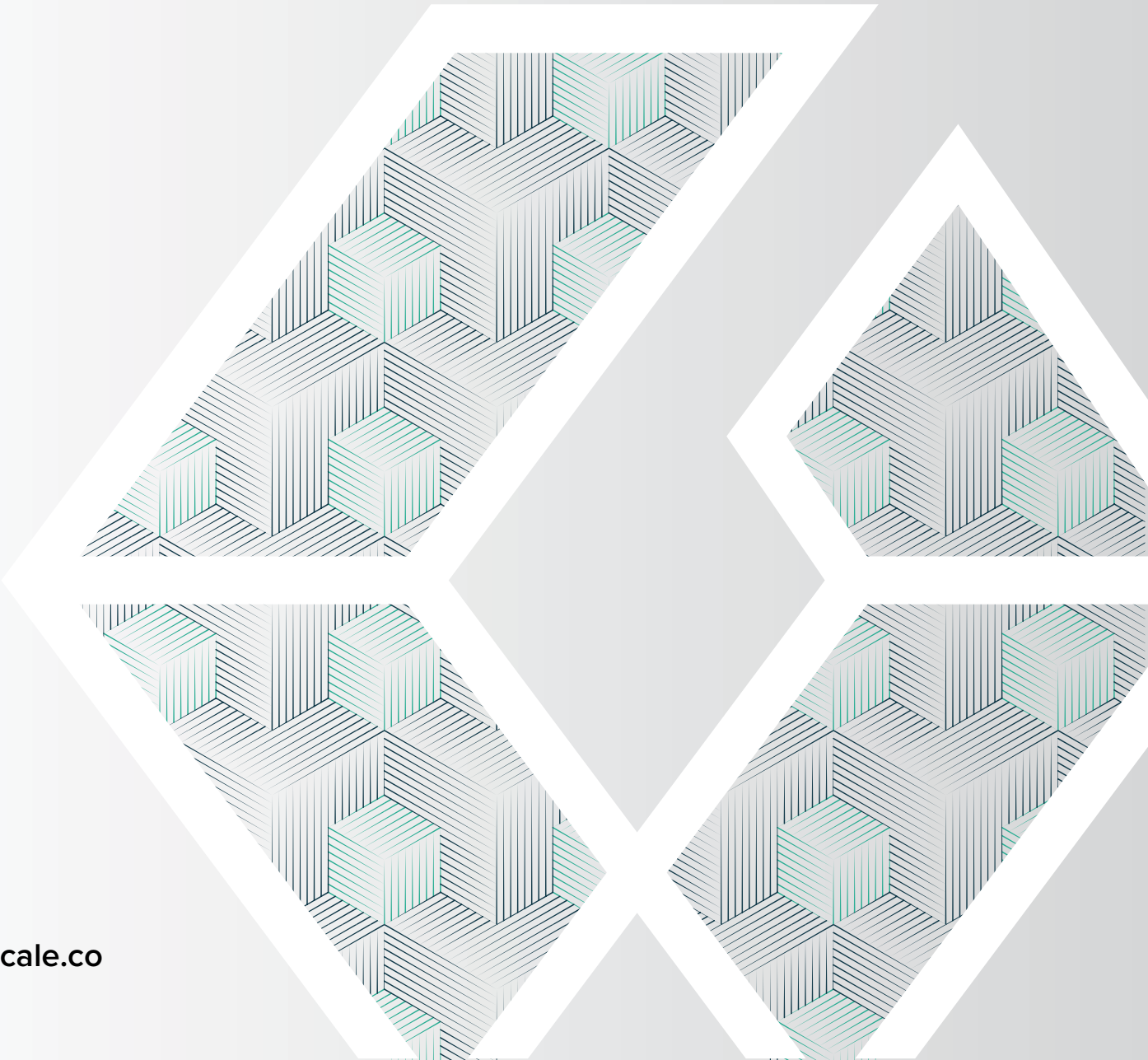


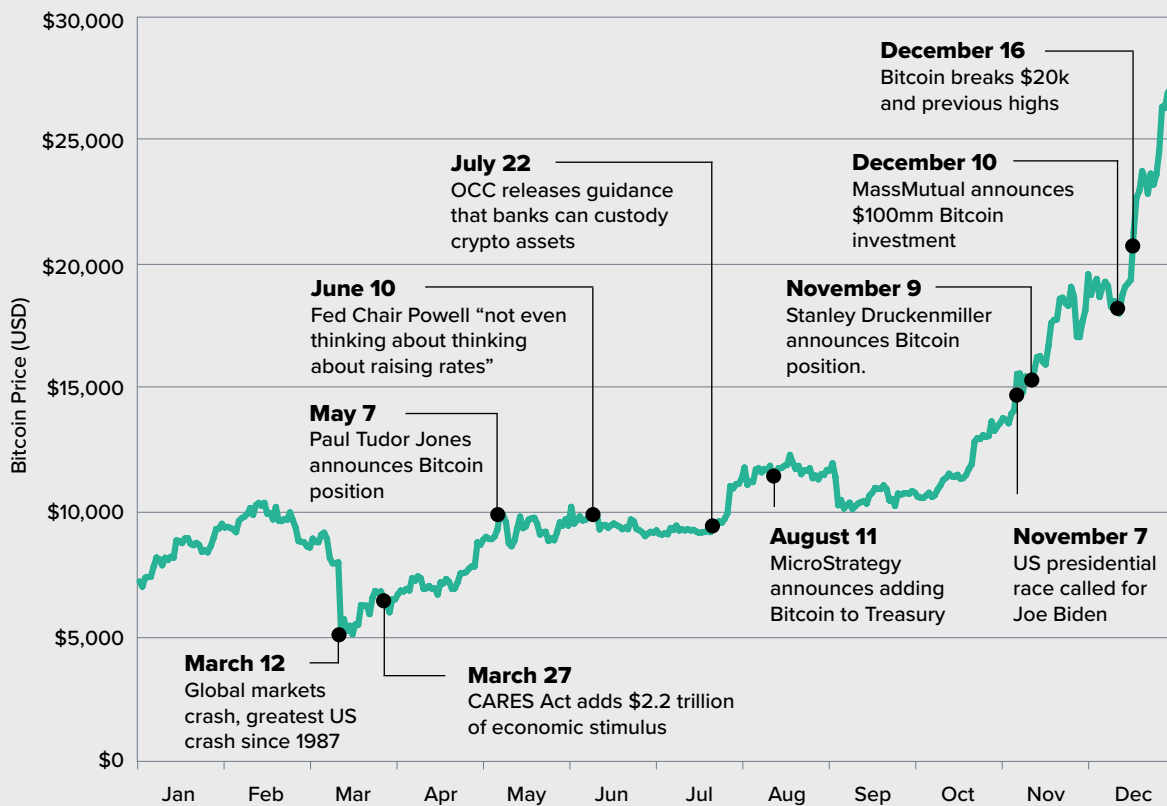
Digital Asset Investment Report



Q4 2020



Bitcoin: 2020 Year In Review



Bitcoin's value was tested by a global pandemic, a devastating stock market crash, and swirling geopolitical tensions. Yet amid unprecedented US monetary policy, Bitcoin proved resilient and ended 2020 as one of the best performing assets of the year.

Bitcoin's ability to perform during a period of significant volatility attracted the attention of more financial institutions, investors, and industry observers than ever before. Influential figures in finance and technology showed public support for Bitcoin as an investment, product, and monetary good. When the history books are written, 2020 will be noted as a major inflection point for the adoption of Bitcoin, and digital currencies more broadly.

