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DIGITAL ASSETS: STAYING POWER

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EXECUTIVE SUMMARY

With the most recent bitcoin and digital asset drawdown, many headlines have classified this environment as a “crypto winter,” insinuating a long, drawn-out bear market in which many “investors” ultimately lose interest in the asset class. Coined in the bear market of 2018, a “crypto winter” describes a period in which gains are lost, trading volume diminishes, and overall activity declines alongside lower prices.

Naturally, as prices decline, the question of whether “crypto is dead” certainly rises. Drawdowns, or a decline in price from peak to trough levels, create fear and questions around the viability of the asset class as many “altcoins” riding hype rather than underlying use cases fall by the wayside.

But as we’ve seen many times in history, a large price drawdown doesn’t necessarily result in the end of a new technology. These technologies, with the opportunity to disrupt the status quo and current way of life, not only survive through price drawdowns, but often come back stronger than before.

Similarly, bitcoin, ether, and the digital asset class have risen from the ashes each time they’ve experienced a drawdown. Specifically, bitcoin and ether’s multi-faceted, compelling characteristics, and transformative technology lead to use-cases that not only persist through tough times but highlight their resiliency.

In this short piece, we provide reason to be bullish on the asset class, despite coming off the most challenging period in the history of digital assets. As underlying adoption continues, bitcoin and ether remain positioned to reshape the current monetary and internet ecosystems, which strongly suggests that crypto has “staying power,” and that this is likely just the beginning of the digital asset revolution.

In this report, we discuss:

- + The current drawdown versus history
- + Bitcoin and ether’s resilience despite significant drawdowns compared to gold and the dotcom bubble
- + Bitcoin’s role in the evolution of money
- + The evolving internet powered by Ethereum
- + The opportunity that lies ahead

COMPARING THE DRAWDOWN

Headlines have called for the death of bitcoin¹ in each of bitcoin's drawdowns over its 13-year history. To be fair, bitcoin has drawn down over 20% from its high 11 times, four of which were over 70%. But as the asset remains in its early price-discovery phase, there is increased scrutiny through tumultuous times.

The most recent drawdown for bitcoin began on 11/8/2021, with the asset down 72% from its all-time-high of \$67,859 as of 6/18/2022, per Glassnode. Some quick facts about this drawdown relative to the average drawdowns in its history:

- + The current drawdown from high to low has lasted for 222 days, which compares to the most recent extended drawdown of 383 days from 11/27/2017 to 12/15/2018, in which bitcoin's price dropped 84%.
- + The average price decline of the three long-term drawdown² periods (not including the current drawdown) is 87%, with the average length of 336 days, high to low.
- + It takes an average of 358 days from the drawdown's high to its recovery, which would imply a recovery from the current drawdown by November.

Max Drawdown High Date	Max Drawdown Low Date	Drawdown Length (High to Low)	Max Drawdown	Max Drawdown Recovery Date	Days Until Recovery
11/8/2021	6/18/2022	222	-72%	?	?
4/13/2021	6/21/2021	69	-51%	10/19/2021	189
1/6/2021	1/21/2021	15	-27%	2/8/2021	33
11/27/2017	12/15/2018	383	-84%	11/30/2020	1099
10/31/2017	11/12/2017	12	-24%	11/16/2017	16
9/1/2017	9/14/2017	13	-35%	10/14/2017	43
6/11/2017	7/16/2017	35	-36%	8/7/2017	57
3/3/2017	3/24/2017	21	-28%	4/30/2017	58
11/27/2013	1/14/2015	413	-85%	3/1/2017	1190
4/7/2013	7/6/2013	90	-74%	11/8/2013	215
4/19/2011	11/18/2011	213	-94%	3/1/2013	682
Average (All Drawdowns)		135	-55%		358
Average (Long-Term Drawdowns)		336	-87%		990

