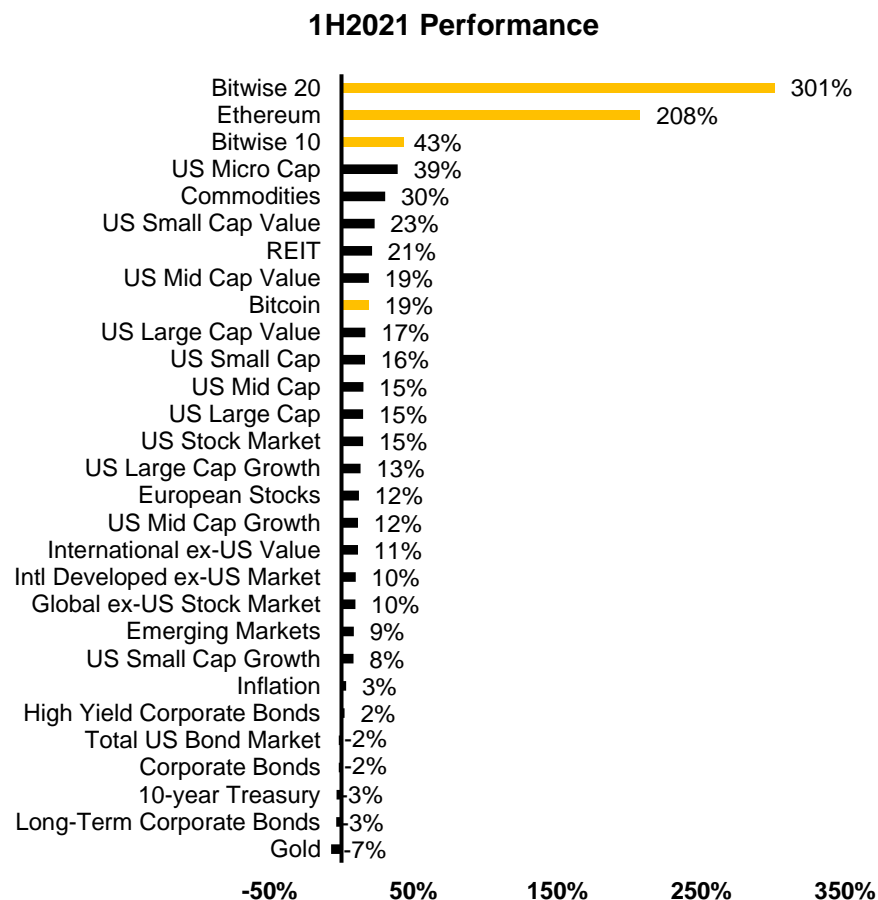
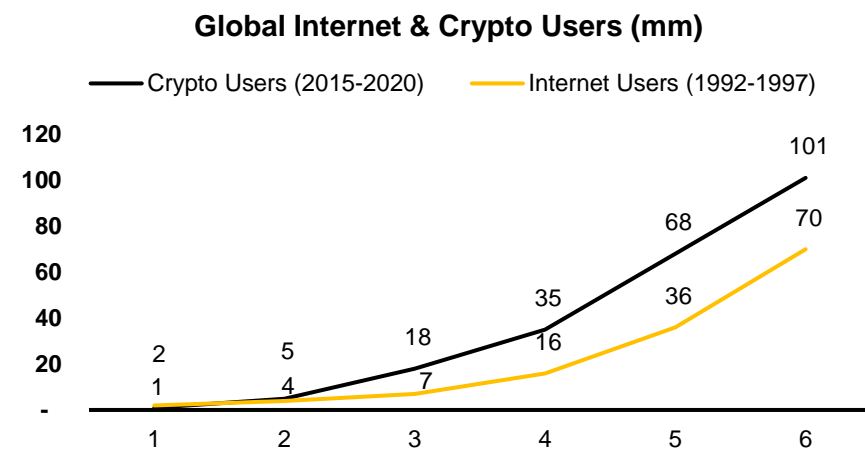
Appendix

Shift Towards Mass Adoption and Implementation

Growth in crypto market cap and users reflects the growing demand

- The global crypto market has crossed \$2 trillion in total value and over 100 million users – putting crypto on a similar growth trajectory as the internet in the mid '90s.
- In the first half of 2021, cryptoassets outperformed traditional financial assets, highlighting diversification benefits.
- El Salvador became the first country to make bitcoin legal tender paving the way for broader adoption.

Figures: Total Crypto Market Cap, Global Internet & Crypto Users, 1H2021 Asset Performance (As of 9/4/2021)



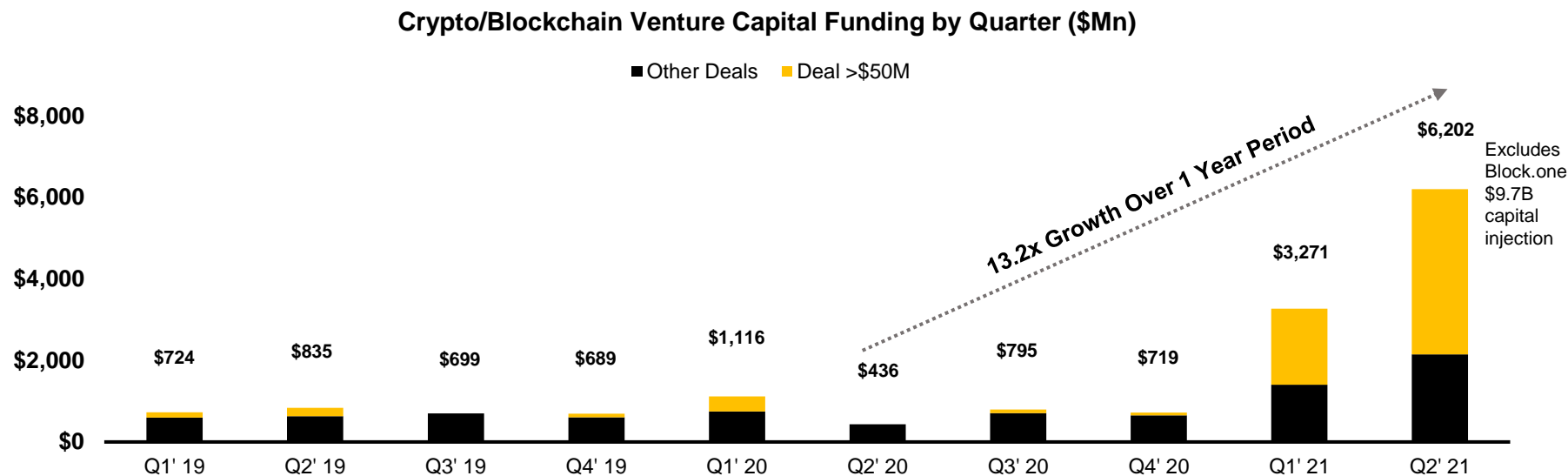
Source: FSInsight, University of Cambridge, Statista, Bloomberg

Crypto Investments Increase Sharply

Digital assets under management (“AUM”) continue to grow

- 497 venture capital deals took place during 2Q21, totaling \$6.2 billion in aggregate value, highlighting the demand for private capital to enter the crypto/blockchain space.
- Crypto financial service companies, infrastructure-focused companies, and tokens gained the most venture capital interest in 2021.

Figure: Crypto / Blockchain VC Funding by quarter since 2019



5 Largest Regulated U.S. Digital Asset Managers Hold over \$55B of Crypto



~\$50B AUM

~\$3.8B AUM

~\$1.1B AUM

~\$1.3B AUM

~\$500M AUM

Source: FSInsight, Bloomberg, Yahoo Finance, The Block, Grayscale, Pantera Capital, Bitwise, Galaxy Digital and Wave Financial

OTC Brings a Unique Strategy to an Emerging Asset Class

As an asset class matures, investors may seek differentiated strategies

- Surveys indicate institutional demand for digital asset investment platforms is increasing rapidly.
- As the market matures, we anticipate that investors seek a broad array of investment options beyond simple exposure to Bitcoin.

Figure: Demand for Digital Asset Exposure and the Options Available to Investors



Source: FSInsight, Fidelity Digital Assets Survey

Introduction

Off the Chain Capital

Appendix

Off The Chain Capital's Value Investing Approach

Long-term oriented firm capitalizing on innovation and opportunity

- Off the Chain Capital (“OTC”) is the only known “value-oriented” investment manager in the digital asset space currently leveraging industry relationships to invest in late-stage private blockchain companies at seed prices.
- The firm has historically been successful in discovering unique instruments to purchase Bitcoin at discounted prices.