Grayscale 2021 Outlook

- **A Bitcoin arms race** - Bitcoin is becoming a widely-used diversifier in portfolios. Major investors, advisory firms, and even banks are shifting their view on Bitcoin. The career risk of allocating to Bitcoin has turned into a career risk of being a laggard. **In 2020 we saw institutions adding Bitcoin to treasuries - in 2021 we may see nation states follow suit.**
- **Financial advisor interest** - RIA interest surged in Q4 2020, and more financial advisors are receiving questions about digital currencies than ever before. With the performance of major digital currencies like Bitcoin in 2020, it's reasonable to expect that more investors and advisors alike will be considering how to best fit this asset class within a larger portfolio. **Wealth managers advise on approximately \$80 trillion in assets and most have not yet recommended digital assets.¹**
- **Bitcoin rewards could become a significant source of demand for Bitcoin** - US credit cards account for \$4 trillion in annual spending and debit cards account for over \$3 trillion in annual spending.² Fold, CashApp, and BlockFi are among the businesses that launched cards with Bitcoin rewards in 2020. **We expect major credit card companies could follow suit as they see the success of these Bitcoin products.**
- **Bitcoin recognized as a clean energy incentive** - Energy consumption and geographical concentration of mining in China have long been hot topics for Bitcoin. That narrative is changing rapidly. North America is becoming a mining powerhouse, with the likes of Foundry, by integrating Bitcoin mining into the most efficient energy infrastructure across the continent. Energy companies are making a purely economical decision to put their previously wasted energy to good use and get paid for it. **Bitcoin mining is helping to subsidize underutilized energy infrastructure and may be integrated into public green energy initiatives.**
- **Decentralized Finance is emerging** - Billions in liquid lending, borrowing, and exchange have made decentralized finance (DeFi) the strongest non-Bitcoin use case in the digital currency ecosystem. **As the search for yield intensifies in traditional markets, we expect major financial firms to consider integrating with decentralized protocols.**
- **Nation-state adoption of digital currencies** - While many countries have laws around digital currencies, few have seriously introduced or incorporated them into the set of financial tools governments have at their disposal. Recent guidance from the OCC suggests that US banks may look to incorporate digital currencies into their settlement infrastructure.³ **In 2021 we may see the beginning of digital currencies integrating into national banking infrastructures.**

1. "Evolution Revolution, A Profile of the Investment Advisor Profession", Investment Advisor Association, 2019, https://higherlogicdownload.s3.amazonaws.com/INVESTMENTADVISER/aa03843e-7981-46b2-aa49-c572f2ddb7e8/UploadedImages/publications/Evolution_Revolution_2019_FINAL.pdf

2. "The Federal Reserve Payments Study", Board of Governors of the Federal Reserve System, 2019, <https://www.federalreserve.gov/paymentsystems/2019-December-The-Federal-Reserve-Payments-Study.htm>.

3. "Federally Chartered Banks and Thrifts May Participate in Independent Node Verification Networks and Use Stablecoins for Payment Activities," OCC, January 4, 2021, <https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-2.html>.



\$3 Billion Dollar Quarter: Grayscale experienced unprecedented investor demand, with approximately \$3.3 billion of inflows. Year-to-date investment into the Grayscale family of products surpassed \$5.7 billion, more than four times the \$1.2 billion cumulative inflow into the products from 2013-2019.

Since inception, the Grayscale family of products has experienced nearly \$6.9 billion of inflows.¹⁰

\$20 Billion Dollar AUM: Grayscale began the year with \$2.0 billion in assets under management and ended 2020 with \$20.2 billion. In 2020, Grayscale Bitcoin Trust was the fastest growing investment product in the world, growing from \$1.8 billion to \$17.5 billion AUM.¹¹ This is an incredible testament to the maturation of the digital currency ecosystem.

Grayscale Bitcoin Trust Inflows Outpace Mined Bitcoin: As we have noted in prior reports, the inflows into Grayscale Bitcoin Trust have continued to grow as a percent of mined Bitcoin. This metric is significant because miners are known to be the market's natural sellers, often using their newly mined Bitcoin to pay for operating expenses. In 4Q20, Bitcoin inflows were approximately 194% of mined Bitcoin.

However, these comparisons are simply to illustrate supply and demand in the market. They do not provide insight into the destination of any newly mined Bitcoin during the measured periods.

Institutions are Here: Institutions have historically accounted for a majority of Grayscale inflows. This was especially true in 4Q20 as institutions accounted for **93%** of capital inflows, or \$3.0 billion. This may not come as a surprise given the recent flurry of news that institutions have warmed up to Bitcoin. Indeed, Grayscale Bitcoin Trust accounted for 87% of all inflows to our product family, the highest proportion since 2Q17, further evidence of institutions looking to Bitcoin as a reserve asset.

The average commitment among institutions is also growing at a significant pace. The average commitment from institutions was \$6.8 million, up from an average of \$2.9 million in 3Q20.

Surging Demand from RIAs: In 4Q20, Grayscale received substantial inbound interest from wealth managers interested to learn more about Bitcoin to satisfy the growing number of client requests. This is part of an emerging trend of the last six months that is critical for continued adoption.

Quarterly Perspective

In 4Q20, a majority of Grayscale's family of products significantly outperformed major indices even when taking into account fees, expenses, and other costs associated with the funds.

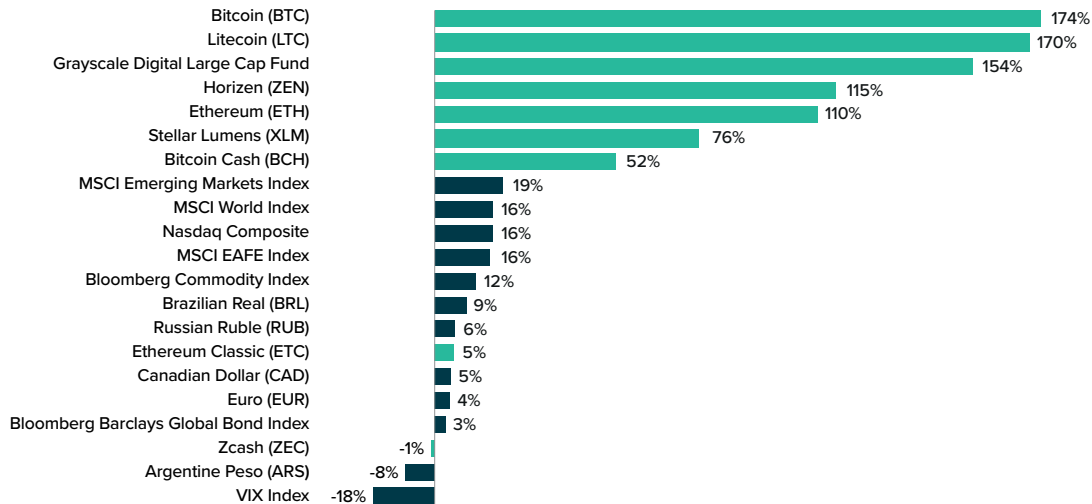
¹⁰. Inception date: September 25, 2013.

