

# Crypto For Financial Advisors

*Hard Questions, Straight Answers, No Hype*

Presented By



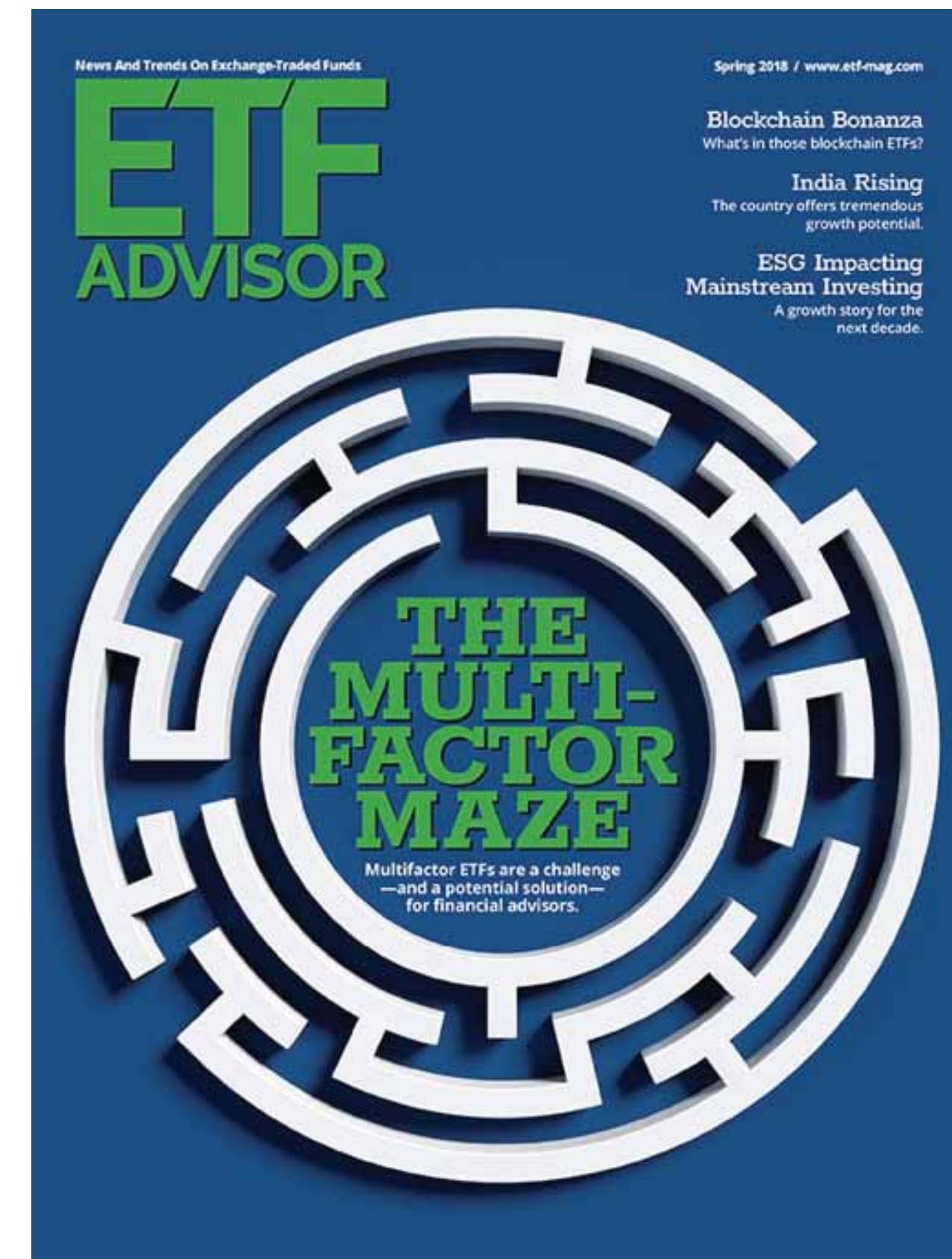
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Bitwise

## Presented By



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# Today's Speakers



**Hunter Horsley**  
*Chief Executive Officer*

Previously Product Manager on monetization at Facebook and before that Instagram. Graduate of Wharton School at University of Pennsylvania.



**Martha Shear**  
*Managing Director, Head of Business Development*

Previously Director at Commonfund (\$25B AUM). Before that, Vice President at BlackRock iShares.

# Background on Bitwise

01

**Leader:** Created the world's first crypto index fund.

02

**Specialist:** Products solely focused on cryptoassets.

03

**Experienced:** Software, research, & asset management expertise.

## INSTITUTIONAL INVESTORS

**BLOCKCHAIN**  
CAPITAL

khosla ventures

GENERAL  CATALYST

## TEAM BACKGROUNDS

Google

facebook

BLACKROCK

NEW YORK  
LIFE  
MAINSTAY  
INVESTMENTS

wealthfront

Goldman  
Sachs

J.P.Morgan

ETF  
.com



# Agenda

- **Crypto 101:** *What cryptoassets are & why they are important*
- **Crypto 201:** *Why every diversified portfolio should consider cryptoassets*
- **Crypto 301:** *Why cryptoassets have value & will continue to*
- **Crypto 401:** *Blockchain vs cryptoassets & key considerations when investing*
- Audience Q&A

# Crypto 101

## What Cryptoassets Are and Why They Are Important

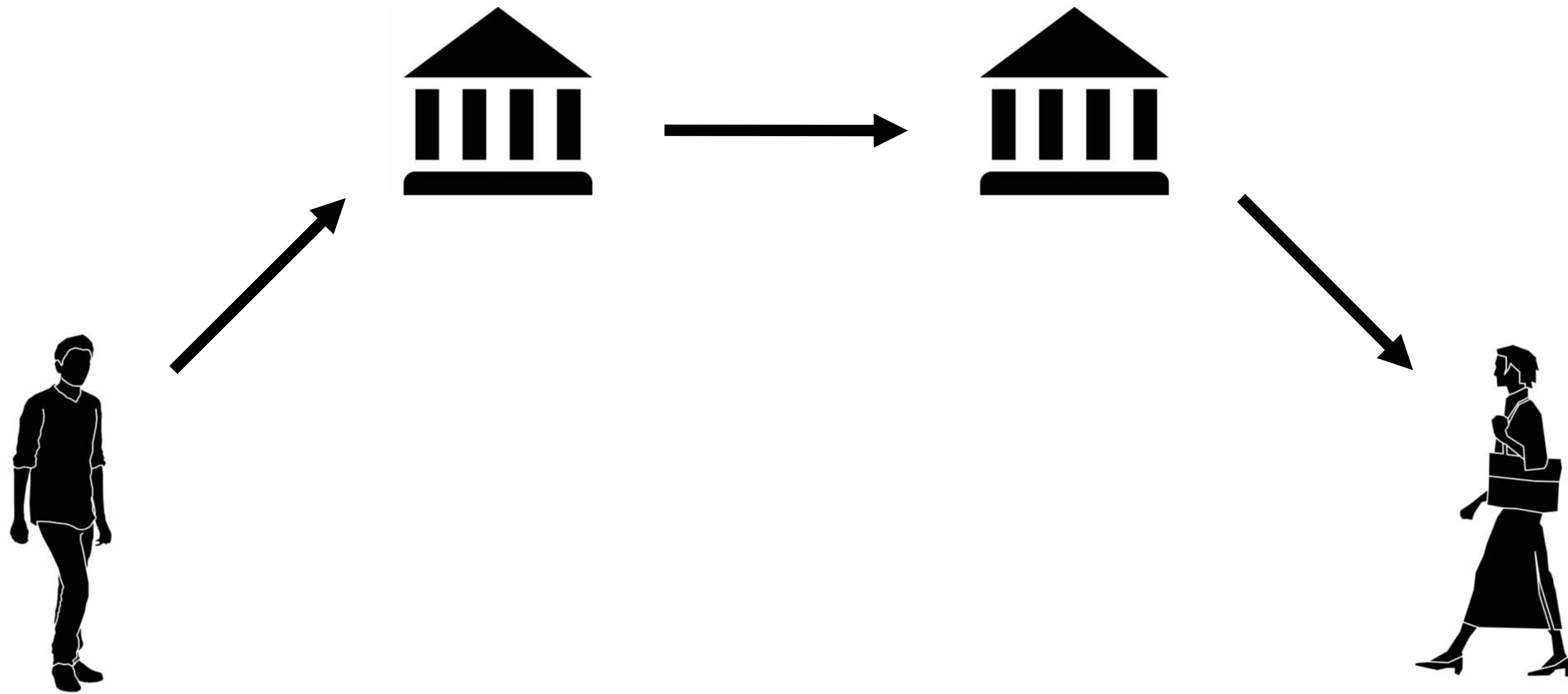
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# A Simple Financial Transaction

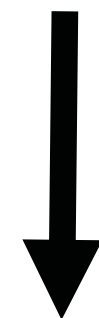


# A Simple Financial Transaction



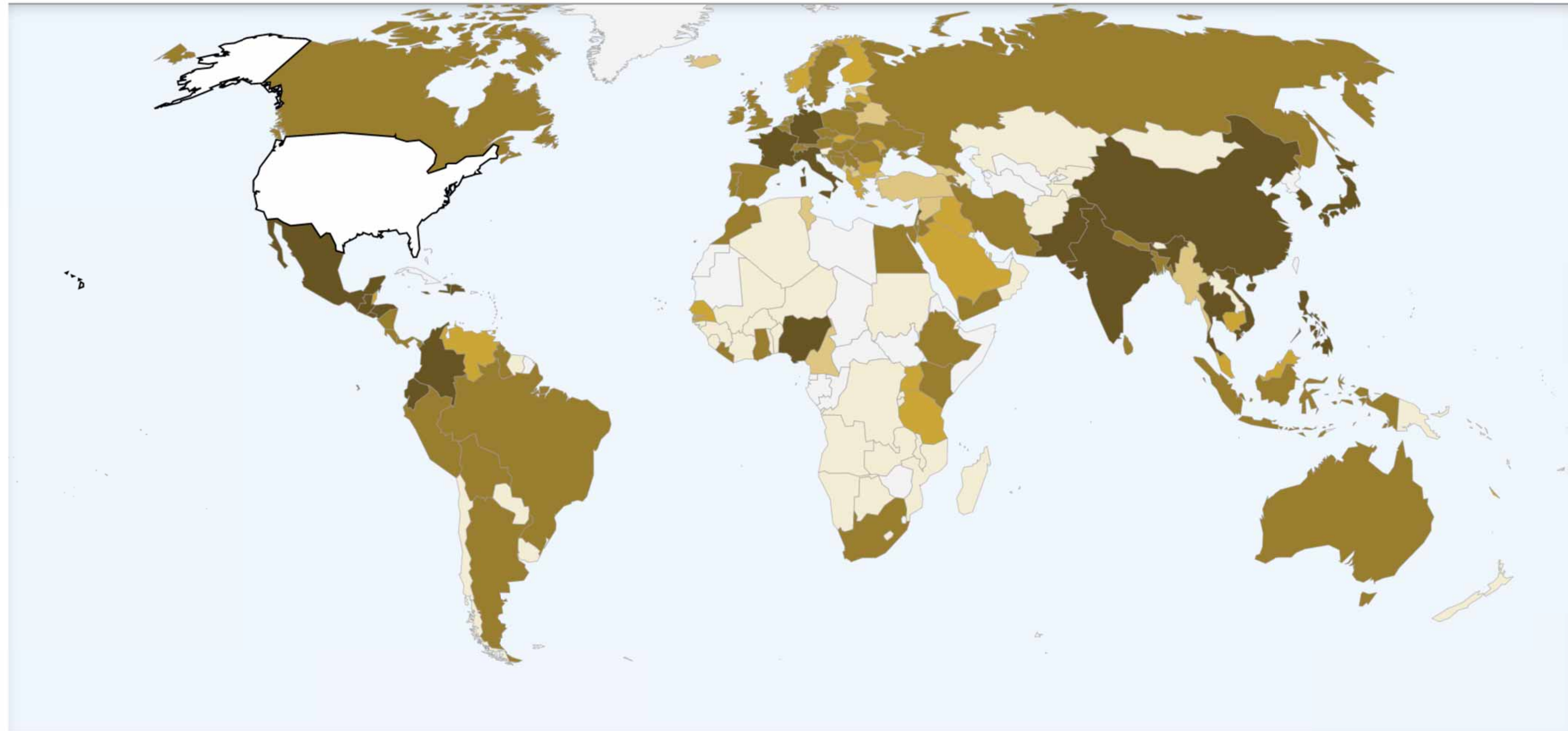


# A Common Financial Transaction



# Remittance Flows Worldwide in 2016

**\$138,165,000,000** in remittances was sent from **United States** to other countries in **2016**



**OUTGOING** **INCOMING**

○ <\$25 million USD   ● \$25-49 million   ● \$50-99 million   ● \$100-999 million   ● >\$1 billion

