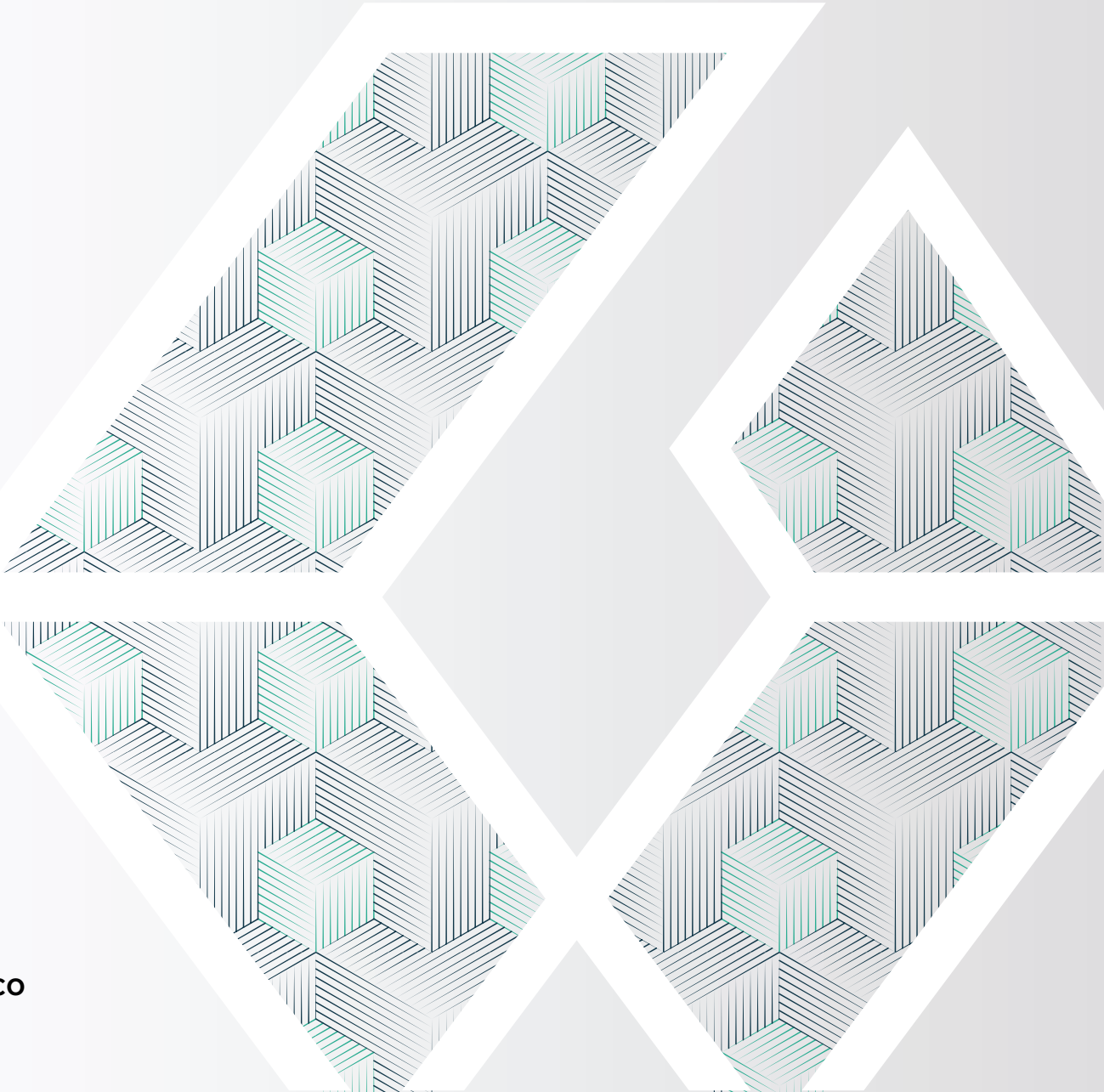


# Digital Asset Investment Report

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H1 2018





# Digital Asset Investment Report

## H1 2018 Highlights<sup>1</sup>

- Total Investment into Grayscale Products: **\$248.39 million**
- Average Weekly Investment – All Products: **\$9.55 million**
- Average Weekly Investment – Grayscale Bitcoin Trust: **\$6.04 million**
- Average Weekly Investment – “Non-Bitcoin” Investment Products<sup>2</sup>: **\$3.52 million**
- Majority of investment (**56%**) came from institutional investors.