¹¹. Source: Bloomberg, comparison of ETPs with over \$1 billion AUM on 1/2/2020





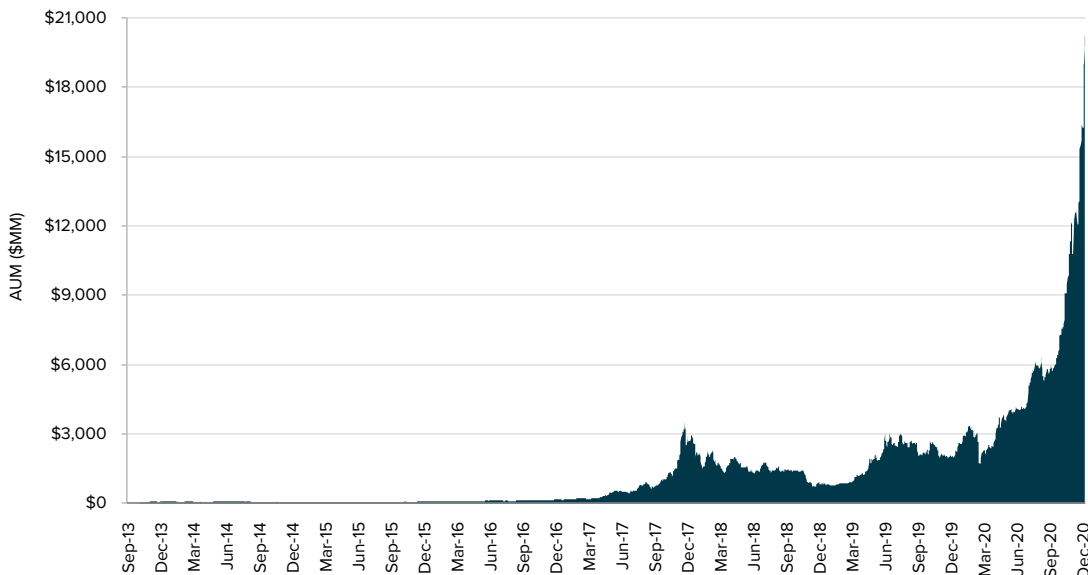
FIGURE 1: MULTI-ASSET CLASS PERFORMANCE – 4Q20¹²
OCTOBER 1, 2020 THROUGH DECEMBER 31, 2020



Grayscale’s assets under management reached all-time highs during 4Q20 as prices rose and capital flowed in from institutions. YTD, Grayscale’s AUM went from \$2.0 billion to \$20.2 billion, an approximately 10x increase.

FIGURE 2: GRAYSCALE AUM SINCE INCEPTION
SEPTEMBER 25, 2013 THROUGH DECEMBER 31, 2020

Index	Grayscale
AUM Growth (Cumulative)	180,585.0x
AUM Growth (Annualized)	4.3x



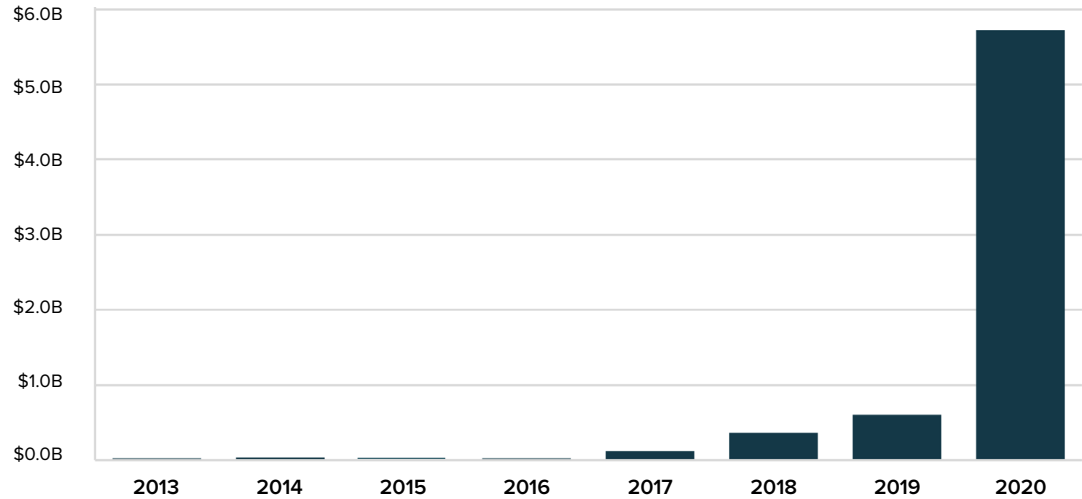
12. Source: Bloomberg, CoinMarketCap.com, Grayscale. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS.





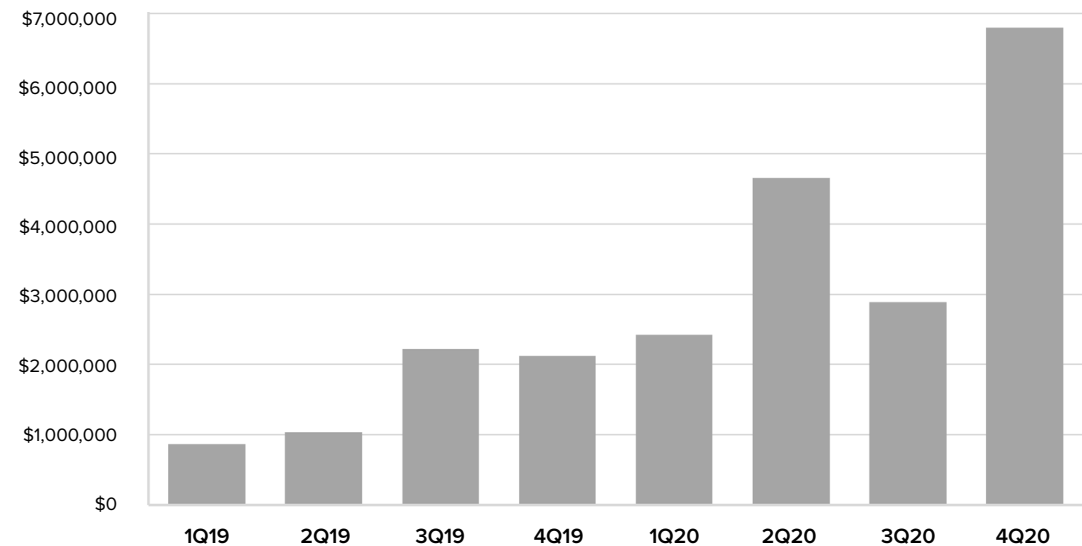
Over the last seven years, investor interest built slowly before rapidly accelerating. In fact, the four consecutive record shattering quarters in 2020 mark a turning point for Grayscale and digital assets as a whole. Specifically, the monetary and fiscal measures by governments globally served as the catalyst for the surge of interest in Bitcoin.

FIGURE 3: GRAYSCALE ANNUAL INFLOWS SINCE INCEPTION
SEPTEMBER 25, 2013 THROUGH DECEMBER 31, 2020



Demonstrated in Figure 4 below, institutional investors continue to increase allocation sizes. At \$6.8 million, the average institutional allocation was more than double the \$2.9 million average in 3Q20.