Pew Center for Research

# Remittance Flows Worldwide in 2016

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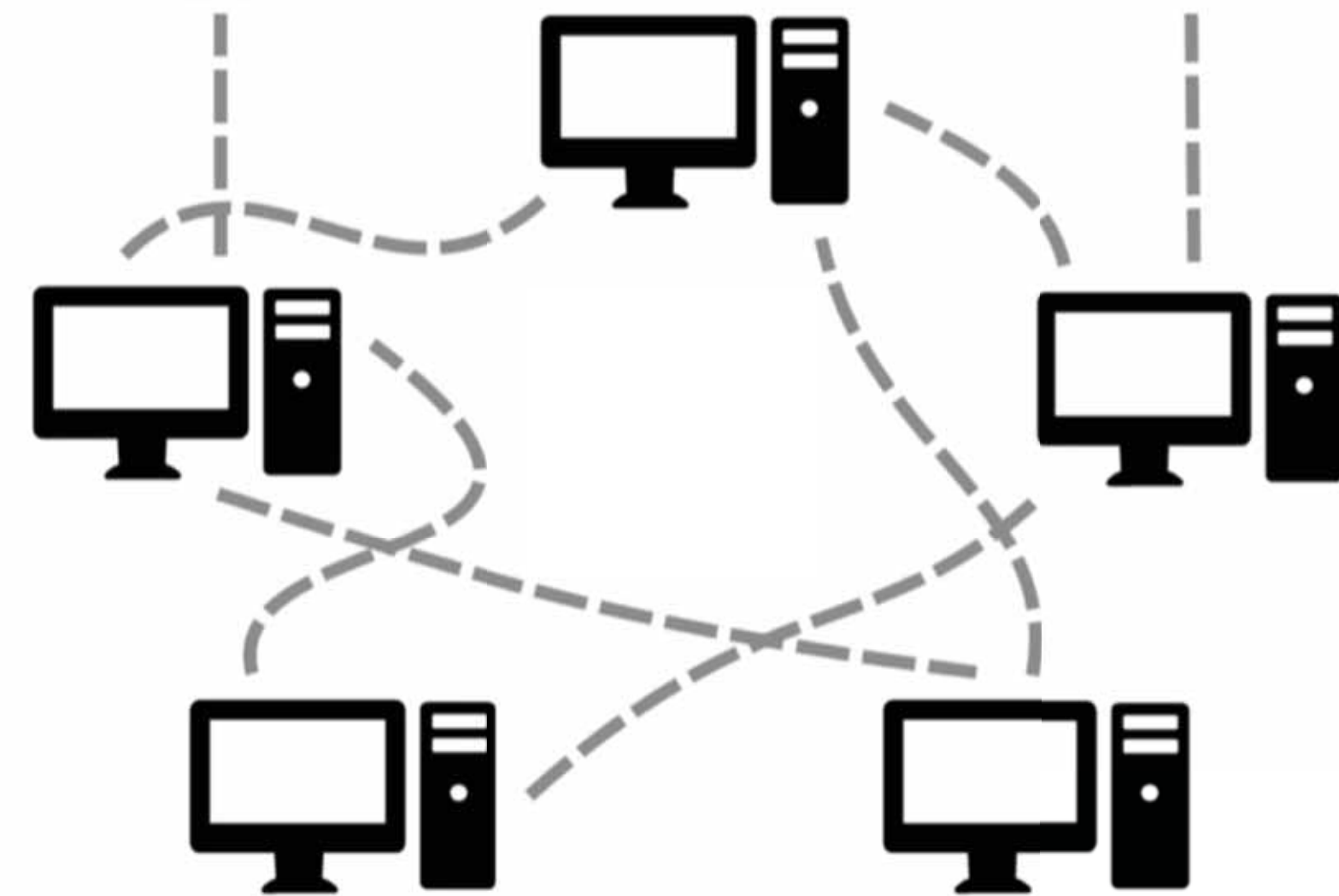
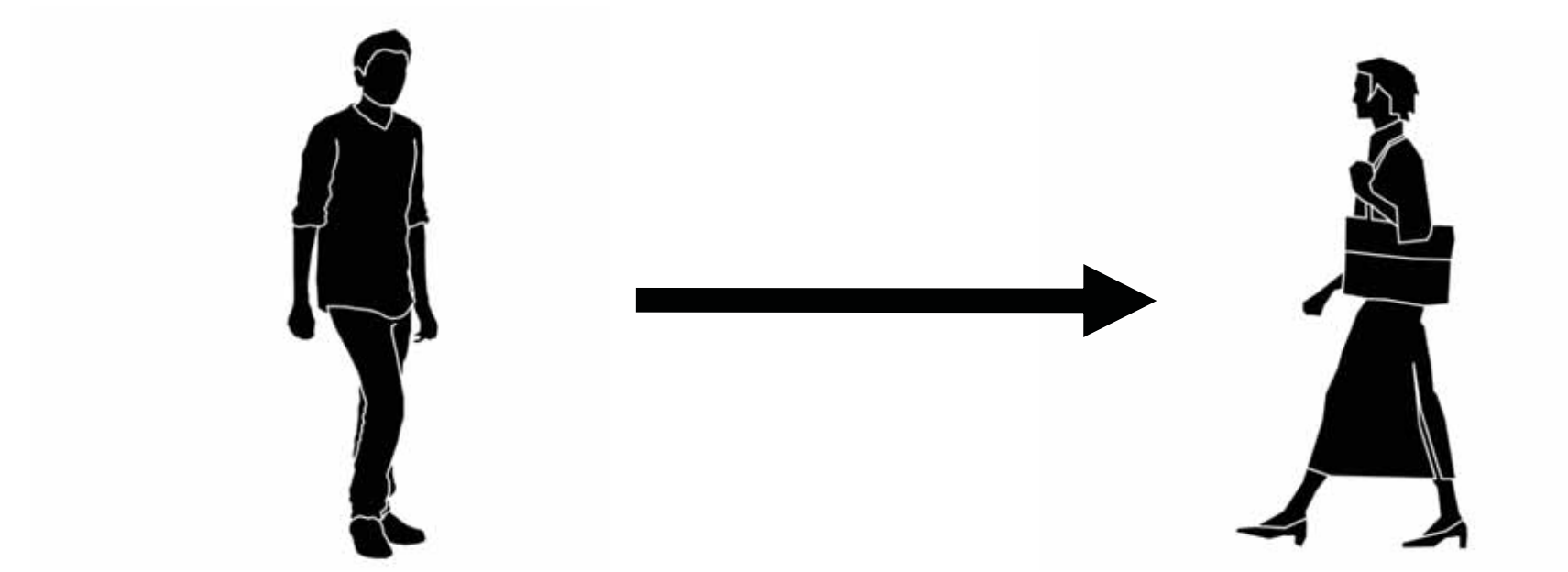
○ <\$25 million USD   ● \$25-49 million   ● \$50-99 million   ● \$100-999 million   ● >\$1 billion

Pew Center for Research

Source: Pew Center for Research. Data from 1/1/16-12/31/16

# Crypto Allows for Digital, Peer-to-Peer Transactions Without a Central Authority

- Quick settlement
- Minimal fees
- No central authority means no seizure or error or changing policies



# The Breakthrough: Proof of Work Consensus Protocol

## HOW IT WORKS

1. Combine new transactions into a block.
2. Check if transactions are valid.
3. Race other miners to solve a complex math problem.
4. The first to solve broadcasts the solution to the network, along with the block of validated transactions.
5. Other miners check if the solution is correct & the transactions are valid. If they are, they update their copy of the Blockchain.
6. The winner is rewarded.
7. The process starts again.



# Rethink Our Biggest Systems

## The Guardian

### Cyprus bailout deal with EU closes bank and seizes large deposits

**Draconian terms aimed at keeping Cyprus in eurozone include closure  
of second-largest bank and big losses for wealthy savers**



European leaders reached an agreement with [Cyprus](#) early on Monday morning that closes down the island's second-largest bank and inflicts huge losses on wealthy savers.

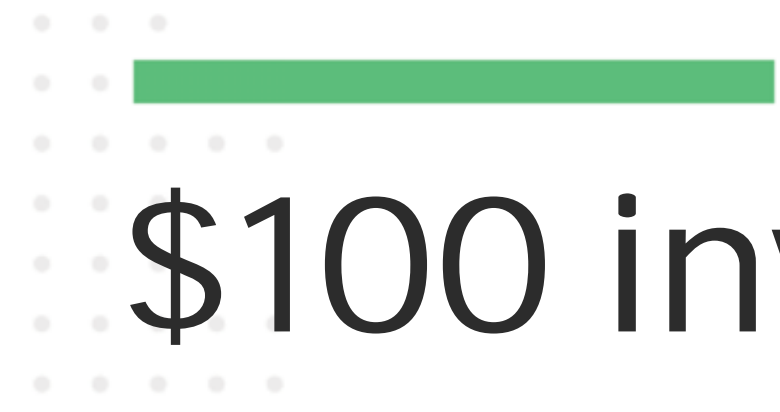
Rethink  
Our  
Most  
Important  
Services



# Crypto 201

Why every diversified portfolio should consider cryptoassets





# \$100 invested in Bitcoin in 2010 would be worth \$200,000,000 today



Source: Coinmarketcap. Data on chart from 4/23/13 – 6/24/18. Calculation of the value of \$100 invested in Bitcoin drawn from 2010 pricing data of \$0.003/bitcoin as reported in the Washington Post: <https://wapo.st/2KgDFxn>.



# Bitcoin Has Low Correlations to Other Asset Classes

Bitcoin has exhibited low correlations to traditional asset classes historically, though data is limited.

<b>Bitcoin's Historical Correlations</b>	
Equities	0.12
Bonds	0.25
Gold	0.07
Commodities	0.00
Volatility Futures	-0.25
Liquid Alternatives	0.00



# The Role of Crypto in an Institutional Portfolio

Findings from a study of performance over the last 4 years, a tough time window for crypto.

## 1% Allocation, Rebalanced:

- Added 4.5% to total return.
- Volatility flat: 6.7% vs. 6.5%.
- Reduced the max drawdown
- Sharpe Ratio: 1.02 vs 0.80

	TOTAL RETURN	VOLATILITY (MONTHLY)	SHARPE RATIO	UP CAPTURE	DOWN CAPTURE	MAX DRAWDOWN
<b>Traditional 60/40 Portfolio</b>	26.53%	6.5%	0.80	0.61	0.71	-11.37%
<b>1% Bitcoin</b>	31.09%	6.70%	1.02	.69	0.69	-10.95%
<b>5% Bitcoin</b>	50.89%	8.30%	1.55	0.99	0.68	-9.36%
<b>10% Bitcoin</b>	78.38%	11.6%	1.75	1.37	0.66	-12.11%

\*January 1, 2014 through March 31, 2018. This period was intentionally chosen because it captures two of the worst bear markets in Bitcoin history. The 60%/40% portfolio holds a 60% position in the Vanguard Total World Stock ETF (VT) and a 40% position in the Vanguard Total Bond market ETF (BND). Allocations to Bitcoin were pulled on a pro-rata basis from each of the two positions. The study did not include any consideration of transaction costs. For more, see "The Case for Crypto in an Institutional Portfolio," available at [www.bitwiseinvestments.com/research](http://www.bitwiseinvestments.com/research).



# Key Drivers of Demand Going Forward

- Investor Adoption and Continued Network Growth
- Millennial Wealth
- Positive Regulatory Developments
- Weakening Trust in Monetary Authorities & Corporate Institutions
- Continued Institutionalization of the Space



# Key Risks and Concerns

- Regulatory Overreach
- Hacking
- If development stops
- If investment community can't agree on how to do valuation
- What if everyone is just being foolish?

