



Deep Research

Blockchain Investment Group

April 26, 2022

Sean Farrell^{AC}
sean.farrell@fundstrat.com
twitter: @Seanmfarrell

Will McEvoy
will.mcevoy@fundstrat.com
twitter: @will__mcevoy

Executive Summary

- Alongside its exponential growth, the crypto market has become increasingly complex over the past several years. Blockchains have proven to be imperative underlying infrastructure for the next generation of internet applications. In turn, a wave of businesses has set out to develop institutional and consumer products that leverage or service blockchain infrastructure. Capital allocators have taken notice, investing over \$33 billion across 2,000 blockchain projects and companies in 2021. As of Q4 2021, ~863 crypto investment funds have launched to meet this demand for crypto exposure. However, new entrants looking to allocate capital across crypto funds have several hurdles to overcome, including high minimums, sector & strategy selection, manager selection, and access.
- Blockchain Investment Group (“BIG” or the “Fund”) is a crypto fund of funds (“FoF”) that identifies, evaluates, and manages investments in crypto and blockchain-focused hedge funds. BIG’s core value propositions include (1) privileged access to top funds with proven track records, (2) a robust manager selection process for identifying ethical and well-rounded investment managers, and (3) diversification across an expanding landscape of crypto sectors and investment strategies.
- BIG boasts a noteworthy track record since launching in February 2018, having outperformed bitcoin by 1,019%. Much of the outperformance came in 2020 and 2021 when the Fund returned 316% and 478% on a net basis, respectively.
- Risks – Execution risk as the Fund will need to adapt and evolve its investment process to keep pace with the exponential innovation occurring in crypto, liquidity risk, given the types of assets held by portfolio funds, as well as regulatory and technological risk.
- Bottom Line – Leveraging a ‘quality-over-quantity’ manager selection process, BIG’s fund of funds provides capital allocators diversified exposure to the burgeoning crypto space through access to top funds and portfolio managers.

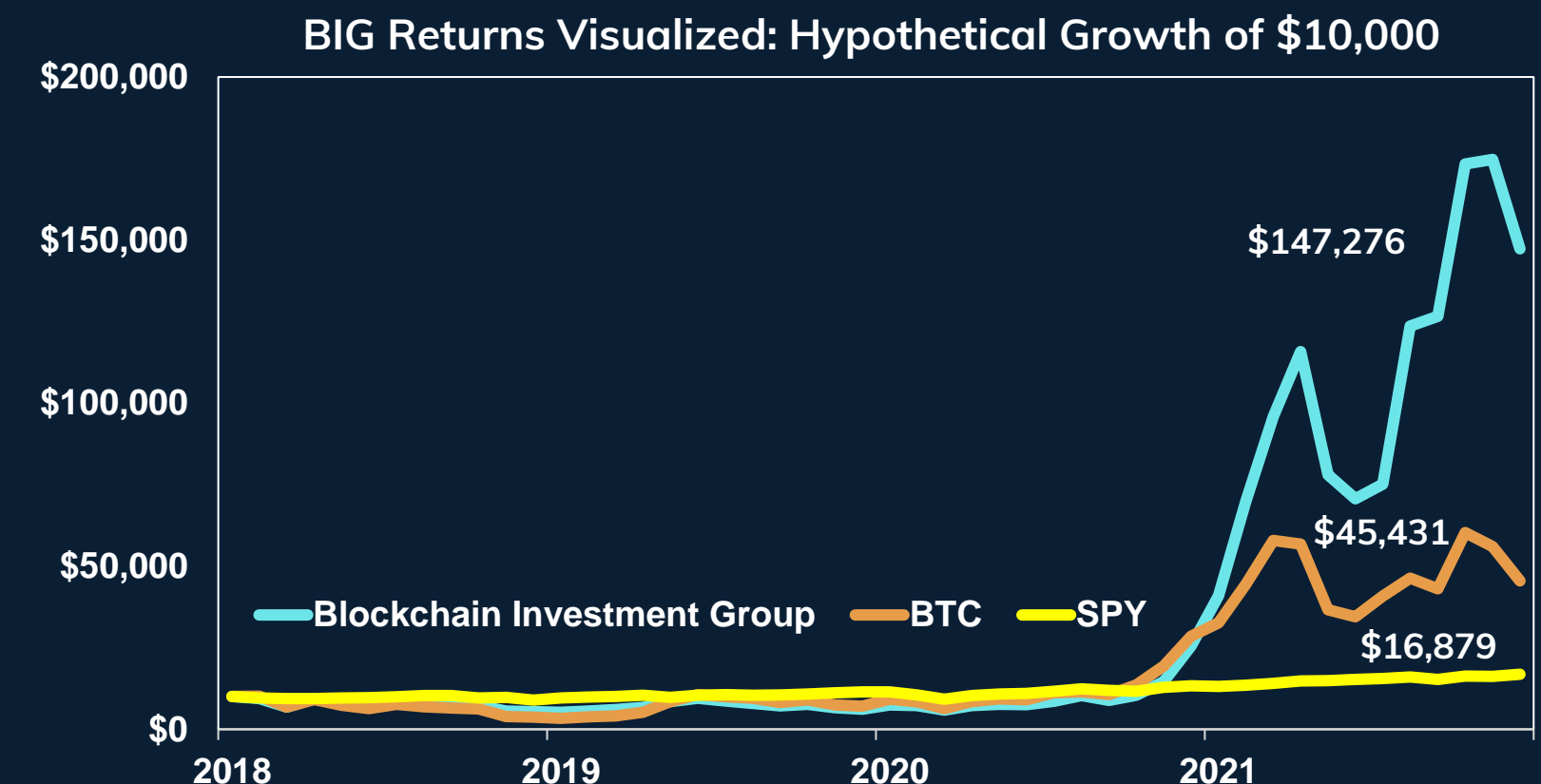
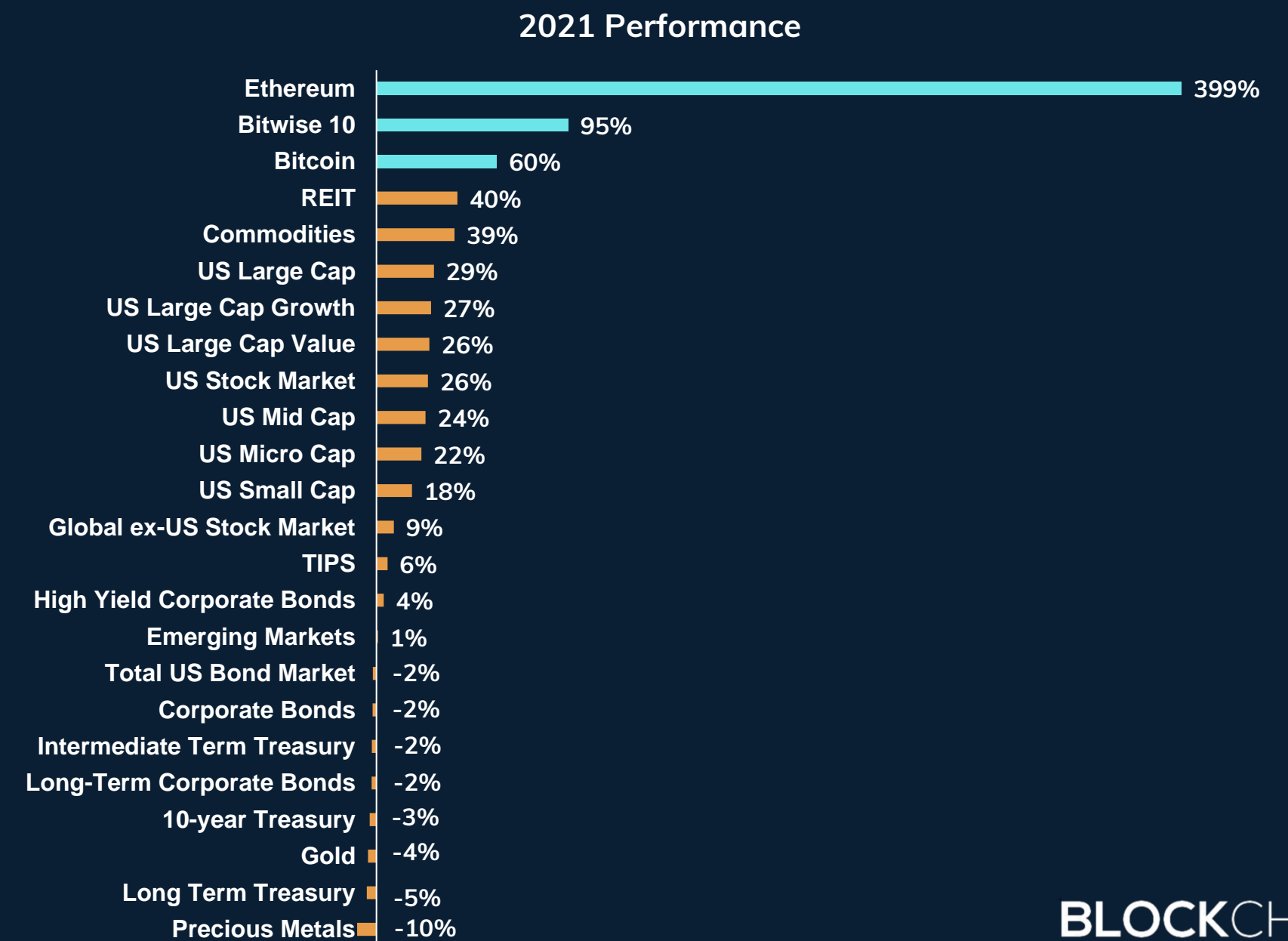
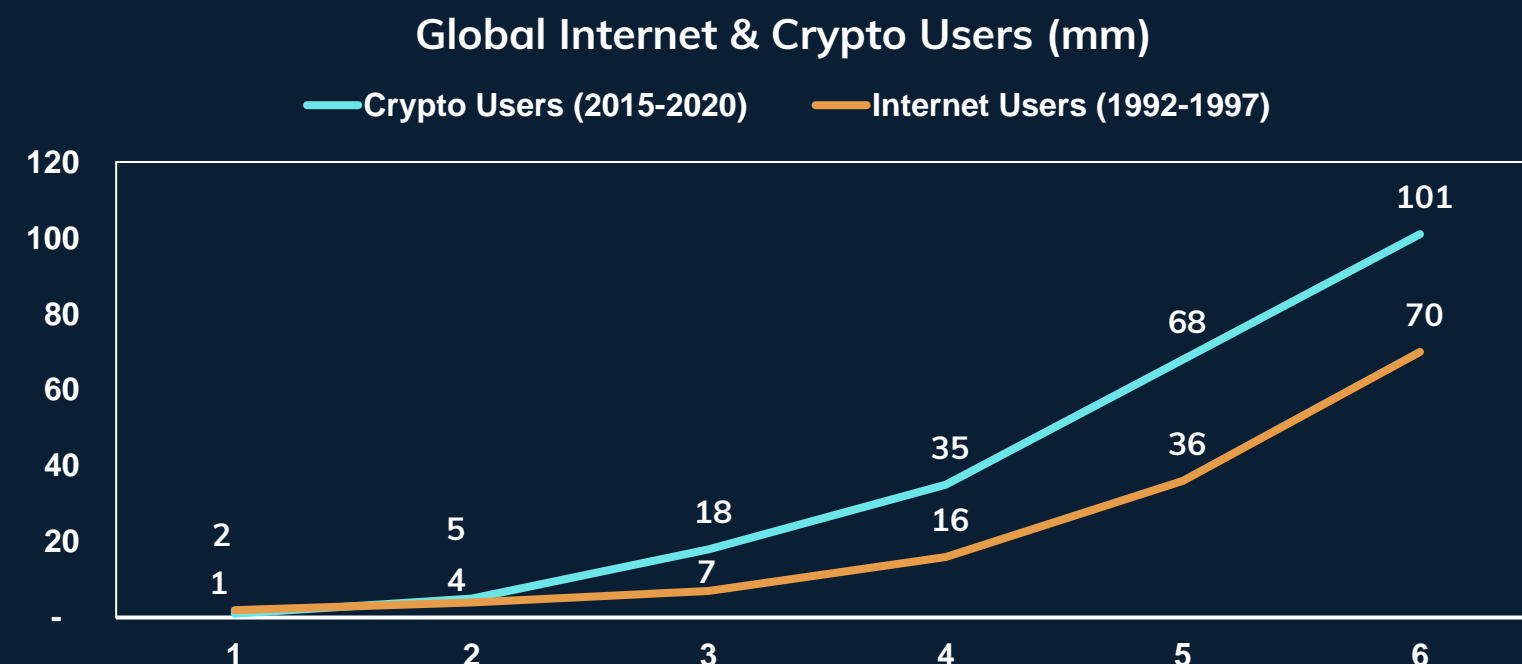