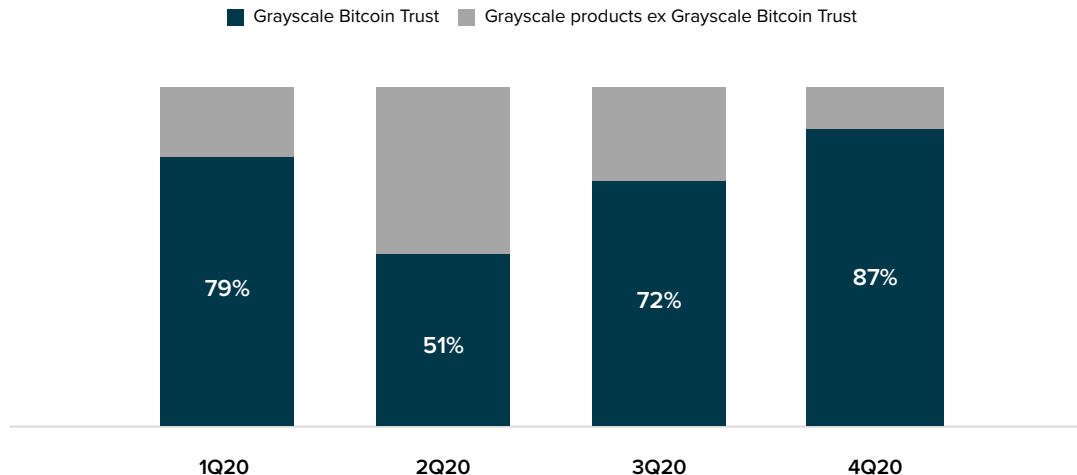
FIGURE 4: AVERAGE INSTITUTIONAL ALLOCATION BY QUARTER
JANUARY 1, 2019 THROUGH DECEMBER 31, 2020





As monetary inflation became a pressing concern, institutional investors took action by allocating to Bitcoin. This was seen in the media and supported by conversations our team had with investors. Figure 5 demonstrates that in this paradigm, Bitcoin took center stage in the market and in our product suite.

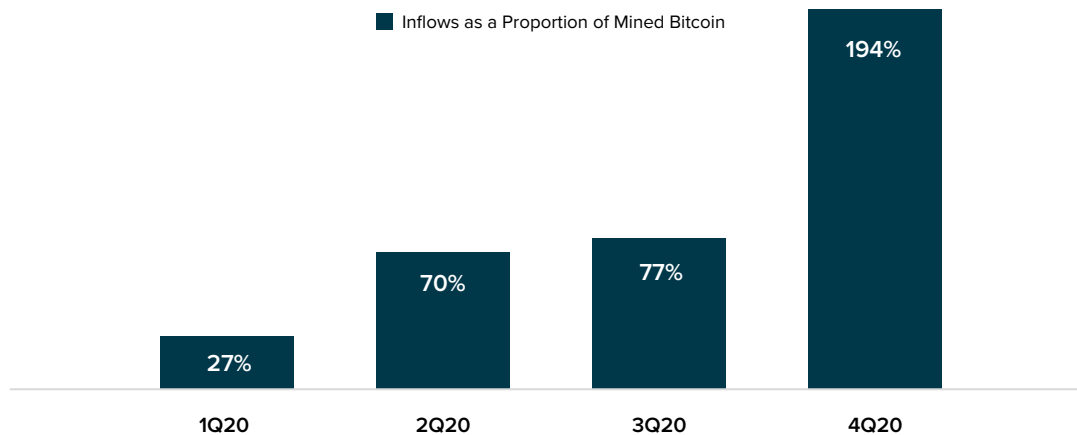
FIGURE 5: **BITCOIN TRUST AS A PROPORTION OF INFLOWS FROM INSTITUTIONAL INVESTORS**
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020



While the supply of newly-created Bitcoin has slowed as a result of the halving in May 2020, the inflows into Grayscale have accelerated meaningfully. The amount of Bitcoin flowing into Grayscale Bitcoin Trust during 4Q20 was nearly double the amount mined over the same period. This trend continues to be a major contributing factor in the limited available supply of Bitcoin in the market.

Again, this only illustrates the magnitude of inflows and does not indicate that mined Bitcoins are being directly invested into Grayscale Bitcoin Trust.

FIGURE 6: **GRAYSCALE BITCOIN TRUST INFLOWS AS A PROPORTION OF MINED BITCOIN¹³**
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020



13. Source: Grayscale, Coin Metrics. For comparison only. This does not reflect the direct flow of newly mined Bitcoin.





With the significant growth and utilization of Grayscale products by the investment community, our proportional management over the circulating supply of various digital assets has increased substantially. Over the course of the year, the amount of circulating Bitcoin under Grayscale management increased from 1.45% to 3.31%. Similarly, the proportion of circulating Ethereum managed by Grayscale increased from 0.47% to 2.61% in 2020.

FIGURE 7: GRAYSCALE ASSETS VS CIRCULATING SUPPLY

	Q4 2019	Q4 2020
Bitcoin	1.45%	3.31%
Bitcoin Cash	0.10%	1.33%
Ethereum	0.47%	2.61%
Ethereum Classic	7.79%	10.55%
Horizen	5.12%	5.23%
Litecoin	0.03%	1.78%
Stellar	0.03%	0.12%
Zcash	2.01%	1.99%
AUM as % of All Digital Assets	1.05%	2.65%

Next, we will provide our standard series of investment activity analytics for 4Q20 and YE20.





Investment Activity through the Grayscale Lens

Grayscale raised \$3.3 billion in 4Q20, bringing YE20 inflows to \$5.7 billion.

FIGURE 8: GRAYSCALE CUMULATIVE INFLOWS BY PRODUCT – 4Q20¹⁴
OCTOBER 1, 2020 THROUGH DECEMBER 31, 2020

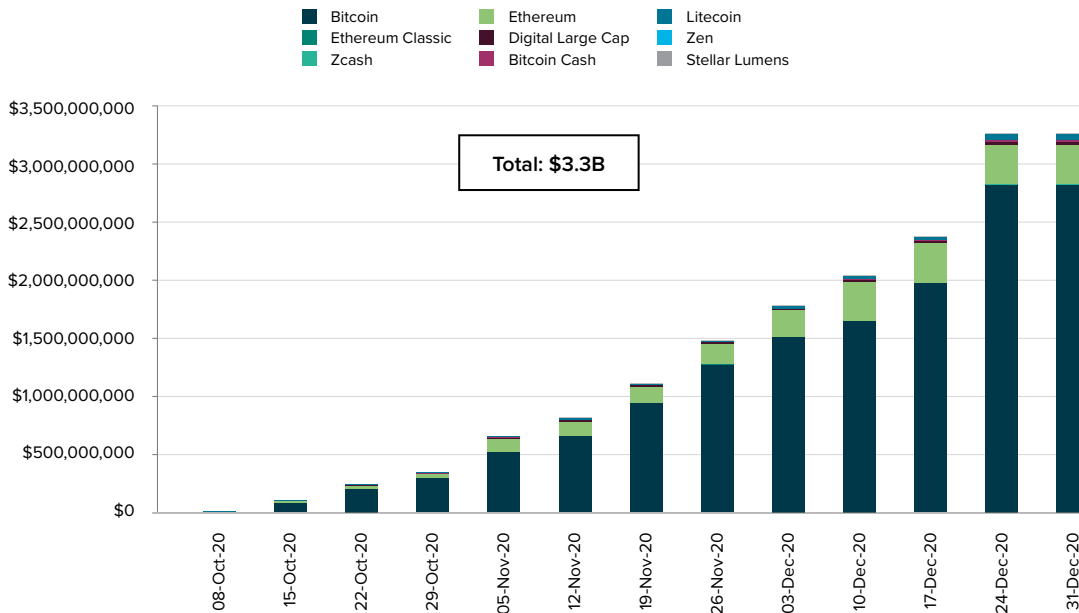
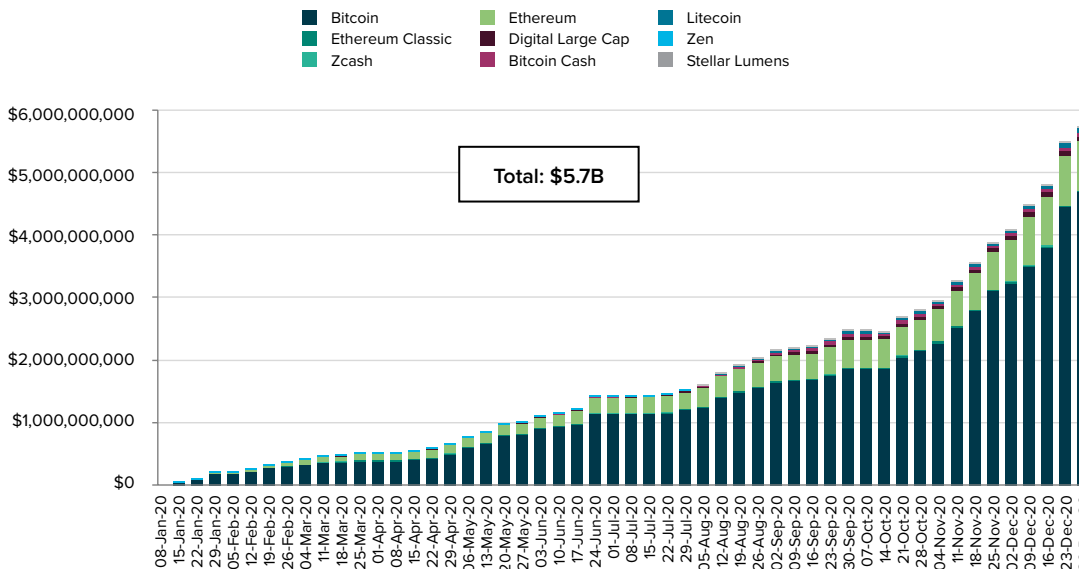


