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XP EXPONENTIAL POTENTIAL™

YOUR DIGITAL ASSETS BRIEFING

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RECENT BITCOIN SURGE ACCELERATES INSTUTIONAL ADOPTION OF DIGITAL ASSETS

QUICK READ

- **The recent unprecedent surge of Bitcoin and other major cryptocurrencies has led to renewed interest in digital assets**. This, in turn, fuels the broader underlying trend of corporate & institutional adoption, as **FOMO ("fear of missing out")** is kicking in across the trading floors and board rooms around the globe
- **Key drivers for recent price increases are favorable regulatory endorsements and clarity of rule sets, paired with several large institutional investments (incl. vocal statements of their CEOs) over the past few months**
- **The narrative for Bitcoin remains predominantly "digital gold", considering growing global recession/ inflation expectations/ monetary policies.** At the same time, lack of liquidity, high transaction fees and limited availability of institution-grade market infrastructure are still biggest hurdles to further scale-up of digital assets
- **The fact that regulators around the globe have stepped up to face opportunities and challenges of digital assets** conveys a promising outlook for further adoption. Still many questions remain open, as recent developments in the US demonstrate visibly
- **Market volatility also confirms that cryptocurrencies still have no underlying "fair" value and price discovery is driven by liquidity, supply and demand.** The past months have proven many self-declared crypto-economists wrong, who proposed methods to model a "fair value" of Bitcoin (e.g., based on underlying energy consumption and actual supply)
- **Decentralized Finance, or DeFi, has also benefited significantly from Bitcoin's surge over the past months.** While this field of synthetic assets, staking & yield farming, and trading on decentralized exchanges can be seen as an arena for rapid prototyping, much innovation and creativity, the jury is still out on how regulators will respond to this growing sector within digital assets. Institutional commitments in this field have picked up recently, but the market is still driven by a large following of rent-seeking individual crypto investors
- **Tokenization as a prime narrative within digital assets continues to progress slowly**, but while the number of tokenization platforms and companies spirals upwards, actual large-scale success cases beyond government-led projects and bond tokenizations are still scarce

Source: SNGLR Digital analysis

> 26 BN USD INSTITUTIONAL BITCOIN TRANSACTIONS OVER PAST MONTHS

- Just not too long ago, in 2019, **total investments into Bitcoin by Hedge Funds** have been estimated at 1 bn USD by PwC
- In the past 6-8 months, **institutional transactions** have picked up significantly with a **total investment of ca. 26 bn USD** (valued at today's BTC price)
- Barry Silbert's **Greyscale Bitcoin Trust** has a leading role, alongside Michael Saylor's 1bn USD investment and, of course, Elon Musk's endorsements and 1.5bn USD allocation

Name	Country	Lead	Role	Type	Est'd	Holdings (mUSD)
Grayscale Bitcoin Trust (GBTC)	USA	Barry Silbert	Founder	Investment Trust	2013	21,000
Tesla	USA	Elon Musk	Founder	Company	2003	1,500
MicroStrategy	USA	Michael Saylor	CEO	Company	1989	1,000
Galaxy Digital Holdings	USA	Michael Novogratz	CEO	Company	2018	580
One River Asset Management	USA	Eric Peters	CEO	Hedge Fund	2013	600
Tudor Investment Corp.	USA	Paul Tudor Jones	Owner	Hedge Fund	1980	430
Skybridge Capital	USA	Anthony Scaramucci	Founder	Hedge Fund	2005	310
Square	USA	Jack Dorsey	CEO	Company	2009	160
Marathon Patent Group	USA	Merrick Okamoto	CEO	Company	2013	150
Hashed.com	Korea	Simon Seojoon Kim	CEO	Venture Fund	2017	120
Stone Ridge Asset Management	USA	Ross L. Stevens	Founder	Hedge Fund	2012	115
MassMutual	USA	Roger W. Crandall	President & CEO	Company	1851	100