Figure: Off The Chain Capital – Investment Approach

Off The Chain Capital's Value Investing Lens



OTC possesses deep industry **relationships**, and is capable of sourcing proprietary deals from early investors and employees that are generally unavailable to most investors



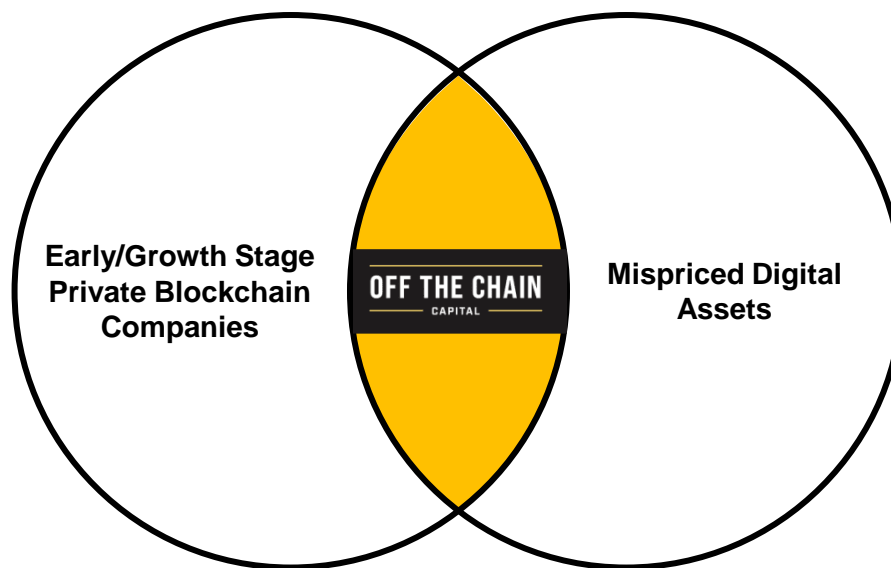
OTC invests in **cash flow positive**, quasi-liquid, low leverage companies, filtering out failure risks and shortening path to liquidity



OTC applies an innovative approach to acquiring BTC at **discounted prices**. For example: Purchasing Mt. Gox BTC claims, and mining hash power at discounted prices



OTC takes a **long-term** investment approach with average holding periods greater than 12 months. **Regulatory assets under management (“AUM”) of \$457 million as of August 31, 2021**



40% - 70% average discount on investments

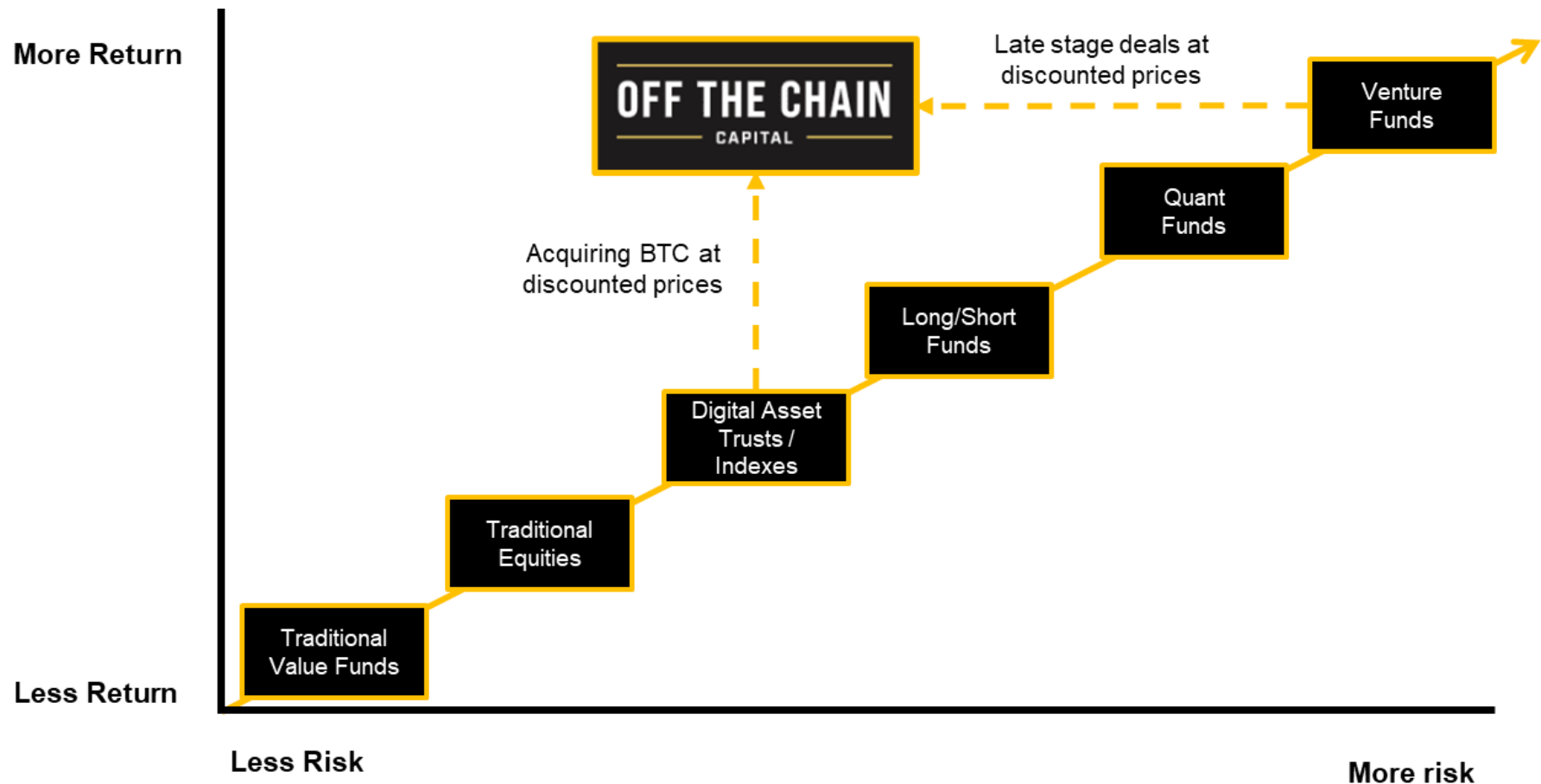
Source: FSInsight, Off The Chain Capital

OTC's Approach Changes the Risk/Return Equation

Unique instruments and deal flow lead to a steeper curve

- OTC's investment approach allows the firm to shift their fund's return expectations above spot BTC prices and mitigate investment risk through lower entry prices.
- Below is a conceptual illustration of how OTC's investment style mitigates risk and boosts fund returns.

Figure: Off The Chain Capital's Differentiated Risk/Return Profile



Source: FSInsight, Off the Chain

Off The Chain Capital Leadership

Industry veterans bringing decades of experience to the table

Figure: Off the Chain Capital Leadership



Brian Estes

CEO & CIO

- Over 30 years experience as professional investor, successful venture capitalist, entrepreneur and patent holder
- Helped build, mentor & finance 5 blockchain companies that are worth over \$100B today
- MBA, Washington University in St. Louis with high honors
- BA in Economics from University of Illinois

Bill Purcell

President

- 13 years of experience leading new product development and technology adoption
- MBA, Washington University in St. Louis
- BS and MS in Mechanical Engineering, Southern Illinois University

Tom Siegel

CFO

- 30 years experience as an institutional investor and entrepreneur
- Past Managing Director Shepherd Ventures, Illinois Ventures (U. of Illinois)
- Founder of Cure8 Ventures
- CPA, CFA (Past President CFA Society San Diego)
- BA Economics and MBA from University of Illinois

Brian Dixon

COO

- 12 years of experience in venture capital, blockchain consulting, and published author of four books around digital assets and advanced technology
- J.D. Washington University in St. Louis
- BA English and Sociology, University of Missouri