## Introduction

Grayscale Investments is a global leader in digital currency investing. We have brought single-asset and diversified investment products to market over the last five years, including the publicly quoted Grayscale Bitcoin Trust™ ([OTCQX: GBTC](#)) and Grayscale Ethereum Classic Trust™ ([OTCQX: ETCG](#)), as well as our flagship diversified offering, Grayscale Digital Large Cap Fund™.

Through our experience working with prominent investors around the world, we have compiled a proprietary dataset of investment activity through our regular course of business. In this report we will outline some important trends we’ve seen in the digital asset market during the first half of 2018.

## Two Sides to Every Story

As the investment community knows, over the last six months, the digital asset market experienced one of the largest price drawdowns since the inception of Bitcoin in 2009. However, what is more interesting, and somewhat counterintuitive, is that the pace of investment into Grayscale products has accelerated to a level that we have not seen before. In fact, we raised nearly \$250 million in new assets in the first half of this year, marking the strongest inflows of any six month period in the history of our business.

1. For the period from December 31, 2017 through June 30, 2018.

2. “Non-Bitcoin” Investment Products include Grayscale Bitcoin Cash Trust, Grayscale Ethereum Trust, Grayscale Ethereum Classic Trust, Grayscale Litecoin Trust, Grayscale XRP Trust, Grayscale Zcash Trust, and Grayscale Digital Large Cap Fund, LLC.





FIGURE 1: GRAYSCALE CUMULATIVE INFLOWS BY INVESTMENT PRODUCT  
December 31, 2017 through June 30, 2018

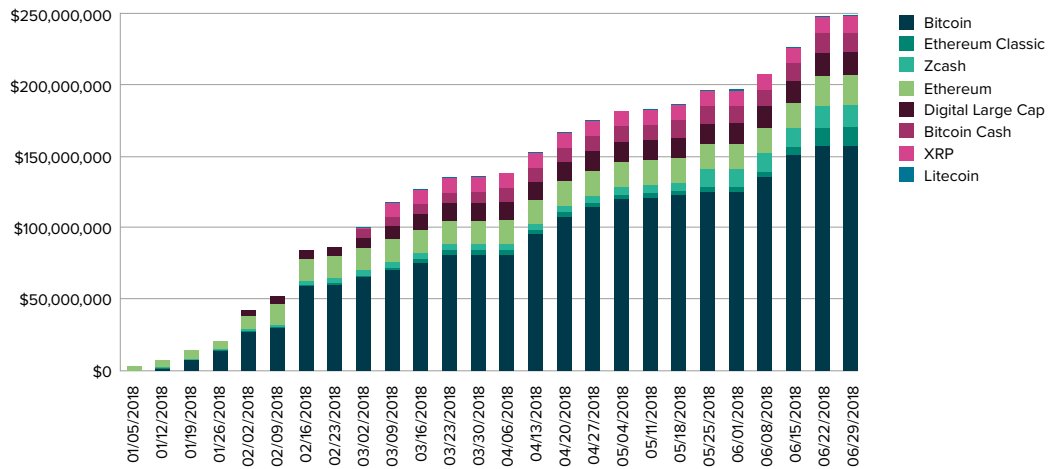
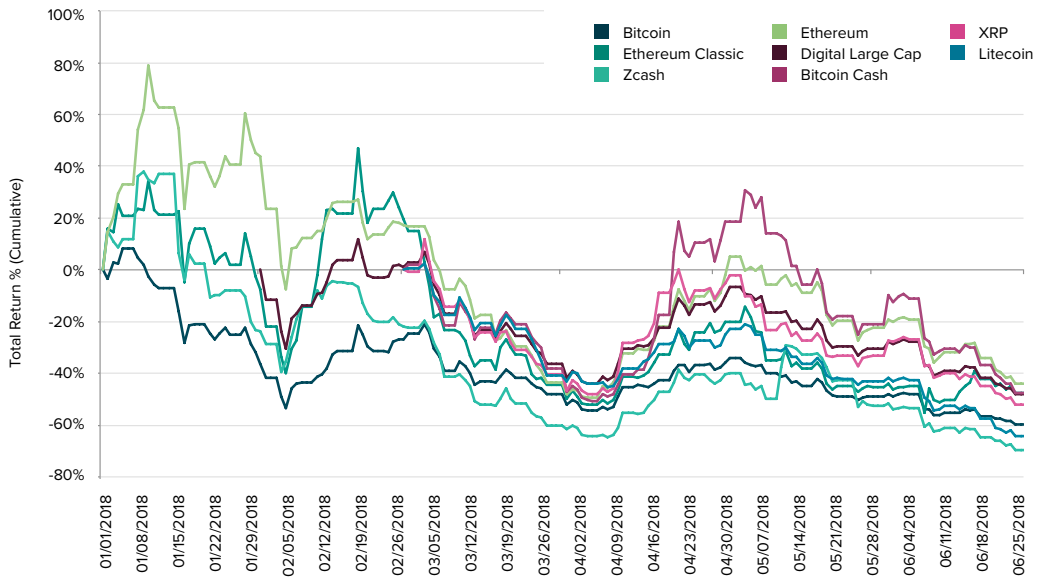


