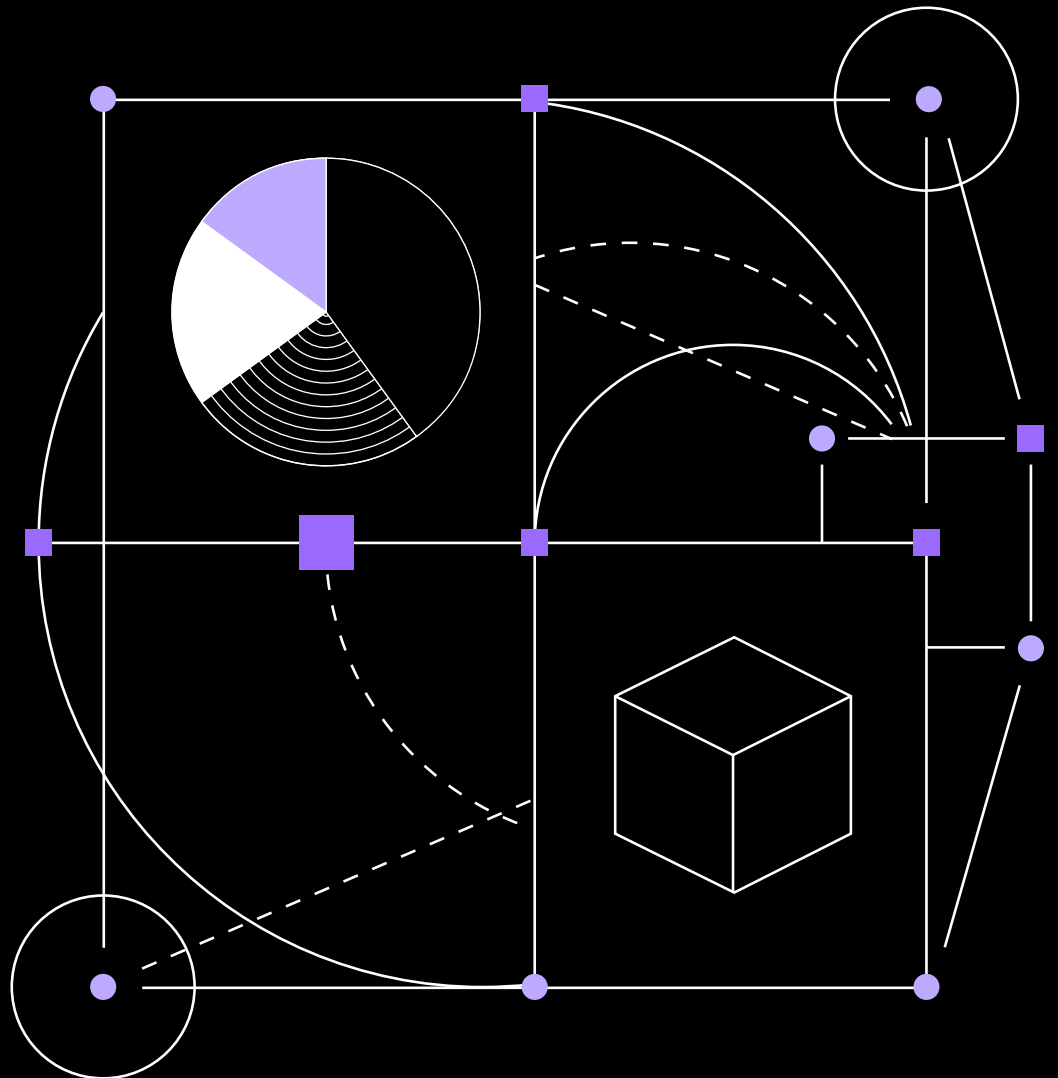


Galaxy Funds

The Role of Active Management in Digital Assets

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The Role of Active Management in Digital Assets

The digital asset class has seen substantial growth over the past several years. Significant disruptions in the market, like the arrival of this exciting new asset class, challenge investors to re-evaluate portfolio construction. Institutional investors are already beginning to incorporate digital assets in their portfolios to diversify their holdings and gain exposure to the expansion of the asset class. Similar to how investors explored equities and real assets to diversify their holdings in the past, we believe more investors will continue incorporating digital assets into their portfolio construction process.

The emergence of digital assets and blockchain technology represents a fundamental shift in technology that mirrors the importance of secular shifts like the internet in the 90s, mobile phones in the 2000s, and cloud computing in the 2010s. This new infrastructure changed how businesses and consumers operate and interact globally. Digital assets have the potential to transform industries including finance, gaming, art & collectibles, social media, and cybersecurity to a new model which enhances and expands the use cases and access for billions of people.

In 2021, crypto companies raised over \$33 billion in venture capital dedicated to projects across decentralized finance (DeFi), infrastructure, gaming, Web3, and NFTs, representing about 5% of total venture capital dollars raised that year.¹ Electric Capital's annual developer report shows that crypto developer talent also reached an all-time high last year, with thousands of monthly active developers working across the largest crypto ecosystems. In fact, more new developers joined in 2021 than at any other point in history. While the ecosystem is still young, it's backed by strong demand and talent that will accrue to meaningful protocols and services in the industry. For users, NFTs proved to be a watershed moment for broader crypto adoption in 2022, with use cases across art & music, gaming, metaverse, and profile collections generating over \$40 billion in NFT marketplace volume year-to-date.¹ This has led companies like Instagram, Disney, and eBay to integrate NFTs onto their platforms, acknowledging the growth and future adoption of NFTs with consumers.

Despite recent volatility, digital assets have had a strong, positive performance over the past decade, solidifying the emergence and adoption of blockchain technology.

