2020

YEARLY REPORT

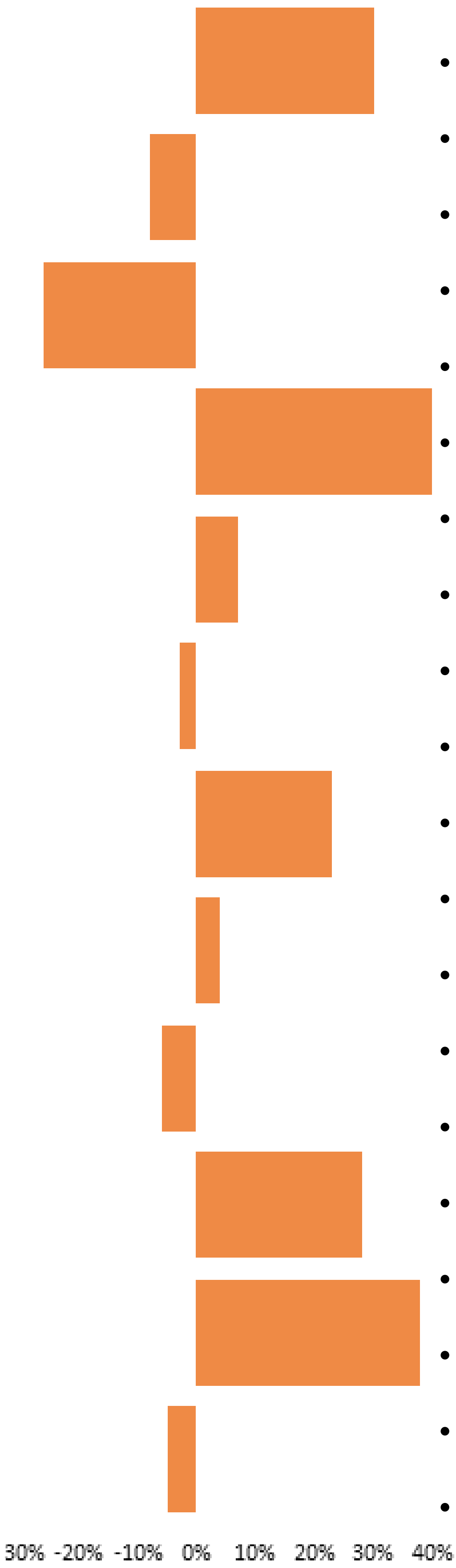
Genesis Alpha Fund

FASANARA CAPITAL

By Genesis Alpha Fund

2020 Yearly Review

WHAT HAPPENED



- CME Launches Bitcoin Options
- Swedish central bank test of blockchain based digital currency
- For the first time two pension funds invested in crypto fund
- Urgent COVID-19 stimulus in US triggers talks for Digital Dollar
- RenTec is considering trading Bitcoin futures
- Andreessen Horowitz doubles down with new $515M fund
- Goldman Sachs discourages investment in Bitcoin
- PTJ endorsement of Bitcoin eases institutional adoption
- DeFi Mania causes Compound new token to double in price
- US banks can now offer crypto custody services
- Total Value Locked in DeFi Hits New ATH of $4B
- MicroStrategy adopts Bitcoin as primary treasury reserve asset.
- De-Fi drives Ethereum transaction fees to all-time highs.
- Kraken becomes first Crypto Exchange to Charter a US Bank
- CFTC charges BitMex with illegally operating exchange
- CME becomes 2nd biggest Bitcoin futures market
- PayPal confirms that it will allow to trade cryptocurrencies.
- Druckenmiller Says He Owns Bitcoin in CNBC Interview
- Ethereum 2.0 set to launch Dec. 1 after late surge in deposits
- Ruffer Investment Confirms Massive Bitcoin Buy of $744M
- FCEN: AML checks for transactions to self-custodied wallets