FIGURE 2: GRAYSCALE INVESTMENT PRODUCT PERFORMANCE  
Total Return (Cumulative %)

	Net Total Return (Cumulative %)							
INVESTMENT PRODUCT	Grayscale Bitcoin Trust	Grayscale Ethereum Classic Trust	Grayscale Zcash Trust	Grayscale Ethereum Trust	Grayscale Digital Large Cap Fund	Grayscale Bitcoin Cash Trust	Grayscale XRP Trust	Grayscale Litecoin Trust
H1 2018	-59.8%	-47.7%	-69.4%	-43.9%	-47.9%	-47.6%	-52.0%	-64.3%
Since Inception*	4107.1%	270.3%	-30.1%	-42.6%	-47.9%	-47.6%	-52.0%	-64.3%

H1 2018 Performance



\*Inception dates were as follows: Grayscale Bitcoin Trust – September 25, 2013; Grayscale Ethereum Classic Trust – April 24, 2017; Grayscale Zcash Trust – October 24, 2017; Grayscale Ethereum Trust – December 14, 2017; Grayscale Digital Large Cap Fund, LLC – February 1, 2018; Grayscale Bitcoin Cash Trust, Grayscale XRP Trust, Grayscale Litecoin Trust – March 1, 2018.

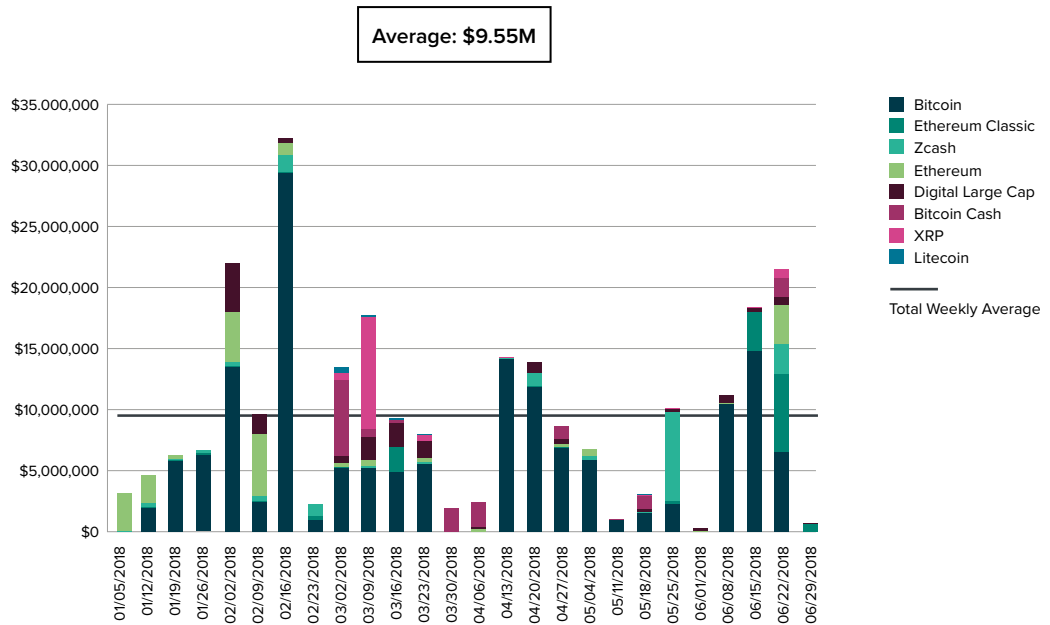




## Investment Activity through the Grayscale Lens

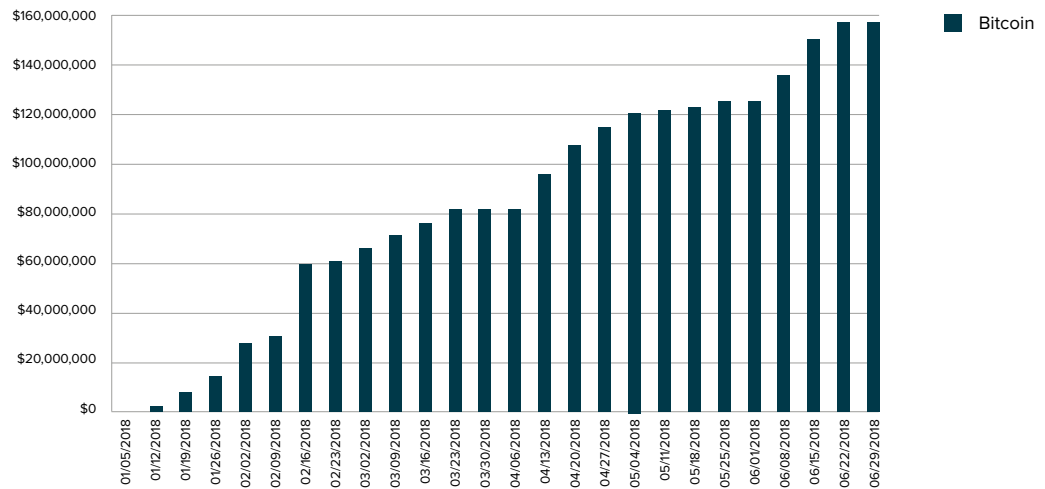
Despite the recent price action, by taking the cumulative investment activity highlighted in Figure 1 and analyzing the week-over-week data, we can see that the inflows into Grayscale products are occurring at a healthy and consistent rate. For example, our average weekly asset raise across all products was \$9.55 million and we've seen fresh inflows during each week of 2018.

FIGURE 3: **GRAYSCALE WEEKLY INFLOWS BY INVESTMENT PRODUCT**  
December 31, 2017 through June 30, 2018



While the majority of assets are still flowing into Grayscale Bitcoin Trust...

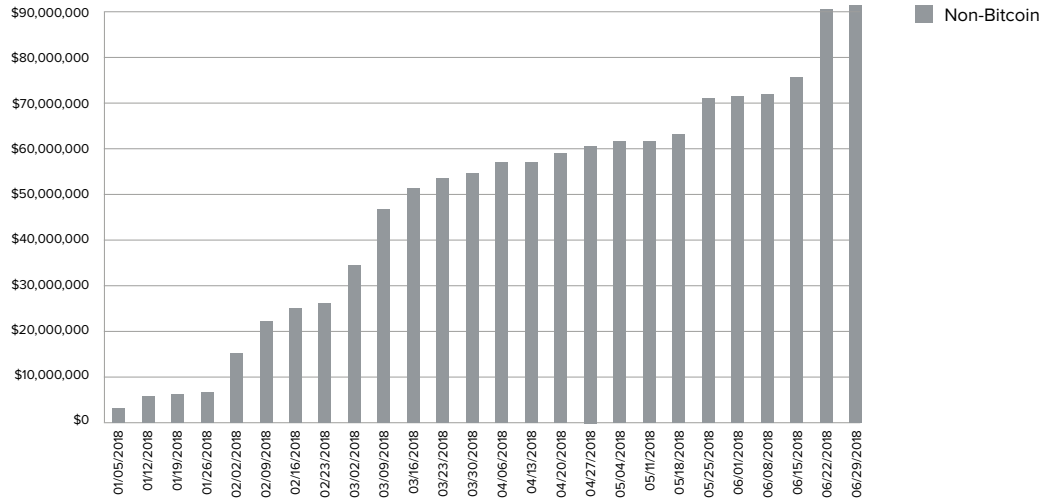
FIGURE 4: **GRAYSCALE BITCOIN TRUST CUMULATIVE INFLOWS**  
December 31, 2017 through June 30, 2018





