

Bitcoin Brief

Market Update

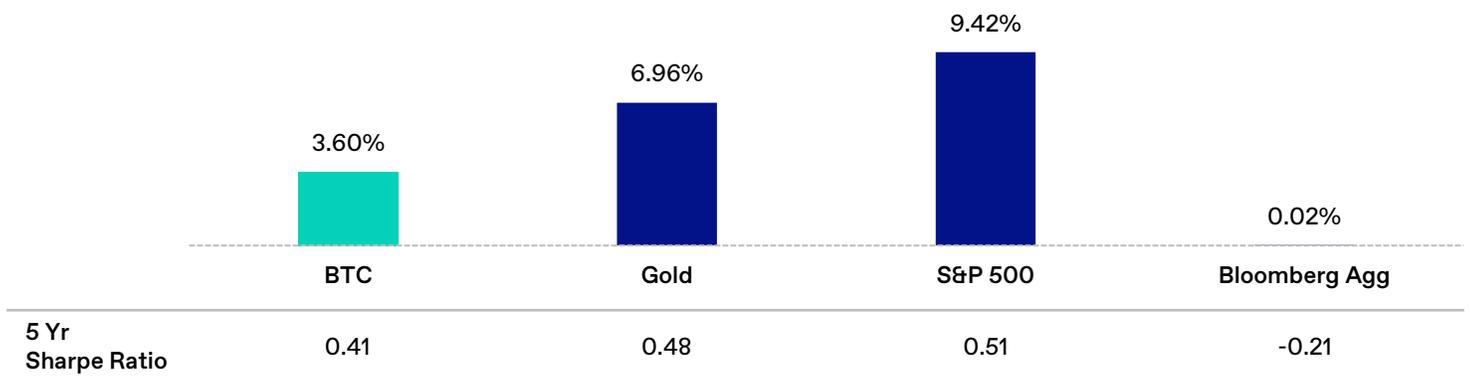
Bitcoin ended 2022 down over 60%, which ranks as bitcoin’s second worst performing calendar year since the asset began trading in 2009. In 2018, bitcoin was down over 70% in the wake of the speculative frenzy around initial coin offerings before rebounding over 90% in 2019.

Throughout this year, rising interest rates amidst stubbornly high inflation impacted all risk assets, and bitcoin’s price was uniquely affected by the failures of several centralized industry players including FTX. Importantly, the Bitcoin network operated without interruption despite the turbulence. The gyrations in bitcoin’s value and the attention-grabbing headlines of this past year had no impact on the operation of the blockchain, which continued to process a new block of transactions every 10 minutes. In total, the network processed nearly 79M transactions by count in 2022, generally in line with the 83M in transactions executed during last year’s bull market.¹

Bitcoins Come Off Exchanges

As FTX collapsed and liquidity concerns related to other centralized platforms escalated, investors pulled a significant amount of bitcoin off of crypto exchanges. During November and December, investors withdrew over 260,000 bitcoins at a value of nearly \$4.5 billion. This move corresponded with a spike in personal hardware wallet sales, which indicates many retail investors likely moved crypto holdings from exchanges into self-custody solutions. In addition, some of the crypto moved off exchanges belongs to institutional investors who have chosen New York Digital Investment Group LLC (“NYDIG”) and other cold storage custodial solutions to safeguard their assets. Partnering with institutional-grade custodians who may not expose clients to the same risks as a crypto exchange has been a theme throughout this crypto cycle (which began in 2020).

5 Year Annualized Return



HIGHLIGHTS.

- Bitcoins Come Off Exchanges
- How NYDIG Approaches its Business
- Looking Ahead: Three key price catalysts

MARKET STATS.

As of 12/30/22

BTC Price	\$16,561
BTC Market Cap	\$320B
% of BTC Total Supply in Circulation	>91%

NOTEWORTHY HEADLINES.

[U.S. Attorney Announces Charges Against FTX Founder](#)

[SEC Charges Samuel Bankman-Fried with Defrauding Investors](#)

[U.S. Justice Dept is Split Over Charging Binance](#)

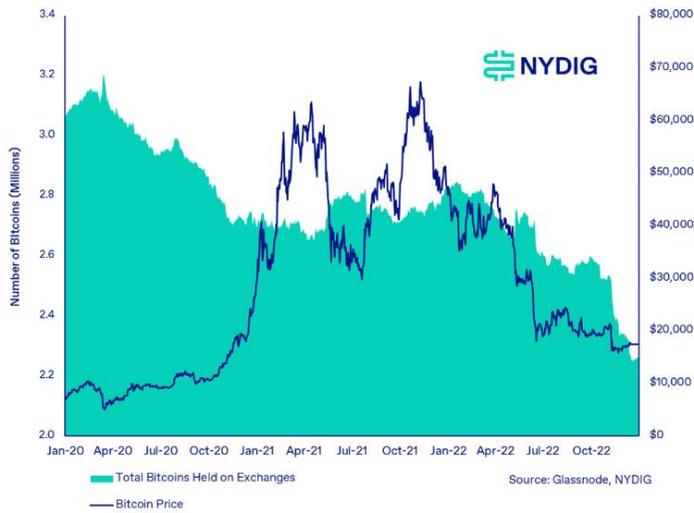
[ConsenSys Teams with PayPal for a New Way to Buy Crypto](#)

[Grayscale Bitcoin Trust Discount Widens to Record High Near 50%](#)

[Cash App Enables Bitcoin Lightning Payments for 40 Million Users](#)

[Fireblocks Adds Worldpay as Network Partner for Crypto Payments](#)

Bitcoins Held on Exchange Take a Leg Down



How NYDIG Approaches its Business

NYDIG Trust Company LLC (“NYDIG Trust”) has been selected by large institutional holders to custody their digital assets due to the structural and risk management features that distinguish NYDIG from others. Critically, as a result of NYDIG’s focus on meeting the highest regulatory, audit, and governance standards, NYDIG does not have — and has never had — any direct exposure to FTX, Alameda Research, or Binance.