# Crypto 301

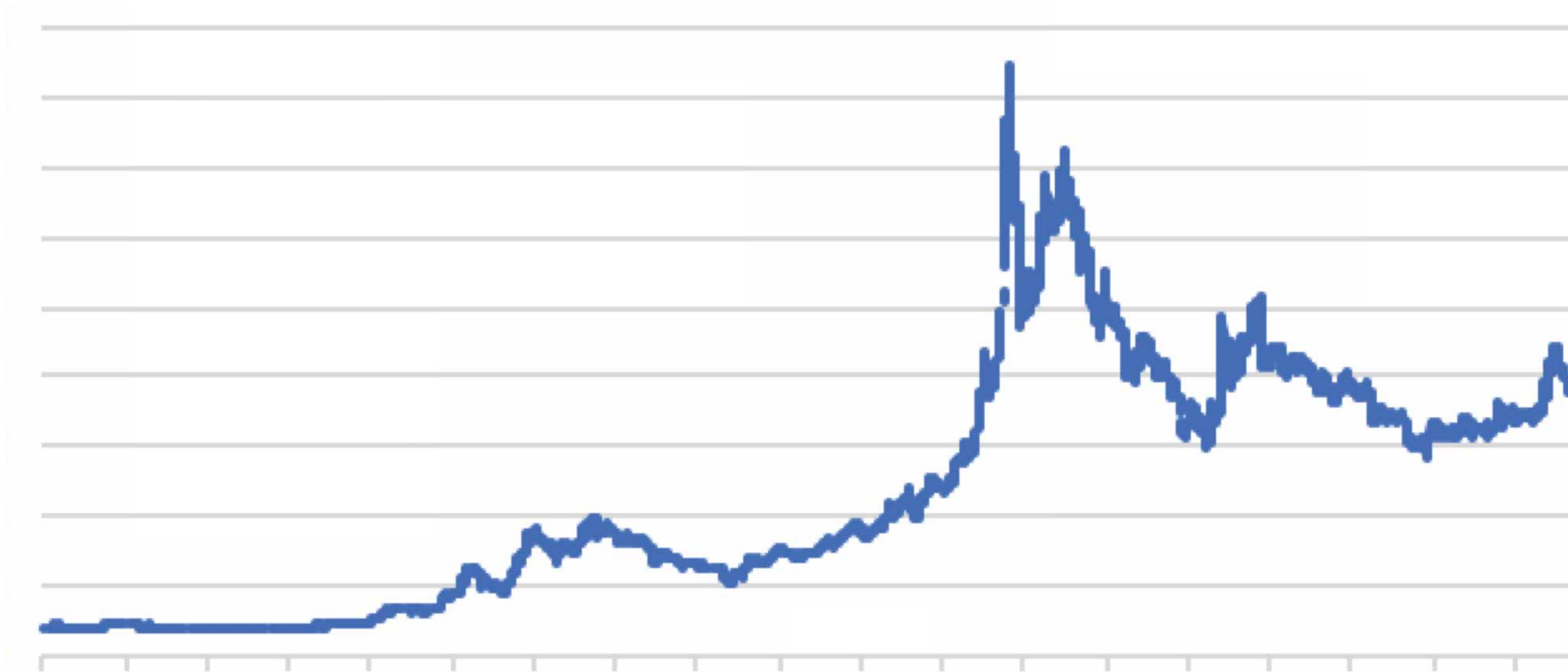
## Why Cryptoassets Have Value and Will Continue to Have Value

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# Thesis 1: Store of Value

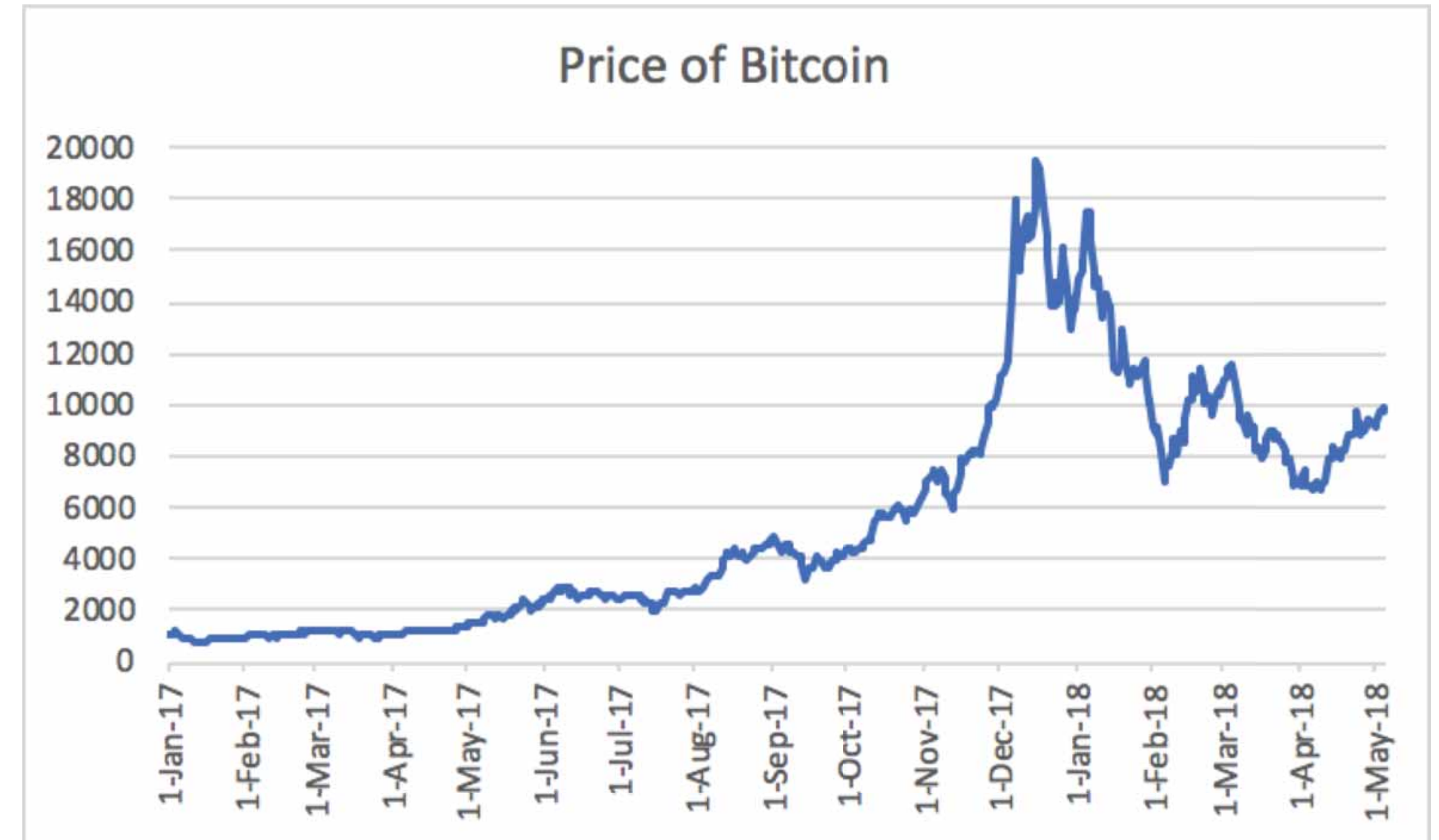


# Bitcoin Is Too Volatile To Be A Store of Value





# Early On, Stores Of Value Are Volatile

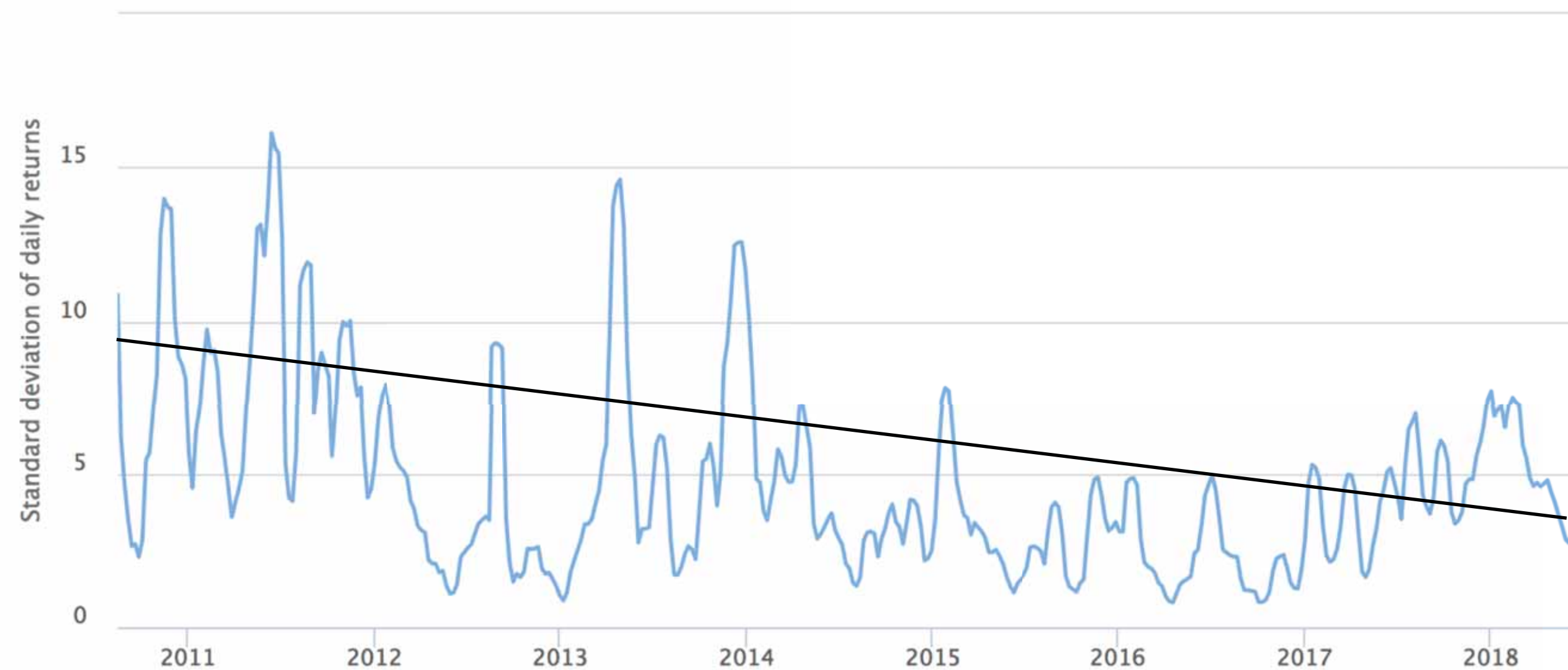


# Annual Returns of Gold: 10+ Years Post Gold Standard



Year	Return
1971	15%
1972	43%
1973	67%
1974	73%
1975	-24%
1976	-4%
1977	20%
1978	29%
1979	121%
1980	30%