- Given **market transparency is low**, these are only publicly announced transactions. Many other institutions may prefer to remain discreet about their crypto holdings
- **Growth outlook of further institutional investments is moderate to strong** in the short term, likely more to follow after a phase of price consolidation

Source: SNGLR Digital analysis

US REGULATORY LANDSCAPE HAS SHOWN HIGH ACTIVITY LEVELS – AS HAVE CBDC's

- **The United States** have been in the spotlight of the past weeks on the regulatory front, as much activity has been recorded:
  - **The Office of the Comptroller of the Currency (OCC) issued a letter that puts blockchain networks at an equal level as SWIFT**. This removes any legal uncertainty about the authority of US banks to connect to blockchains and transact stablecoin payments on behalf of customers
  - **In a much-discussed move by the SEC against Ripple (XRP)**, a cryptocurrency which has been ironically very popular among bankers with a dislike for bitcoin, a lawsuit was filed that the firm has allegedly performed a 1.3bn USD **unregistered securities sales to investors in the US and worldwide,** representing more likely a security than a coin
  - As a consequence, the **price for XRP corrected sharply**, while 26 crypto exchanges dropped XRP from their trading books and Grayscale removed Ripple from its fund. The pre-trial conference date is set for February 22, 2021

- With the recent **US presidential elections and transition** in the White House, directional changes followed swiftly:
  - The appointment of economist and former Chair of the FED, **Dr. Janet Yellen, as Treasury Secretary** has been regarded as a **positive signal**. She is considered not to be an outspoken fan of cryptos, but still to have a measured and balanced view on digital assets
  - The **controversial proposal document** by the **Financial Crimes Enforcement Network (FinCEN),** which would have potentially incriminated US citizens from self-storing cryptocurrencies in private wallets, **has been put on hold by the Biden administration**

- **The BIS** has released its **3rd Central Bank Digital Currency (CBDC) survey results,** titled "Ready? Steady? Go!", which summarizes the findings well: more than 84% of central banks are working on CBDC-related projects

- **Switzerland** passed the new **DLT/ digital asset framework** on Sep 10, 2020, which now came into force Feb 1, 2021, making Switzerland one of the most advanced jurisdictions for digital assets

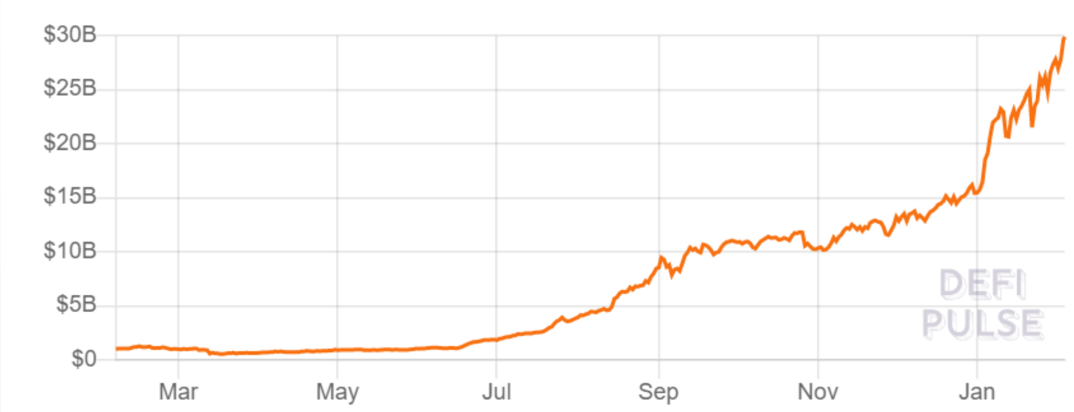
Note: typically, this overview covers EU and Asia as well. In this edition, however, the focus has been laid on the US
Source: SNGLR Digital analysis