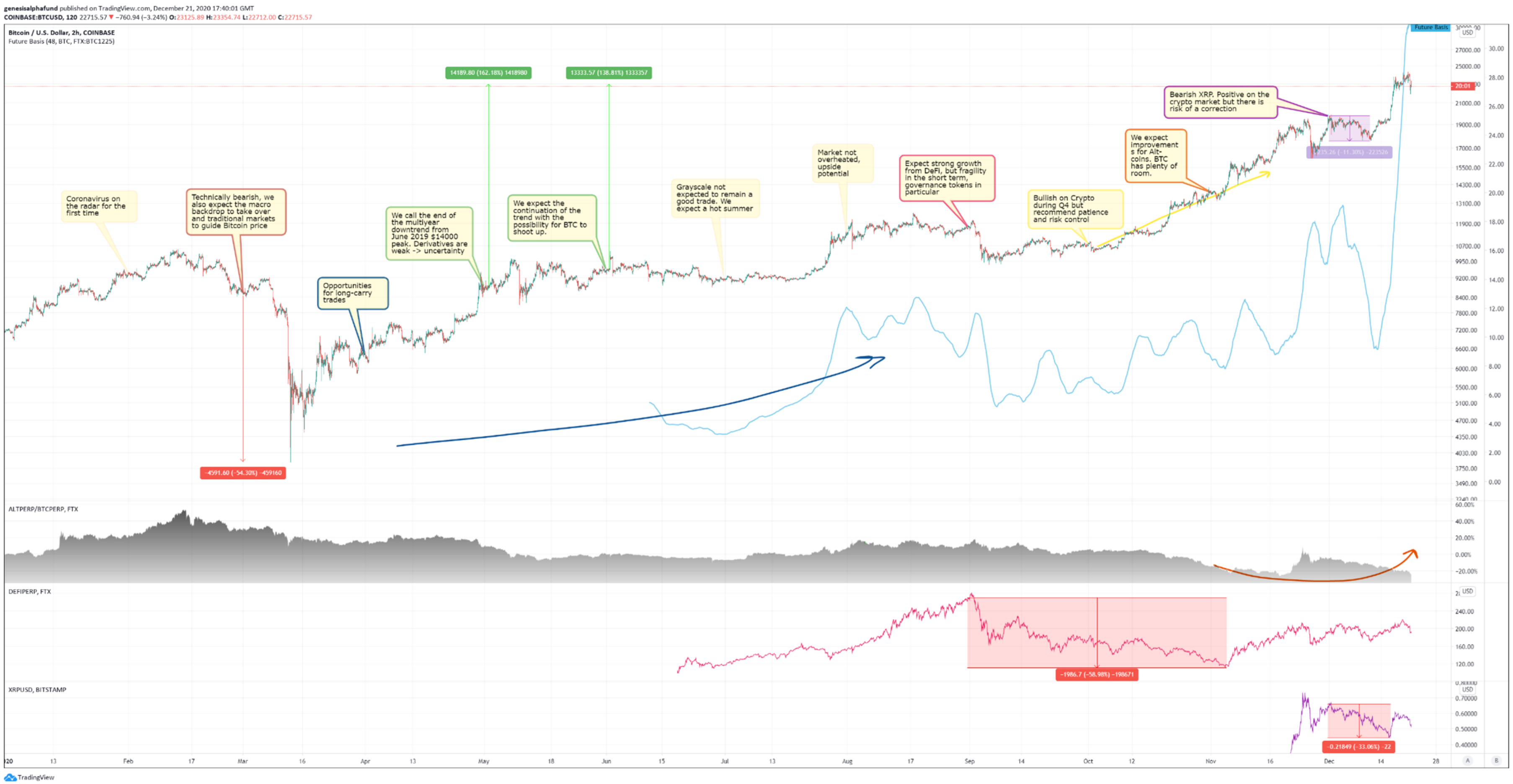


__Figure 1:__ Yearly price action of Bitcoin along with our monthly views on the market as published in previous commentaries. To aid comparison, we added to the chart the APR of the Future with December maturity (in blue); the ratio ALTPERP/BTCPERP (grey area, bottom panel 1); an index of defi performance DEFIPERP (in violet, bottom panel 2); XRP price (purple, bottom panel 3).

__Source:__ TradingView

Such an eventful year, starting with the launch of CME options, and the first steps of institutions and Central Banks in the crypto universe. With a strong bull market during the late autumn (2019) and early winter months, 2020 made us hope for an explosive year for cryptocurrencies. By the end of February, with the early news on the Coronavirus from Wuhan and a bearish technical market set-up we expected turmoil. Little did we know what was coming.

Black Thursday, or March 12th, 2020, will be difficult to forget those who had risk on the market. Bitcoin plummeted 50% on the back of a global risk-off triggered by the spreading of the virus in the western world with its first devastating effects in northern Italy, followed by the rest of Europe and US. By the end of March however we identified attractive long carry opportunities driven by the extremely flat yield curve, and the prospect of a strong asset appreciation caused by the massive fiscal stimulus that, by then, was already underway. Meanwhile, the institutional interest in Bitcoin increased, and, as the halving approached, the store of value narrative took-off stronger than ever, enjoying the tailwind of a decreasing trust in fiat currency. By the end of April, we recognised the end of a year-long downtrend that started in the summer 2019.