Table of Contents

- 1** BIG Introduction
- 2** Access & Diversification
- 3** Performance & Investment Terms
- 4** Risks & Disclosures

Crypto Adoption and Outperformance

- The total crypto market has grown exponentially, both in terms of market cap (\$2+ trillion) and user adoption, which over the past five years has outpaced that of the internet during its earliest stages of development.
- In 2021, many top cryptoassets outperformed traditional financial assets. The convergence of mainstream adoption and asset performance has made it **necessary for traditional asset managers to explore opportunities in the space.**



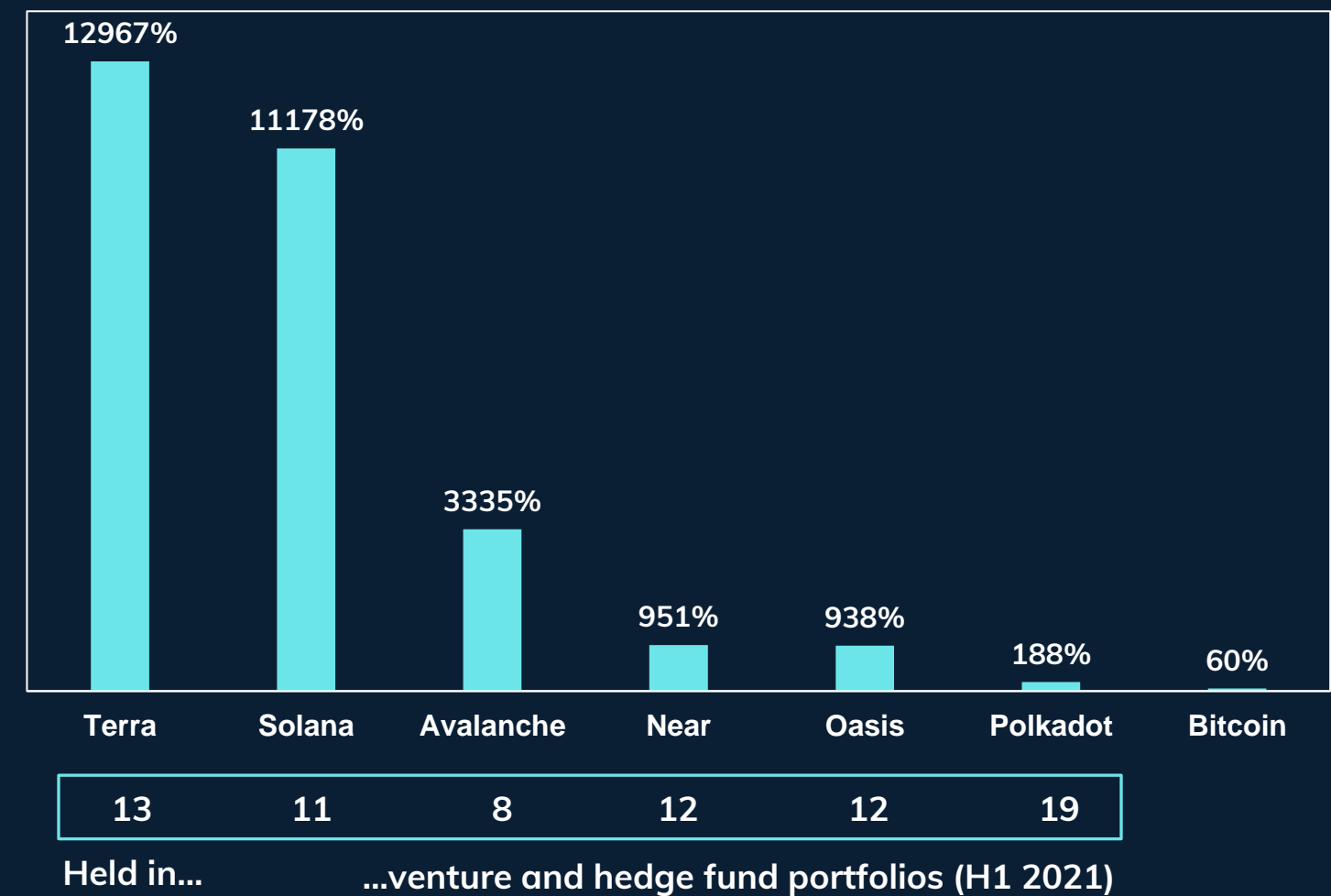
The World Outside of Bitcoin

- While the global crypto market cap has increased ~10x since 2019, Bitcoin's market dominance has structurally decreased due to the emergence of other crypto investment opportunities like smart contract platforms, DeFi, NFTs, and DAOs.
- Much of crypto investing outside of Bitcoin is akin to liquid venture capital, and in 2021, specialized funds outperformed Bitcoin by successfully identifying early-stage crypto projects, leading to increased demand for allocations from outside investors.

