DIVERSIFYING PORTFOLIOS WITH DIGITAL ASSET INVESTMENTS

The world is rapidly digitizing, and blockchain technology is playing a critical role in this global transformation.

GALAXY FUND MANAGEMENT

VettaFi

For those interested in capitalizing on this trend, invest in the digital asset class and gain diversified exposure to the major categories of blockchain technology.

When crypto markets emerged, everything seemed to move in tandem. Limited opportunities for generating alpha existed, and those interested were best-suited diving in with a basket of diversified assets.

As crypto markets mature, sub-sectors and tangible use-cases have emerged, making diversification even more important.

In 2022, we've moved well beyond Bitcoin into an environment supporting multiple blockchain winners:

WEB3

STORE OF VALUE

THE METAVERSE

DIGITAL PAYMENTS

GAMING + MORE

Despite the recent volatility, digital assets have been one of the strongest performing asset classes of the past decade.

TODAY'S INVESTIBLE CRYPTO UNIVERSE

~$2.7T

MARKET VALUE

MAKING THE CATEGORY NOW ABOVE ~1% OF CORE GLOBAL FINANCIAL ASSETS[1]

CRYPTO TOKENS: BITCOIN, ETHEREUM, ETC.

~$2.2T

MARKET VALUE

~80% OF THE CRYPTO CATEGORY

~1% OF CORE GLOBAL FINANCIAL ASSETS

CRYPTO STOCKS: PUBLIC MINERS, EXCHANGES, ETC.

~$400B

MARKET VALUE

~15% OF THE CRYPTO CATEGORY

~0.5% OF THE GLOBAL PUBLIC EQUITY MARKET

PRIVATE EQUITY: INDUSTRY UNICORN COMPANIES

~$150B

MARKET VALUE

~5% OF THE CRYPTO CATEGORY

~3% OF THE TOTAL PRIVATE EQUITY MARKET

INVESTING IN PHYSICAL COMMODITIES VS. INVESTING IN EQUITIES

Relative to direct crypto assets, crypto equities are often less volatile and can be less intimidating to many investors. Crypto equities can also provide opportunities more commonly found in equities, including earnings growth and cash flow generation.

It's not just about Bitcoin anymore: The IPO of Coinbase, in April 2021, appears to have focused advisor attention on crypto equities: Roughly equal numbers of advisors indicated a desire to allocate to crypto equities (46%) vs. crypto assets like bitcoin (45%).[2]

46% CRYPTO EQUITIES

VS.

45% CRYPTO ASSETS

In the U.S., surveyed investors increasingly report preferring investment products over the direct purchases of digital assets. This year, 18% of respondents in the U.S. said they bought or invested in digital assets through an investment product, compared to 8% the previous year. Conversely, direct purchases decreased from 16% to 14%.[3]

18%

BOUGHT OR INVESTED IN DIGITAL ASSETS THROUGH AN INVESTMENT PRODUCT

46% of financial advisors surveyed said they are interested in allocating to crypto equities in 2022.[4]