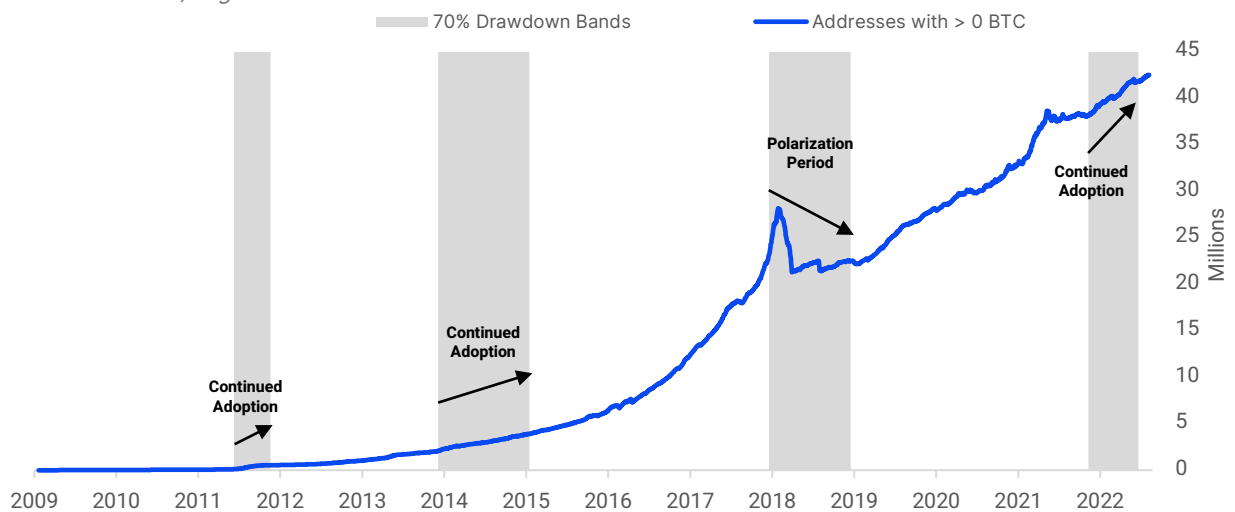
[1] Source: <https://www.bitcoinisdead.org/>

[2] Long-term drawdown defined as greater than 70%.

Note: Bold Denotes Extended Drawdowns.
 Source: Glassnode, Eaglebrook Advisors.

ADDRESSES WITH BITCOIN VS. DRAWDOWNS

Source: Glassnode, Eaglebrook Advisors



Through these 11 drawdowns, bitcoin averages approximately a 55% decline from its high, with a recovery period of nearly one-year. However, three of these drawdowns were extended, with either very little adoption or large event-driven risks as contributing factors:

- + In 2011, bitcoin drew down 94% with only the initial early adopters exposed to bitcoin. At the low on October 19, 2011, just 541,000 addresses held bitcoin, and only 5,000 on-chain transactions occurred on that day. With a very small community, viability of the asset was certainly questioned as weak hands saw bitcoin move from a high of \$29.64 to ultimately a low of \$2.05.
- + In 2015, bitcoin drew down 85% through a highly controversial period around the Mt. Gox scandal, the largest bitcoin exchange at the time. While adoption was higher, the broader public was still very unaware of bitcoin: at the low on January 14, 2015, there were just approximately 4 million addresses that owned bitcoin, quite far away from the network effects we see today.
- + In 2018, bitcoin experienced its third 80%+ drawdown, which began with the largest public awareness event: the parabolic rally to \$20,000 in late 2017. As financial news outlets rushed to broadcast bitcoin's momentum, most of today's investors learned about the asset. Despite the broader awareness that was created, polarization between bulls and bears grew significantly, which led to doubt from even the largest of bitcoin bulls. Price declined from a closing high of \$19,587 to \$3,237 in just over one year.
- + In 2022, bitcoin experienced a 72% drawdown amidst a global rout of both equities and fixed income, as rampant inflation spooked risk-appetite across the board. With crypto an emerging asset class in today's portfolio, these assets faced the brunt of macro selling. Further, event-driven risk from the insolvency of overleveraged savings/lending platforms and hedge funds exacerbated the pressure prices.

But through each of these drawdowns, two factors have remained true:

- + Drawdowns in price don't impact the underlying technologies of bitcoin, ether, or altcoins with real-world use-cases.
- + Awareness of digital assets rises through these drawdowns, and aside from the highly polarized period of 2018, adoption progresses despite the broader price action.