Bitcoin Dominance

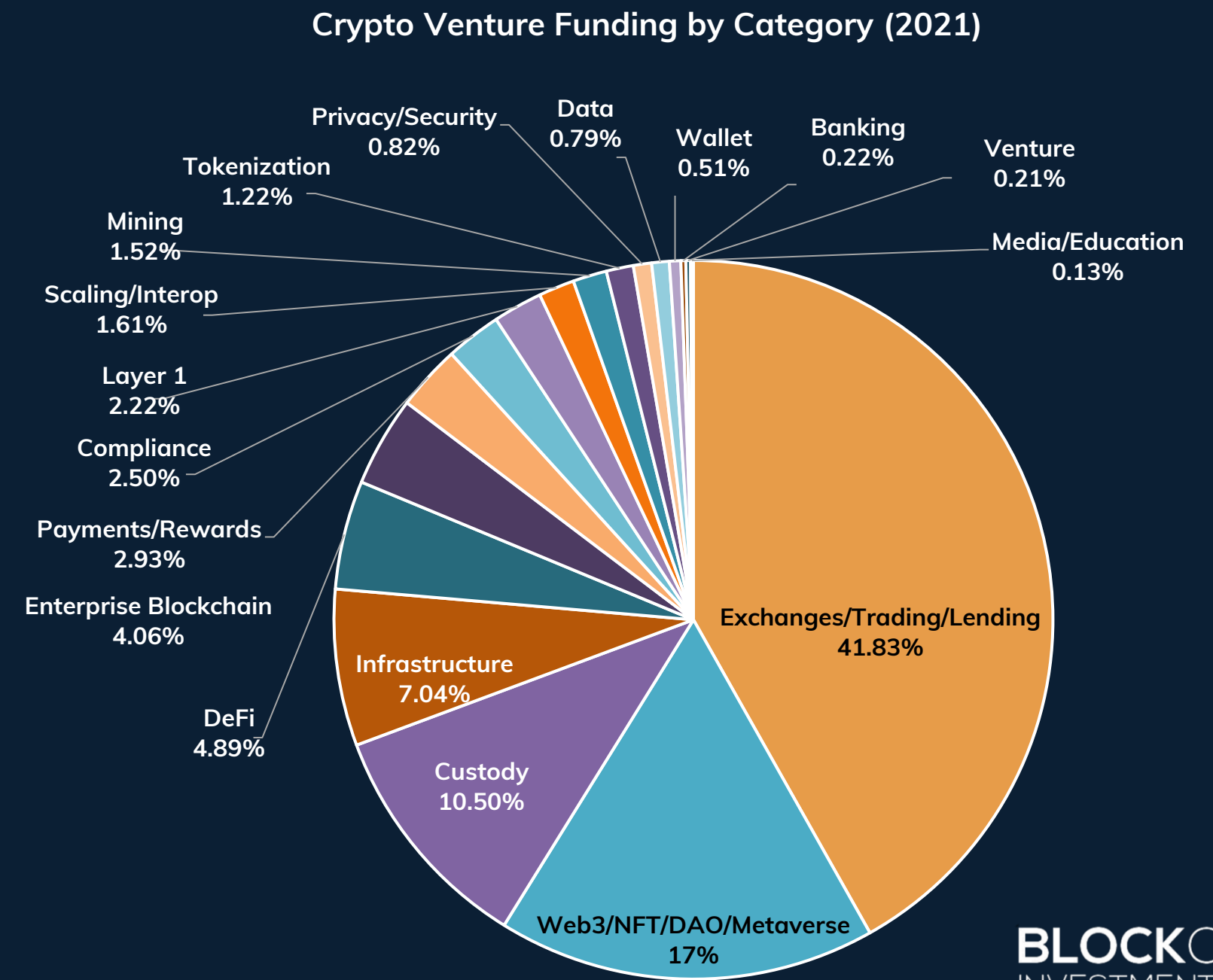
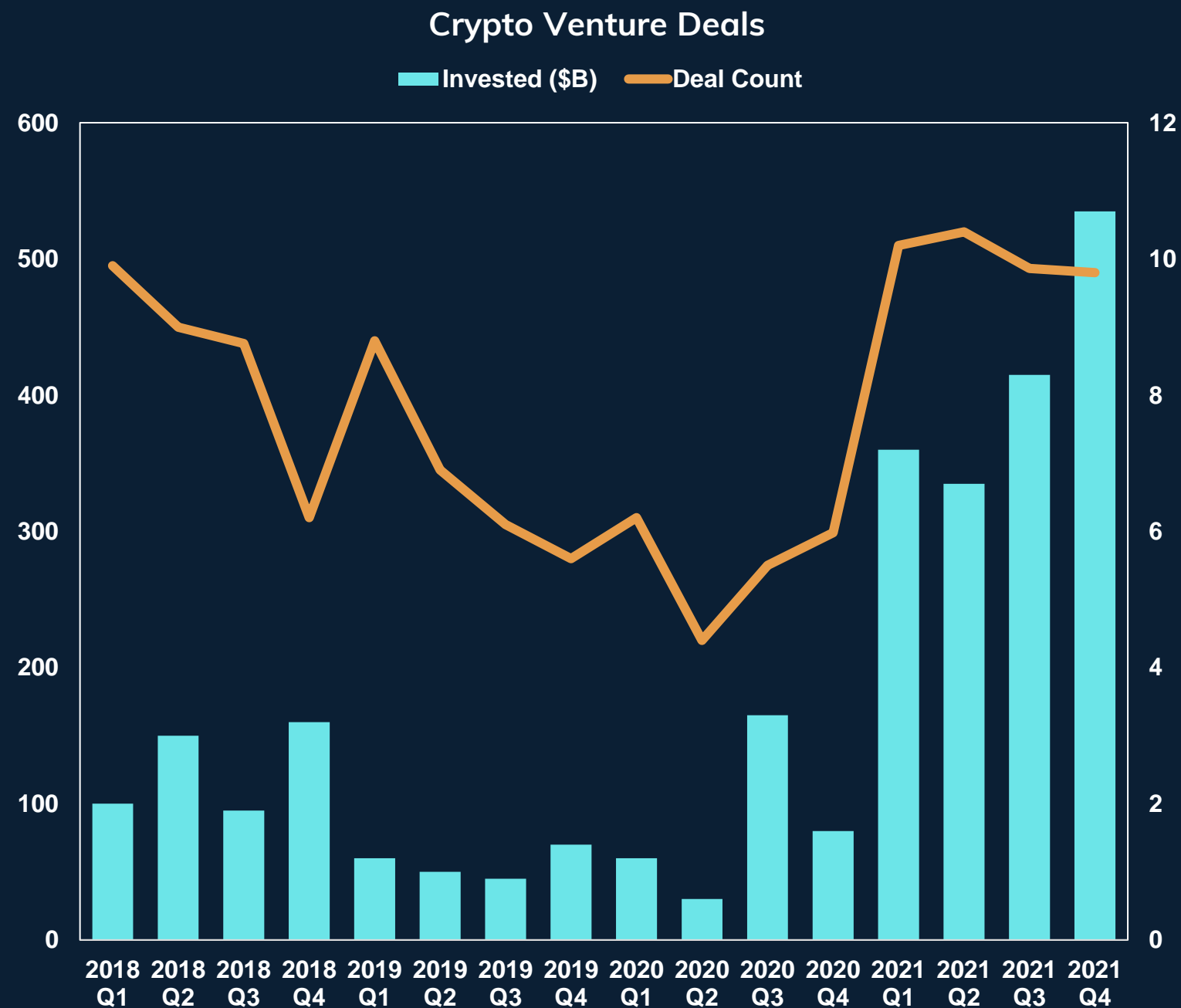


Performance of Commonly VC/Hedge Fund Investments (2021)



Crypto Funding Landscape Spans Several Verticals

- In 2021, crypto hedge and venture funds deployed about \$33 billion across more than 2,000 blockchain projects and companies – making it the most significant year in crypto investing history. As the industry expands, the number of defined verticals within crypto that garner substantial investments increases. **Navigating emerging areas within crypto requires agility and deep expertise in the space.**