FIGURE 9: GRAYSCALE CUMULATIVE INFLOWS BY PRODUCT – YE20¹⁵
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020



14. Grayscale Bitcoin Trust and Grayscale Digital Large Cap Fund were periodically closed to new investment during the measured period.
15. Grayscale Bitcoin Trust and Grayscale Digital Large Cap Fund were periodically closed to new investment during the measured period.





Average weekly investment across all products in 4Q20 was \$250.7 million, while average weekly investment for YE20 was \$109.8 million.

FIGURE 10: GRAYSCALE WEEKLY INFLOWS ALL PRODUCTS – 4Q20¹⁶
OCTOBER 1, 2020 THROUGH DECEMBER 31, 2020

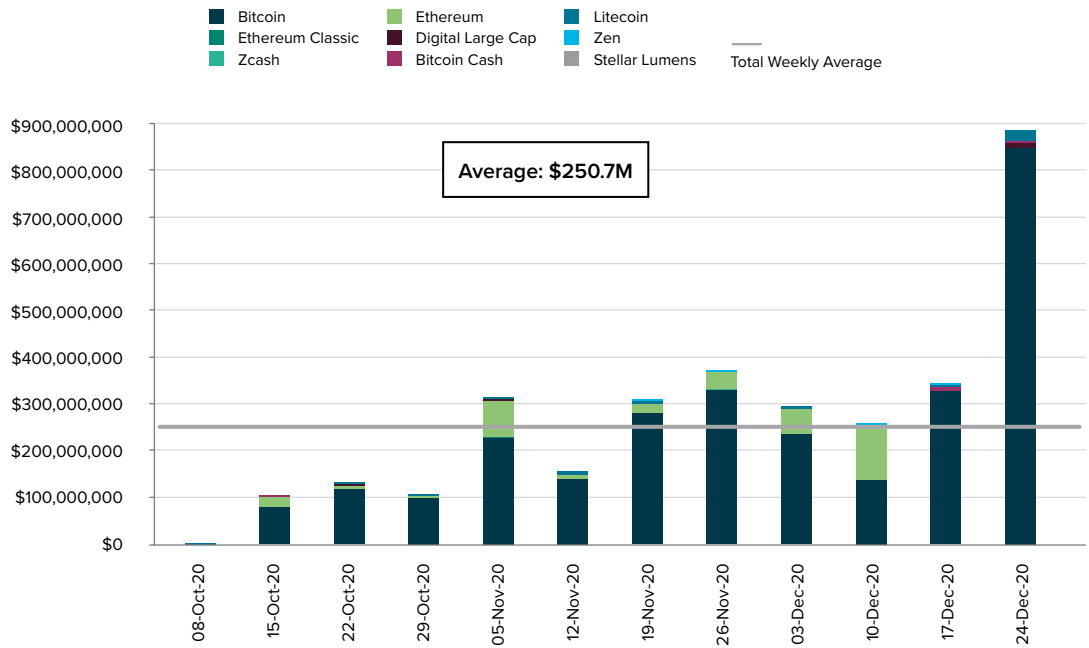
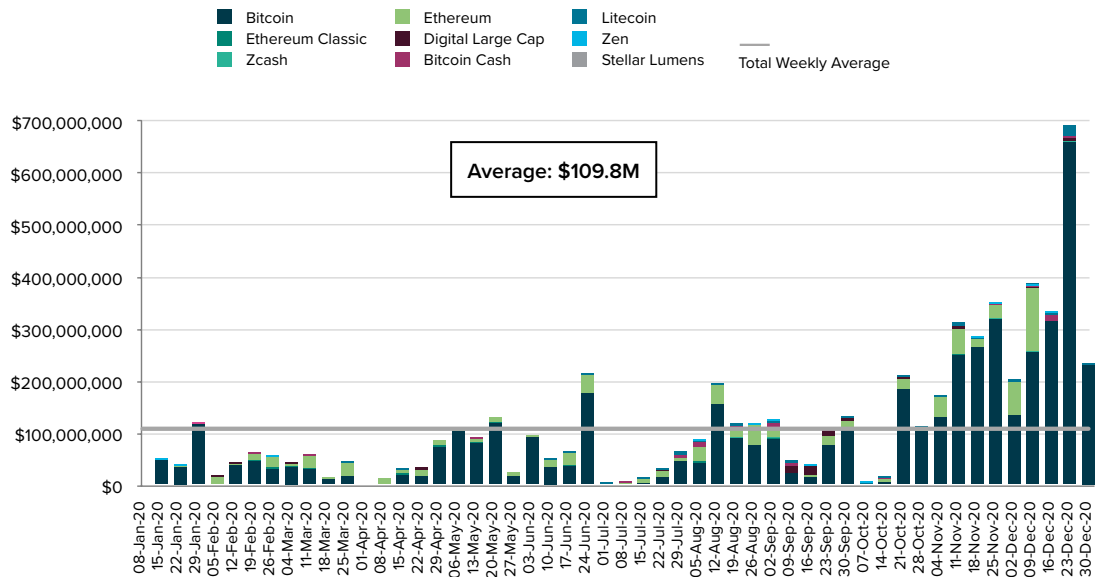


FIGURE 11: GRAYSCALE WEEKLY INFLOWS ALL PRODUCTS – YE20¹⁷
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020



16. Grayscale Bitcoin Trust and Grayscale Digital Large Cap Fund were periodically closed to new investment during the measured period.
17. Grayscale Bitcoin Trust and Grayscale Digital Large Cap Fund were periodically closed to new investment during the measured period.





