February 12, 2024

Since inception in June 2022, RockDen Digital Assets LP (The Fund) has kept pace with bitcoin. I am particularly proud of having substantially cushioned the downside in 2022. Picking the absolute bottom is a tall order, if not a fool's errand. The fund stayed cautious until there was clear evidence that the bear market was behind us. We certainly didn't pick the absolute bottom, but we preserved capital and now sit ready for the next upcycle. My goal remains to safely steward your investments in this volatile space, avoiding blow ups and exiting when markets turn frothy. I remain invested in The Fund alongside you all.

We are in the early stages of a recovery, in our view. Prior cycles — many just for bitcoin — saw mid-cycle corrections of 30-50%. While we would not be surprised by such a correction in 2024, we are starting to lean towards the view that the approval of bitcoin ETFs may change the pattern this year. In the first month since launch, we have seen substantial net inflows into bitcoin ETFs. We discuss the subject in more depth in the "Bitcoin" section below.

The global macro-economic environment also presents tailwinds, the strongest of which is rising debt loads that make OECD economies unable to absorb high rates. In the US, interest expenses are currently absorbing ~ 20% of projected FY24 government income of ~$5tn. We are on track to borrow an incremental $2tn in the current fiscal year so that we can spend nearly $7tn. This is not sustainable — not even for several more years. Market participants may well be sniffing out this fact judging by gold's negative correlation to real yields breaking down over the past 24 months. To us, a breakout in the gold price will be a strong signal that markets see renewed monetary stimulus in the future. Gold is well understood by all institutions and does not have the structural adoption growth of bitcoin, making the signal cleaner. Ignore the short-term gold price gyrations in reaction to 10-year treasury yields. We'll be watching where the puck is headed.

On the regulatory front, we do not expect the frosty environment in the US to change fast. The combination of fractured politics, government bureaucracy and the banking industry are a powerful combination threatened by digital assets. Courts, as we have predicted, have become the bulwark against regulatory overreach. The anti-crypto action in the US may also be partially checked by better regulation elsewhere. Europe has already established MiCA, which provides a stable and workable framework for crypto participants. Other financial centers like Switzerland, the UK, Singapore and Dubai have all established clear rules of the road. Capital and talent are moving overseas, and there's a growing bipartisan awareness of the issue in Congress.

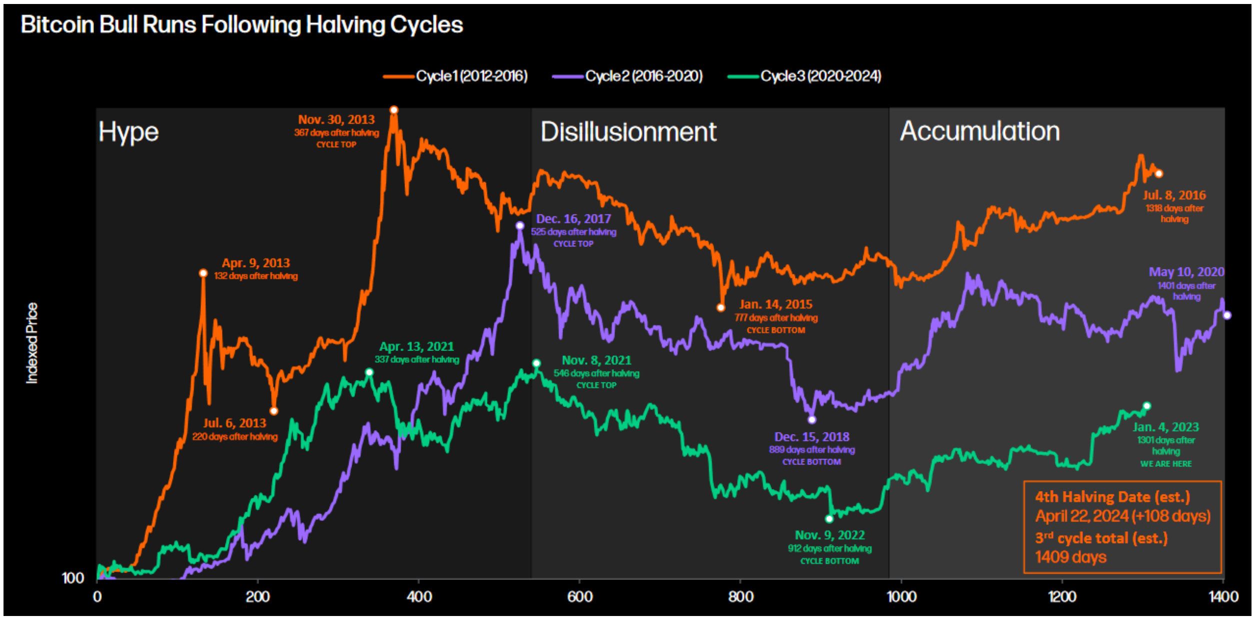
Politicians understand the need to keep jobs in the US — even crypto jobs. In addition, an estimated 52m crypto-owning Americans can be a powerful new force at the ballot box.