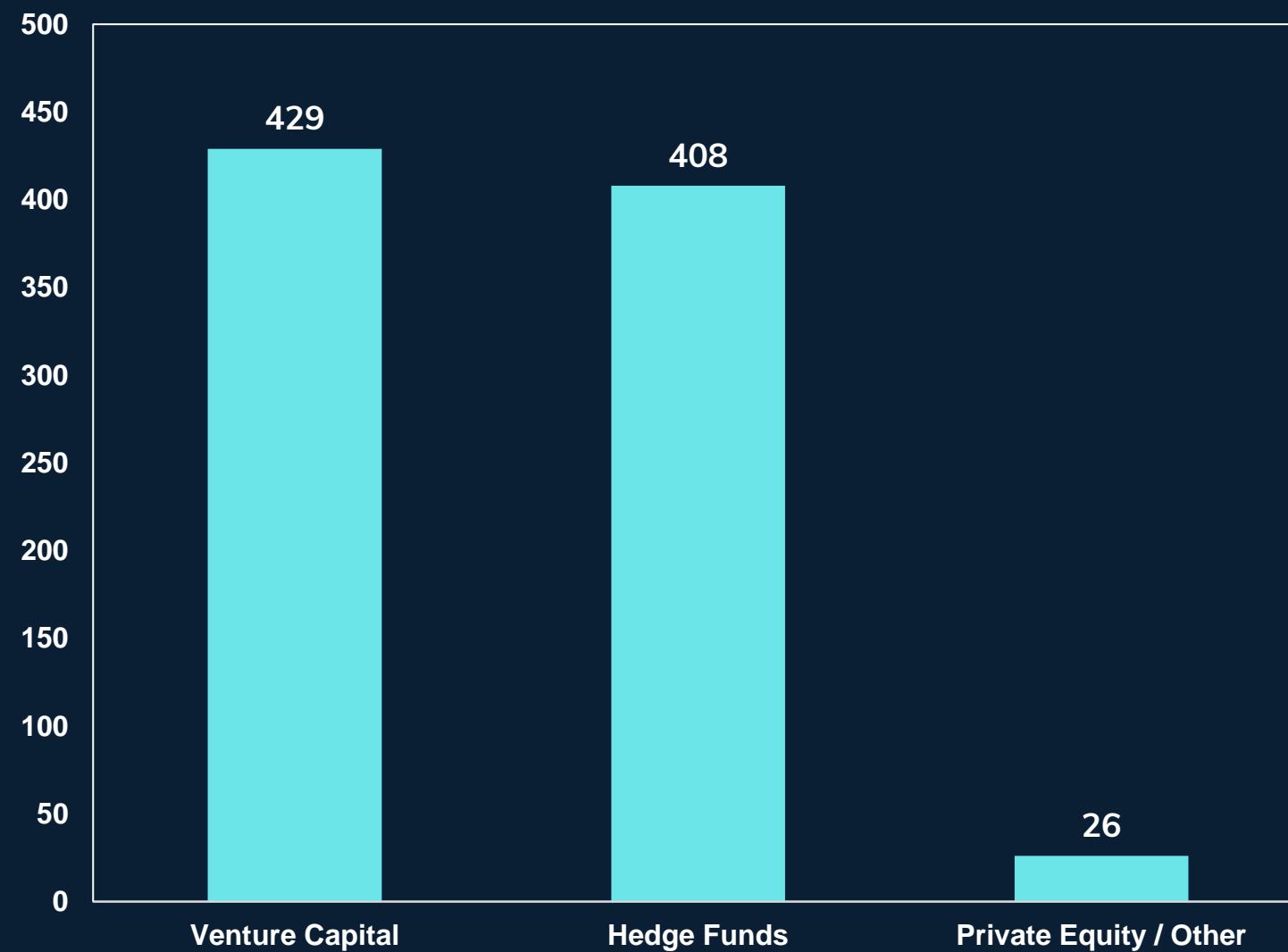


Source: FSInsight, Pitchbook, Galaxy Digital

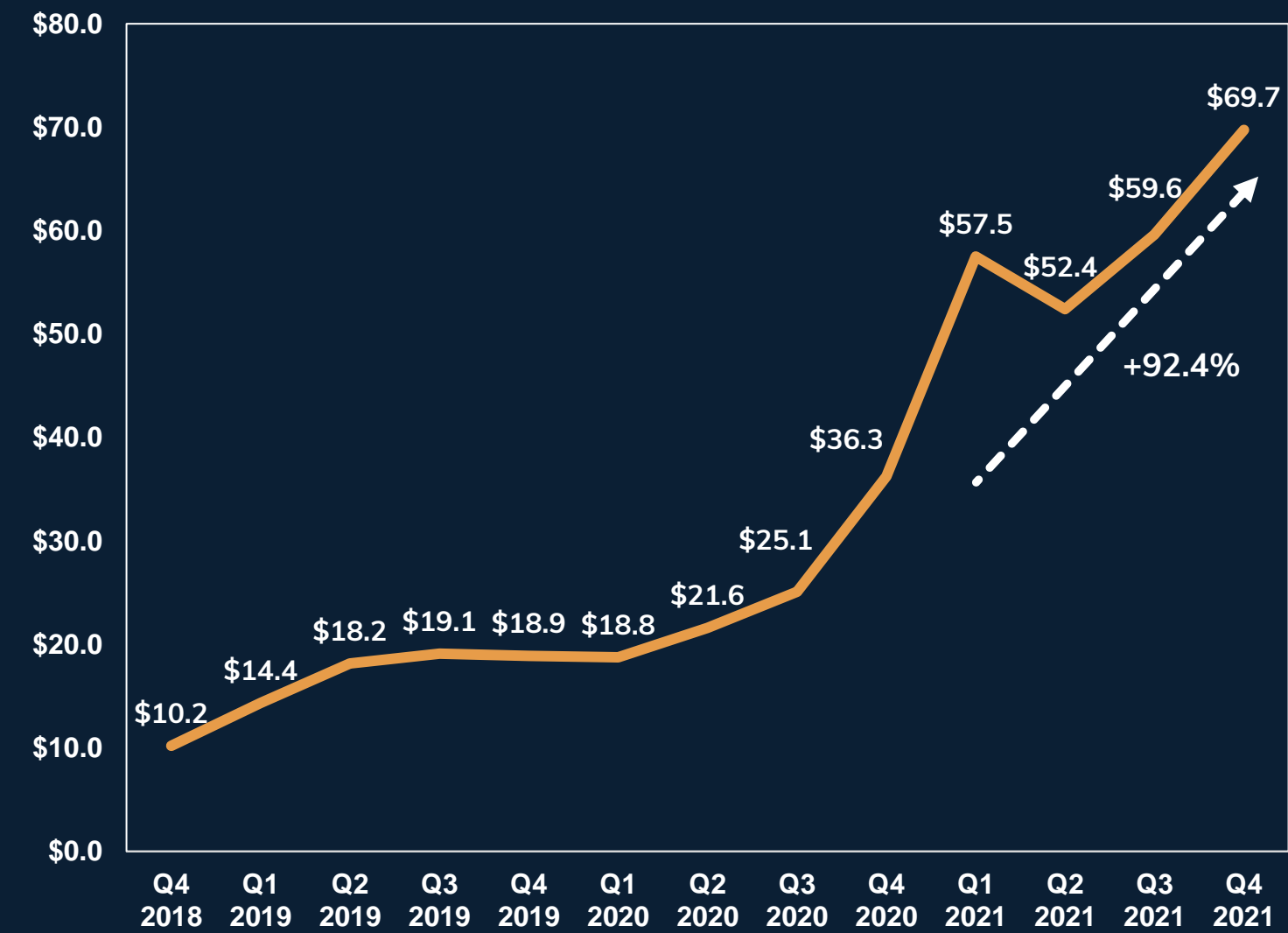
Funds Launch to Fill Demand From Investors

- As of Q4 2021, there were approximately 863 crypto investment funds managing nearly \$70 billion in AUM (up 92% in 2021).
- Limited Partners have no shortage of allocation opportunities, but many crypto hedge funds are highly volatile, have high minimum investment thresholds, and lack the requisite experience to get into the top deals.

Crypto Funds by Type

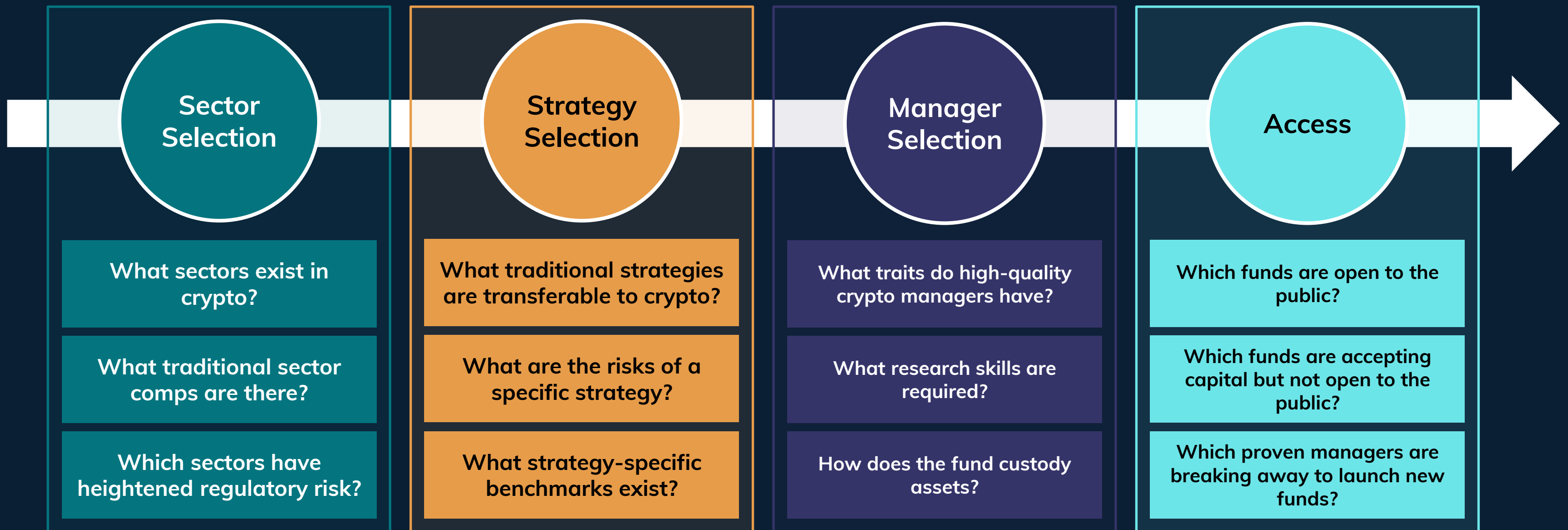


Total Crypto Fund AUM (B)



A New Investing Frontier

- While the data suggests many institutional and high net worth investors are entering the space – they must first complete a robust due diligence process and answer several critical questions before allocating capital.
- This journey starts by answering basic questions on the broad crypto space and continues through more nuanced questions around manager selection and fund access. **Those without a foot in the industry have a steep hill to climb.**



Company Overview

BLOCKCHAIN
INVESTMENT GROUP

Founded in February 2018, Blockchain Investment Group (BIG) is a fund of funds that identifies, evaluates, and manages investments in crypto and blockchain hedge funds.

The Problem & Landscape

- Over the past several years, the crypto investment landscape has grown exponentially in scope and complexity.
- Outside of Bitcoin and large-cap digital assets, successful crypto investing requires a venture capital approach with deal sourcing capabilities and deep sector-specific expertise.
- Many of the top crypto funds are closed to the public and/or require high minimum investments - accessing them remains difficult for investors new to the space.

The BIG Solution

- A crypto fund of funds leveraging deep industry connections for access, a proven manager selection process, and prioritizing diversification across a wide range of crypto sectors and investment strategies.

Deep Industry
Connections

Access

Lower
Minimums

Proven Manager
Selection Process

Ethics

Thought
Leadership

Diversification

Across
Sectors

Across
Strategies

BLOCKCHAIN
INVESTMENT GROUP

BIG Strategy & Value Proposition

- BIG's value proposition couples privileged access to top funds with a proven manager selection process, resulting in a diversified portfolio of crypto investment vehicles across a wide array of strategies and sectors.

Privileged Access

- Access to top existing funds closed to the public
- Access to new funds launched by 'break-away' managers closed to the public
- Ability to negotiate reduced fee structures with current and future portfolio funds

BLOCKTOWER

Multicoin Capital

PANTERA

Superior Manager Selection

Quality-over-Quantity fund selection process prioritizing:

- Strong, ethical team of industry leaders implementing sound, clear investment strategies
- Demonstrated mastery of crypto custody and implementation of necessary safeguards
- Well-versed in the current regulatory landscape, prepared to ensure future compliance given new legislation
- Well-rounded investment managers with both asset management and crypto-specific expertise

Diversification Across Strategies and Sectors

Strategies

Buy & Hold

Industry Leaders

Quant Trading

Chain / Ecosystem-specific

Liquid Venture

Traditional Venture

Delta Neutral

Sectors

Smart Contract Platforms

DeFi

NFTs

Blockchain Gaming

DAOs

Metaverse

BIG Leadership

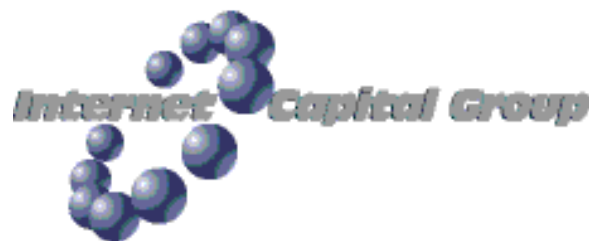
- Eric Weiss is the founder and CIO of BIG. As CIO, Eric leverages his deep knowledge of bond trading, venture capital, and internet entrepreneurship to identify top managers in the blockchain hedge fund space.