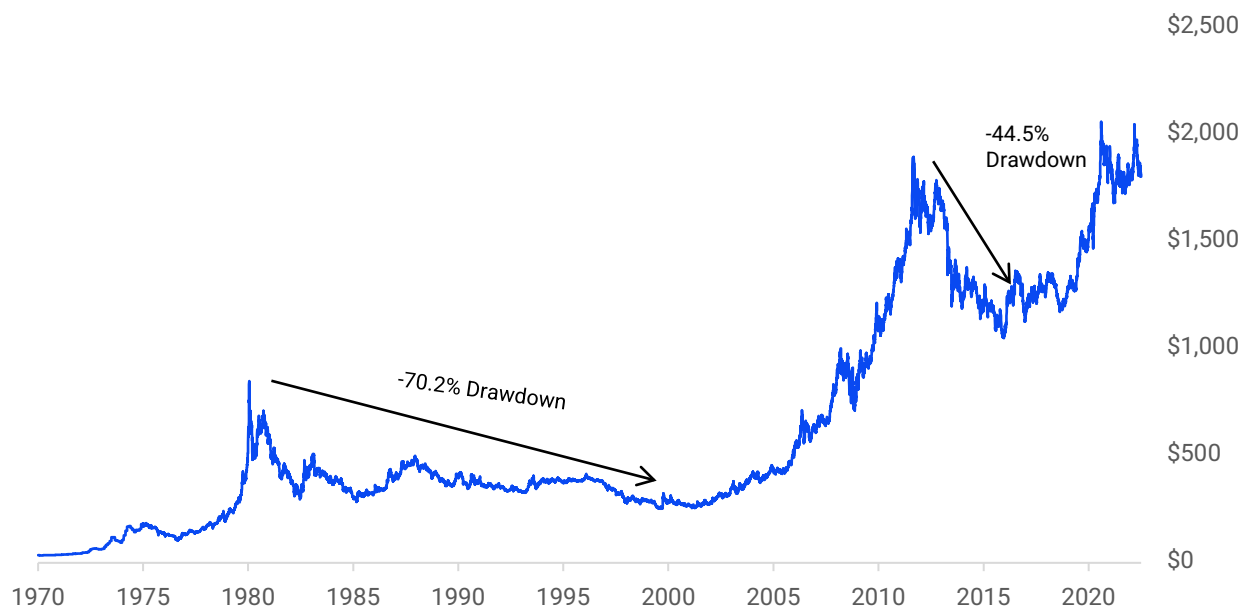
ONLY THE STRONG SURVIVE

There are certainly assets and technologies that experienced high levels of price volatility but ultimately succeeded as characteristics and use-cases provided reason for mass adoption. These assets and technologies were strong enough to survive despite multiple sustained periods of price weakness, and as a result, overcame momentary losses of faith when conviction was tested the most.

One example is gold, which experienced a 19-year drawdown shortly after beginning to trade on the CME. The asset reached \$850 in January of 1980, only to fall to a low of \$253 by August of 1999. Gold regained its prior 1980 high 28 years later in January of 2008, then experienced a 44.5% drawdown from September 2011 to November 2015. Yet, gold is durable, divisible, liquid, and most importantly, scarce. As a result, adoption continued. The asset is now viewed as a store of a value by many across the world, and even central banks hold over 34,000 metric tons of the asset.² Gold's market capitalization today is approximately \$11 trillion.³

GOLD DRAWDOWNS

Source: Bloomberg, Eaglebrook Advisors



[2] Source: World Gold Council, Eaglebrook Advisors; as of 2Q

[3] Source: Oxford Gold Group, Eaglebrook Advisors; as of 2Q

ONLY THE STRONG SURVIVE

A more recent example is the dotcom bubble, in which a frenzy of euphoria and new investment ultimately led to a large drawdown across all internet related companies. While many questioned the economic value of the technology during this period, the internet's adoption and use cases continued to grow as developers created new ideas and improved the user interface. Below are a few instances of large drawdowns for companies that survived and ultimately flourished decades later, in comparison to bitcoin.

Asset	High Date	Low Date	Drawdown	High to Low Days	Return 20-Years Later
Booking Holdings	4/30/1999	12/26/2000	-99%	606	30,838.6%
Amazon.com	12/10/1999	9/28/2001	-94%	658	55,443.7%
2011 Bitcoin Drawdown	5/12/2011	11/18/2011	-94%	190	?
2013 – 2015 Bitcoin Drawdown	11/27/2013	1/14/2015	-85%	413	?
2017 – 2018 Bitcoin Drawdown	11/27/2017	12/15/2018	-84%	383	?
Apple	3/22/2000	8/5/2002	-81%	866	77,427.1%
Nasdaq Composite Index	3/10/2000	10/9/2002	-78%	943	1,318.3%*
eBay	3/24/2000	12/20/2000	-77%	271	1,758.5%
Adobe	6/20/2000	8/5/2002	-75%	776	5,110.0%
Current Bitcoin Drawdown	11/8/2021	6/18/2022	-72%	222	?