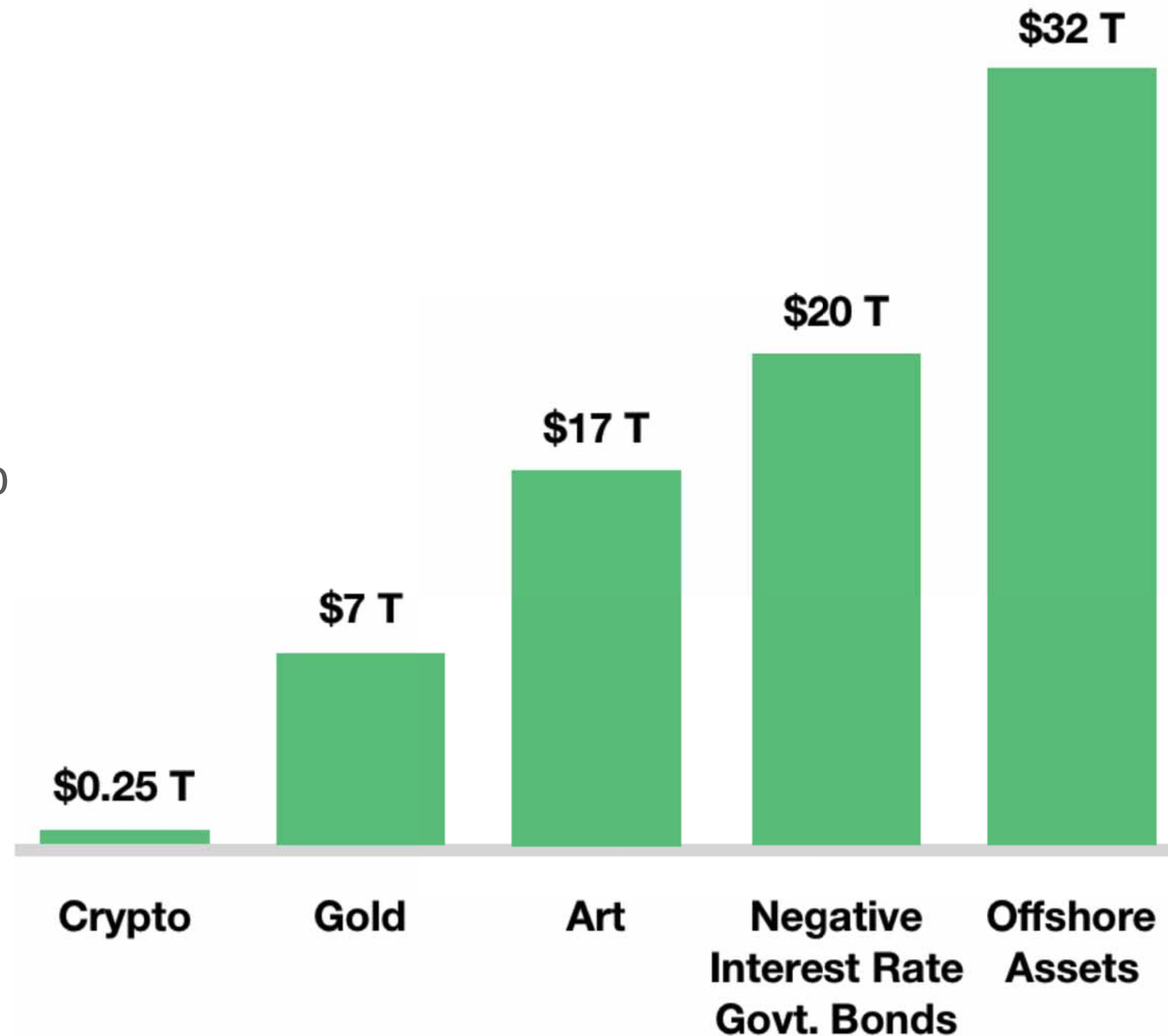
# Bitcoin Returns and Volatility: Last 9 Years



Bitcoin Historical Returns	
2010 (Partial)	233%
2011	1,483%
2012	186%
2013	5,507%
2014	-58%
2015	35%
2016	125%
2017	1,331%
2018 (Q1)	-49%

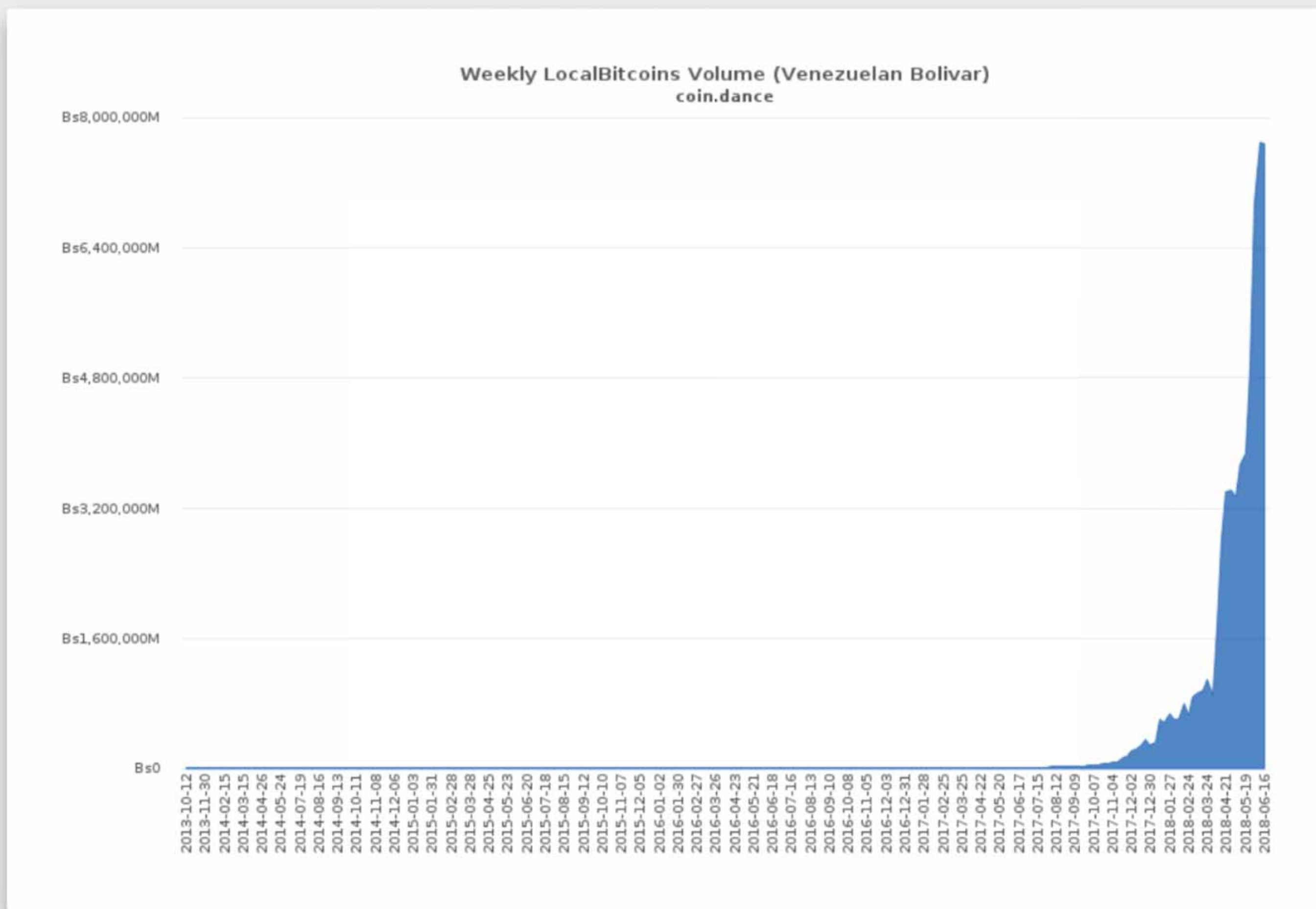
# Store of Value Is A Really Large Market

- Bitcoin currently ~1.3% the value of gold
- If Bitcoin matched gold as a store of value, bitcoin would be worth roughly \$350,000/coin
- 43% of male millennials prefer Bitcoin to government bonds.