Eric Weiss

Managing Member & Chief Investment Officer



- Founding Principal, Stripes Group
- Former Director of Investments, Internet Capital Group (ICG)
- Former Director, Private Equity and Venture Capital division of GE Capital
- Former US Government bond trader at Morgan Stanley Dean Witter
- First purchased Bitcoin in 2013
- “Orange-pilled” Michael Saylor of MicroStrategy, leading to successful bitcoin investments of over \$3.5 billion
- MBA from Columbia Business School



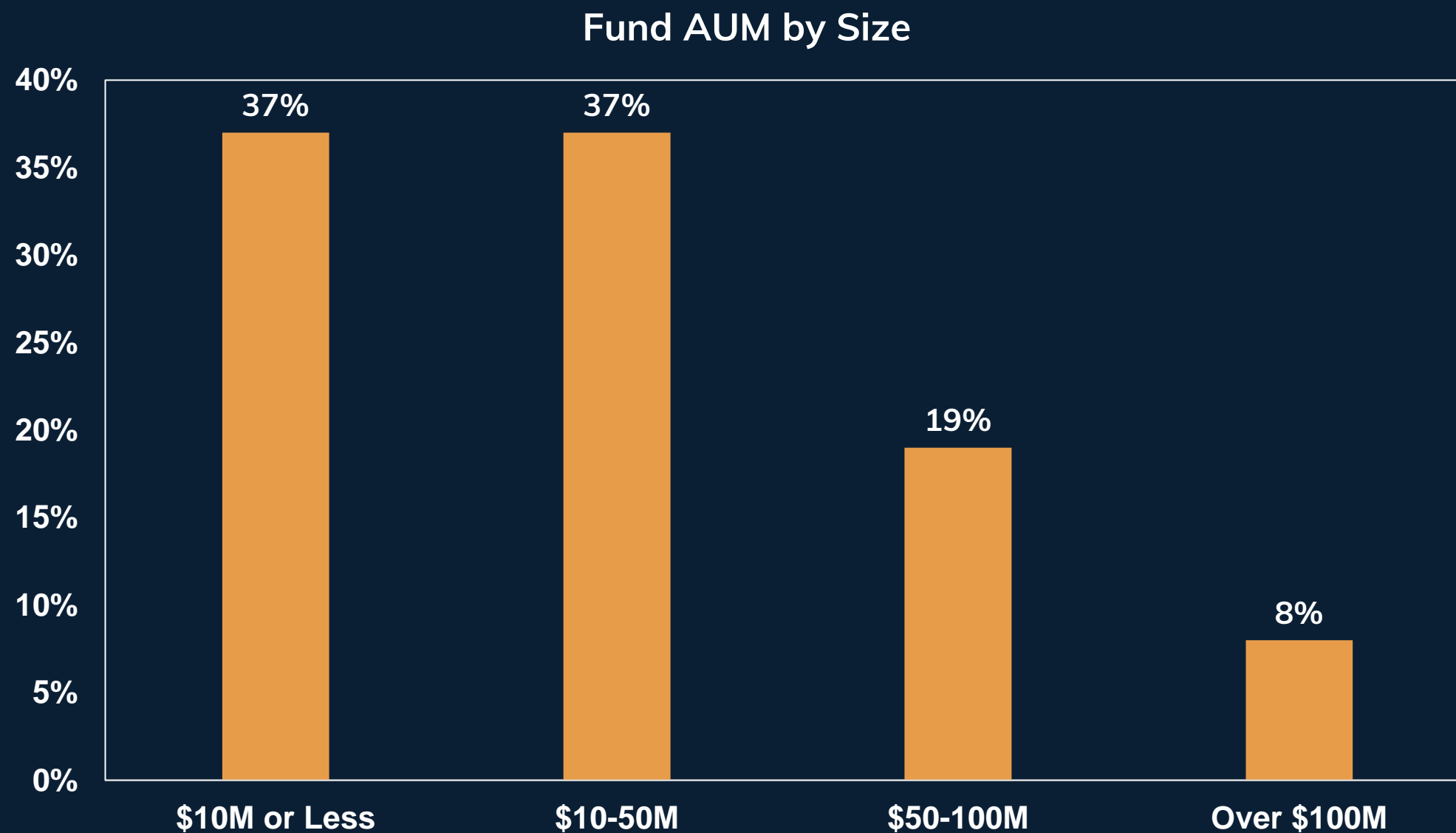
Morgan Stanley

Table of Contents

-
- 1 BIG Introduction
 - 2 Access & Diversification
 - 3 Performance & Investment Terms
-
- 4 Risks & Disclosures
-

Access Remains A Core Issue for Investors

- Gaining access to top crypto funds remains a challenge for investors new to the space. While the median fund size is growing and 37% of all assets are managed by funds with less than \$10 million, **25% of all AUM is still managed by the top 5 largest funds.**
- Additionally, 24% of crypto hedge funds have minimum investments of \$500,000 or more, making it even more difficult for investors to diversify across funds.



Crypto Funds with a minimum investment of \$500,000 or more:

24%


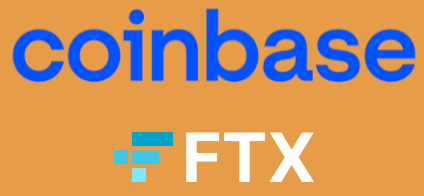

Average minimum investment:

\$272,536

Select Crypto Investment Firms Overview

- BIG has allocated capital to a handful of the most well-established crypto investment firms, investing in several of their underlying funds targeting various sectors and executing unique strategies.
- Over the coming months, BIG plans to allocate additional capital to other leading investment firms and their promising new crypto funds including GoldenTree Asset Management’s soon-to-launch *GoldenChain* fund.



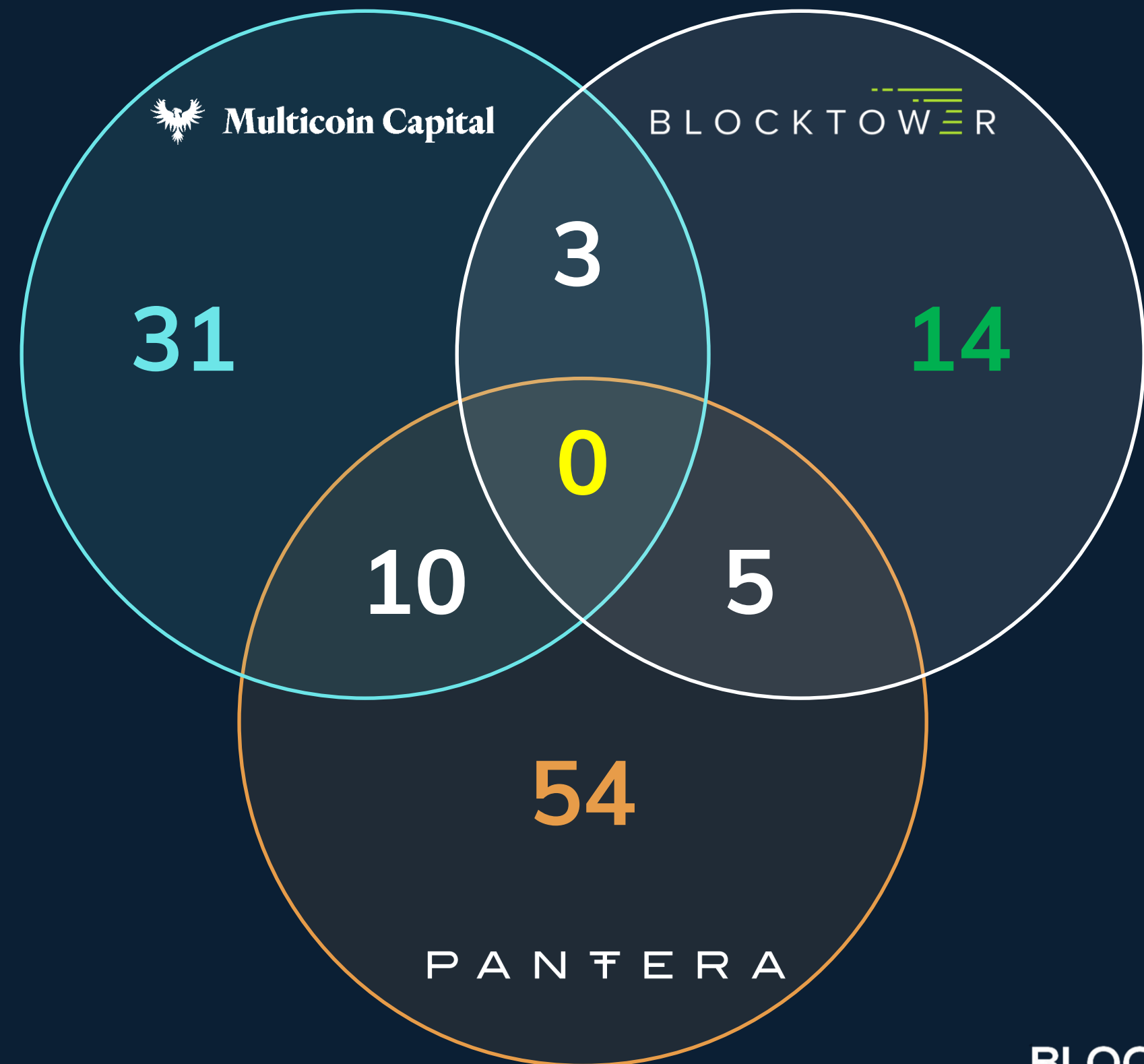
| | | | |
|---|---|---|--|
| <p>About</p> | <p>Thesis-driven investment firm that invests in cryptocurrencies, tokens, and blockchain companies reshaping trillion-dollar markets. Manages a hedge fund and a venture fund, investing across both public and private markets.</p> | <p>Founded by former Tiger Management Head of Macro Trading and CFO Dan Morehead. Pantera’s global macro strategy invested over \$1 billion in institutional allocations. In 2013, Pantera created the first blockchain hedge and venture funds in the United States.</p> | <p>Crypto and blockchain investment firm, applying professional trading, venture investing, and portfolio management to the digital asset class.</p> |
| <p>Core Strategies</p> | <p>Buy & Hold Chain / Ecosystem-specific Liquid Venture Traditional Venture</p> | <p>Buy & Hold Liquid Venture Traditional Venture</p> | <p>Liquid Venture Traditional Venture Delta Neutral Quant Trading</p> |
| <p>Portfolio Managers</p> | <p>Kyle Samani Tushar Jain</p> | <p>Dan Morehead Joey Krug</p> | <p>Ari Paul Michael Bucella</p> |
| <p>Notable Venture Investments</p> |  |  |  |

Despite Industry Size, Few Duplicative Investments

A factor that LPs must weigh in determining whether a FoF is worth the extra layer of fees is the degree to which the Fund provides a significant level of diversification across managers.

Drawing on publicly available data, we can see that the sample BIG investments have historically avoided any significant level of overlap in their token investments.