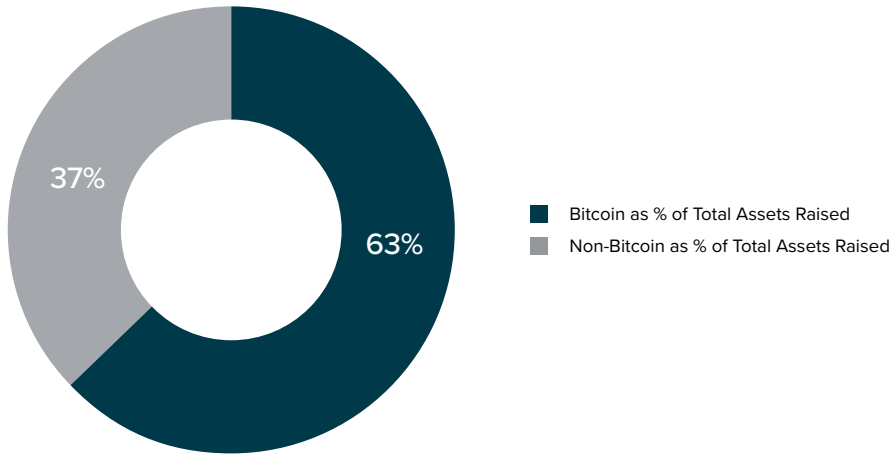
Investors have clearly begun diversifying into other digital assets as well.

**FIGURE 5: GRAYSCALE NON-BITCOIN CUMULATIVE INFLOWS**  
December 31, 2017 through June 30, 2018



Bitcoin continues to be the most popular position for Grayscale investors, with 63% of inflows into Grayscale Bitcoin Trust and 37% into Grayscale products tied to other digital assets.

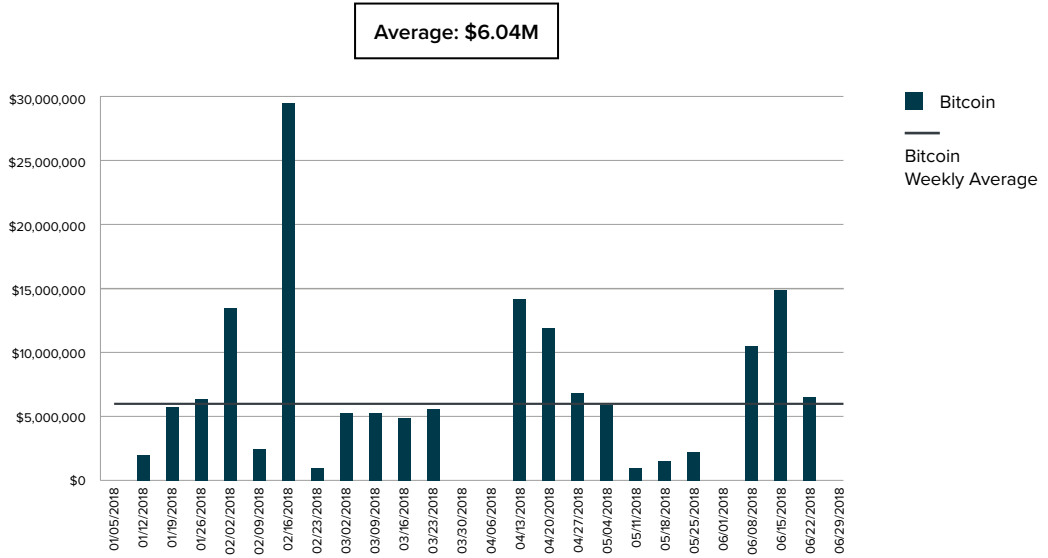
**FIGURE 6: INVESTMENT PRODUCT TYPE AS % OF TOTAL ASSETS RAISED**  
December 31, 2017 through June 30, 2018