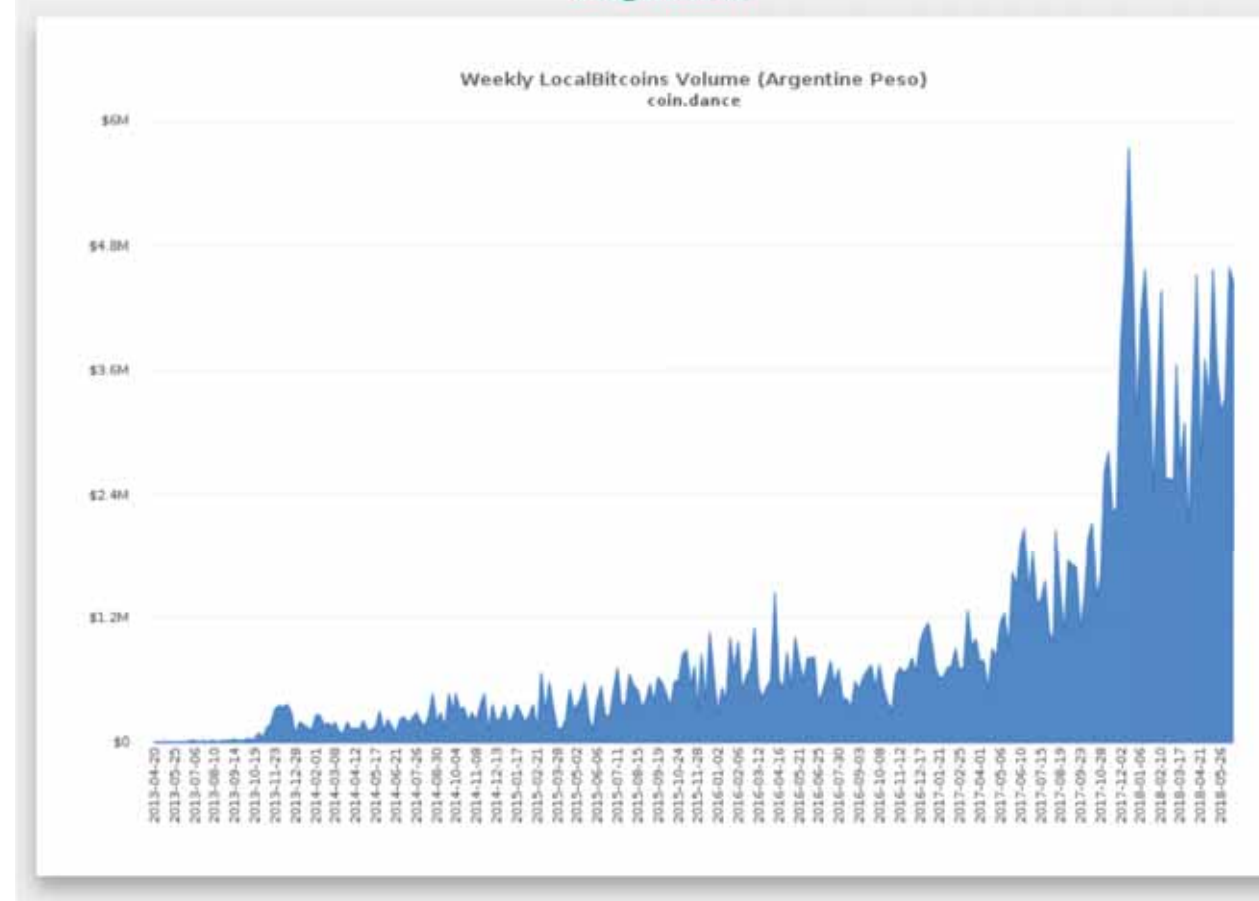


# Crypto Interest Surges In Countries Under Duress

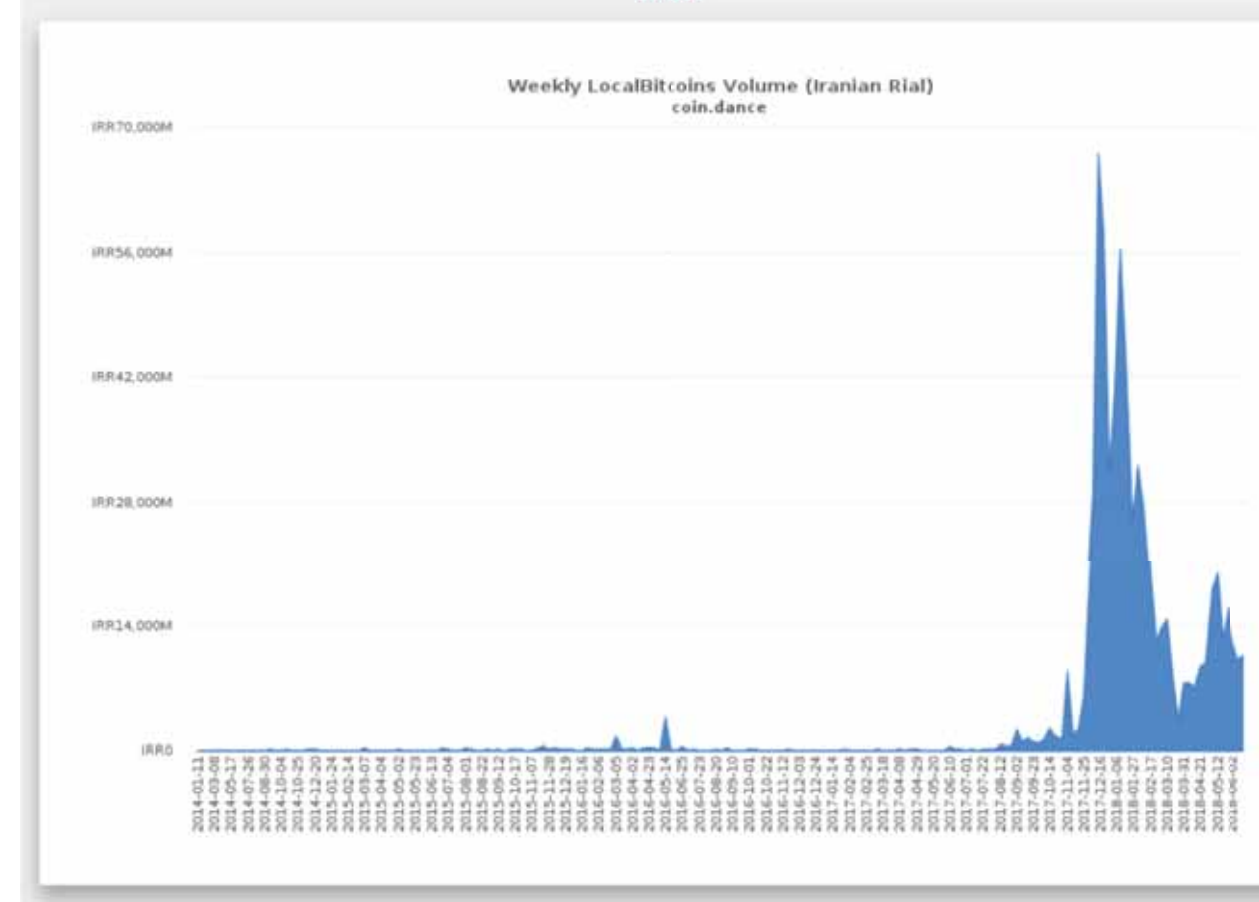
## Venezuela



## Argentina



## Iran



# Bitcoin Is Not The Only Store of Value Option



ethereum



*Litecoin*



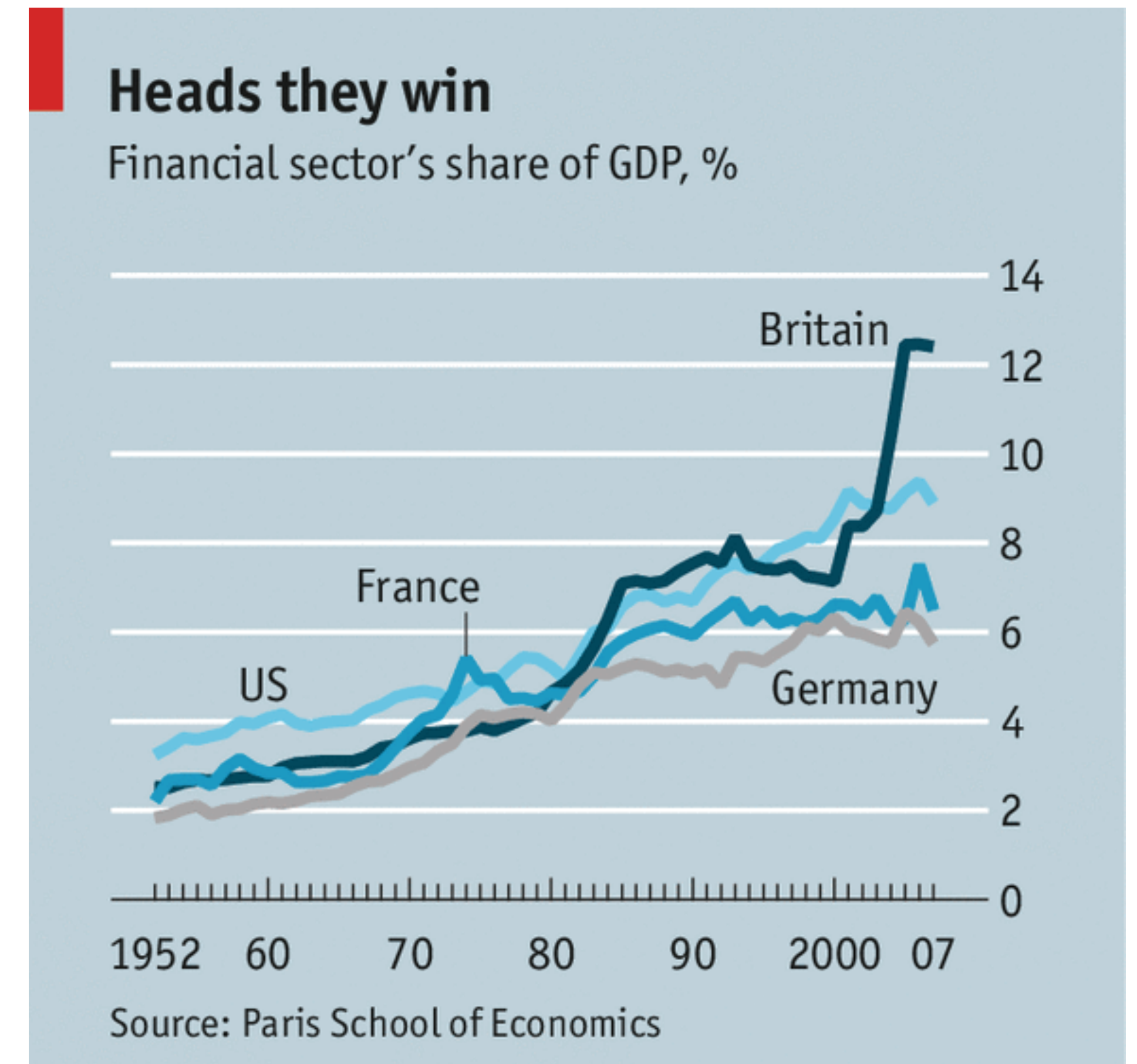
ethereum  
classic

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# Thesis 2: Financial Services

# Financial Services Eat Up An Increasing Share of GDP

- Global GDP = \$80 trillion
- Financial sector = Roughly 10%
- That's \$8 trillion





# Crypto Aims To Disrupt Essentially All Of It

J.P.Morgan

J.P. Morgan > About Us > What We Do

## WHAT WE DO

Large multinationals and emerging companies, institutional investors and individuals all turn to us for capital, insights and solutions.



### Investment Banking

A global leader, we deliver strategic advice and solutions, including capital raising, risk management, and trade finance to corporations, institutions and governments.

[Explore >](#)



### Markets & Investor Services

Serving the world's largest corporate clients and institutional investors, we support the investment cycle with market-leading research, analytics, execution, and investor services.

[Explore >](#)



### Treasury Services

We are a global full-service provider of cash management, liquidity, trade and escrow solutions that help resolve the working capital and efficiency challenges treasury professionals face.

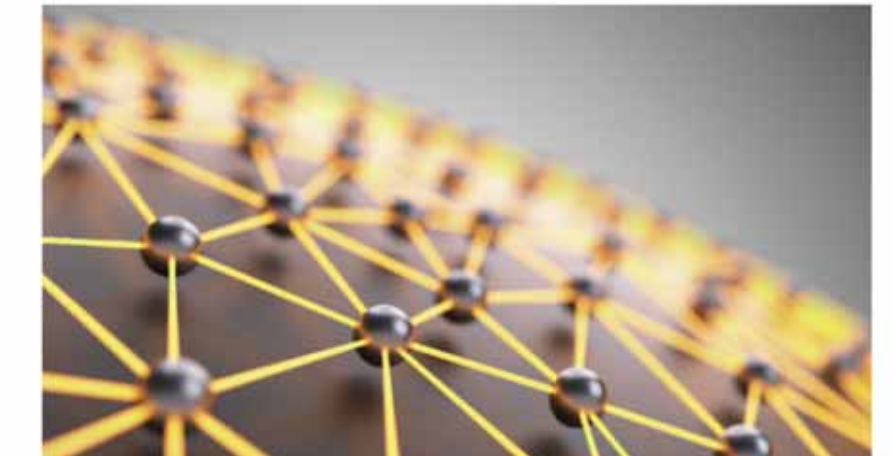
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### Commercial Banking

For organizations with annual revenues ranging from \$20 million to \$2 billion, we are uniquely positioned to provide comprehensive solutions, including lending and treasury services.

[Explore](#) 

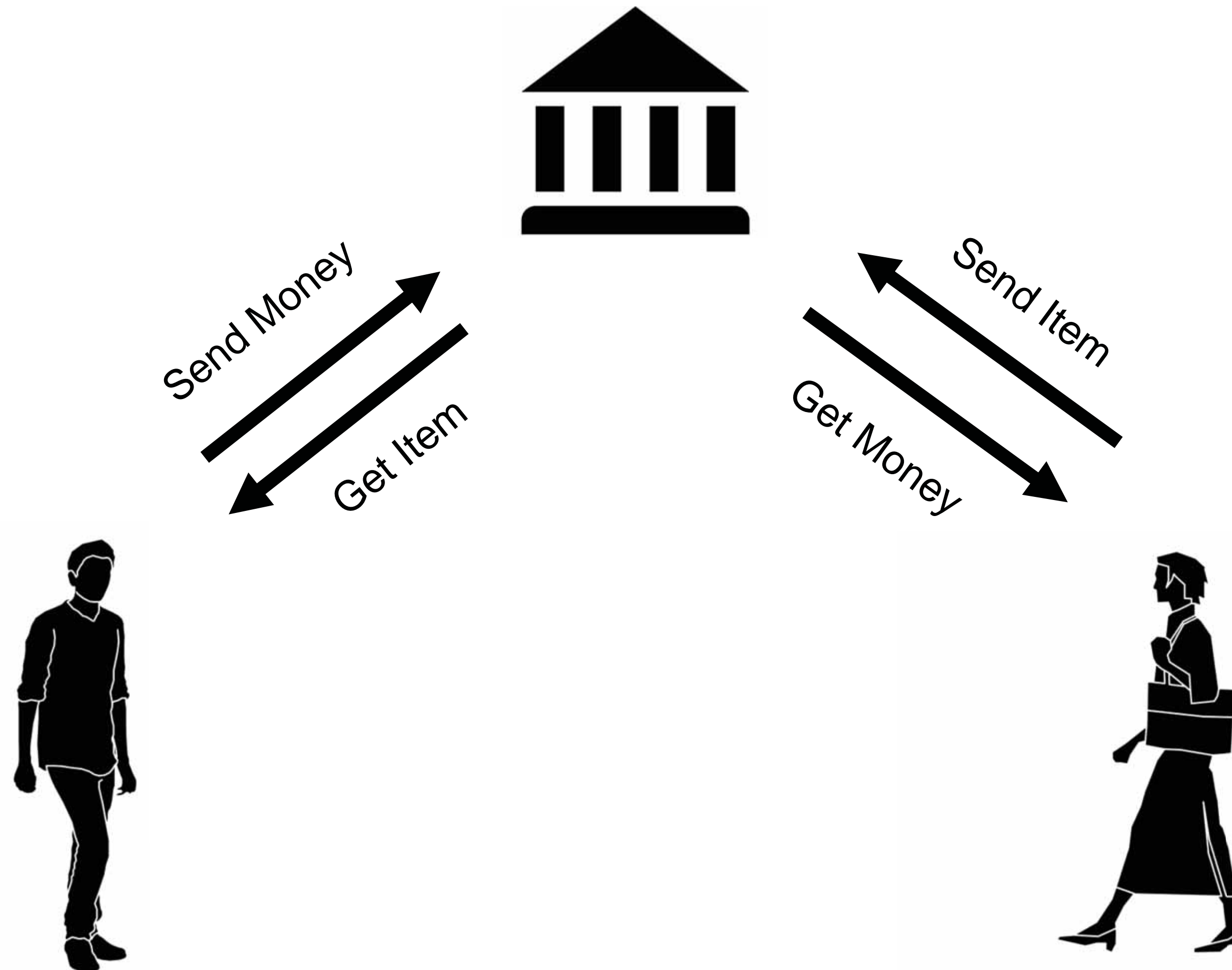


### Merchant Services

As the nation's number one bank-owned acquirer, Merchant Services can help you operate your receivables all in one bank, better navigate the omnichannel payment landscape, and enhance cash flow.