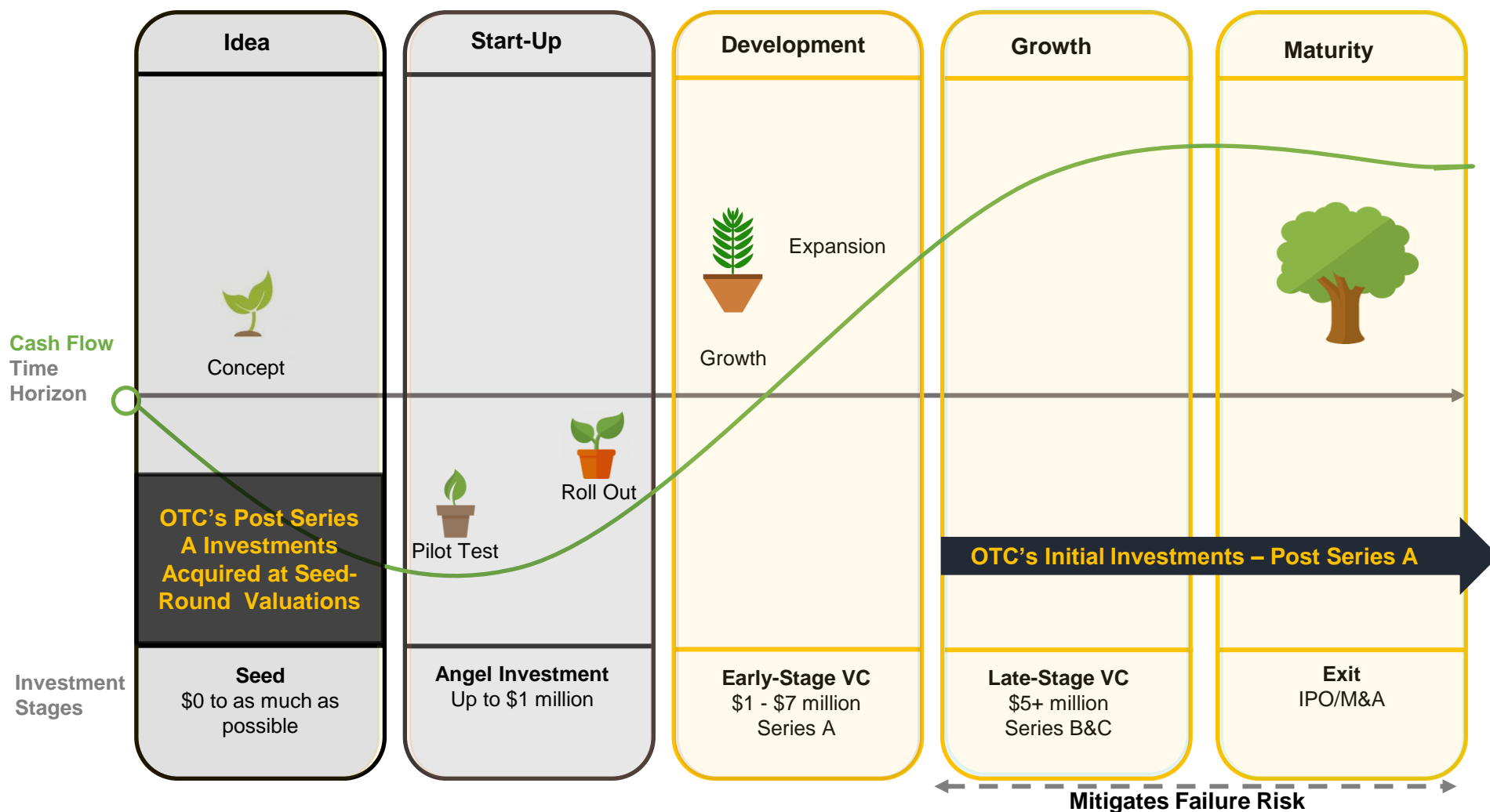
Source: Off The Chain Capital

Investing in Late-Stage Blockchain Companies

OTC pursues favorable entry points in more developed companies

- OTC invests in private companies after Series A, while paying seed-round valuation prices for these assets, thus reducing failure risk. OTC sources deals from early investors and employees seeking to gain liquidity.

Figure: Off the Chain (“OTC”) sources invests in late-stage companies garnering Seed round valuations



Source: FSInsight

OTC's Access to High Quality Private Companies

Late-stage investments sourced at seed-stage valuations

- A distinguished investment team with the vision to capture value has differentiated Off the Chain investments from competitors in the space. Their deep relationships in the industry has given them access to quality opportunities.

Figure: Private Equity Investments held by Off the Chain, LP ("The Fund"); Company Profiles

Examples of Successful Late-Stage Investments Procured at Early-Stage Prices

DIGITAL CURRENCY GROUP

- DCG experienced record-setting revenues in Q2 driven by Grayscale's \$42 billion AUM
- Grayscale launched the Grayscale DeFi Fund, Grayscale Digital Large Cap Fund became an SEC reporting company, and Grayscale became the first company in the crypto industry to sponsor an NFL team
- Foundry became the largest mining pool in the world the week of August 9th, 2021. The first time a US-based mining pool was #1

Subsidiaries



- Blockcap merged with Core Scientific and is expected to go public via a SPAC soon
- The new company is Power Digital Infrastructure (NASDAQ: XPDI)
- The company will now do business under the Core Scientific brand



- 7% ownership in Bitpay, the world's largest provider of Bitcoin and cryptocurrency payment services
- Investment acquired post Series B round, at Seed round valuation
- BitPay Wallet integrates 1inch Network, now Bitpay Wallet holders can swap ETH and ERC-20 tokens benefitting from the best rates and fastest transactions via 1inch

Source: FSInsight, Digital Currency Group, Blockcap, and NASDAQ

New Instruments Dedicated to Generate Alpha

Examples of OTC's innovative approach to sourcing opportunistic deals

- Nontraditional investment ideas sourced from strong industry relationships has allowed OTC to pioneer new investments such as buying BTC client claims and mining hashrate – all at deeply discounted prices from market value

Figure: Mt. Gox and Mining Hash Power

Innovative Strategies Employed by Off The Chain Capital



- Mt. Gox was a crypto exchange based in Japan that was hacked and crypto assets were stolen
- Off the Chain, LP (“The Fund”) saw the opportunity and **bought Mt. Gox crypto bankruptcy claims**
- Customers who lost their BTC during the hack are entitled to a claim consisting of 0.1785 BTC, \$700 dollars of cash and 0.18 BCH
- The OTC team leveraged their connections to set up a relationship with the Japanese trustee to seek claimants in need of liquidity who would sell their claims
- Average bankruptcy claims cost to OTC is \$1,265 representing a 46% discount

- The Fund enters future contracts with crypto mining companies who might seek to hedge FX risks and seek capital to pay for operational expenses
- The Fund buys 3-month and 6-month hashrate contracts from top U.S. verified mining companies
- These contracts are bought at a discount from BTC spot prices
- The hash rate is an indicator of how healthy the Bitcoin network is at any given time and is driven primarily by difficulty mining and the number of miners. Generally, a high hash rate is considered a good thing

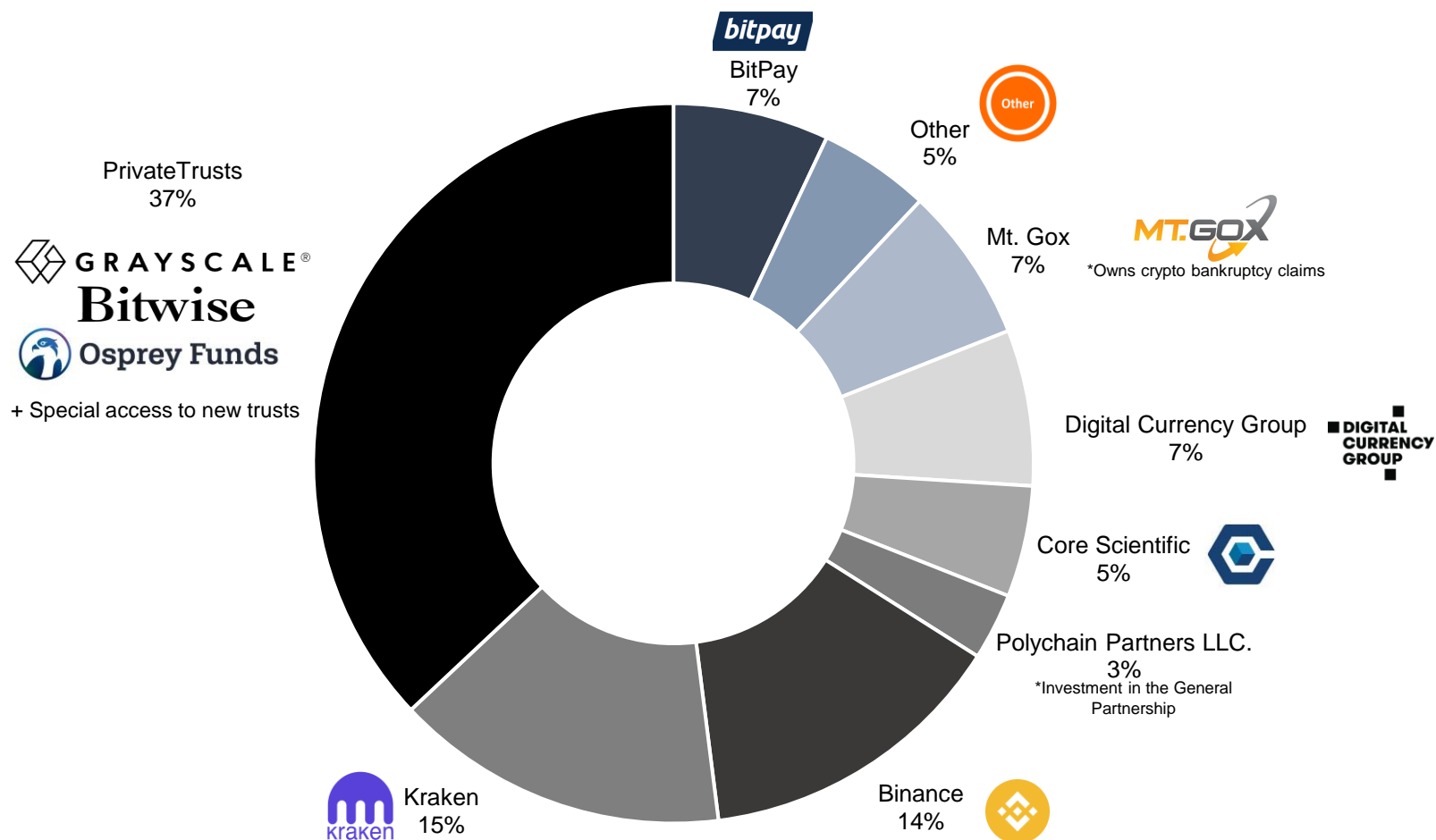
Source: FSInsight, Off the Chain

Blended Approach to Value Investments

A composite of investments adds diversification to the mix

- A diversified portfolio of investments grants investors access to competitive private companies in different areas of the crypto industry

Figure: Portfolio Holdings – Off the Chain, LP Portfolio.