~\$1.4T

Digital asset class market value²

(i.e., Crypto tokens, crypto-related stocks, and PE in crypto)
>1% of core global financial assets

~\$900B

Crypto tokens market value²

(i.e., bitcoin, Ethereum, Solana)
~80% of the larger digital asset class

~\$400B

Crypto equities market value²

(i.e., public miners, exchanges)
~15% of the crypto industry
~0.5% of the global public equity market

~\$150B

Crypto private equity market value²

(i.e., industry unicorn companies)
~5% of the crypto industry
~3% of the total private equity market

1) Source: Galaxy Digital Research, 2021.

2) Source: Greyscale Post Modern Portfolio Research report Q1 2022.



The case for active management in crypto

Digital assets are multi-faceted. Discerning where to invest in this new asset class can be challenging, particularly considering the continuously expanding use cases and applications. The fast pace of digital asset evolution creates opportunities for active investment strategies that can benefit from mispricing opportunities while managing the idiosyncratic risk of the individual assets. Today, assets like bitcoin and ether have established themselves as leaders within the store of value and smart contract platform lanes respectively. However, similar to other emerging industries, we expect innovation will continue, with new protocols and networks challenging these larger incumbents.

Active management allows institutional investors to invest with managers who can study and understand the nuances of the digital assets market to identify opportunities. The rapid adoption of blockchain base layers and the nascent but exponentially growing use cases promote an environment where sourcing, deal flow, and portfolio diligence offer an unmatched edge. Active managers that understand the development of new blockchain capabilities and monitor advancing projects can provide leverage for investors interested in staying current and nimble with their holdings.

Additionally, we see opportunities to take advantage of nascent market inefficiencies in spot, derivative, and DeFi markets, where complex trading strategies can extract non-directional returns.

Active strategies are also unique in the way they can achieve higher capital efficiency for certain holdings through staking and lending. Staking occurs when investors participating in proof-of-stake network validation are rewarded with additional token compensation by the network. Lending happens when owners of tokens are compensated for lending out their holdings to borrowers. Lastly, in an industry where many protocols and projects are liquid much earlier in their lifecycle, observant and thoughtful investors will be able to take advantage of opportunities for growth that venture can no longer capture. While utilizing a diverse set of strategies to capture growth within the ecosystem, active strategies can dynamically adjust and mitigate portfolio risk to enhance longterm returns.

Over the past two years, we've moved well beyond bitcoin into an environment supporting multiple blockchain winners across Web3. Use cases such as store of value, the metaverse, digital payments, and gaming are just the start of blockchain potential. As crypto markets mature, sub-sectors and tangible use-cases will continue emerging. When paired with lower intra-asset correlations, we now have a ripe environment for more thesisdriven, fundamental, or complex trading and investment strategies to drive alpha. Differentiation between digital asset class sectors means investors can now approach crypto investing with a more sophisticated diversification strategy.



The importance of a diversified approach to digital assets

The world is rapidly digitizing and blockchain technology is playing a critical role in this global transformation. Those interested in capitalizing on this trend can invest in the digital asset class and get diversified exposure to the developing applications of blockchain technology. Our suite of passive and active solutions allows investors to participate in the overall trend of digitization with diversified exposure to digital assets. Active portfolio management benefits investors seeking portfolio composition influenced by analytical research from a dedicated team monitoring broader asset class advancements.

A holistic approach to digital asset investment requires complementary allocations across liquidity, stage, and strategy in a diversified and thoughtful way. Consider constructing your portfolio of digital assets to include venture, hedge funds, and liquid digital assets.

Through active portfolio management, intelligent diversification across the larger digital asset class is possible. We see active management as an opportunity to enhance alpha potential and reduce portfolio risk. Now, more than ever, investors are eagerly working with the trusted advisors at Galaxy Fund Management to size and monitor portfolio digital asset allocations based on analytical research, forecasts, and market analysis. Investing with Galaxy Fund Management is investing with a team devoted solely to digital assets. If you are interested in learning more about active portfolio management, reach out to the advisors at Galaxy Fund Management to start a conversation.



Venture

Early-stage, illiquid investing

- Private markets – invest at the earliest stages of cutting-edge blockchain innovation
- Exposure to illiquid tokens and private equity provides diversified allocations within venture
- While difficult to access, private digital asset markets continue driving value creation and asymmetric return opportunities

Exposure Vehicle:

GVH Venture FoF



Hedge Funds

Liquid markets + active management

- Alpha generated through:
 - High conviction bets on small- and mid-cap digital asset selection; or
 - Exploit market inefficiencies nascent in this new asset class using various forms of sophisticated trading strategies
- Alpha generated through:
 - (1) Fundamental, (2) Quant Directional, (3) Market-Neutral, (4) Tactical Beta

Exposure Vehicle:

Galaxy Liquid Alpha Fund LP
GVH Multi-Strategy FOF
GVH Market Neutral FOF



Liquid, Large-Cap

Blue-chip, Large-cap Exposure

- Thematically play the growth of the asset class with indexing strategies
- Invest in passive fund structures, gaining exposure to blue-chip or large-cap digital assets (e.g., BTC, ETH, DeFi)
- Target simple, low fee regulated products that replicate index performance

Exposure Vehicle:

Galaxy Fund Management Passive Offerings



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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. For example, 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.



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Hedge funds and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency to investors of information as to share price, valuation, and portfolio holdings. Complex tax structures often result in delayed tax reporting and potentially materially different returns for offshore versus onshore investors. Compared to mutual funds, alternative investments are subject to less regulation and often charge higher fees.

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