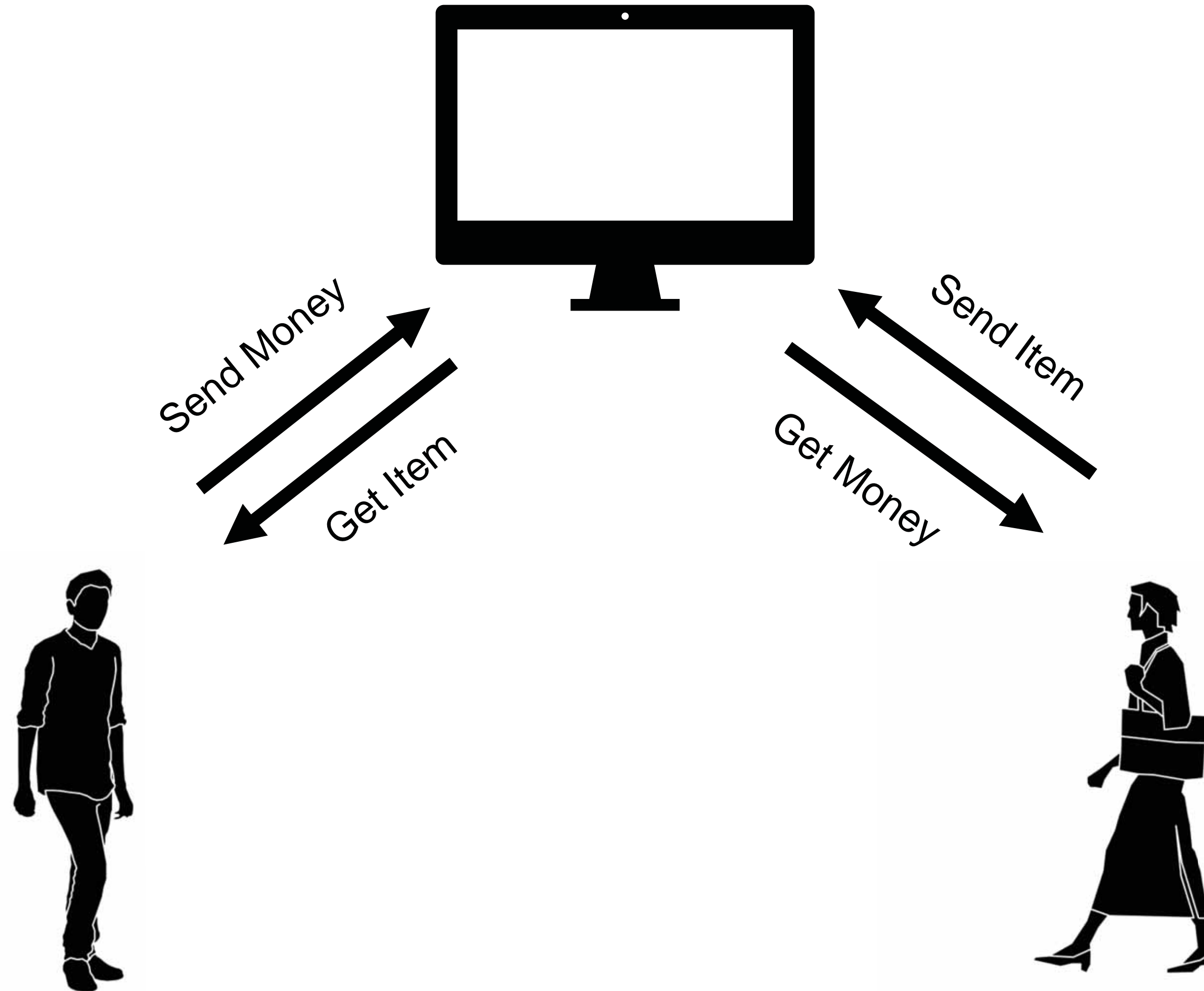
[Explore](#) 

# Escrow: A Simple Example



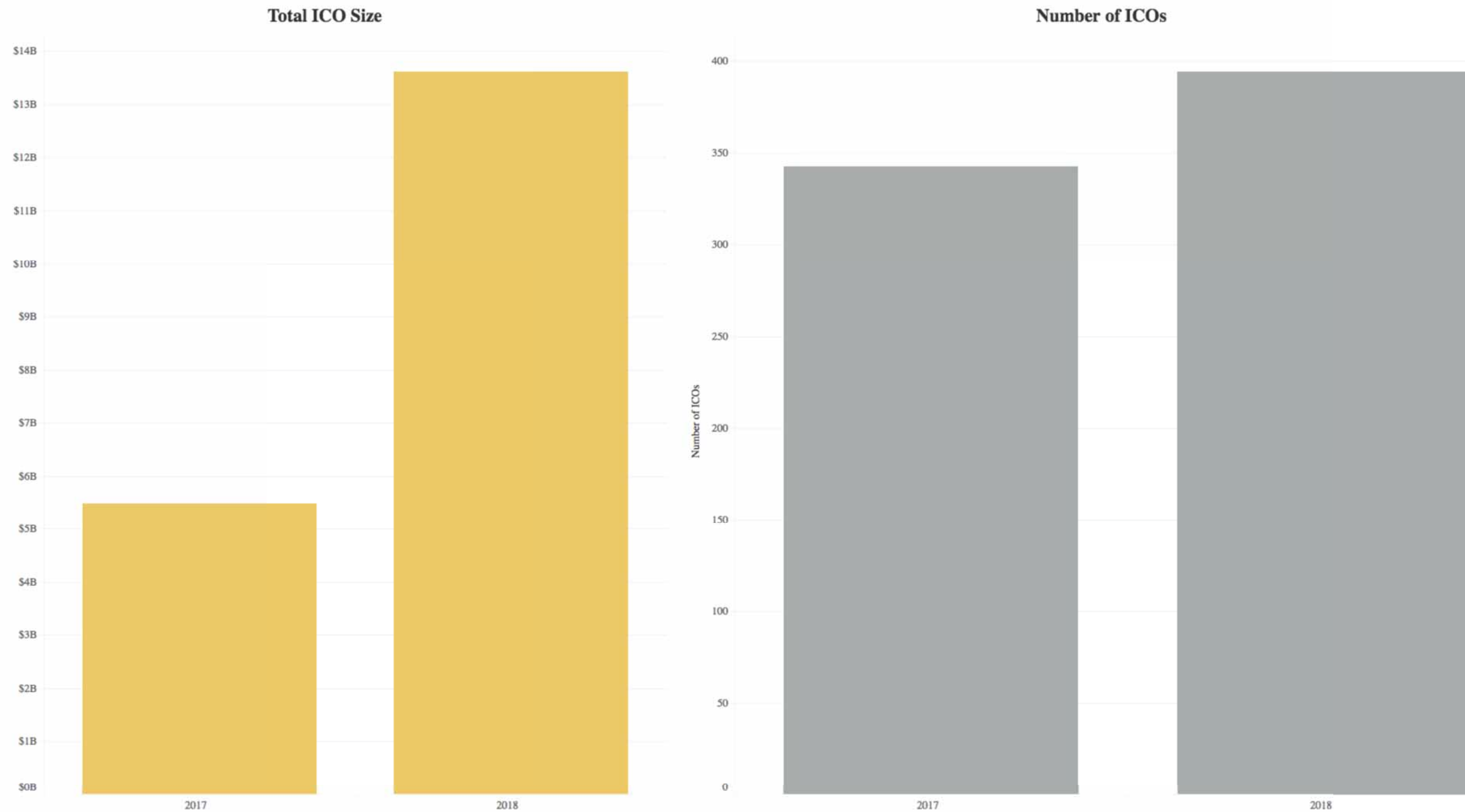


# Why Not Cut Out The Middleman?





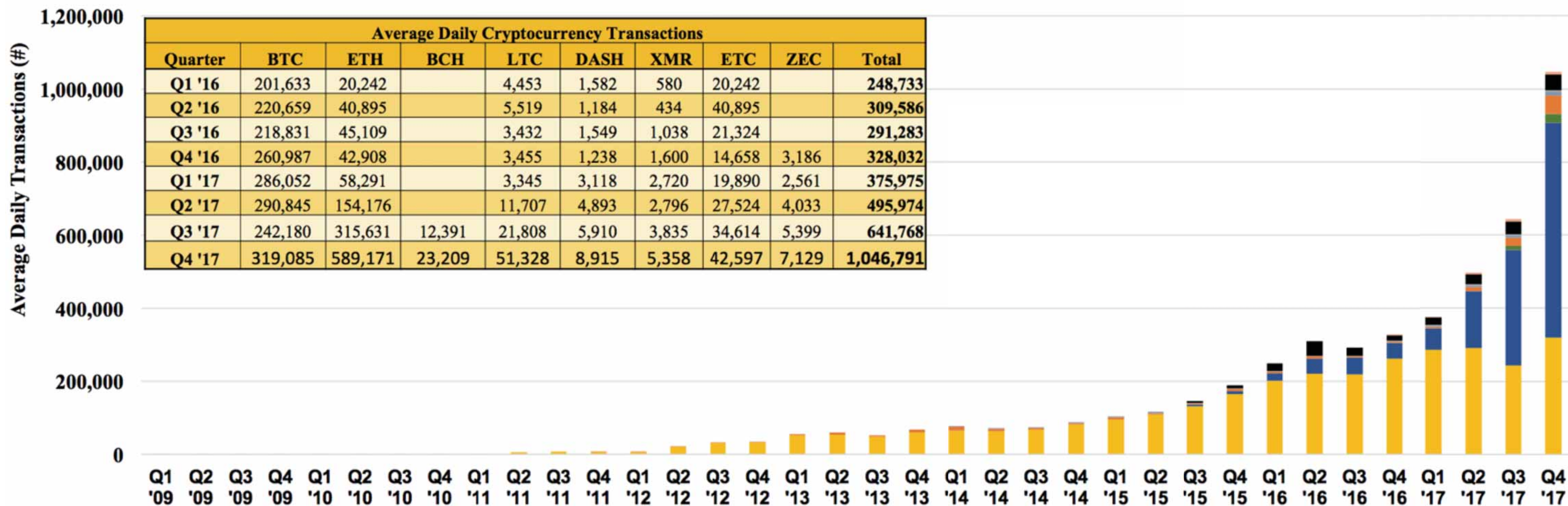
# Capital Raising: ICO As A New Approach



# Payments: Transaction Volumes Surging

Daily Cryptocurrency Transactions

■ BTC ■ ETH ■ BCH ■ LTC ■ DASH ■ XMR ■ ETC ■ ZEC





# Just Ask the International Monetary Fund

“Just as a few technologies that emerged from the dot-com era have transformed our lives, the cryptoassets that survive could have a significant impact on how we save, invest and pay our bills.”

— Christine Lagarde, April 2018  
“An Even-Handed Approach to Crypto-Assets,”

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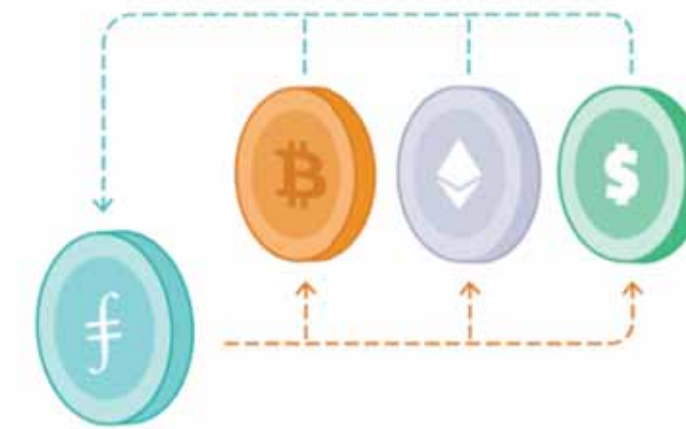
# Thesis 3: New Business Models

# Filecoin: A Decentralized Dropbox

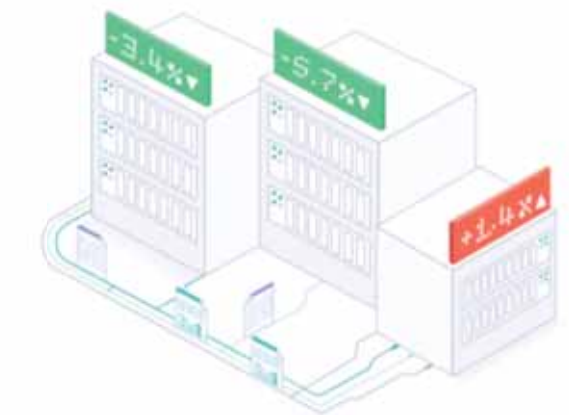
- Attacking the cloud storage market, estimated to be approximately \$89B by 2022.
- Low fees & no rent seeking motivation
- Centralized providers have been hacked: Dropbox in 2012, and iCloud in 2014.