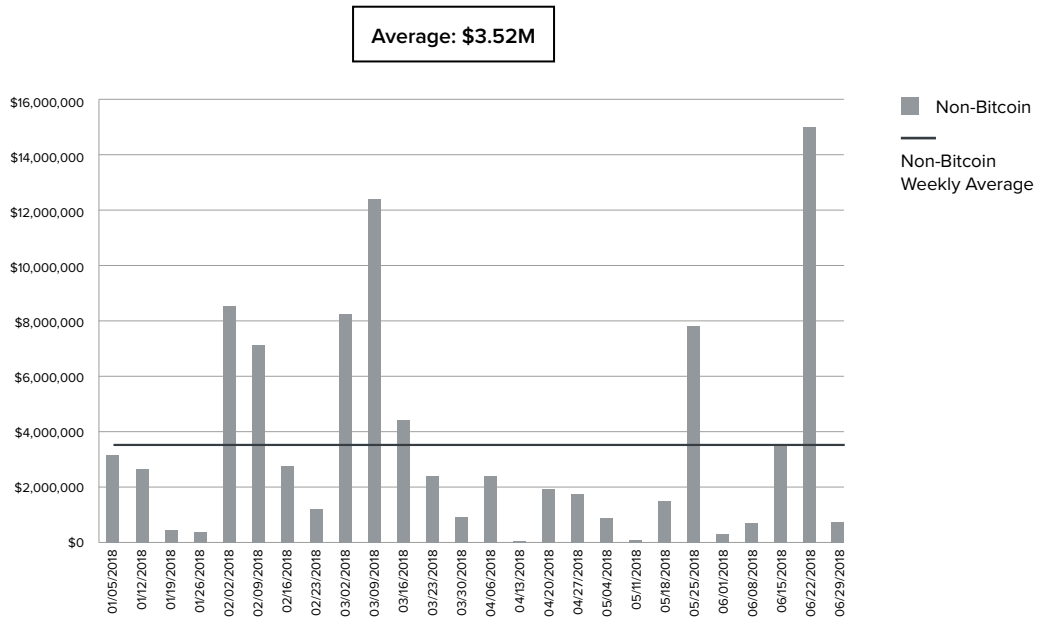


Investment into both our Bitcoin and non-Bitcoin products was strong and consistent, with an average weekly inflow of \$6.04 million into Grayscale Bitcoin Trust and \$3.52 million into non-Bitcoin products.

**FIGURE 7: GRAYSCALE BITCOIN TRUST WEEKLY INFLOWS**  
December 31, 2017 through June 30, 2018



**FIGURE 8: GRAYSCALE NON-BITCOIN WEEKLY INFLOWS**  
December 31, 2017 through June 30, 2018



Our data provides evidence that investors appreciate the notion that multiple digital assets can survive, thrive, and complement one another in the new digital economy, [allowing them to play a diversifying role within investor portfolios.](#)

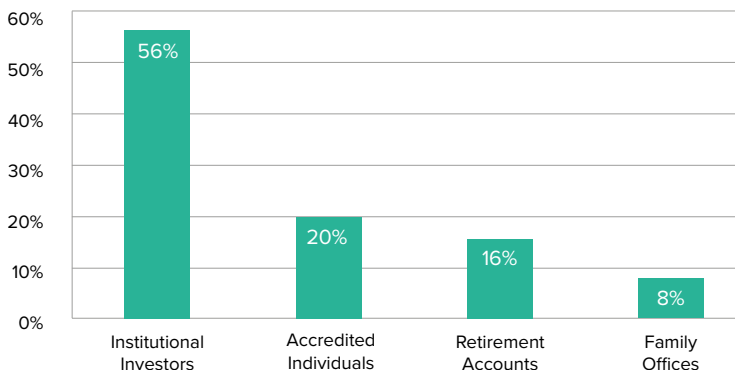




## Investor Profile

Another revealing insight is the makeup of our investor base. Through our analysis, we determined that most asset inflows are coming from institutional investors. This segment comprises roughly 56% of all investment YTD, followed by accredited individuals (20%), retirement accounts (16%), and family offices (8%).

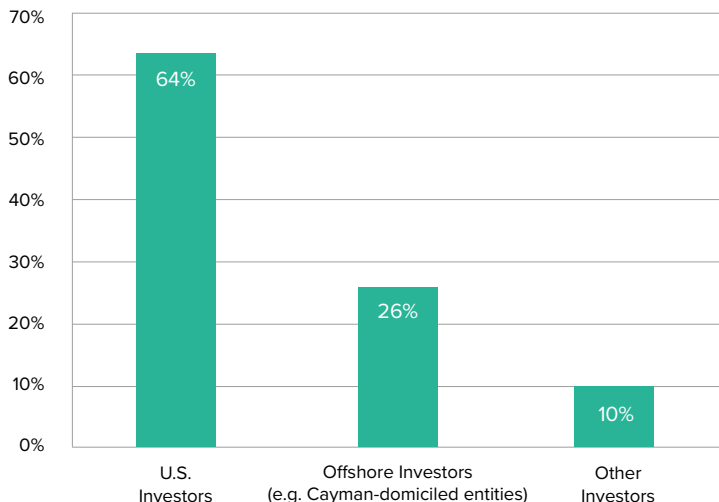
FIGURE 9: GRAYSCALE INVESTOR PROFILE BY TYPE  
December 31, 2017 through June 30, 2018