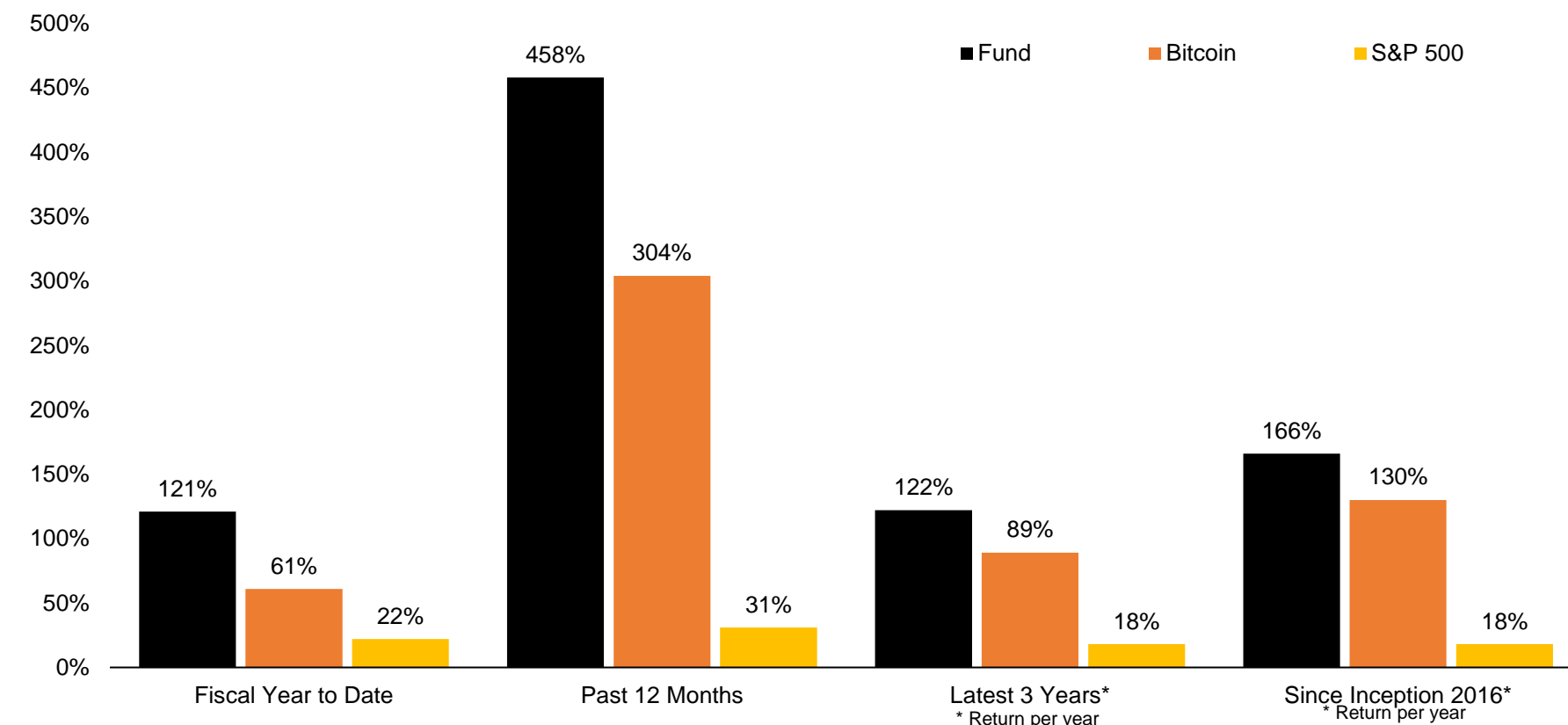
Source: FSInsight, Off The Chain. Holdings as of August 31, 2021

OTC Historically Outperforms the S&P 500 and Bitcoin

Unique model delivers alpha compared to equity and crypto markets

- Off the Chain Capital's portfolio of diversified alternative investments in digital assets and blockchain companies have generated returns above BTC and traditional financial markets such as the S&P 500

Figure: Off the Chain Portfolio Performance



Fund performance is net of fees, such as advisory fees, and also expenses, such as any commissions or other expenses that the fund would have paid.

Performance from December 31, 2016 through January 2017 represents proprietary account activity. Performance from February 2017 through June 2018 and August 2019 to July 31, 2021 represents actual Fund performance. The performance included in the above chart for the period July 2018 through July 2019 represents hypothetical performance for the Fund. Please see Slide 24 for additional information pertaining to the factors used to calculate such performance.

The Standard and Poor's 500 (S&P 500) is a free-float weighted measurement stock market index of 500 of the largest companies listed on stock exchanges in the United States.

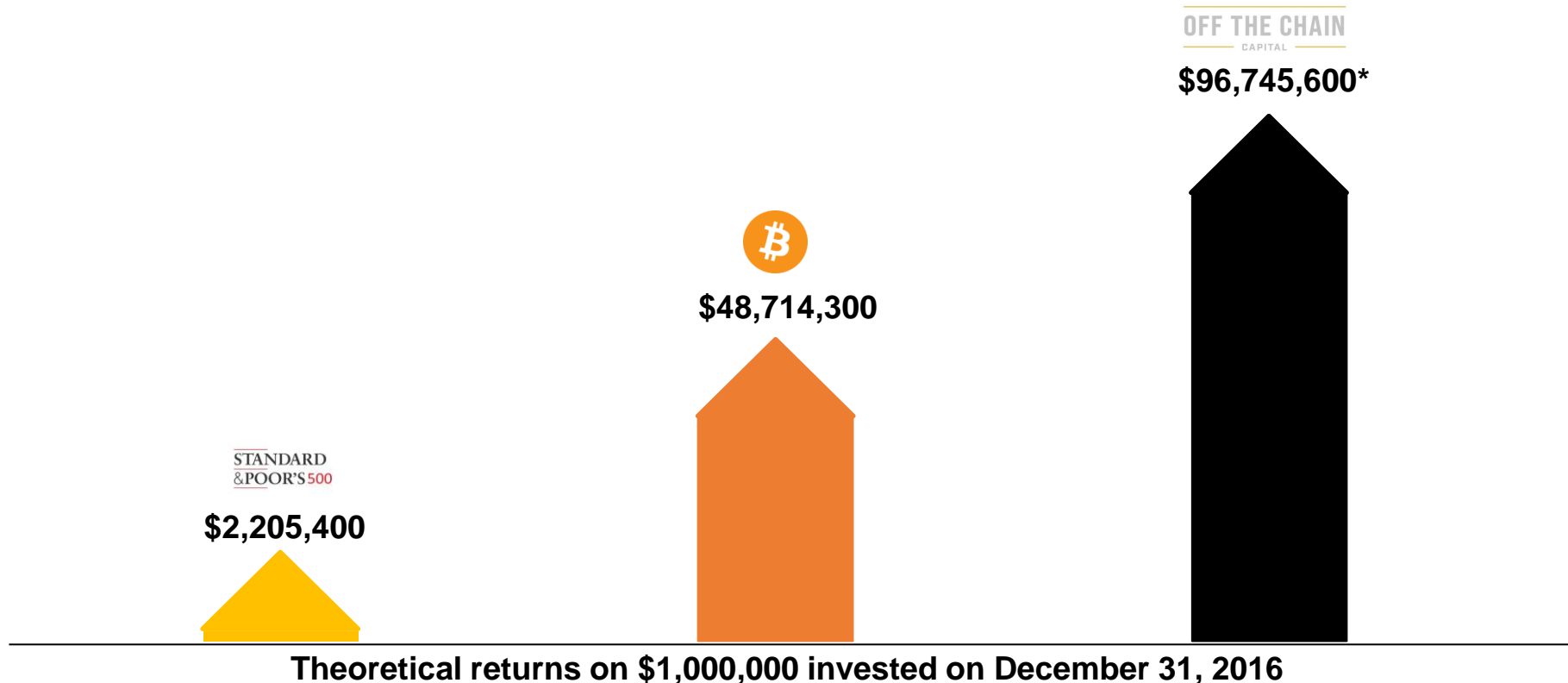
Bitcoin price source: FSInsight, Off the Chain, <http://coinmarketcap.com>. Data through August 2021. Past 12 months July 2020 - August 2021

Illustrative Example of Strong Historical Performance

Theoretical returns demonstrate an impressive return on capital

- The chart below depicts the cash returns on \$1 million invested into the S&P 500, Bitcoin, and the Fund on December 31, 2016, through July 31, 2021.