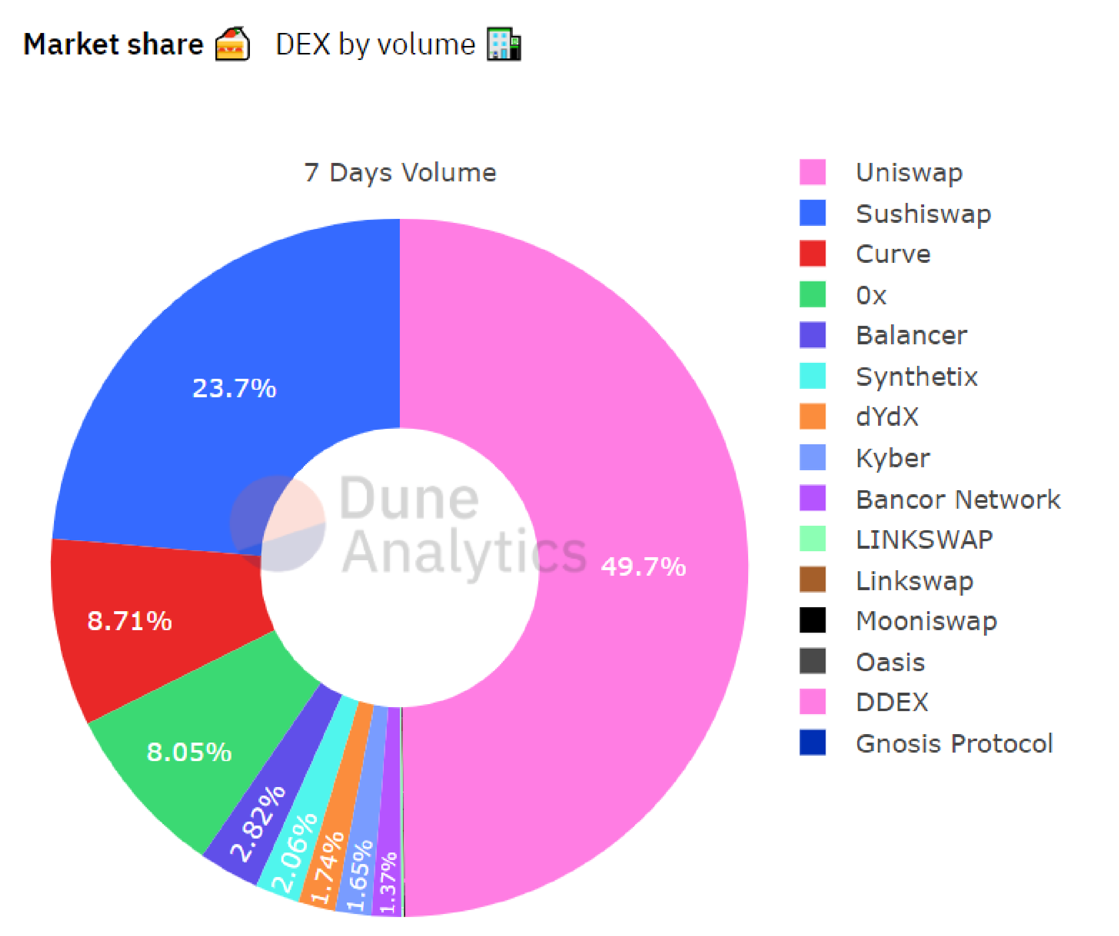
THE STRATEGIC VANTAGE POINT

- The generally positive outlook for digital assets is reinforced by several announcements from well known financial institutions:
  - Goldman Sachs has included digital assets, in particular custody services and stablecoins, in its digital strategy, according to an unofficial source
  - Blackrock seems to consider including crypto/ digital assets in its offering. A recent SEC filing mentions Bitcoin derivates explicitly as part of investments in scope
  - PayPal has backed its commitment to digital assets after recently announcing Bitcoin payments in its network, by investing into a US startup focusing on crypto tax calculation and reporting
  - Sberbank, the largest bank in Russia, has announced a stablecoin named "Sbercoin" to be launched shortly
- A series of forthcoming IPO's have been announced as well, e.g., from Coinbase, Baakt (via a SPAC deal) and, perspectively, Gemini, the crypto exchange
- Recent weeks have also dramatically shown how Social Media can trigger price corrections and contribute to market volatility in digital assets:
  - Elon Musk's twitter exchange with Microstrategy's Michael Saylor, as well as his recent status update "Bitcoin", followed by a 1.5bn USD allocation, have all triggered sharp price increases
  - WallStreetBets, the reddit-hosted virtual investor community that created the Gamestop stock frenzy have also targeted digital assets: Ripple (+86%, corrected shortly after) and Dogecoin (+85%) have seen massive spikes due to social media "pumps"
  - The Mayor of Miami made a pro-Bitcoin statement in a twitter exchange, which was picked up broadly and has, allegedly, increased crypto trading across Florida
- The price surge over the last 2 months across Decentralized Finance (DeFi) suggests that this space has finally broken through the "institutional barrier", as significantly larger amounts are flowing into this new, and still largely unknown and unregulated sector of digital assets

Source: SNGLR Digital analysis

EXPONENTIAL POTENTIAL™: DeFi SPOTLIGHT





- Decentralized Finance (DeFi) has been around for a while, but has received widespread attention especially over the last 6 months