In 4Q20, inflows to Grayscale Bitcoin Trust were a record \$2.8 billion. This brought YE20 Grayscale Bitcoin Trust inflows to \$4.7 billion, over four times the cumulative inflows of the previous six years.

FIGURE 12: **GRAYSCALE BITCOIN TRUST CUMULATIVE WEEKLY INFLOWS – 4Q20**
OCTOBER 1, 2020 THROUGH DECEMBER 31, 2020

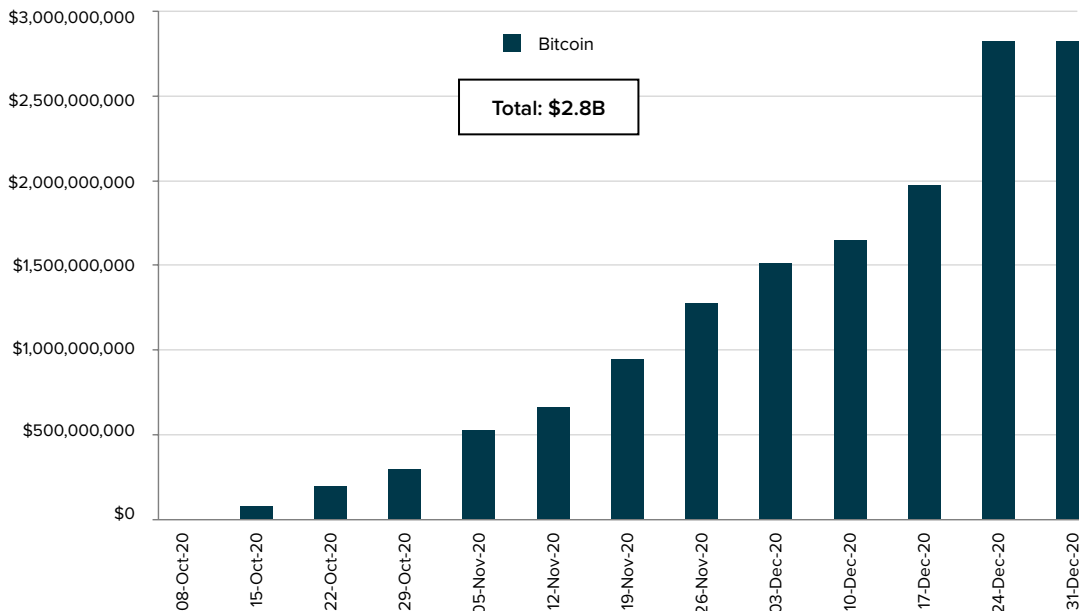
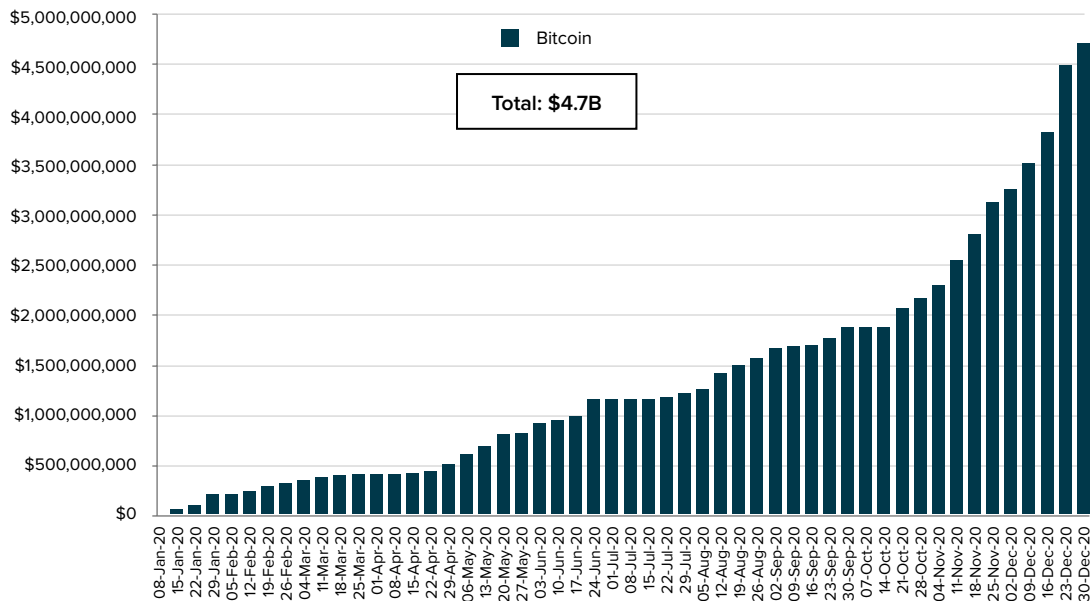


FIGURE 13: **GRAYSCALE BITCOIN TRUST CUMULATIVE WEEKLY INFLOWS – YE20**
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020





In 4Q20, demand for Grayscale Products excluding Grayscale Bitcoin Trust grew to \$436.4 million, up 35% QoQ, and up nearly 1300% from 4Q19. Much of the increase was driven by continued inflows into Grayscale Ethereum Trust (\$341.8 million), bringing YE20 inflows for Grayscale Products excluding Grayscale Bitcoin Trust to \$1.0 billion.

FIGURE 14: **GRAYSCALE PRODUCTS EX BITCOIN TRUST CUMULATIVE WEEKLY INFLOWS – 4Q20**
OCTOBER 1, 2020 THROUGH DECEMBER 31, 2020