Figure: Illustrative Compounding Returns on Invested Capital (As of July 31, 2021)



Dollar values shown are calculated balances based on a hypothetical \$1M invested on December 31, 2016, in the S&P 500, Bitcoin, and Off the Chain, LP. Performance from December 31, 2016, through January 2017 represents proprietary account activity. Performance from February 2017 through June 2018 and August 2019 to July 31, 2021, represents actual Fund performance. The performance included in the above chart for the period July 2018 through July 2019 represents hypothetical performance for the Fund. Please see Slide 29 for additional information pertaining to the factors used to calculate such performance.

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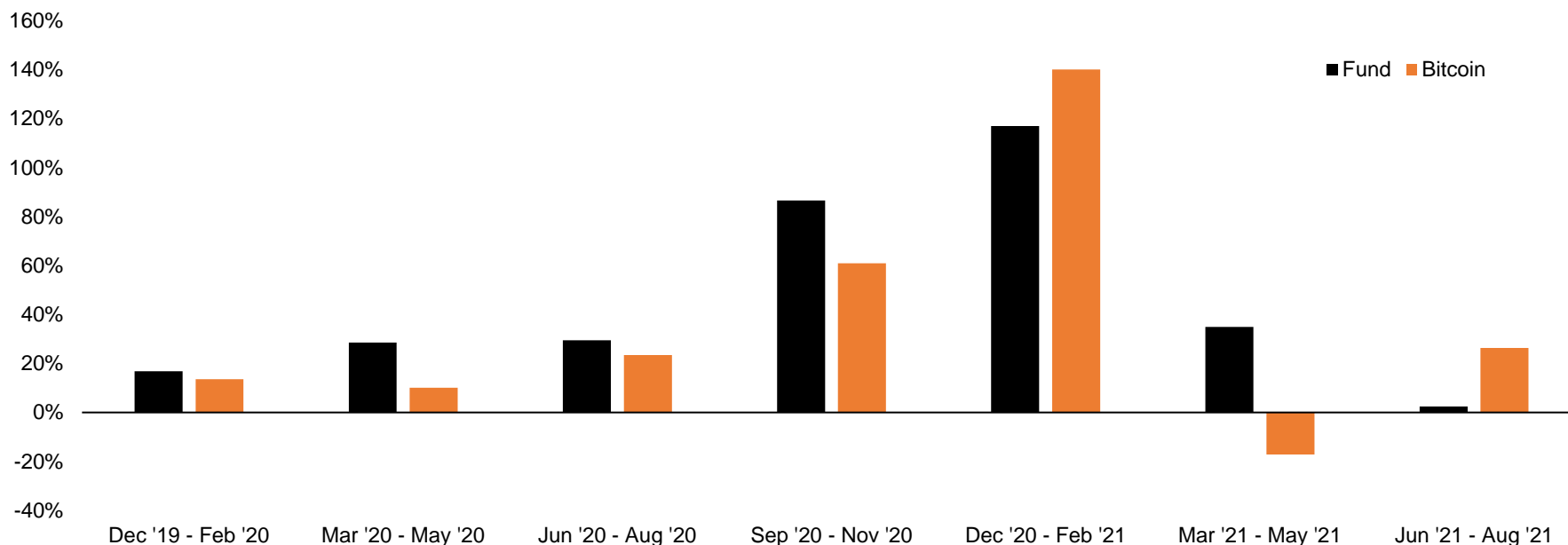
Source: Off The Chain, Bitcoin price source: <http://coinmarketcap.com>

Strategic Approach to Protect Portfolio Downturns

Generating alpha to outperform on BTC upside momentum

- By utilizing innovative investment instruments and sourcing BTC at discounted prices, Off the Chain is capable of mitigating market downturns.

Figure: Off the Chain Portfolio Downturns vs BTC



Average Up Quarter	46.7%	45.7%
Average Down Quarter	35.0%	-17.3%

Fund performance is net of fees, such as advisory fees, and also expenses, such as any commissions or other expenses that the fund would have paid.

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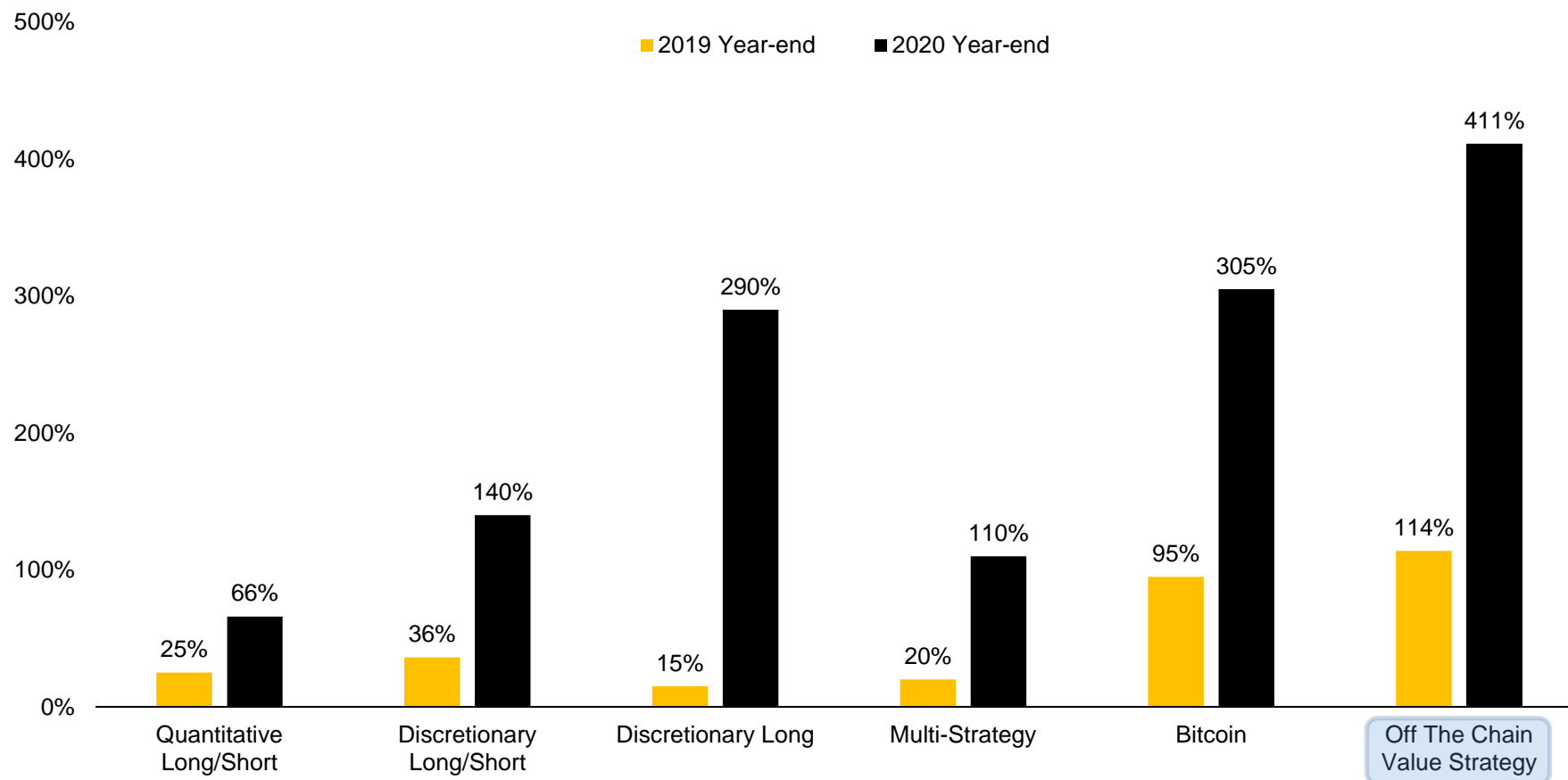
Bitcoin price source: FSInsight, Off the Chain, <http://coinmarketcap.com>. Data through August 2021. Past 12 months July 2020 - August 2021

OTC Compared to Crypto Hedge Funds

OTC's investments outperform hedge funds' median performance

- Hedge funds are generally characterized by a high risk/return profile. Their strategies predominantly exploit market opportunities over short time horizons.
- Most investors in crypto hedge funds are either high-net worth individuals (54%) or family offices (30%).
- The average minimum investment amount for LPs is \$1.1 million.