Business Practices: NYDIG’s guiding principles

NYDIG is an institutional bitcoin company. NYDIG does not operate a crypto exchange, nor does it transact on any crypto exchange.

NYDIG does not operate a proprietary trading business. All of our activities are in support of our clients.

The bitcoin that belongs to the clients of NYDIG’s custody or fund business is not, has never been, and will never be:

- commingled with the assets of any NYDIG entity, affiliate, or other client.
- used to operate or finance any NYDIG business.
- lent, borrowed, hypothecated, or rehypothecated.³

Highly Regulated: NYDIG has always embraced regulation

NYDIG Trust holds a Limited Purpose Trust Charter from the New York State Department of Financial Services (“NYDFS”). This license requires the custodian to meet stringent standards, long-established in traditional finance, such as: maintaining surplus regulatory capital, establishing governance controls, and being subject to on-demand examination by regulators.

Extensively Audited: Ernst & Young LLP (“EY”) audits financials and custody controls

EY audits the financial statements for NYDIG, NYDIG Trust, and the private funds managed by NYDIG Asset Management LLC (“NYDIG AM”). EY also reviews NYDIG Trust’s custody operations at least annually.

The bitcoin that belongs to the private funds managed by NYDIG AM are verified on the blockchain daily by the funds’ administrator, U.S. Bancorp Fund Services, LLC.

Looking Ahead: Three key price catalysts

Macroeconomic factors may continue to be a driving force behind bitcoin’s price action. Bitcoin’s rolling correlations with other asset classes, such as equities, have come off their summertime peak, but they remain elevated relative to history. We expect correlations to continue to lessen over time given bitcoin is largely governed by unique factors, but Fed policy will likely maintain its sway over risk assets, including bitcoin, in the short term.

Regulatory clarity remains top of mind for institutional investors in this asset class. While bitcoin has a well-understood regulatory designation as a commodity, the same cannot be said for thousands of alt coins. Regardless, the movement of federal legislation providing clear rules-of-the-road for industry participants may be a driver of increased institutional adoption and a tailwind for bitcoin’s price.

Technical developments with the Bitcoin network may promote additional utility for the technology, with the expanded use of the Lightning Network and Taro as two such advancements. For example, utilizing the Bitcoin network to effect low-cost payments in fiat with near-instant settlement is a use case that has been a focus for some of the largest FinTechs and payment processors in the world. In fact, payment-related announcements from the likes of NCR, Shopify, CashApp, and checkout.com continued throughout 2022 despite the year-long crypto winter, and the implementation of these announced partnerships may increase network adoption.

Whatever the next catalyst is, Bitcoin is too important of a technology to simply die or fade into obscurity. In the past, it has paid to be positive on the asset, especially after precipitous declines like the one we have just experienced.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	-3.15%	-14.99%	-63.89%	-63.89%	32.34%	3.60%
Gold	3.14%	9.84%	-0.28%	-0.28%	6.33%	6.96%
S&P 500	-5.76%	7.56%	-18.11%	-18.11%	7.66%	9.42%
Bloomberg Agg	-0.45%	1.87%	-13.01%	-13.01%	-2.71%	0.02%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	80.8%	0.41	-
Gold	13.4%	0.48	0.12
S&P 500	18.7%	0.51	0.37
Bloomberg Agg	5.1%	-0.21	0.19

Sources:

NYDIG, Bloomberg as of 12/30/2022, unless noted otherwise. All prices are 4:00 pm ET prices on the last business day of each month. Bloomberg Agg represents the Bloomberg US Aggregate Total Return Bond Index. Bitcoin returns based on month-end 4pm prices. Monthly bitcoin prices prior to October 2018 are based on Coinbase 4pm pricing. In October 2018, NYDIG began generating bitcoin prices in accordance with NYDIG Asset Management's valuation policy for its bitcoin funds. The monthly bitcoin prices used after October 2018 reflect 4pm prices determined in accordance with such valuation policy, which is the same valuation policy that is used for NYDIG's funds. As there are two different pricing sources for bitcoin reflected, the historical performance of bitcoin shown may be different if the bitcoin prices in accordance with NYDIG Asset Management's valuation policy were used for the entire period or if the Coinbase pricing were used for the entire period. Performance data quoted represents past performance of bitcoin. Past performance of bitcoin is not indicative of future results. Bitcoin has historically exhibited high price volatility relative to more traditional asset classes. The value of an investment in bitcoin or the funds could decline rapidly, including to zero.

¹ Entity adjusted transaction volume sourced from Glassnode as of 12/31/2022.

² Glassnode and NYDIG data as of 12/31/2022.

³ Select institutional clients may engage in certain derivatives or financing transactions with NYDIG and provide contractual rights for NYDIG to hypothecate or rehypothecate their assets.

Important Disclosures:

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