Source: Bloomberg, Glassnode, Eaglebrook Advisors
 *As of 8/11/2022

Important to consider is that not all companies in the dotcom bubble made it out alive. Most companies without sound fundamentals and growth prospects ended up going to zero. These companies did not have the technology, network effects, and real-world use-cases that attracted businesses and ultimately, retained value.

ONLY THE STRONG SURVIVE

Within digital assets, many altcoins fail during these “crypto winters,” just as those companies did within the dotcom bubble.

But just like the companies that survived, bitcoin and ether have remained pillars of strength even as “altcoins” fall by the wayside. Bitcoin and ether have remained top-of-the-ranks in each bull and bear cycle as their characteristics and use-cases persisted through tumultuous times. Just like those that survived the dotcom bubble, the key to survival for bitcoin and ether are the real-world use cases that improve the status quo.

With strong characteristics, both bitcoin and ether are positioned to disrupt the current monetary and internet ecosystems.

Market Cap Rank	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Current*
1	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin
2	Litecoin	XRP	XRP	Ether	XRP	XRP	Ether	Ether	Ether	Ether
3	XRP	PayCoin	Litecoin	XRP	Ether	Ether	XRP	Tether	Binance Coin	Tether
4	Omni	Litecoin	Ethereum	Litecoin	Bitcoin Cash	Bitcoin Cash	Tether	XRP	Tether	USD Coin
5	Peercoin	BitShares	Dash	Monero	Cardano	EOS	Bitcoin Cash	Litecoin	Solana	BNB
6	NXT	MaidSafeCoin	Dogecoin	Ethereum Classic	Litecoin	Stellar	Litecoin	Bitcoin Cash	Cardano	XRP
7	Namecoin	Stellar	Peercoin	Dash	IOTA	Litecoin	EOS	Binance Coin	USD Coin	Cardano
8	Quark	Dogecoin	BitShares	MaidSafeCoin	NEM	Tether	Binance Coin	Chainlink	XRP	Binance Coin
9	BitShares PTS	Nxt	Stellar	NEM	Dash	Bitcoin SV	Bitcoin SV	Cardano	Terra	Solana
10	Worldcoin	Peercoin	MaidSafeCoin	Steem	Stellar	TRON	Stellar	Polkadot	Polkadot	Polkadot

Source: Coinmarketcap, Eaglebrook Advisors.
 *As of 8/11/2022.

MONEY IS EVOLVING; BITCOIN FINDS OPPORTUNITY

Historically, monetary systems have evolved from barter economies, to commodities and livestock, to metal coins, the gold standard, and now fiat currencies. Each jump to a new monetary system was fueled by technological advancements, but had reasons for change, thus evolving into new and improved stores of value, units of account, and mediums of exchange.

The most recent evolution of money is digitalization; this includes not only credit cards, but the ability to send value through applications such as Apple Pay, Venmo, or PayPal. These applications allow users to transfer fiat to consumers or businesses and are heavily used today. One survey has found that over 70% of Americans⁴ find the possibility of making payments on their smartphones appealing.

Further, the intrinsic attributes of bitcoin make it viable as a global monetary asset, competing with fiat currencies. The dominate monetary asset utilized by society has changed throughout history with new technologies and catalysts allowing for a transition to sounder money. Bitcoin's growing adoption may foreshadow the next step in the evolution of money.

Date	Money Type	Catalyst	Improvement
Prehistory	Barter	None	Goods & Services
10,000 BC	Commodities & Livestock	Transportation	Solved Coincidence of Wants
700 BC	Metal Coins	Millage	Durable, Portable, Divisible, Unit of Account
1690	Paper Money	Printing Press	More Portable, More Divisible
1816-1971	Gold Standard	Central Banks	More Scarce, Sounder Money
1950s	Credit Cards	Barcodes	More Portable, Ease of Use
2010s	Bitcoin	Internet / Blockchain	Hard-Coded Scarcity, Decentralized, Transparent

Source: Eaglebrook Advisors

[4] Source: Statista, Eaglebrook Advisors

MONEY IS EVOLVING; BITCOIN FINDS OPPORTUNITY

With qualities of sound money alongside unique characteristics that serve well in today's digital age, bitcoin's inherent features stack up with the best stores of value in history, namely gold.