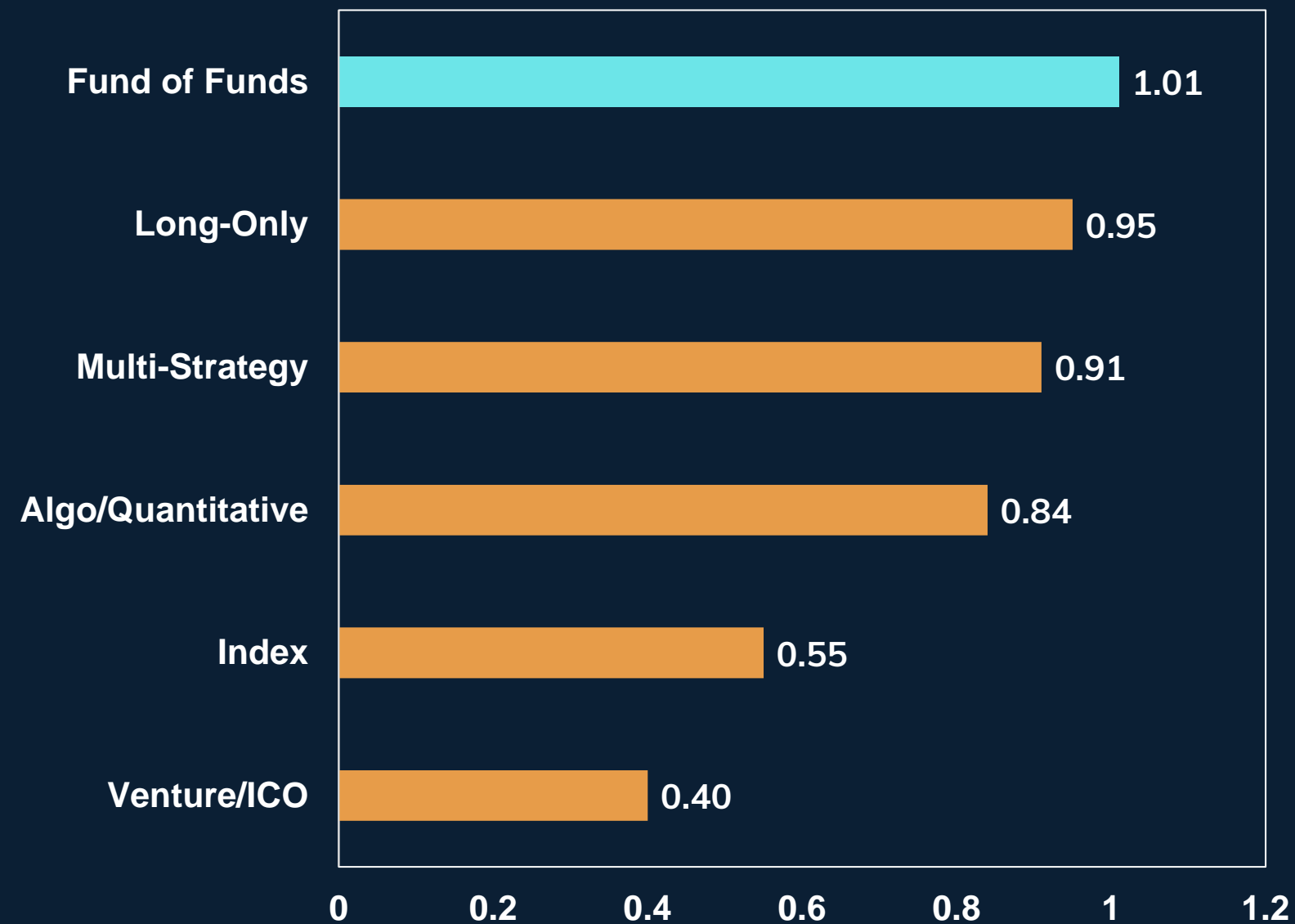
The graphic to the right maps the liquid token investments made by Multicoïn, BlockTower, and Pantera, and the holdings that overlap between each investor.



Crypto FoFs Provide Better Risk-Adjusted Returns

- Based on the best available data, from Q1 2017 through Q4 2021, crypto FoFs posted higher Sharpe (higher risk-adjusted return) and Sortino (less downside volatility) ratios than other fund types in the industry. This can qualitatively be attributed to the diversification provided by these fund types.