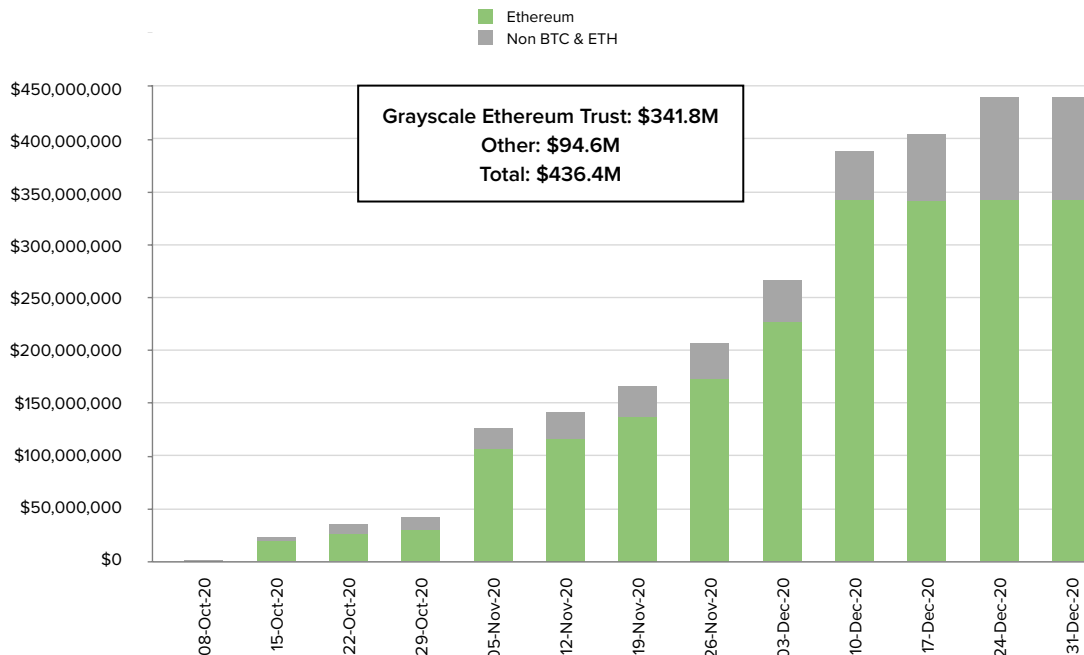
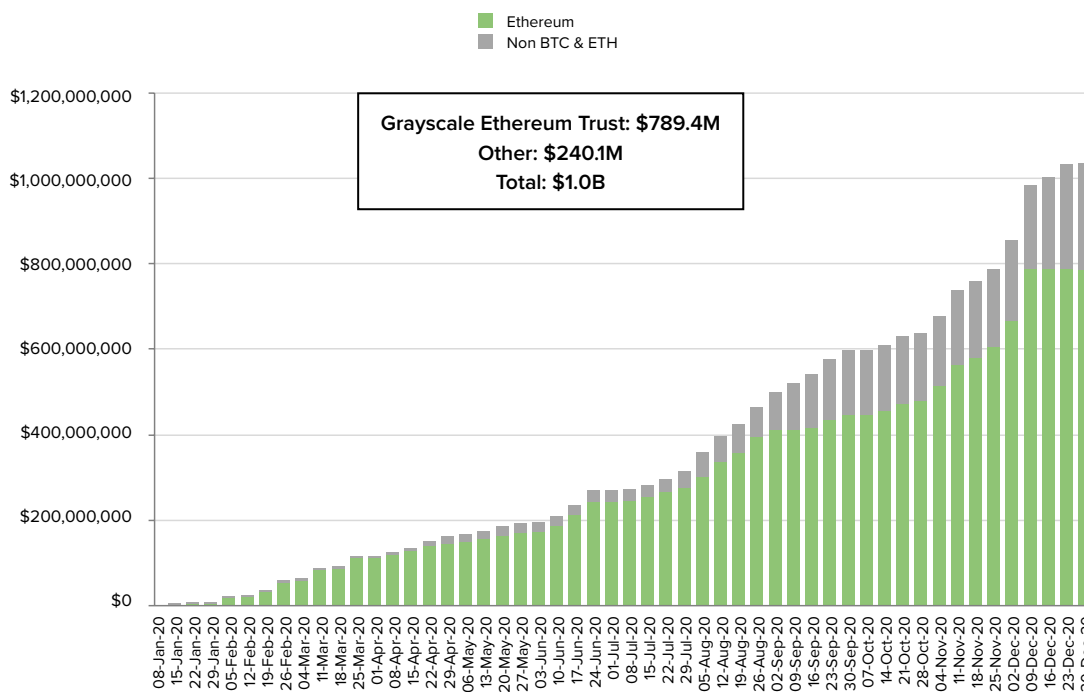


FIGURE 15: **GRAYSCALE PRODUCTS EX BITCOIN TRUST CUMULATIVE WEEKLY INFLOWS – YE20**
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020

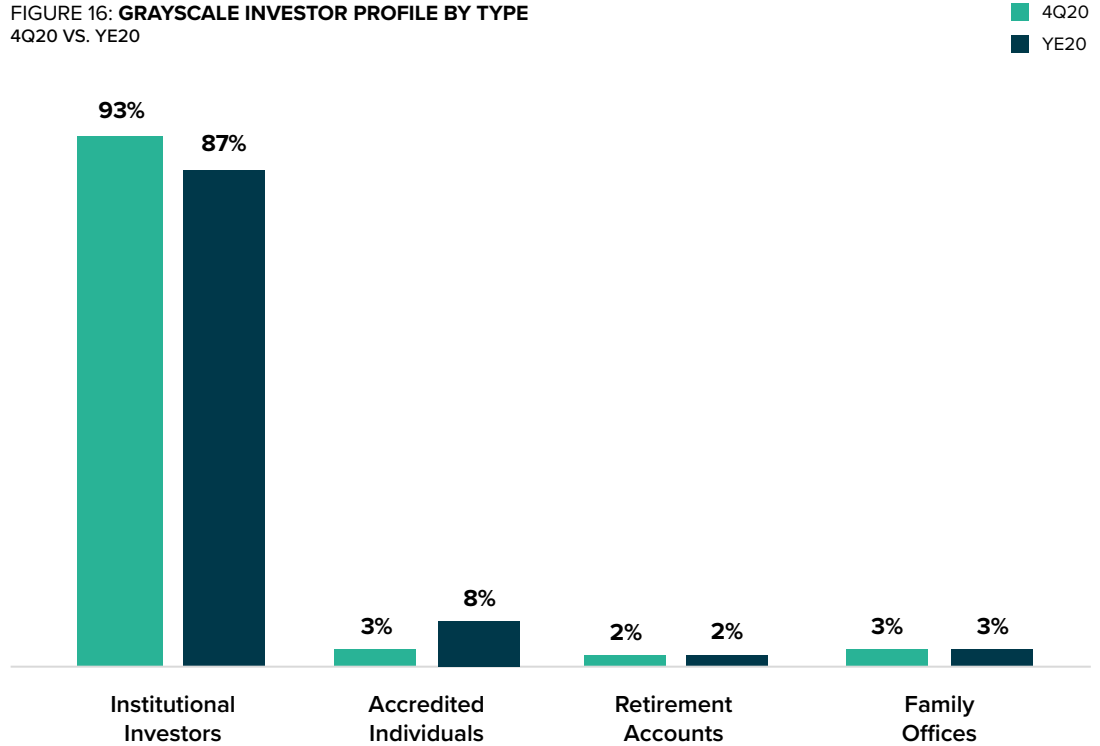




Investor Profiles

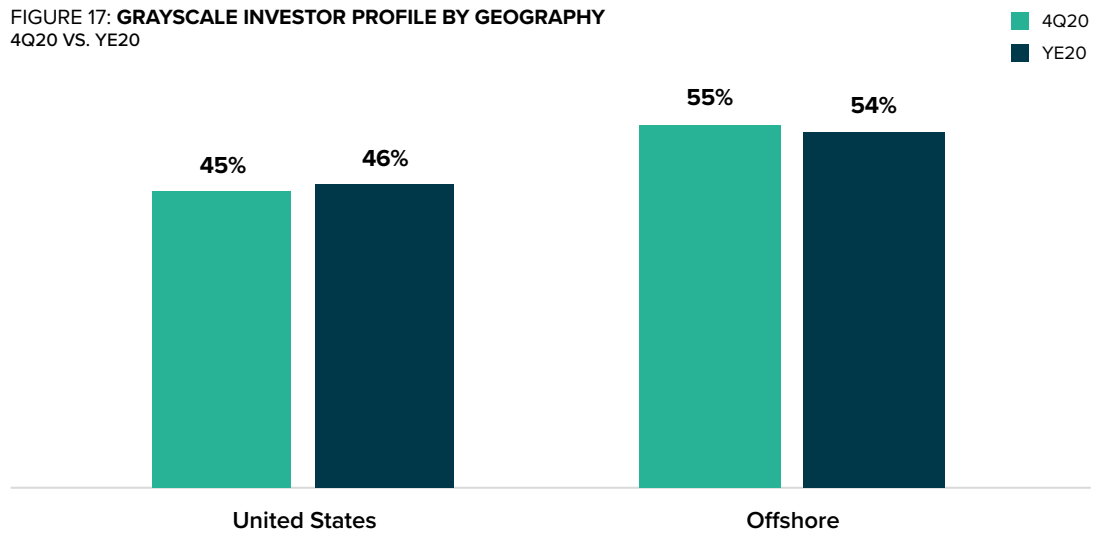
In 4Q20, Grayscale institutional capital represented 93% of total inflows, a meaningful uptick alongside a number of public announcements from notable investors and asset managers. For many investors, the risk of being too early quickly turned into risk of being too late.