With a limited quantity that does not respond to a rise in demand, bitcoin has a perfectly inelastic supply compared to gold's potential increase in supply via mining. On almost all other metrics that constitute a favorable store of value, bitcoin outranks or is equal to gold.

Eaglebrook's assessment from best to worst: ✓ Green → ✓ Grey → ✓ Orange

	Characteristics	Bitcoin	Gold	Fiat
Qualities of Sound Money ⁵	Durability	✓ Digital	✓ Physical	✓ Physical
	Portability	✓ Internet	✗ Heavy	✓ Physical, digital
	Divisibility	✓	✓ Requires labor	✓
	Uniformity	✓	✓	✓
	Scarcity	✓ Inelastic supply	✓ Elastic supply	✗ Tied to monetary policy
	Acceptability	✓ Growing	✓ Established	✓ Established
Unique Characteristics	Storability	✓ Little to no cost	✓ Ongoing costs + physical	✓ Ongoing costs
	Decentralized	✓ Private & self owned	✓ But easily confiscated	✗ Government backed
	Free from Sovereign / Credit Risk	✓	✓	✗
	Digital	✓	✗	✓
	Uncorrelated	✓	✓	✓
	Liquid	✓	✓	✓

As a new technological advancement, bitcoin's characteristics have led to preliminary steps of mass adoption. In just 13 short years, bitcoin has made significant progress in becoming part of the mainstream, with momentum driven by a new generation of digitally native users with an appreciation for the benefits of decentralization.

[5] Source: Qualities of Sound Money, Source: Federal Reserve

BITCOIN'S USE-CASES DRIVE ADOPTION

The key to bitcoin's groundbreaking technology is that offers a variety of use-cases. Similar to the option that fiat users have when either saving or spending, bitcoin's utility is versatile with use cases determined by the end-user. Gold is seen as a store of value but isn't necessarily a medium of exchange. Fiat currency is a medium of exchange, but a poor store of value. Simply, the potential to use bitcoin as a medium of exchange raises its attractiveness whether or not the end-user takes the opportunity.

Bitcoin's flexibility and versatile use-cases can be illustrated through various regions, which appear to utilize bitcoin in different ways. In developed countries with relatively stable monetary assets and consumers with access to the banking system, bitcoin is seen as an emerging and scarce store of value as well as an investment into a future global monetary asset. In a global survey conducted by Data Driven Consulting Group and commissioned by Gemini, 85% of US respondents stated they buy or hold cryptocurrency for its long-term investment potential or as a "store of value."

For emerging markets with unstable currencies and limited infrastructure, bitcoin's qualities of low transactions costs, censorship-resistance, and digital scarcity provide an essential daily utility. It's more likely bitcoin is a medium of exchange in countries with weak fiat systems, as there is greater propensity to substitute their existing medium of exchanges. In the survey, when asked if "cryptocurrency is the future of money", respondents were more likely to answer yes in countries that have experienced a major currency devaluation relative to the dollar or hyperinflation (Latin America - 59%; Africa - 58%). Countries with more stable currencies such as the US (23%) and Europe (19%) were less likely to believe that cryptocurrency is the "future of money". This illustrates the versatility and flexibility of bitcoin and highlights that bitcoin can be used in numerous ways across the world.