EARN FILECOIN FOR HOSTING FILES



EXCHANGE FILECOIN FOR USD, BTC, ETH AND MORE



RELIABLY STORE FILES AT HYPERCOMPETITIVE PRICES



Examples: Steem, 0x, Augur



# Crypto 401

## Blockchain vs cryptoassets and Key Considerations When Investing In Crypto



# Key Considerations

- Blockchain vs cryptoassets
- Diversification
- Volatility and Time Horizon
- Custody
- Investment Options

# Blockchain vs cryptocurrency



Private Blockchain  
= no cryptoasset



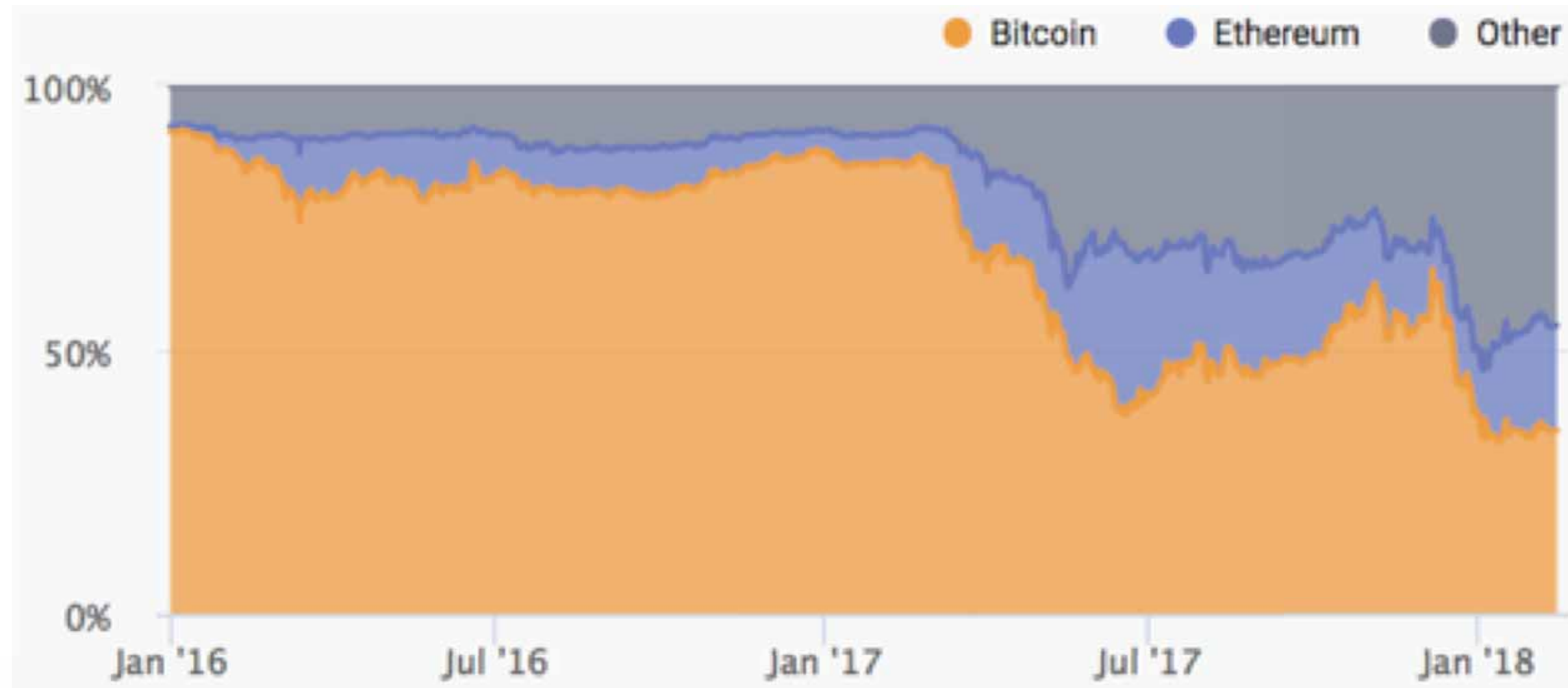
Public Blockchain  
= cryptoasset

“‘Private blockchain’ is just a confusing name for a shared database.”

—Arvind Narayanan,

Associate Professor of Computer Science at Princeton University

# Diversification: The Crypto Market Is Changing



- In 2017, crypto's market cap grew from \$15B to more than \$300B.
- Bitcoin went from 85% of the market to less than 50%
- Today, more than 2,000 cryptoassets exist. Some competing, some doing different things.



# Diversification: The Crypto Market Is Changing

- Nothing guaranteed safe bet, as we've seen in the past.
- Multiple cryptoassets have interesting features.
- Exogenous, unforeseen events can help or harm an asset.
- The space is evolving rapidly.



# Diversification: The Crypto Market Is Changing

Monthly Performance Across The Top 10 Assets Varies Widely

The average monthly dispersion between the top and bottom performer over this time period was 300%.

Not Everything Moves In The Same Direction

During the 60%+ drawdown in Bitcoin from December 2017 – March 2018, three of the top 10 cryptoassets posted positive returns, with one rising 69%. Daily, weekly and monthly correlations were low.

No Asset Is Consistently The Top Performer

Only twice in 12 months did the top-performing crypto asset repeat as the best performer in the following month.

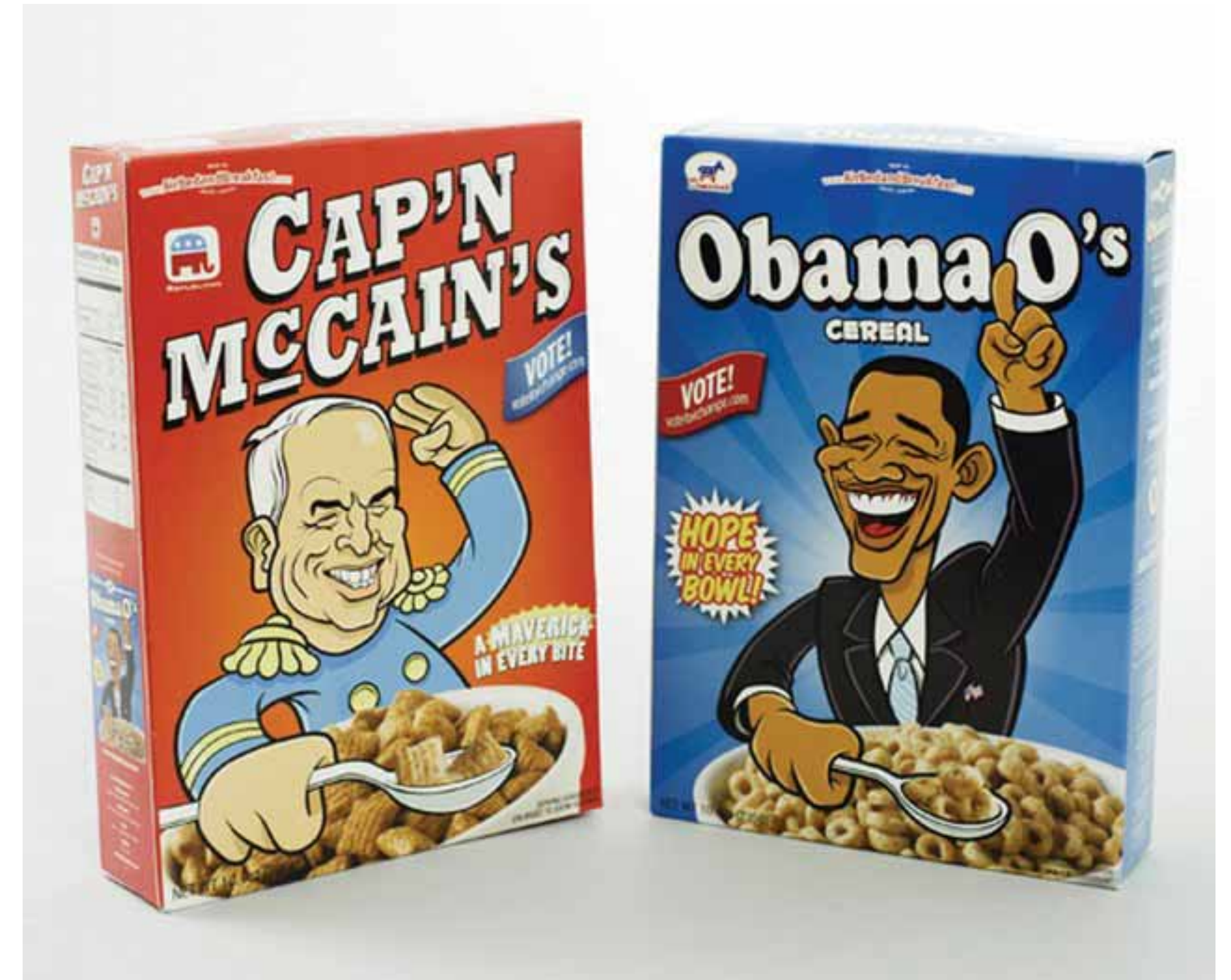
	MAR 17	APRIL 17	MAY 17	JUNE 17	JULY 17	AUG 17	SEPT 17	OCT 17	NOV 17	DEC 17	JAN 18	FEB 18
293.5% Ripple	137.2% Ripple	612.0% Stellar	751.5% NEO	15.2% Bitcoin	350.7% NEO	2.9% NEO	112.8% Stellar	260.1% EOS	818.7% Ripple	91.6% NEO	24.1% Litecoin	
215.6% Ethereum	136.2% Litecoin	373.0% Ripple	59.4% Litecoin	6.5% Litecoin	252.7% Monero	-7.7% Bitcoin	48.4% Bitcoin	215.3% BTC Cash	399.3% Stellar	50.1% Stellar	4.4% Monero	
127.8% Dash	105.8% Stellar	194.1% Ethereum	33.1% Dash	-1.4% Dash	110.9% Dash	-13.5% Dash	8.9% EOS	182.8% Dash	209.9% EOS	48.1% Ethereum	1.5% Bitcoin	
76.4% Litecoin	77.6% NEO	184.8% NEO	27.1% Ethereum	-8.8% Monero	87.3% Ethereum	-21.4% Ethereum	1.4% Ethereum	145.6% Stellar	163.3% Litecoin	39.6% EOS	-8.4% NEO	
73.4% NEO	58.8% Ethereum	76.4% Monero	8.9% Bitcoin	-16.1% NEO	64.71% Litecoin	-22.2% Litecoin	1.3% Ripple	105.0% Monero	131.7% NEO	-21.7% Monero	-16.4% Dash	
66.8% Monero	25.8% Bitcoin	69.7% Bitcoin	7.8% Ripple	-33.2% Ethereum	63.8% Bitcoin	-22.7% Ripple	1.1% BTC Cash	58.3% Bitcoin	94.5% Monero	-27.5% Bitcoin	-19.2% BTC Cash	
27.5% Stellar	23.2% Dash	61.3% Litecoin	4.5% Monero	-36.1% Ripple	52.2% Ripple	-26.4% BTC Cash	1.1% Litecoin	57.9% Litecoin	83.4% BTC Cash	-29.4% Litecoin	-22.1% Ripple	
-9.2% Bitcoin	15.6% Monero	49.2% Dash	-21.7% Stellar	-40.3% Stellar	38.7% Stellar	-32.0% Monero	-8.3% Monero	45.6% Ethereum	69.8% Ethereum	-33.7% Dash	-23.5% Ethereum	
					-25.7% EOS	-38.2% Stellar	-14.8% Dash	25.0% Ripple	38.4% Bitcoin	-41.2% BTC Cash	-31.5% EOS	
						-44.5% EOS	-16.8% NEO	15.9% NEO	33.9% Dash	-49.6% Ripple	-38.2% Stellar	

Data as of February 28, 2018. Source: Coinmarketcap.com.

The table captures the top 10 cryptocurrencies as represented in the Bitwise HOLD 10 Index. Two of those coins - Bitcoin Cash and EOS - did not exist until the middle of 2017, and therefore only have data for part of the year. We did not include the first month's returns for those coins as both coins launched on the first day of a month and initial price discovery was not robust.

# Volatility and Time Horizon

- Bitcoin prices are up 136% over the past 12 months
- Bitcoin has a history of significant drawdowns, including:
  - 93% in 2011
  - 40% in 2012
  - 69% in 2013
  - 83% from 2013-2015
  - 69% from 2017-2018
- Crypto is like an early-stage venture capital investment but liquid and repriced daily.
- High potential returns, high volatility, high risk, and a multi-year return horizon.