Figure: 2020 vs 2019 Crypto Hedge Fund Median Performance by Strategy vs The Fund Performance*



* Net of fees or gross and any other considerations used to calculate performance

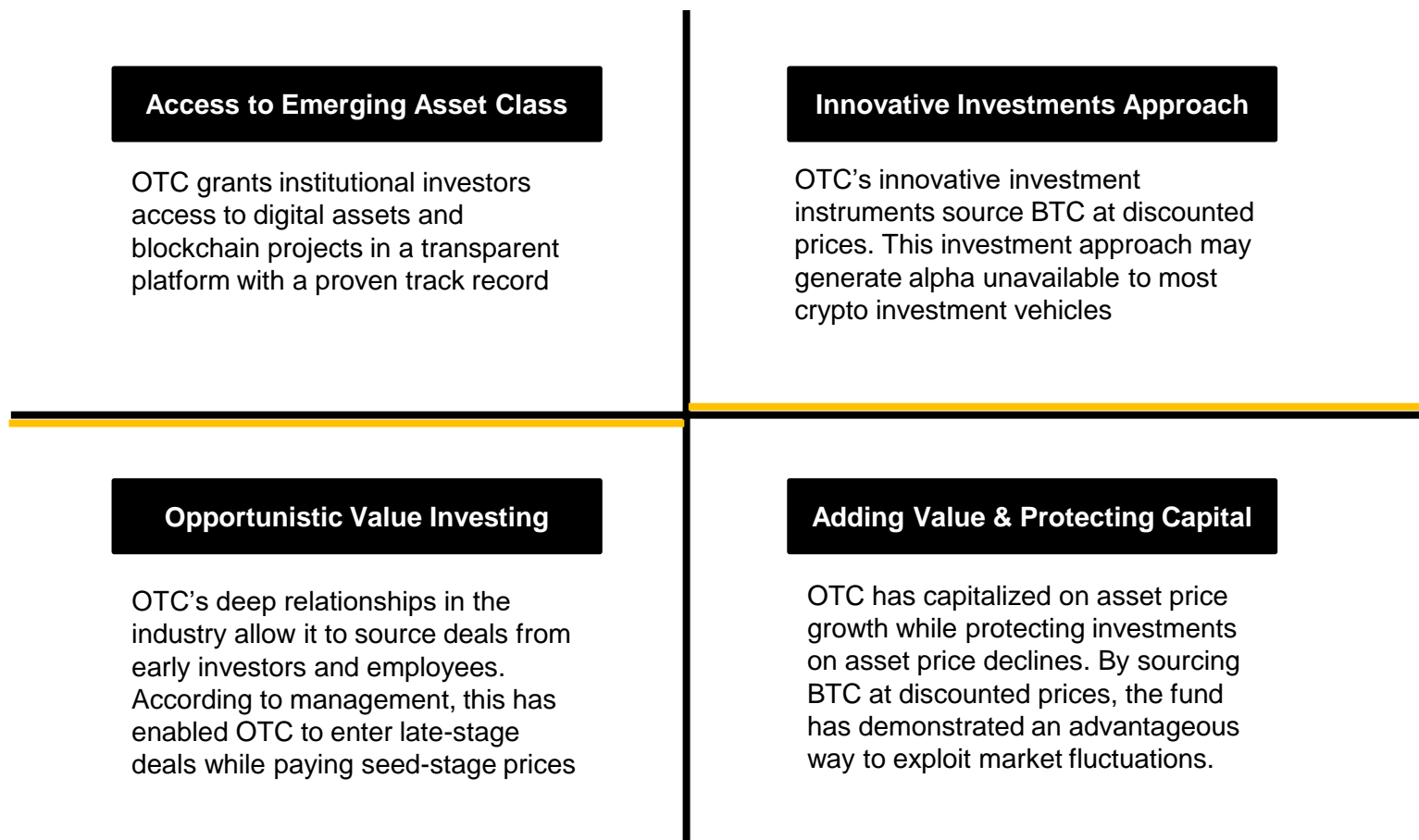
Source: FSInsight, PwC 3rd Annual Crypto Hedge Fund Report 2021

The OTC Value Proposition

OTC's long-term value investing approach may benefit clients

- OTC's extensive industry expertise and relationships grants investors access to quality private blockchain companies. Innovative instruments grant additional upward price momentum and reduce downward swings.

Figure: Off the Chain Value Proposition



Source: FSInsight

Industry & Firm-specific Risk Factors

Adoption, competition and regulatory forces play a central role

Figure: Industry Risks

Regulatory Risk

- U.S. Crypto Infrastructure Bill and its potential tax reporting implications
- Any potential transparency and reporting requirements outside of the Infrastructure Bill designed such that they add burdensome costs to operators and investors in the industry
- Unfavorable changes in the classification of certain cryptoassets and any changes in the taxation of crypto activities
- Unforeseen foreign regulatory frameworks for crypto activities and blockchain businesses
- Greater oversight from financial regulatory agencies, which would require greater AML and compliance rules

Competition & Execution Risk

- New funds continue to emerge seeking to actively invest in crypto and blockchain technology companies
- Industry relationships may deteriorate, or their competitive advantage may decrease
- The market to acquire BTC at discounted prices becomes crowded or disappears for regulatory or economic reasons
- Increased difficulty in sourcing early-stage investments as more capital enters the market
- Portfolio companies' product replacement risk – users' shift from using / consuming products the Fund has invested in that can result in lower revenues and valuations
- Transactional revenue business model (exchanges) can rapidly change as competition shifts fee structures to remain competitive

Source: FSInsight

Introduction

Off the Chain Capital

Appendix

OTC's Bitcoin Thesis

83% of the time, BTC has shown greater ROI over the last 12 years

- When compared to traditional asset classes available to investors, Bitcoin has outperformed all available assets 10 out of 12 consecutive years.
- Many point toward increased demand from institutions as the driving force behind recent outperformance

Figures: Assets Performance Matrix Since 2010

										Retail Demand		Institutional Demand	
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
18x	49x	9x	46x		13x	6x	33x		3x	17x	2x		
BTC 500%	BTC 1473%	BTC 186%	BTC 5866%	REITs 28%	BTC 35%	BTC 124%	BTC 1338%	Cash 2%	BTC 92%	BTC 308%	BTC 58%		
REITs 28%	AA w/2% BTC 30.1%	REITs 19.7%	AA w/2% BTC 128.9%	Lg Cap 13.7%	REITs 2.8%	Sm Cap 21.3%	AA w/2% BTC 40.6%	HG Bnd 0.0%	Lg Cap 31.5%	Sm Cap 18.4%	REITs 26%		
Sm Cap 26.9%	REITs 8.3%	EM 18.6%	Sm Cap 38.8%	AA 6.9%	Lg Cap 1.4%	HY Bnd 17.5%	EM 37.8%	HY Bnd -2.3%	REITs 28.7%	Lg Cap 16.3%	Lg Cap 20%		
AA w/2% BTC 23.1%	HG Bnd 7.8%	Int'l Stk 17.9%	Lg Cap 32.4%	HG Bnd 6.0%	HG Bnd 0.6%	Lg Cap 12.0%	Int'l Stk 25.6%	REITs -4.0%	Sm Cap 25.5%	EM 15.2%	Sm Cap 14%		
EM 19.2%	HY Bnd 4.4%	Sm Cap 16.4%	Int'l Stk 23.3%	AA w/2% BTC 5.7%	Cash 0.1%	EM 11.6%	Lg Cap 21.8%	Lg Cap -4.4%	Int'l Stk 22.7%	AA w/2.0% BTC 13.5%	Int'l Stk 11%		
HY Bnd 15.2%	Lg Cap 2.1%	Lg Cap 16.0%	AA 11.5%	Sm Cap 4.9%	AA w/2% BTC -0.2%	AA w/2% BTC 9.5%	Sm Cap 14.7%	AA -5.6%	AA w/2% BTC 20.4%	AA 7.6%	AA w/2.0% BTC 9%		
Lg Cap 15.1%	AA 0.3%	HY Bnd 15.6%	HY Bnd 7.4%	HY Bnd 2.5%	Int'l Stk -0.4%	REITs 8.6%	AA 14.6%	AA w/2% BTC -6.8%	AA 18.9%	HG Bnd 6.2%	AA 8%		
AA 13.5%	Cash 0.1%	AA w/2% BTC 15.6%	REITs 2.9%	Cash 0.0%	AA -1.2%	AA 7.3%	REITs 8.7%	Sm Cap -11%	EM 18.9%	HY Bnd 5.6%	HY Bnd 5%		
Int'l Stk 8.2%	Sm Cap -4.2%	AA 12.2%	Cash 0.1%	EM -1.8%	SM Cap -4.4%	HG Bnd 2.7%	HY Bnd 7.5%	Int'l Stk -13.4%	HY Bnd 14.4%	Int'l Stk 5.1%	EM 2%		
HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	Int'l Stk -4.5%	HY Bnd -4.6%	Int'l Stk 1.5%	HG Bnd 3.5%	EM -14.3%	HG Bnd 8.7%	Cash 0.1%	Cash 0%		
Cash 0.2%	EM -18.2%	Cash 0.1%	EM -2.3%	BTC -60.5%	EM -14.6%	Cash 0.3%	Cash 1.0%	BTC -72.9%	Cash 2.1%	REITs -11.6%	HG Bnd -2%		