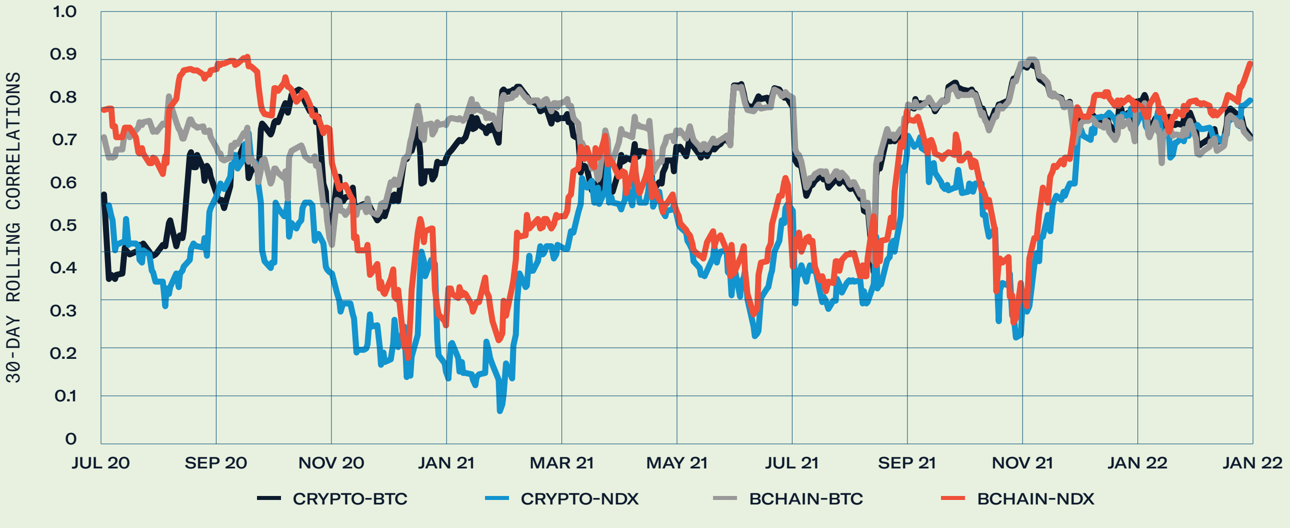
46%

INTERESTED IN ALLOCATING TO CRYPTO EQUITIES

THE BENEFIT OF DIVERSIFIED EQUITY EXPOSURE IN CRYPTO AND GENERAL PORTFOLIO ALLOCATIONS

Crypto equities are one way to invest in the broader shift toward digitalization. While crypto equities exhibit a high correlation to bitcoin, these companies also offer exposure to tech stocks. Crypto companies outside of the tech sector (e.g., industrials and financials) are closely linked to technology investments for modernization and efficiency of operations.

CRYPTO EQUITY INDICES GENERALLY HAVE A HIGH CORRELATION TO BITCOIN (BTC) AS WELL AS SOME CORRELATION TO TECH STOCKS



Crypto indexes represented by the Alerian Galaxy Global Cryptocurrency-Focused Blockchain Equity, Trusts, & ETPs Index (CRYPTO) and the Alerian Galaxy Global Blockchain Equity, Trusts, & ETPs Index (BCHAIN). Tech stocks are represented by the Nasdaq-100 Index (BCHAIN-NDX). Data shows 30-day rolling correlations of daily returns from CRYPTO/BCHAIN inception through March 21, 2022.
Source: Alerian S-Network Global Indexes, Bloomberg

GALAXY FUNDS RISK FACTORS

Please note that the following are not all the risk factors associated with Digital Assets or the Funds (each, a "Fund"). Refer to the Offering Memorandum of the applicable Fund for more risk factors.

Investment Risks Generally. An investment in the Fund, involves a high degree of risk, including the risk that the entire amount invested may be lost. The Fund will invest in Digital Assets (such as Bitcoin, Ethereum, other cryptocurrencies or blockchain based assets, including those that represent the Decentralized Finance (or DeFi) portion or sector of the digital assets market) using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global Digital Assets markets and the risk of loss from counterparty defaults. The Fund's investment program may use investment techniques that involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject. All investments made by the Fund will risk the loss of capital. No guarantee or representation is made that the Fund's investment program will be successful, that the Fund will achieve its investment objective or that there will be any return of capital invested to investors in the Fund, and investment results may vary.

Different from Directly Owning Bitcoin, Ethereum or Other Digital Assets. The performance of the Fund will not reflect the specific return an investor would realize if the investor actually purchased a Digital Asset. Investors in the Fund will not have any rights that Digital Asset holders have.

No Guarantee of Return or Performance. The obligations or performance of the Fund or the returns on investments in the Fund are not guaranteed in any way. Any losses of the Fund will be borne solely by investors in the Fund. Ownership interests in the Fund are not insured by the Federal Deposit Insurance Corporation, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity.

Regulation. Digital Assets, including Bitcoin, Ethereum and DeFi tokens, are loosely regulated. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the value of a Fund's investment. If any Digital Asset is determined to be a "security" under U.S. federal or state securities laws or a Digital Asset exchange is determined to be operating illegally, it may have material adverse consequences for Digital Assets due to negative publicity or a decline in the general acceptance of Digital Assets. As such, any determination Digital Asset exchanges are operating illegally or that any Digital Asset is a security under U.S. federal or state securities laws may adversely affect the value of a particular Digital Asset or Digital Assets generally and, as a result, the value of a Fund's investment.