A whole new market started to take-off as the summer approached. Decentralised Finance: exchanges and lending protocols in particular, attracted capital and, via aggressive marketing campaigns, triggered a retail bubble that saw new tokens changing price by multiples in a few days, only to disappear shortly after. Reminiscent of the 2017 ICO bubble one might have dismissed the phenomenon as transitory and just an offshoot of the RobinHood-WallStreetBets (a popular reddit forum)-Portnoy phase we went through earlier this year. In our August commentary we cautioned against the short-term downside risk for the DeFi tokens, all the while believing the industry was poised for strong growth in the months to come. Sure enough, the first days of September saw a strong market correction, bringing with it the end of a Summer dream for many. Institutional players meanwhile did not get distracted. The likes of Paul Tudor Jones endorsed Bitcoin first, arguably lifting career risk from allocating to Bitcoin, and companies like MicroStrategy (MSTR) started converting cash on the balance sheet into Bitcoin holdings.

Autumn started-off with the first signs that regulators had not been idle either. Charges brought against BitMex and its founders, by the CFTC, shook the industry and triggered a run-to-KYC that is still underway today. Since then, the news has been resoundingly positive. New players continue to enter the space, older players are doubling down, and entirely new distribution channels are opening up to millions of people (PayPal for example). Even the legendary Stanley Druckenmiller, who “broke the Bank of England”, owns Bitcoin now.

Our outlook for Q4 remained extremely bullish, but we recommended caution as the market heated up. As it transpired, one need not have worried during the entire quarter, as Bitcoin appreciated almost in a straight line from $10,000 to $20,000. By the end of November, with Bitcoin trading below the $20,000 resistance, we started to see the first signs of retail FOMO, with tokens like XRP and LTC taking-off. We expressed our bearish view on these assets, but as Bitcoin broke higher towards $23,000 the tide was just too powerful to leave anyone behind.

The US government, after a troubled post-Election month, had one last gift for the crypto community before the year-end and, at the time of writing, we are still unwrapping it.

COMMENTARY

Cryptocurrencies have come of age. No longer cryptocurrencies in fact, please, we talk of tokenomics now. The myriad of projects that crowded the 2017 bull run are just a distant memory. If we forget the adolescent excesses of the DeFi summer, in 2020 the investment space has mostly been characterised by the raise of the virtuous from the past, as well as new product launches by highly professional teams, with concrete roadmaps toward value creation. However, many projects have also accumulated high double digit % losses this year, and this will always be. The markets are Darwinian capital allocation machines, and in crypto we observe evolution at a viral pace.

Today, multiple narratives coexist in harmony, and, contrary to the past, these are not in opposition but rather synergistic. In Figure 2, we show six plots representing the main Sectors in the industry (Messari classification). Clockwise from the top left corner: Smart Contract Platforms, Web3 services, DeFi, Exchange Tokens, Payment currencies, Privacy coin.