Geography	Long term buy & hold?	Future of Money?	Protection against inflation?	Way to diversify your assets (of crypto owners)?
US	85%	23%	16%	56%
Europe	74%	19%	15%	49%
Latin America	84%	59%	46%	78%
Asia Pacific	82%	41%	32%	62%
Africa	75%	58%	46%	67%
Middle East	72%	42%	34%	63%

Source: Gemini, Data Driven Consulting Group, Eaglebrook Advisors

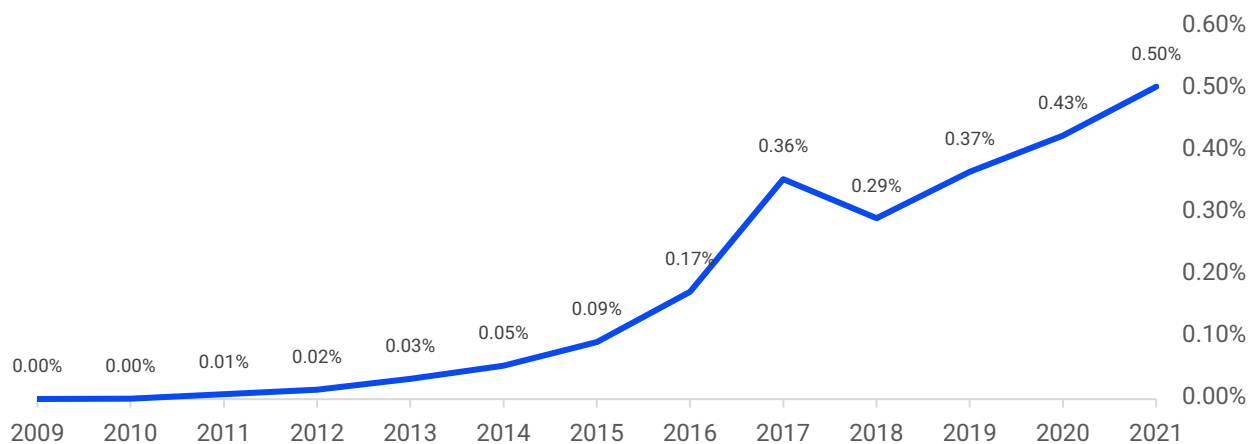
BITCOIN'S USE-CASES DRIVE ADOPTION

As money constantly evolves, bitcoin's qualities allow for a multitude of use-cases in today's digital age. In just 13 short years, bitcoin has become mainstream, with constant conversations across financial news outlets and mainstream media capturing the attention of consumers and investors.

Despite skepticism, bitcoin adoption continues. Money is evolving, and bitcoin has an opportunity to capture significant market share over the next decade and beyond. It's more likely this is just the beginning than the end of bitcoin as a global, monetary asset.

ADDRESSES WITH BITCOIN AS % OF WORLD POPULATION

Source: Bloomberg, Glassnode, Eaglebrook Advisors



THE INTERNET IS EVOLVING: ETHEREUM FINDS OPPORTUNITY

While bitcoin now has opportunity to become the next great monetary asset, Ethereum has a different target: the internet.

On a truncated timeframe compared to money, the internet has evolved over time driven by a multitude of innovations. In the first wave of the internet (Web 1.0) built on HTTP as the base layer, the user experience revolved around read only versions of websites. In (Web 2.0), companies such as Facebook and Reddit built their applications on top of both HTTP and mobile, using IOS and Android as the base layer. In this form of the internet, users were now empowered to not only read, but also create content. Now, the third wave (Web 3.0) of the internet has a growing number of developers and entrepreneurs building applications on Ethereum as the base layer platform.

The major difference is that Ethereum offers investors and users the opportunity to take part in the growth of the protocol with the native asset ether (ETH). In another analogy, one can think of Ethereum as the highway, applications as cars, and ether (ETH) as the gas that powers the cars. As each application requires ether to run, their usage is a significant driver of ether demand.

In this new blockchain world, the value accrues to a greater degree to the protocol layer (ETH) rather than the application layer, allowing investors to gain exposure to the underlying success of Web 3.0 without the need to pick individual winners and applications. Previously, most of the value was captured by large centralized corporations (Netflix, Facebook, Google, etc.), leaving the true once in a lifetime investment opportunities open only to early-stage VCs that only needed several winning investments to succeed.

Internet	Protocol Layer	Value Accrual - Layer	Incentives	User Experience
Web 1	HTTP	Application	User is product	Read Content
Web 2	HTTP, IOS and Android	Application	User is product	Read and Create
Web 3	Ethereum	Protocol	Users own content	Read, Create, and Own

THE INTERNET IS EVOLVING: ETHEREUM FINDS OPPORTUNITY

The major advantages of building on Ethereum is that applications are decentralized and permissionless with value transfer that is fully automated. Because of this, top developers, engineers, and wall street talent are now building decentralized applications across various markets such as finance, banking, payments, gaming, and art. These applications are gaining adoption from both traditional crypto users as well as newcomers interested in these opportunities. Because Ethereum is decentralized and permissionless, anyone with an internet connection can access these applications.