The average investment was \$848K for institutional investors, \$553K for family offices, \$335K for retirement accounts, and \$289K for individuals. It is important to note that this data is skewed by the fact that the investment amounts do not necessarily fall within a normal distribution. For example, there were some large, one-time outliers and investments that were broken up into multiple allocations over a series of days. Nonetheless, this should at least paint a general picture of the typical investment amounts we’re seeing from each client segment.

Moreover, if we break down our investor base by geography, roughly 64% of all new investments came from U.S. investors, 26% from offshore investors (e.g. Cayman-domiciled entities), and 10% from investors in other regions of the world.

FIGURE 10: GRAYSCALE INVESTOR PROFILE BY GEOGRAPHY  
December 31, 2017 through June 30, 2018





## Conclusion

We're excited to share this report for two major reasons:

1. We believe it provides an alternate, yet accurate, firsthand perspective on digital asset market activity that is distinct from what is commonly understood.
2. It may be useful to both value and momentum investors as they seek to identify investment opportunities where there are (i) dislocations between market prices and fundamentals and (ii) strong, steady capital inflows.

We intend to regularly update this report to identify trends in the digital asset investment landscape.







## About Grayscale Investments, LLC

Grayscale Investments is the world's largest digital currency asset manager. With a proven track record and unrivaled experience, we give investors the tools to make informed investing decisions in a burgeoning asset class. As part of Digital Currency Group, Grayscale accesses the world's biggest network of industry intelligence to build better investment products. We have removed the barrier to entry so that institutions and individual investors can benefit from exposure to digital currencies. Now, forward-thinking investors can embrace a digital future within an institutional grade investment.

Grayscale is headquartered in New York City. For more information on Grayscale, please visit [www.grayscale.co](http://www.grayscale.co) or follow us on Twitter [@GrayscaleInvest](https://twitter.com/GrayscaleInvest).





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Investors should be aware that Grayscale is the sponsor of Grayscale Bitcoin Trust (BTC), Grayscale Bitcoin Cash Trust (BCH), Grayscale Ethereum Trust (ETH), Grayscale Ethereum Classic Trust (ETC), Grayscale Litecoin Trust (LTC), Grayscale Horizen Trust (ZEN), Grayscale Stellar Lumens Trust (XLM), Grayscale XRP Trust (XRP) and Grayscale Zcash Trust (ZEC) (each, a “Trust”) and the manager of Grayscale Digital Large Cap Fund LLC (the “Fund”). The Trusts and the Fund are collectively referred to herein as the “Products”. Any Product currently offering Share creations is referred to herein as an “Offered Product”. Information provided about an Offered Product is not intended to be, nor should it be construed or used as investment, tax or legal advice, and prospective investors should consult their own advisors concerning an investment in such Offered Product. This report does not constitute an offer to sell or the solicitation of an offer to buy interests in any of the Products. Any offer or solicitation of an investment in a Product may be made only by delivery of such Product’s confidential offering documents (the “Offering Documents”) to qualified accredited investors (as defined under Rule 501(a) of Regulation D of the U.S. Securities Act of 1933, as amended), which contain material information not contained herein and which supersede the information provided herein in its entirety.

The Products are private investment vehicles. Shares of Grayscale Bitcoin Trust (BTC), which are only offered on a periodic basis, are publicly quoted under the symbol: GBTC. The Products are not subject to the same regulatory requirements as exchange traded funds or mutual funds, including the requirement to provide certain periodic and standardized pricing and valuation information to investors. The Products are not registered with the Securities and Exchange Commission (the “SEC”), any state securities laws, or the U.S. Investment Company Act of 1940, as amended. There are substantial risks in investing in one or more Products. Any interests in each Product described herein have not been recommended by any U.S. federal or state, or non-U.S., securities commission or regulatory authority, including the SEC. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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### Certain Risk Factors

Each Product is a private, unregistered investment vehicle and not subject to the same regulatory requirements as exchange traded funds or mutual funds, including the requirement to provide certain periodic and standardized pricing and valuation information to investors. There are substantial risks in investing in a Product or in digital assets directly, including but not limited to:

- **PRICE VOLATILITY**  
Digital assets have historically experienced significant intraday and long-term price swings. In addition, none of the Products currently operates a redemption program and may halt creations from time to time or, in the case of Grayscale Bitcoin Trust (BTC), periodically. There can be no assurance that the value of the common units of fractional undivided beneficial interest (“Shares”)





of any Product will approximate the value of the digital assets held by such Product and such Shares may trade at a substantial premium over or discount to the value of the digital assets held by such Product. At this time, none of the Products is operating a redemption program and therefore Shares are not redeemable by any Product. Subject to receipt of regulatory approval from the SEC and approval by Grayscale, in its sole discretion, any Product may in the future operate a redemption program. Because none of the Products believes that the SEC would, at this time, entertain an application for the waiver of rules needed in order to operate an ongoing redemption program, none of the Products currently has any intention of seeking regulatory approval from the SEC to operate an ongoing redemption program

- **MARKET ADOPTION**

It is possible that digital assets generally or any digital asset in particular will never be broadly adopted by either the retail or commercial marketplace, in which case, one or more digital assets may lose most, if not all, of its value.

- **GOVERNMENT REGULATION**

The regulatory framework of digital assets remains unclear and application of existing regulations and/or future restrictions by federal and state authorities may have a significant impact on the value of digital assets.

- **SECURITY**

While each Product has implemented security measures for the safe storage of its digital assets, there have been significant incidents of digital asset theft and digital assets remains a potential target for hackers. Digital assets that are lost or stolen cannot be replaced, as transactions are irrevocable.

- **TAX TREATMENT OF VIRTUAL CURRENCY**

For U.S. federal income tax purposes, Digital Large Cap Fund will be a passive foreign investment company (a "PFIC") and, in certain circumstances, may be a controlled foreign corporation (a "CFC"). Digital Large Cap Fund will make available a PFIC Annual Information Statement that will include information required to permit each eligible shareholder to make a "qualified electing fund" election (a "QEF Election") with respect to Digital Large Cap Fund. Each of the other Products intends to take the position that it is a grantor trust for U.S. federal income tax purposes. Assuming that a Product is properly treated as a grantor trust, Shareholders of that Product generally will be treated as if they directly owned their respective pro rata shares of the underlying assets held in the Product, directly received their respective pro rata shares of the Product's income and directly incurred their respective pro rata shares of the Product's expenses. Most state and local tax authorities follow U.S. income tax rules in this regard. Prospective investors should discuss the tax consequences of an investment in a Product with their tax advisors.

- **NO SHAREHOLDER CONTROL**

Grayscale, as sponsor of each Trust and the manager of the Fund, has total authority over the Trusts and the Fund and shareholders' rights are extremely limited.

- **LACK OF LIQUIDITY AND TRANSFER RESTRICTIONS**

An investment in a Product will be illiquid and there will be significant restrictions on transferring interests in such Product. The Products are not registered with the SEC, any state securities laws, or the U.S. Investment Company Act of 1940, as amended, and the Shares of each Product are being offered in a private placement pursuant to Rule 506(c) under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"). As a result, the Shares of each Product are restricted Shares and are subject to a one-year holding period in accordance with Rule 144 under the Securities Act. In addition, none of the Products currently operates a redemption program. Because of the one-year holding period and the lack of an ongoing redemption program, Shares should not be purchased by any investor who is not willing and able to bear the risk of investment and lack of liquidity for at least one year. No assurances are given that after the one year holding period, there will be any market for the resale of Shares of any Product, or, if there is such a market, as to the price at such Shares may be sold into such a market.

- **POTENTIAL RELIANCE ON THIRD-PARTY MANAGEMENT; CONFLICTS OF INTEREST**

The Products and their sponsors or managers and advisors may rely on the trading expertise and experience of third-party sponsors, managers or advisors, the identity of which may not be fully disclosed to investors. The Products and their sponsors or managers and advisors and agents may be subject to various conflicts of interest.

- **FEES AND EXPENSES**

Each Product's fees and expenses (which may be substantial regardless of any returns on investment) will offset each Product's trading profits.





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Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment. This document is intended for those with an in-depth understanding of the high risk nature of investments in digital assets and these investments may not be suitable for you. This document may not be distributed in either excerpts or in its entirety beyond its intended audience and the Products and Grayscale will not be held responsible if this document is used or is distributed beyond its initial recipient or if it is used for any unintended purpose.

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