Approval of spot bitcoin ETFs has been the dominant event of the past year. Bitcoin is now firmly connected to mainstream finance via the well understood ETF wrapper. We did not expect a deluge of capital into bitcoin via the ETFs but anticipated a steady inflow. That is proving accurate as the 10 bitcoin ETFs have experienced ~$3bn of inflows in the first month since launch. The nine new ETFs have seen nearly $10bn of inflows with the incumbent Grayscale Bitcoin Trust (GBTC) seeing $6.5bn of outflows. This is a smashing success. The largest gold ETF (ticker GLD) took nearly two years to get to this level of inflows, according to Bloomberg.

We expect this trend to continue as more wealth managers allocate to this emerging asset class via the bitcoin ETFs. Keep in mind that many gatekeepers like Vanguard and LPL Financial don't offer access to bitcoin ETFs yet, and brokers like UBS do not allow all clients to purchase these ETFs.

How big is the addressable opportunity at wealth managers? Here's a back of the envelope calculation. Broker Dealers (think UBS, Merill Lynch, et al), banks and RIAs like RockDen control an estimated ~ $48 trillion of client assets. If 10% of that cohort allocates 1% to bitcoin ETFs, that should yield an inflow of ~ $48bn over the coming years. At today's prices, this inflow would be many times larger than the post-halving annual new bitcoin issued (164,250 BTC) to miners. And, what if 25% of clients want a 2% allocation to bitcoin?

The other significant catalyst is the halving, which is set to happen in April 2024. After the halving, the daily new bitcoin issued to miners will halve from 900 BTC to 450 BTC. The halving is part of the bitcoin software code and happens automatically. The issuance reduction is an immutable feature of the bitcoin software code, which is one of the key features driving bitcoin's store of value monetary property over the past 15 years. This immutability stands in stark contrast to global central banks that have (can) issue trillions in currency units with no real constrains. Each of the prior four halvings have underpinned a robust rally over the subsequent 12-24 months. Day zero on the chart below is halving day.



Source: Galaxy Research

As liquidity and bitcoin's asset size increases, we should expect volatility to ease. This will be viewed positively by institutional capital allocators who have yet to embrace bitcoin. However, falling volatility probably also means that years of 5x price upside will diminish, if not disappear.

Ethereum is the dominant Layer 1 smart contract blockchain, but it has lagged bitcoin substantially since the start of 2023. While underperformance is not unexpected in the early stages of a recovery, Ethereum faces a more crowded smart contract field. Alternative L1s like Solana are challengers (additional discussion below). Plus, the growth of Layer 2 (L2) networks on Ethereum has led to a narrative shift that these L2s will capture an increasing share of future value at ETH's expense. This follows the Ethereum network's decision to follow a roll-up strategy to increase transaction throughput and lower transaction costs. We believe this is the best strategy to maintain Ethereum's dominant market share among smart contract blockchain.

One key drive is likely to be the next Ethereum network upgrade that is expected to reduce L2 transaction fees by up to 100x and improve wallet functionality. We continue to believe that Ethereum's decentralization, developer strength and market share dominance provides the best risk/reward among L1 smart contract blockchains. The L2 space will become increasingly crowded and specialized, and our bet is with the base layer Ethereum. We also expect the "Ultrasound Money" narrative to reappear in the future as ETH is currently a nearly deflationary token. Higher fees during an upcycle should make it deflationary. Finally, an SEC decision on a spot ETH ETF is due in May 2024. With an ETH futures ETF already approved, the SEC has the same pressure it has with a bitcoin ETF (Federal Appeal Court ruling) to approve.

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