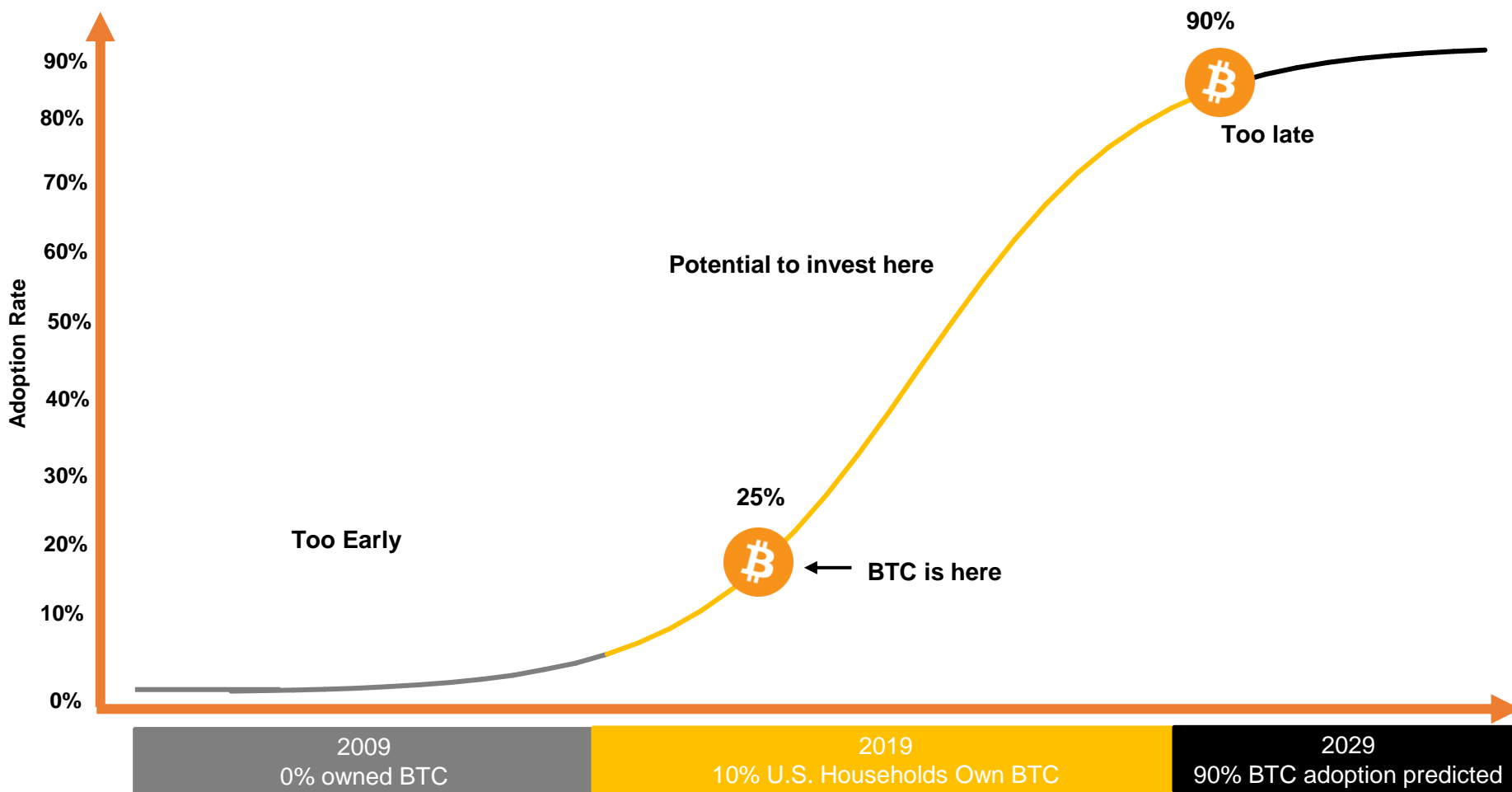
Source: novelinvestor.com; Off the Chain Capital. Data as of 9/12/21

OTC's Bitcoin Thesis

9 out of 10 U.S. household are projected to own BTC by 2029

- S-curve analysis suggests that ~90% of all households in the United States will have adopted BTC by 2029, suggesting an increase of 65% from the current adoption rate of 25%.

Figure: U.S. Household BTC Adoption S-Curve Analysis



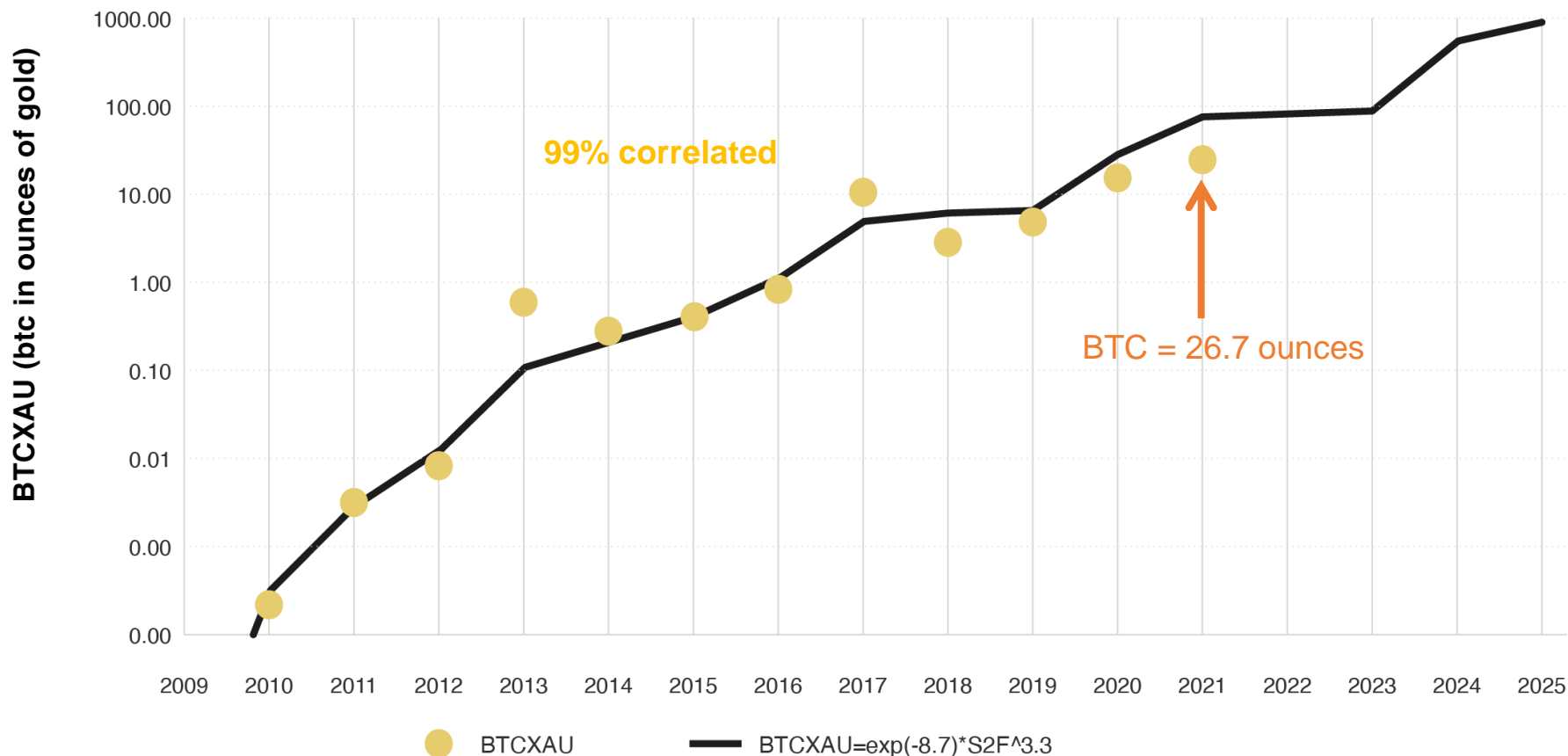
Source: Piplsav's The Growing Crypto Universe Survey of 30,330 Individuals in the U.S., 2/18/21 --- Piplsav.com

OTC's Bitcoin Thesis

BTC's increasing value illustrated in ounces of gold, keeps on growing

- The once safe-haven asset, has gradually lost its value glamour to incumbent competitor BTC. As time progresses since the creation of BTC, the value of BTC per coin has increased compared to gold and continues to growth.