FIGURE 16: **GRAYSCALE INVESTOR PROFILE BY TYPE**
4Q20 VS. YE20



The geographic source of new investment capital into Grayscale products this quarter was slightly more weighted to offshore investors (55%), in-line with YE20.

FIGURE 17: **GRAYSCALE INVESTOR PROFILE BY GEOGRAPHY**
4Q20 VS. YE20





About Grayscale Investments®

Grayscale Investments is the world's largest digital currency asset manager, with more than \$20.2B in assets under management as of December 31, 2020. Through its family of 9 investment products, Grayscale provides access and exposure to the digital currency asset class in the form of a traditional security without the challenges of buying, storing, and safekeeping digital currencies directly. With a proven track record and unrivaled experience, Grayscale's products operate within existing regulatory frameworks, creating secure and compliant exposure for investors.

For more information, please visit www.grayscale.co and follow [@Grayscale](https://twitter.com/Grayscale).



GRAYSCALE[®] BITCOIN TRUST

Grayscale Bitcoin Trust (in millions)	For the Quarter Ended				Trailing 12-Month
	3/31/2020	6/30/2020	9/30/2020	12/31/2020	12/31/2020
Total Investment	\$389.4	\$757.4	\$723.9	\$2,876.6	\$4,747.3
Average Weekly Investment	\$30.0	\$58.3	\$55.7	\$221.3	\$91.3

(AUM denominated in millions)	For the Quarter Ended			
	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Price of Bitcoin on principal market	\$6,474.2	\$9,134.1	\$10,708.6	\$29,185.1
AUM using principal market price	\$1,972.2	\$3,532.4	\$4,816.6	\$17,716.5
Digital Asset Reference Rate	\$6,466.5	\$9,156.3	\$10,748.5	\$28,788.6
AUM using Digital Asset Reference Rate	\$1,969.9	\$3,540.9	\$4,834.6	\$17,475.8

GRAYSCALE[®] ETHEREUM TRUST

Grayscale Ethereum Trust (in millions)	For the Quarter Ended				Trailing 12-Month
	3/31/2020	6/30/2020	9/30/2020	12/31/2020	12/31/2020
Total Investment	\$108.2	\$135.1	\$204.1	\$338.9	\$786.3
Average Weekly Investment	\$8.3	\$10.4	\$15.7	\$26.1	\$15.1

(AUM denominated in millions)	For the Quarter Ended			
	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Price of Ethereum on principal market	\$133.6	\$225.0	\$355.3	\$745.0
AUM using principal market price	\$142.1	\$382.8	\$804.0	\$2,188.1
Digital Asset Reference Rate	\$133.0	\$226.6	\$356.3	\$740.8
AUM using Digital Asset Reference Rate	\$141.5	\$385.6	\$806.2	\$2,175.7





Note On Hypothetical Simulated Performance Results

HYPOTHETICAL SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. There is no guarantee that the market conditions during the past period will be present in the future. Rather, it is most likely that the future market conditions will differ significantly from those of this past period, which could have a materially adverse impact on future returns. Unlike an actual performance record, simulated results do not represent actual trading or the costs of managing the portfolio. Also, since the trades have not actually been executed, the results may have under or over compensated for the impact, if any, of certain market factors, such as lack of liquidity.

Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

The hypothetical simulated performance results are based on a model that used inputs that are based on assumptions about a variety of conditions and events and provides hypothetical not actual results. As with all mathematical models, results may vary significantly depending upon the value of the inputs given, so that a relatively minor modification of any assumption may have a significant impact on the result. Among other things, the hypothetical simulated performance calculations do not take into account all aspects of the applicable asset's characteristics under certain conditions, including characteristics that can have a significant impact on the results. Further, in evaluating the hypothetical simulated performance results herein, each prospective investor should understand that not all of the hypothetical assumptions used in the model are described herein, and conditions and events that are not accounted for by the model may have a significant adverse effect on the performance of the assets described herein. Prospective investors should consider whether the behavior of these assets should be tested based on different and/or additional assumptions from those included in the information herein.

IN ADDITION TO OTHER DIFFERENCES, PROSPECTIVE INVESTORS IN A PRODUCT SHOULD NOTE THE FOLLOWING POTENTIALLY SIGNIFICANT DIFFERENCES BETWEEN THE ASSUMPTIONS MADE IN THE HYPOTHETICAL SIMULATED PERFORMANCE RESULTS INCLUDED HEREIN AND THE CONDITIONS UNDER WHICH A PRODUCT WILL PERFORM, WHICH COULD CAUSE THE ACTUAL RETURN OF SUCH PRODUCT TO DIFFER CONSIDERABLY FROM RETURNS SET FORTH BY THE HYPOTHETICAL SIMULATED PERFORMANCE, TO BE MATERIALLY LOWER THAN THE RETURNS AND TO RESULT IN LOSSES OF SOME OR ALL OF THE INVESTMENT BY PROSPECTIVE INVESTORS:

FOR EXAMPLE, EACH TRUST WILL HOLD ONLY ONE DIGITAL ASSET, WHEREAS THE HYPOTHETICAL SIMULATED PERFORMANCE RESULTS ARE INTENDED TO SHOW HYPOTHETICAL PERFORMANCE OF AN INVESTMENT MULTIPLE DIGITAL ASSETS. IN ADDITION, THE GENERAL MARKET DATA USED IN THE HYPOTHETICAL SIMULATED PERFORMANCE RESULTS DO NOT REFLECT ACTUAL TRADING ACTIVITY AND COULD NOT BE REPLICATED BY A PRODUCT IN ITS ACTUAL TRANSACTIONS. If actual trading activity was executed at levels that differed significantly from the general market data used in the hypothetical simulated performance, the actual returns achieved would have varied considerably from the results of the hypothetical simulated performances and could have been substantially lower and could result in significant losses.

IN ADDITION, THE HYPOTHETICAL SIMULATED PERFORMANCE RESULTS DO NOT ASSUME ANY GAINS OR LOSSES FROM TRADING AND THEREFORE DO NOT REFLECT THE POTENTIAL LOSSES, COSTS AND RISKS POSED BY TRADING AND HOLDING ACTUAL ASSETS.

The hypothetical simulated performance results do not reflect the impact the market conditions may have had upon a Product were it in existence during the historical period selected. The hypothetical simulated performance results do not reflect any fees incurred by a Product. If such amounts had been included in the hypothetical simulated performance, the results would have been lowered.

AS A RESULT OF THESE AND OTHER DIFFERENCES, THE ACTUAL RETURNS OF A PRODUCT MAY BE HIGHER OR LOWER THAN THE RETURNS SET FORTH IN THE HYPOTHETICAL SIMULATED PERFORMANCE RESULTS, WHICH ARE HYPOTHETICAL AND MAY NEVER BE ACHIEVED. Reasons for a deviation may also include, but are by no means limited to, changes in regulatory and/or tax law, generally unfavorable market conditions and the Risk Factors set forth below.





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