Exchanges. Exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Fund. Digital Asset exchanges have been closed due to fraud, failure or security breaches. Any of the Fund's funds that reside on an exchange that shuts down or suffers a breach may be lost.

Value. Several factors may affect the price of Digital Assets, including Bitcoin, Ethereum and DeFi tokens, including, but not limited to: supply and demand, investors' expectations with respect to the rate of inflation, interest rates, currency exchange rates or future regulatory measures (if any) that restrict the trading of a Digital Asset or the use of a Digital Asset as a form of payment. There is no assurance that a Digital Asset will maintain its long-term value in terms of purchasing power in the future, or that acceptance of bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow.

Protocol. Many Digital Asset networks, including Bitcoin, Ethereum and DeFi tokens, operate on open-source protocols maintained by groups of core developers. The open-source structure of these network protocols means that certain core developers and other contributors may not be compensated, either directly or indirectly, for their contributions in maintaining and developing the network protocol. Lack of incentives to, or a failure to properly, monitor and upgrade network protocol could damage a Digital Asset network. It is possible that a Digital Asset protocol has undiscovered flaws that could result in the loss of some or all assets held by the Fund. There may also be network-scale attacks against a Digital Asset protocol, which could result in the loss of some or all of assets held by the Fund. Advancements in quantum computing could break a Digital Asset's cryptographic rules. The Fund makes no guarantees about the reliability of the cryptography used to create, issue, or transmit Digital Assets held by the Fund.

Volatility & Supply. Values of Digital Assets have historically been highly volatile, experiencing periods of rapid price increase as well as decline. For instance, there were steep increases in the value of certain Digital Assets, including Bitcoin, over the course of 2017, and multiple market observers asserted that digital assets were experiencing a "bubble." These increases were followed by steep drawdowns. During the period from December 17, 2017 to February 5, 2018, Bitcoin experienced a decline of roughly 60%. During the period from February 13, 2020, until March 16, 2020, the value of Bitcoin fell by over 50%. Bitcoin had a strong start to 2021, hitting an all-time high of nearly $65K in April. But, it closed H1 2021 down 47% from its record. Supply of Digital Assets is determined by computer code, not by a central bank. For example, uncertainty related to the effects of Bitcoin's recent and future "halving" could contribute to volatility in the Bitcoin markets. The value of the Bitcoin or other Digital Assets held by a Fund could decline rapidly in future periods, including to zero.

Decentralized Finance (DeFi) Risks. Decentralized Finance (or DeFi) refers to a variety of blockchain-based applications or protocols that provide for peer-to-peer financial services using smart contracts and other technology rather than such services being offered by central intermediaries. Common DeFi applications include borrowing/lending Digital Assets and providing liquidity or market making in Digital Assets. Because DeFi applications rely on smart contracts, any errors, bugs, or vulnerabilities in smart contracts used in connection with DeFi activities may adversely affect such activities. DeFi lending is subject to counterparty risk and credit risk, but because lending is automated through the DeFi protocol, rather than individual decisions made by a portfolio manager on behalf of a Fund, such risks may be exacerbated, particularly if there are flaws in DeFi protocol's code or operation. DeFi applications may involve regulated financial products or regulated activities, however because of their decentralized nature, there is generally no entity subject to regulatory supervision. Accordingly, DeFi applications may be subject to more risks than engaging in similar activities through regulated financial intermediaries. In addition, in certain decentralized protocols, it may be difficult or impossible to verify the identity of a transaction counterparty necessary to comply with any applicable anti-money laundering, countering the financing of terrorism, or sanctions regulations or controls. All of these risks could cause the value of DeFi tokens held by a Fund to decline, including to zero.

DISCLAIMERS

1) Greyscale Post Modern Portfolio Research Report.
2) Bitwise survey.
3) Fidelity survey.
4) ETF Trends survey.

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