What is also important to note is the relatively new and unique qualities of Ethereum which developers are just beginning to fully understand. In just 7 years, applications have been created with the potential to disrupt a multitude of industries.

CHARACTERISTICS OF ETHEREUM

Flexible & Buildable	Smart Contract Automation
Scalable & Programmable	Faster Transactions

Sector / Disruption	Applications on Ethereum	Traditional Comparison	Key Performance Metric
Banking	Compound	Bank of America	\$1B Outstanding Loans ⁶
Exchanges	Uniswap	New York Stock Exchange	Cumulative \$3T Volume ⁶
Software Services	Filecoin	Cloud computing	FIL has 330 projects ⁷
Digital Art	OpenSea	Sotheby's	Cumulative NFT Sales on Ethereum: \$31B ⁸
Data Services	The Graph, Chainlink	Microsoft	Link helps secure \$22B
Insurance	Nexus Mutual	AIG	\$270M Total Value Locked ⁶
Gaming	Decentraland, The Sandbox	Activision Blizzard, EA Games, Take-Two	1Q activity grew 2,000% ⁸

Source: [6] Token Terminal, Eaglebrook Advisors ; [7] Messari, Eaglebrook Advisors; [8] DappRadar, Eaglebrook Advisors

These applications have already shown an ability to take market share from traditional companies in the respective industries by utilizing the unique characteristics offered by Ethereum. With that said, the initial applications built on top of a new internet protocol often mimic old applications. Early internet applications were mostly adaptations of non-internet activities such as newspapers and letters. It will take time for developers to fully understand the power of building on blockchains, implying the real “killer applications” running on Ethereum most likely has not been launched yet. An investment in Ethereum benefits from the growth of the blockchain ecosystem.

THE OPPORTUNITY AHEAD FOR DIGITAL ASSETS

As illustrated, volatile price movements and extreme drawdowns that test investors' conviction is not a new phenomenon. Just like gold in the 1980s and the internet in the 2000s, crypto can gain adoption despite market fluctuations, questions of viability, and challenges to overcome.

Bitcoin is potentially the next technological step in the evolution of money due to its compelling sound money characteristics and transformative technology. As an emerging global monetary asset, bitcoin's use cases in the long-term are as broad as fiat currencies of today and as versatile as the end-users needs.

Ethereum's launch and the rapid growth of its underlying applications illustrates what's possible for a blockchain powered internet. With developers and entrepreneurs now building applications on Ethereum as the base layer platform, there is an immense opportunity for further innovation and expansion of the total addressable market under this new paradigm. In this digital age, investors have the rare opportunity to gain exposure to the underlying success of the next stage of the internet.

It is for these reasons that we believe crypto has "staying power", and it's more likely just the beginning of digital assets, than the end.

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Economic Risk: The economic risk associated with digital currency is in the lack of widespread or continuing digital currency adoption. The market and investors could decide that digital currency should not be valued at the current market capitalization due to a variety of factors.

Regulatory Risk: Digital currency could be banned or highly regulated by governments that would deter investors from buying or holding digital currency.

Technical Risk: Digital currency is a dynamic network with a codebase that is updated to add new security and functionality features. The updated code that is merged by the core developers could potentially have an error that threatens the security or functionality of the digital currency network.

Cybersecurity Risk: Digital currency exchanges and wallets have been hacked and digital currency has been stolen in the past. This is a potential risk that clients must be comfortable with when investing and holding digital currency. Theft is less likely when holding digital currency at a qualified custodian in offline systems (cold storage) with institutional security and controls.

Digital Asset Service Providers: Several companies and financial institutions provide services related to the buying, selling, payment processing and storing of virtual currency (i.e., banks, accountants, exchanges, digital wallet providers, and payment processors). However, there is no assurance that the virtual currency market, or the service providers necessary to accommodate it, will continue to support Digital Assets, continue in existence or grow. Further, there is no assurance that the availability of and access to virtual currency service providers will not be negatively affected by government regulation or supply and demand of Digital Assets. Accordingly, companies or financial institutions that currently support virtual currency may not do so in the future.

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