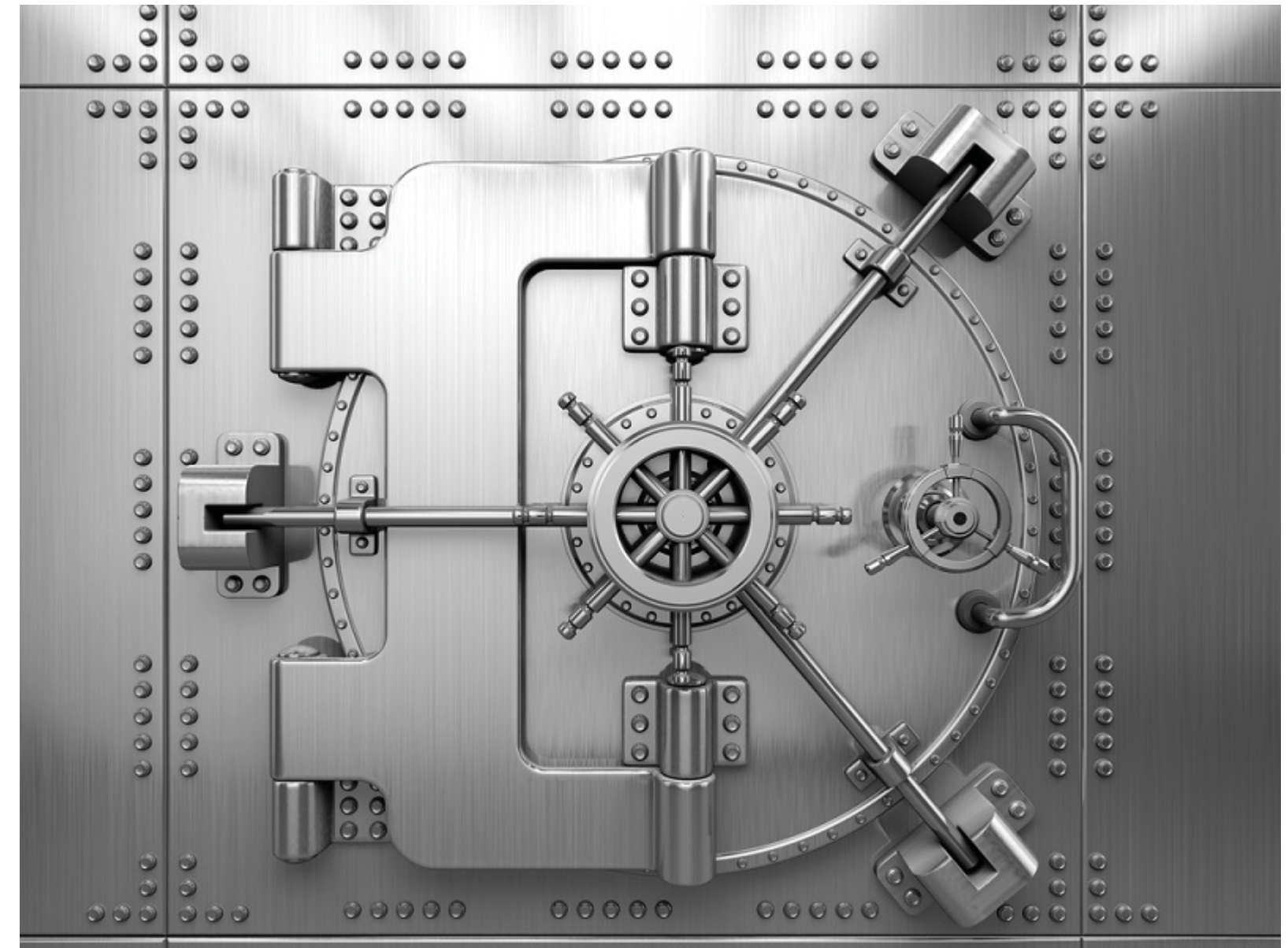










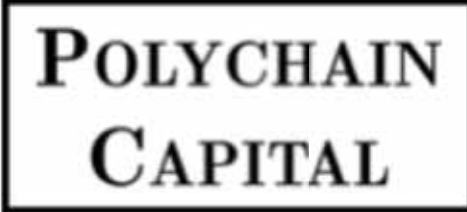





# Custody: Critical and Important to Understand

Many different approaches are available, and the space is evolving rapidly. Currently three main options:

1. On-exchange: convenient and good security but have to use “hot wallets” and have a history of hacks.
2. Self-custody: full control but complex, error prone, and slow.
3. Custodian: state-of-the-art is “cold storage” with multi-signature configuration.



# The Investing Landscape

<p><b>EXCHANGES</b></p> <p> <b>BINANCE</b></p> <p> <b>kraken</b></p>	<p><b>WALLETS</b></p> <p> <b>coinbase</b></p> <p> <b>robinhood</b></p>	<p><b>FUTURES</b></p> <p> <b>CME</b></p> <p> <b>Cboe</b></p>
<p><b>HEDGE FUNDS</b></p> <p> <b>POLYCHAIN CAPITAL</b></p> <p> <b>META</b>STABLE</p>	<p><b>FUND OF FUNDS</b></p> <p> <b>PROTOCOL</b></p> <p> <b>KEIRETSU CAPITAL</b></p>	<p><b>INDEX FUNDS</b></p> <p> <b>Bitwise</b></p> <p> <b>coinbase</b></p>

# Bitwise Asset Management

Secure cryptoasset index investing

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**Bitwise**

# Leadership Team



## Hunter Horsley

CEO

Previously Product Manager on monetization at Facebook and Instagram. Launched \$300M in revenue and added over 100M MAU. Before that a Wharton Graduate.



## Hong Kim

CTO

Previously Software Security Researcher in Korean Military, before that Software Engineer on Google Drive. Computer Science Graduate at University of Pennsylvania.



## Teddy Fusaro

COO

10 year ETF Veteran. Previously SVP at NYLife Investments (\$550B AUM), SVP and Head of PM at Index IQ (\$5B AUM), VP at Direxion (\$10B AUM), and credit trader at Goldman Sachs.



## Matt Hougan

Global Head of Research

15 year veteran of ETF industry & well known industry expert. Previously CEO of [ETF.com](http://ETF.com), former managing director at Informa, Chairman of InsideETF, Forbes & WSJ Columnist.



## Martha Shear

MD, Head of Business Development

Previously Director at Commonfund (\$25B AUM) working with Foundations & Endowments, before that VP at BlackRock iShares, member of Investment Committee for institutional specific turnkey solutions.



## John T. Hyland, CFA

Global Head of Exchange-Traded Products

30 year veteran of ETF industry & well known industry expert. Previously CIO of US Commodity Funds (\$7B AUM), famous for launching first oil, natural gas, and copper ETFs. Former president of SF CFA Society.

# Bitwise HOLD 10 Private Index Fund

- S&P 500 for crypto
- Top 10 cryptoassets by 5-year diluted market cap. ~80% market coverage. Rebalanced monthly.
- Eligibility criteria: trade volume, concentration, compliance, history requirements
- Trading, custody, taxes, audit, reporting
- Claims hard forks, airdrops, staking rewards
- Open to all accredited investors; nearly 600 LPs



Past performance is not indicative of future results. Source: Bitwise Asset Management. Data from 1/1/17 through 6/23/18. \*HOLD 10 data prior to October 1, 2017, is backtested. Source: Bitwise. Data from 1/1/2017 - 6/23/2018. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index. The dashed line of the HOLD 10 Index represents a hypothetical, back-tested and unaudited return-stream that does not represent the returns of an actual account. Index performance does not include the fees and expenses that are charged by the Fund. Actual returns may differ materially from hypothetical, back-tested returns. Back-testing is calculated by retroactively applying a financial model or Index-weighting methodology to the historical data to obtain returns. Please refer to additional important disclaimers at the end of this presentation. The inception date for the index is October 1, 2017.

# How Bitwise Works With Financial Advisors

- Direct investment in the HOLD 10, either off-book or working through your custodian
- Research into crypto, return drivers and crypto's role in a portfolio
- Partnered webinars, workshops and events
- Surveys and peer benchmarking



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# Disclosures

Bitwise Asset Management, Inc. and its affiliates (collectively, the “Manager”) are furnishing this presentation (this “Presentation”) to sophisticated prospective investors for informational purposes only in relation to a potential opportunity to subscribe for limited liability company interests (“Interests”) in Bitwise HOLD 10 Private Index Fund, LLC (the “Fund”). This is neither an offer to sell nor a solicitation for an offer to buy Interests in the Fund. Any offer to sell or solicitation of an offer to buy Interests will be made solely through definitive offering documents, identified as such, in respect of the Fund in compliance with the terms of all applicable securities and other laws. Such definitive offering documents, if any, will describe risks related to an investment in the Fund (including loss of the entire investment) and will qualify in their entirety the information set forth in this Presentation.

**No Advice on Investment; Risk of Loss:** Prior to making any investment decision in respect of the Fund, each investor must undertake its own independent examination and investigation of the Fund, including the merits and risks involved in an investment in the Interests, and must base its investment decision—including a determination whether Interests would be a suitable investment for the investor—on such examination and investigation and must not rely on the Manager or the Fund in making such investment decision. Prospective investors must not construe the contents of this Presentation as legal, tax, investment, or other advice. Each prospective investor is urged to consult with its own advisors with respect to legal, tax, regulatory, financial, accounting, and similar consequences of investing in the Fund, the suitability of the investment for such investor, and other relevant matters concerning an investment in the Fund. This Presentation contains an overview summary of the terms of the Fund. The summary set forth in this Presentation does not purport to be complete, and is qualified in its entirety by reference to the definitive offering documents relating to the Fund. Do not place undue reliance on this Presentation.

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# Disclosures

## General

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## Fund Can't Track Index Exactly

The Fund will have losses, liabilities and expenses that will offset its income and gains and therefore the Fund's performance may be below the Index's performance. In addition, the performance of the Fund and the Index may vary somewhat due to other factors such as imperfect correlation between the Fund's investments and Index composition, regulatory restrictions, high portfolio turnover rate, rounding of prices and timing differences associated with additions to and deletions from the Index and the Fund.

## Hypothetical Returns

The historical back-tested performance of the HOLD 10 Index was calculated by retroactively applying the Index Methodology (a financial model, or set of rules for calculating Index constituents and weightings) to an historical set of data in order to arrive at hypothetical Index performance. This performance history is not the performance of any actual account, but rather the result of applying a set of mathematical rules to a set of historical data in order to arrive at the hypothetical results of how the Index would have performed if it had, in fact, been in existence during the historical period. Actual returns from live portfolios will differ materially from the back-tested, hypothetical Index returns. Hypothetical returns do not reflect the macroeconomic risks of using an investment strategy in a different time period or the financial risk of executing trades in a live portfolio which include the potential market impact on cryptocurrency prices caused by buying or selling that could cause the model's buy or sell prices to differ from the frictionless trades of the back-tested model. As the back-tested returns simulate the historical hypothetical performance of an Index, hypothetical investment fees associated with investing in a Fund tracking this hypothetical index (including trading commissions, brokerage fees, management fees, or other fees) have not been included in (by reducing) the historical performance. Although the information on this Website provides some idea of the historic risks involved in investing in a portfolio designed to track the HOLD 10 Index, past hypothetical performance is not a guarantee of future returns. Backward looking performance cannot predict how any investment strategy will perform in the future. The inception date of the HOLD 10 Index is October 1, 2017.

## Performance Disclosures

Performance information is provided for informational purposes only. Past performance of the management team is not necessarily indicative of future results, and there can be no assurance that any projections, targets or estimates of future performance will be realized. Actual performance of the Fund may vary substantially from the performance provided on this Website. An investor may lose all or a substantial part of its investment in the Fund. Careful consideration should be given to any performance data provided herein. Fund returns are calculated net of expenses. Institutional Class units are subject to a 2.0% annual fee that includes the management fee, custody charges for holding the fund's assets charged by the custodian, and customary fees and expenses of the fund administrator and auditor. The performance of the Fund will be reduced by any and all applicable fees or expenses charged to and by the Fund, which could be more than the fees and expenses incurred with respect to investments held by the Manager. Performance returns of the Fund may be materially less than that of the Manager.





# Questions



**Hunter Horsley**  
*Chief Executive Officer*



**Martha Shear**  
*Managing Director, Head of  
Business Development*



**Phil Glazer**  
*Cryptoasset Research*

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