- The unprecedent surge of total locked-in value within DeFi from a few billions early in 2020 to 32 bn USD is a witness to this booming sector within digital assets
- DeFi congregates a number of concepts: decentralized exchanges (DEX), lending & yield farming, stablecoins, synthetic assets, and automated market making (AMM)
- Across decentralized exchanges, uniswap & sushiswap maintain a 73% dominance
- Currently all major DeFi builts use ETH as blockchain

Note: price values as of 04.02.2021
Sources: DeFi Pulse, Dune Analytics, SNGLR Digital analysis

EXPONENTIAL POTENTIAL™: DeFi PERFORMANCE RECAP 2020

Rank DeFi	Name	Ticker	Type	Marketcap (bn USD)	Circulating Supply	Performance 2020	Performance vs BTC 2020	Performance overall
1	Chainlink	LINK	Oracle Platform	9.2	40%	560%	62%	15100%
2	Uniswap	UNI	DEX	5.3	29%	36%	-49%	427%
4	Aave	AAVE	Yield & Lending	3.6	77%	64%	-40%	455%
5	Synthetix	SNX	Synthetic Assets	1.9	54%	487%	46%	3210%
6	Maker	MKR	Stablecoin Governance	1.7	100%	37%	-66%	7062%
8	SushiSwap	SUSHI	DEX	1.6	57%	-29%	-72%	184%
9	Compound	COMP	Yield & Lending	1.6	46%	41%	-54%	248%
10	Terra	LUNA	Stablecoin Governance	1.0	49%	-51%	-84%	76%

- For many crypto investors, diversifying into DeFi has become an attractive option. Looking at overall performance since inception, all portrayed 8 DeFi tokens are net positive
- Comparing 2020 performance against a direct investment into Bitcoin, only Chainlink and Synthetix overperform at 62% and 40%, respectively
- For most DeFi investors lending & yield farming are key for performance, however the technical hurdles are still high to manage a larger portfolio on an ongoing basis
- As a new and complex area, DeFi has several risk categories that need to be managed meticulously: market and credit risks, tech/cyber risks (e.g., faulty smart contracts, hacks), governance risks and regulatory/ strategic risks
- In sum, DeFi is definitely not for the faint of heart and technically illiterate crypto investor

Note: DeFi stable tokens with no significant performance omitted in ranking, performance only considers token price, not any compounded further income streams from staking/ lending. price values as of 04.02.2021, where not indicated otherwise
Sources: Coinmarketcap.com, DeFi Pulse, Coingecko.com, SNGLR Digital analysis

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