Median Sharpe Ratio by Fund Type



Median Sortino Ratio by Fund Type

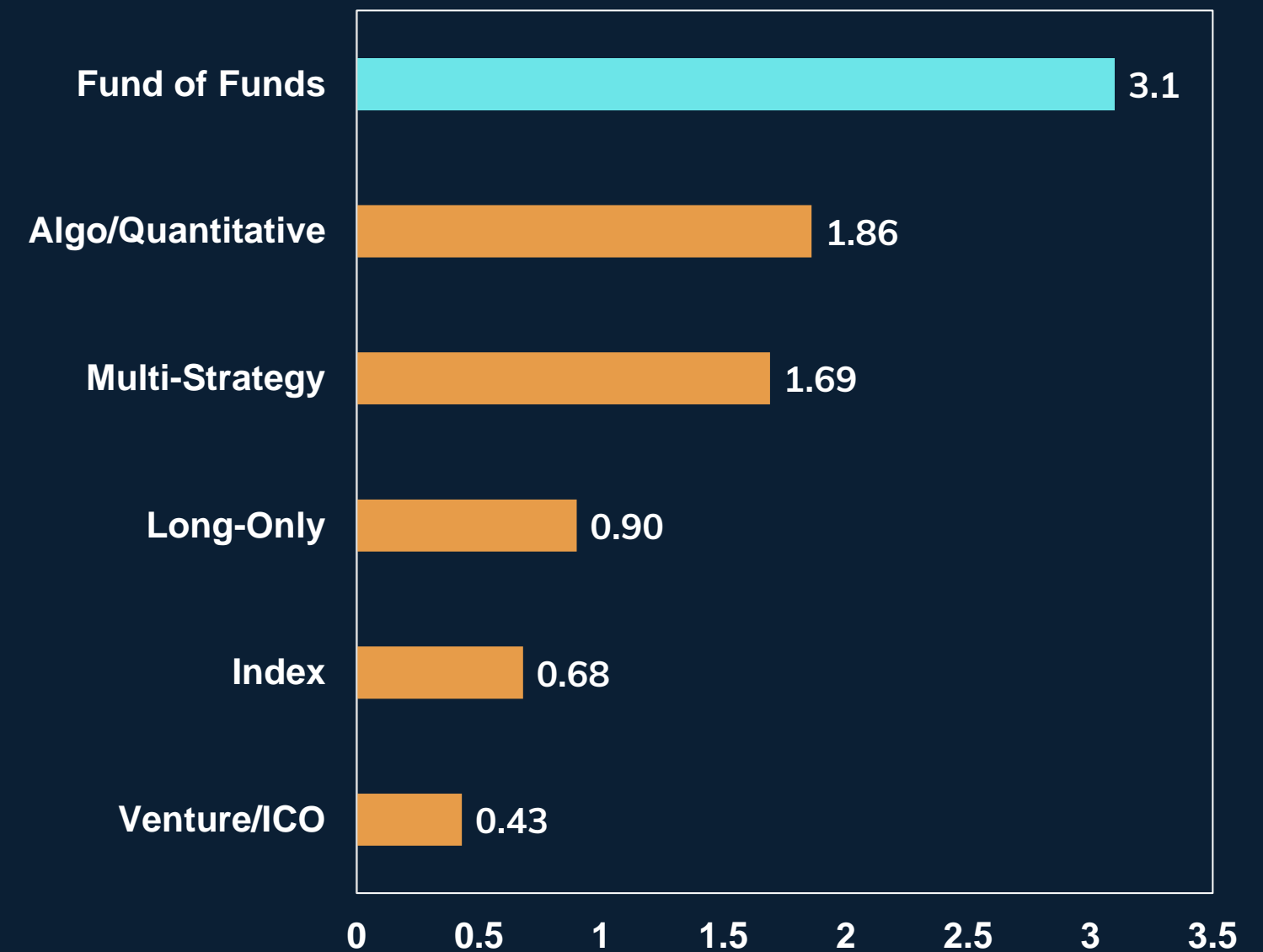


Table of Contents

-
- 1 BIG Introduction

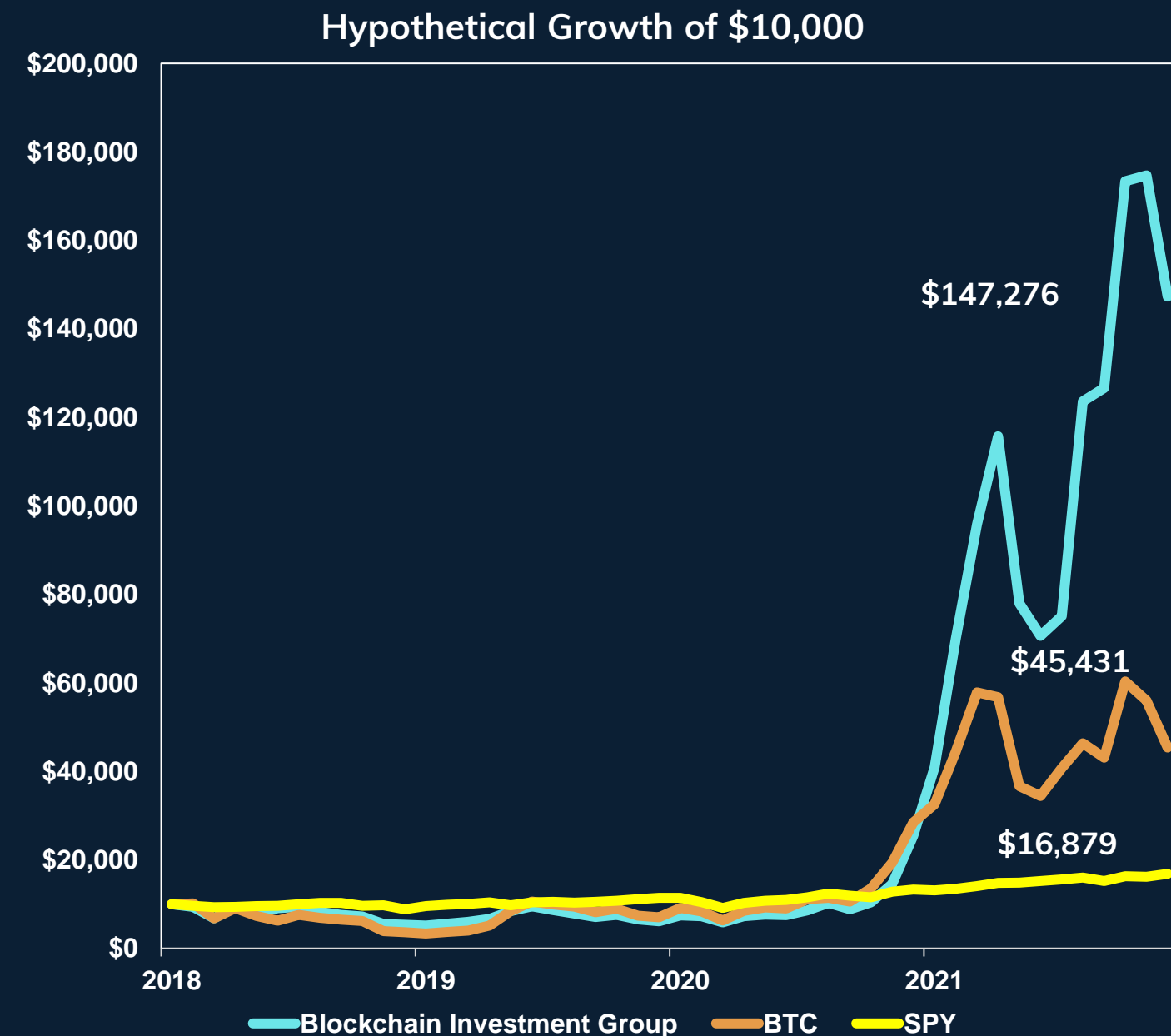
 - 2 Access & Diversification

 - 3 Performance & Investment Terms

 - 4 Risks & Disclosures

BIG Performance

- Through 2021, BIG has returned 1,373% (net of fees) since launching in February 2018, outperforming both bitcoin (+354%) and the S&P 500 (+69%) over the same period.
- Having weathered ‘crypto winter’ throughout 2018-2019, BIG posted net returns of 316% and 478% in 2020 and 2021, respectively – outperforming Bitcoin in both years.

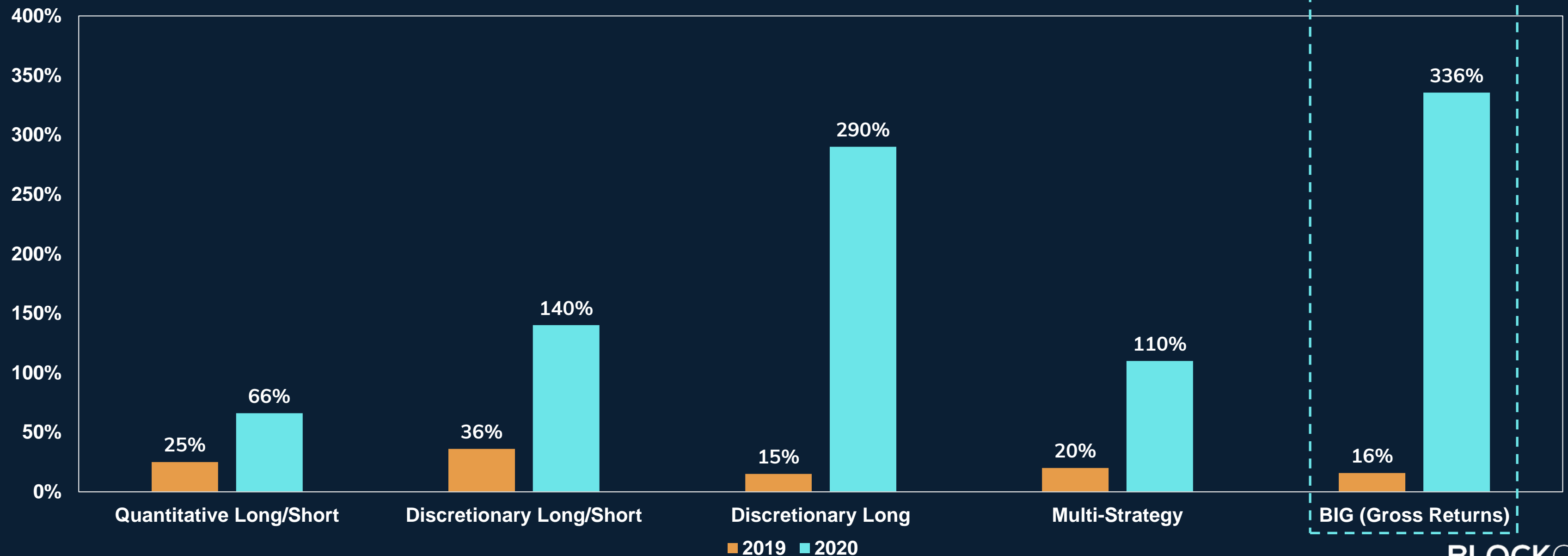


| | Net Returns | | | | | | | | | | | | FY |
|------|-------------|-----|------|-----|------|------|------|------|------|-----|------|------|------|
| | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec | |
| 2021 | 61% | 71% | 37% | 21% | -33% | -9% | 6% | 65% | 2% | 37% | 1% | -16% | 478% |
| 2020 | 22% | -2% | -19% | 23% | 5% | -2% | 14% | 20% | -14% | 18% | 40% | 75% | 316% |
| 2019 | -3% | 8% | 8% | 11% | 26% | 13% | -9% | -9% | -10% | 6% | -13% | -7% | 14% |
| 2018 | N/A | -6% | -28% | 36% | -14% | 15% | 3% | -12% | -8% | -5% | -24% | -3% | -46% |

BIG's Diversified Approach vs Individual Strategies

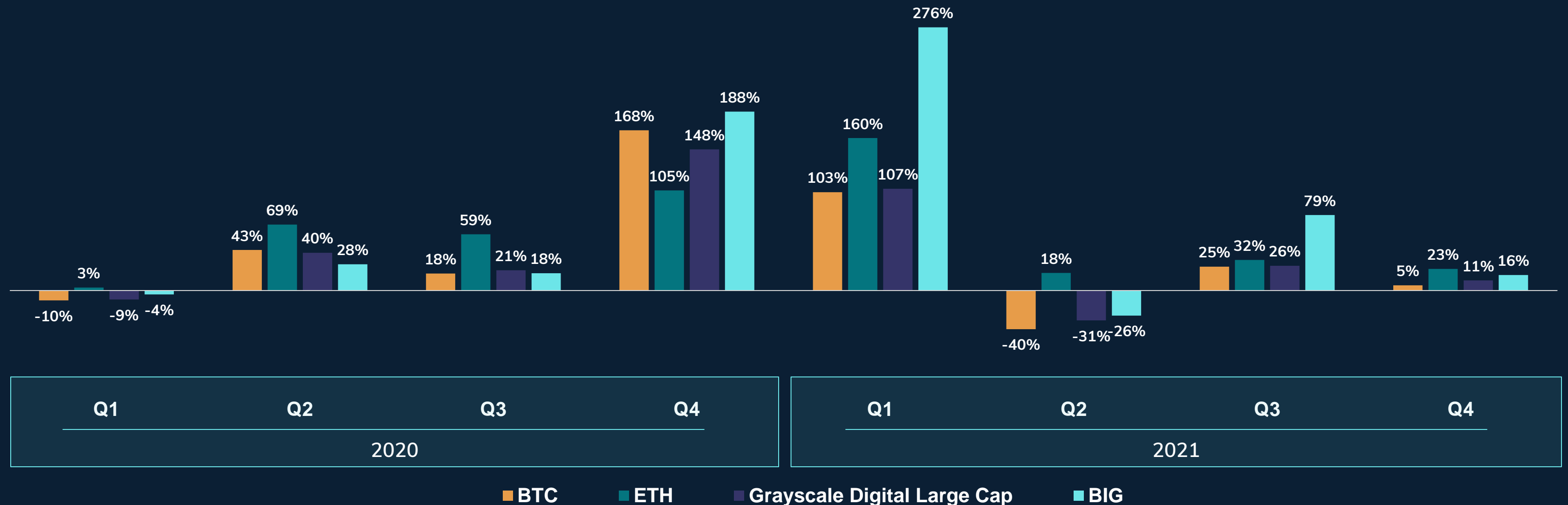
- BIG's diversified approach of holding several high-quality crypto funds **outperformed all other strategies during the bull market of 2020** while keeping pace with discretionary long strategies in 2019.
- Note, data regarding strategy-based performance in 2021 has yet to be released.

BIG Performance vs Individual Strategies



BIG vs Bitcoin & Large Cap Altcoins

- Since 2020, BIG has outperformed BTC and Grayscale's Digital Large Cap Funds to the upside, with the largest quarterly drawdown of -26%. In quarters that BIG recorded the highest return of the group, it outperformed the second-best performing asset by an average of 61%.
- While there are quarters in which ETH outperformed BIG, we view the goal of BIG's FoF to allocate to managers who will invest in assets whose parabolic growth will mirror that of Ethereum's in 2020.



BIG Investment Terms

| | |
|----------------------|---|
| Use of Capital | Investing in (1) high-quality emerging managers launching new funds and (2) side pockets of existing portfolio funds. |
| Minimum Investment | \$500,000 |
| Lock-Up Period | 18 Months |
| Liquidity | Quarterly |
| High Water Mark | Yes |
| Management Fee | 1% |
| Annual Hurdle Rate | 10% |
| Annual Incentive Fee | 10% / 15% if Annual Return >300% |

Service Providers



BIG Fees Less Than Average Fund of Funds

- BIG's 1% management fee and 10% performance fees (above 10% return) are both lower than the average crypto fund of funds.
- This results in an additional ~\$3.5M or 16% return on an initial investment of \$1 million over a five-year period assuming 100% gross annual returns and a 10% hurdle rate.