Figures: Gold-to-Bitcoin Ratio



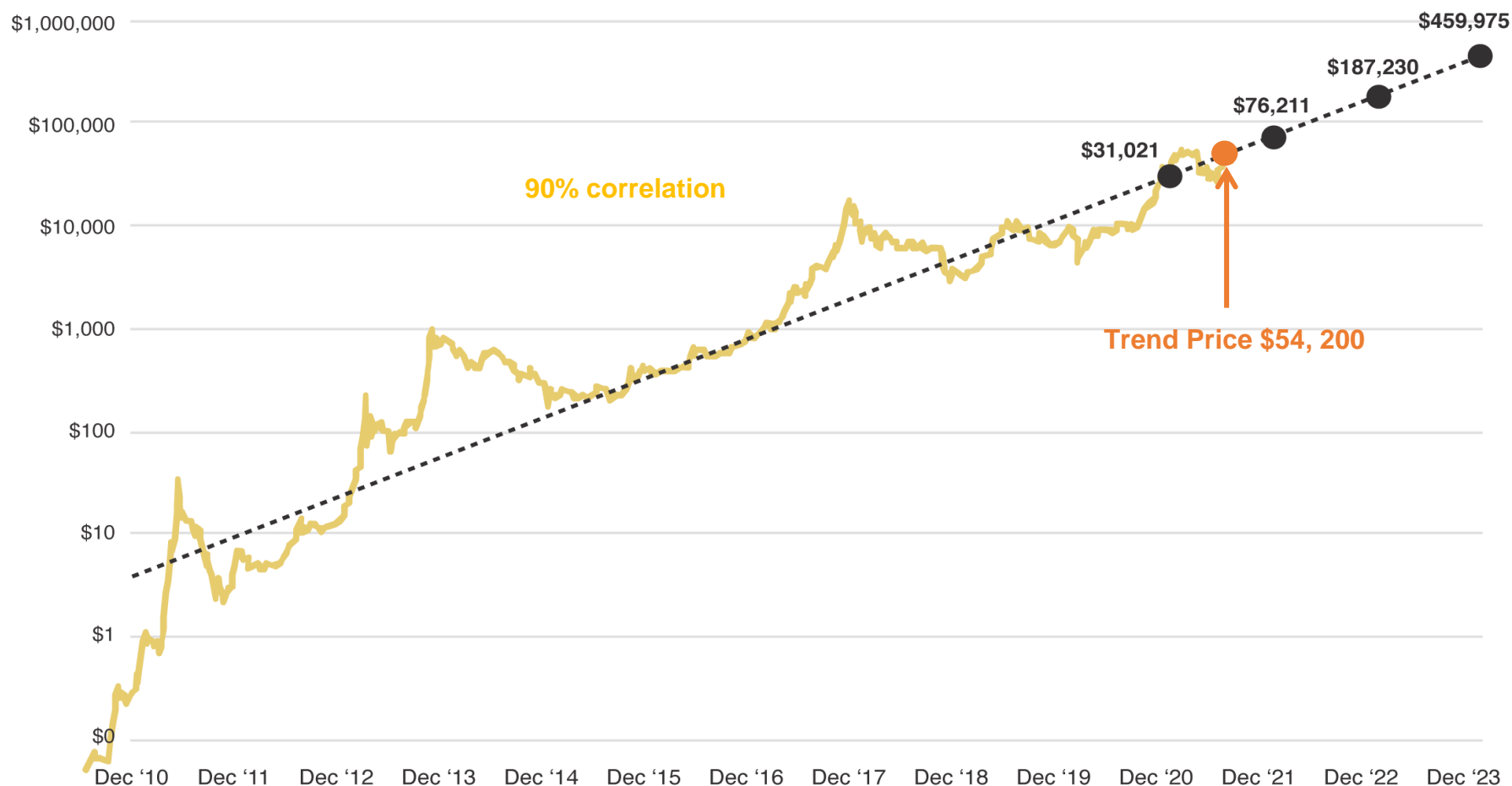
Source: FSInsight, Bloomberg, PlanB@100millionUSD. Gold Price as of September 17, 2021 = \$1,764 per ounce

OTC's Bitcoin Thesis

High correlation percentage points to higher price targets

- With a 90% level of correlation, we estimate that prices of Bitcoin will continue to grow based on factors such as demand, limited capped supply, investment capital flows and household BTC adoption.

Figure: Estimated Price Progression of BTC



*See disclosures on slide 28

Source: Off The Chain Capital, LLC. Bitcoin price source: <http://Coinmarketcap.com>.

OTC's Bitcoin Thesis

Value found in digital assets as the macro landscape intensifies

- Correlation between BTC prices and regression prices continue to move closer with one another as was the case from 2014 to 2017. We expect spot price of BTC to move closer to regression price levels moving forward.

Figure: Crypto Market Trends



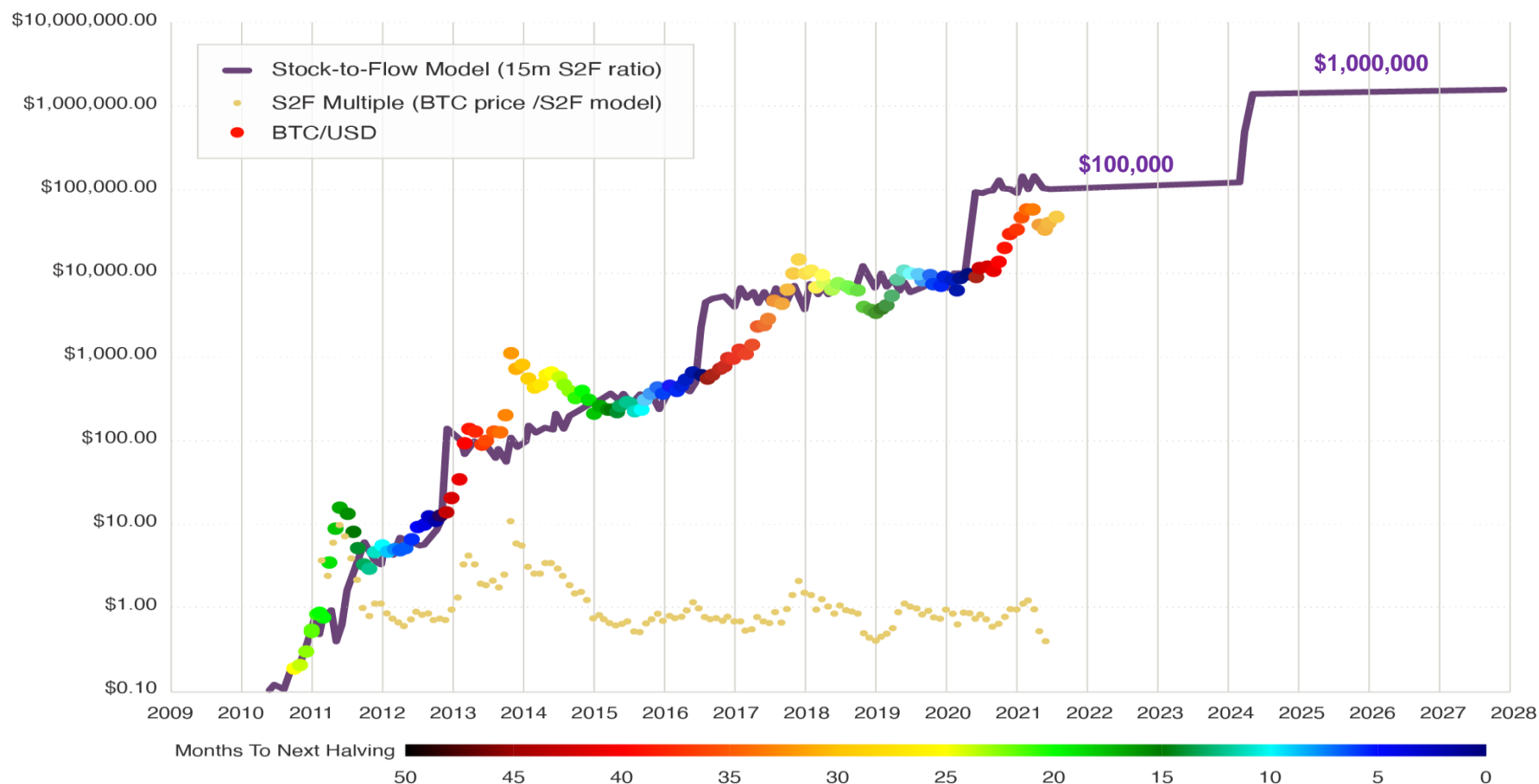
Source: PlanB@100millionUSD – PlanBTC.com

OTC's Bitcoin Thesis

Demand and Limited Supply Drive BTC Prices

- With only 21 million coins, scarcity is a major factor driving BTC price. The S2F model is a method to predict the price of an asset based on the ratio of the stock (supply) to the flow (annual production).

Figure: Stock-to-Flow BTC Model



Source: PlanB@100millionUSD – PlanBTC.com

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Positive (+): The analyst expects the performance of his industry/sector coverage universe over the next 6-18 months to be attractive vs. the relevant broad market benchmark, being the S&P 500 for North America.

Neutral (N): The analyst expects the performance of his or her industry/sector coverage universe over the next 6-18 months to be in line with the relevant broad market benchmark, being the S&P 500 for North America.

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The performance results presented above reflect the reinvestment of interest, dividends and capital gains and is shown, except as noted above, gross of fees and expenses. Actual performance results for the period where fees and expenses are not included would have been lower. For example, an account with annual fees and expenses equal to 1.5% of its assets deducted quarterly, whose annualized performance was 15.0% before fees and expenses, would have net annualized performance approximately of 13.3%. Specific calculations of performance net of fees and expenses for a given fee structure can be provided upon request.

The indices herein are not intended as direct comparisons to the performance of the Fund. Instead, they are intended to represent the performance of certain sectors of the overall securities markets. The S&P 500 Index is a proxy for the broader U.S. stock market. The indices reflect the reinvestment of dividends and income. Indices are generally unmanaged and are not available for direct investments.

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A prospective investor's decision to invest must be based solely on the information set forth in the Fund's Confidential Private Placement Memorandum (the "Memorandum"). No one should consider investing in the Fund who is not, either alone or together with such investor's financial advisers, financially sophisticated and capable of evaluating the merits and risks of an investment in a private investment vehicle like the Fund. All prospective investors must meet the investor suitability requirements described in the Memorandum in order to invest in the Fund.

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