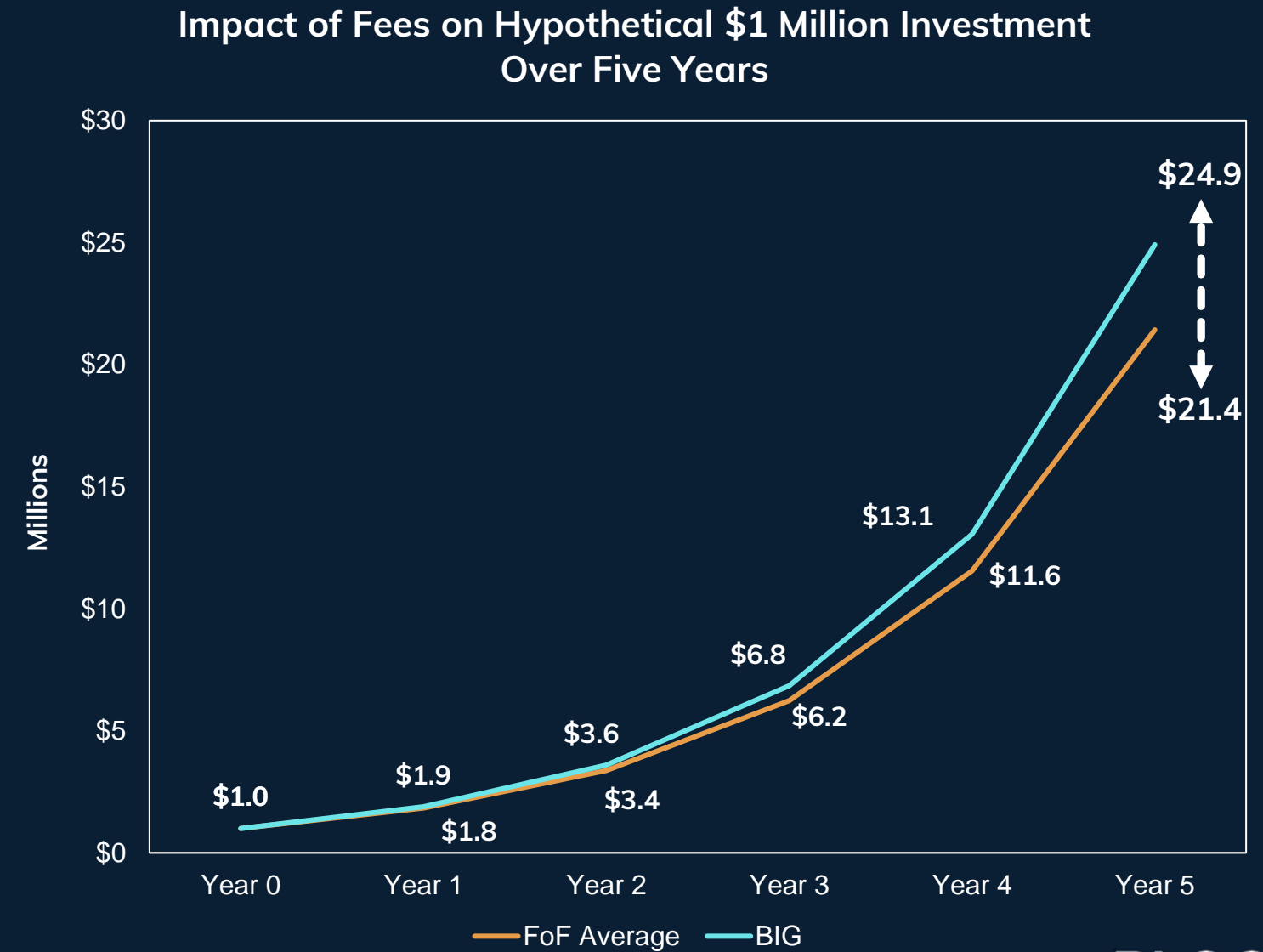
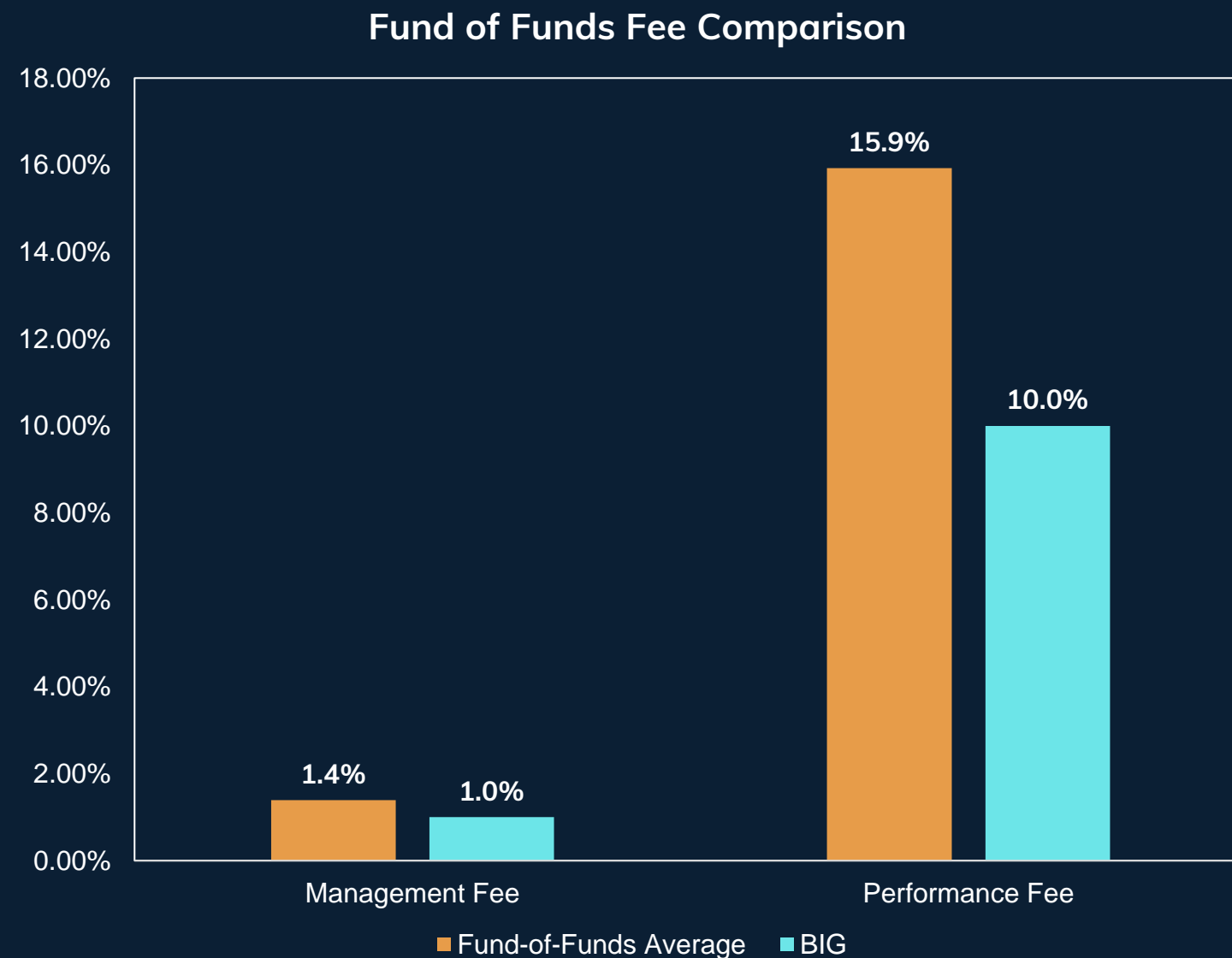


Table of Contents

- 1 BIG Introduction
- 2 Access & Diversification
- 3 Performance & Investment Terms
- 4 Risks & Disclosures

Risks

Execution Risk

- Past performance is not indicative of future returns. BIG's portfolio of funds and their respective managers will likely need to adapt and evolve their own investment processes – keeping up with the exponential innovation happening in crypto – to continue achieving outsized returns for investors.
- Similarly, BIG's manager selection process must evolve to effectively source and vet new managers who may employ novel or proprietary techniques to value crypto businesses and digital assets.

Liquidity Risk

- At any one time, a significant percentage of portfolio fund investments may be held in illiquid assets such as venture equity or tokens subject to vesting periods. Regardless of changes in the broader crypto market, these investments may not be sellable.

Regulatory Risk

- Shifts in government policy or regulatory agency stance could negatively impact cryptoassets, particularly the smaller cap assets. For example, new regulatory guidance from the Securities and Exchange Commission (SEC) around the securities classification of cryptoassets could force some assets to be registered as securities which could further impact how and where crypto assets are traded.

Technological Risk

- There still exists sizeable technological risk in many early-stage crypto projects. While diversification limits the impact of any isolated exploit, this remains a risk incurred by investors.

Disclosures

This research is for the clients of FSInsight only. For important disclosures and rating histories regarding sectors or companies that are the subject of this report, please contact your sales representative or FSInsight at 150 East 52nd Street, New York, NY, 10022 USA.

Analyst Certification (Reg AC)

Sean Farrell, the research analyst denoted by an “AC” on the cover of this report, hereby certifies that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm’s business or client relationships.

Neither I (Sean Farrell), nor a member of my household is an officer, director, or advisory board member of the issuer(s) or has another significant affiliation with the issuer(s) that is/are the subject of this research report. There is a possibility that we will from time to time have long or short positions in and buy or sell, the securities or derivatives, if any, referred to in this research.

Conflicts of Interest

This research contains the views, opinions, and recommendations of FSInsight. This report is intended for research and educational purposes. Blockchain Investment Group is a client of FSInsight and receives FSInsight's published research reports. Blockchain Investment Group has commissioned/paid for this specific research project and has permissions to distribute. This report is intended for research and educational purposes.

Analyst Industry/Sector Views

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.

Negative (-): The analyst expects his or her industry coverage universe over the next 6-18 months to underperform vs. the relevant broad market benchmark, being the S&P 500 for North America.

General Disclosures

FSInsight is an independent research company and is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws. FSInsight is a member of IRC Securities’ Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of FSInsight (i.e. Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel June receive commissions paid to or shared with IRC Securities for transactions placed by FSInsight clients directly with IRC Securities or with securities firms that June share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of FSInsight, which is available to select institutional clients that have engaged FSInsight.

As registered representatives of IRC Securities our analysts must follow IRC Securities’ Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

FSInsight does not have the same conflicts that traditional sell-side research organizations have because FSInsight (1) does not conduct any investment banking activities and (2) does not manage any investment funds.

This research is for the clients of FSInsight only. Additional information is available upon request. Information has been obtained from sources believed to be reliable but FSInsight does not warrant its completeness or accuracy except with respect to any disclosures relative to FSInsight and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies. The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein. Except in circumstances where FSInsight expressly agrees otherwise in writing, FSInsight is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, FSInsight.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

Copyright 2022 FSInsight. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of FSInsight.