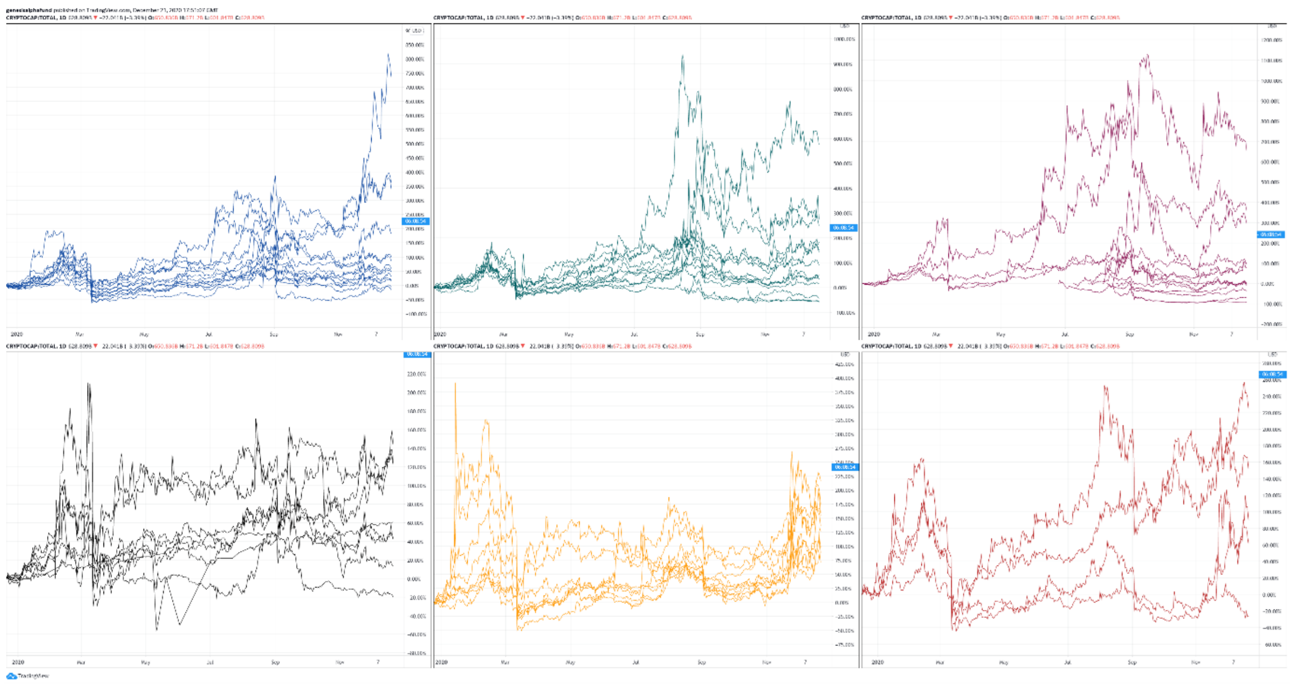


***Figure 2:** Bitcoin (in orange – 30h volume MA in purple) and Ether (in blue) MTD price action has been one way only for most of November, only to observe an overdue correction on November 26th. Price action alone could suggest the beginning of a consolidation period, however the macro backdrop and potentially retail FOMO (more on this later), could remain the prevalent force in the market.*

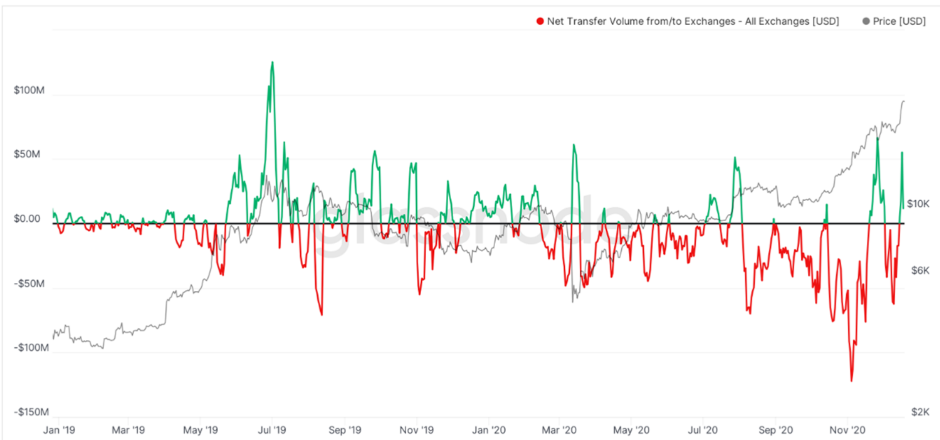
***Source:** TradingView*

On-chain data has also started to reveal its true potential, or so the investor community believes, as shown by the recent promotion to unicorn status for Chainalysis after its latest $100m fundraising round. Blockchain analysis, be it for forensics reasons, or to uncover the actions of the biggest players in the industry, offers insight that is new and not available in traditional markets.

An interesting conversation between Caitlin Long (Avanti Financial Group – Crypto bank under Wyoming law) and Dr. Manmohan Singh (IMF) on the role of the blockchain settlement layer through stablecoins, and the possible effects on money velocity and system-wide leverage can be found here.

In order to gauge shorter-term price trends, we focus here on one of the main narratives of the last few months, and retrospectively assess how it evolved throughout the year: the dispersion of coins from exchanges into wallets. The chart in Figure 3 shows a consistent outflow of coins from exchanges in the second half of the year in stark contrast to the behaviour observed in the Summer of 2019, when coins were moved from wallets to exchanges in order to be sold. The constant daily outflows have slowed down only recently, turning into positive inflows, when investors started taking profits at $20,000 and higher. Retrospectively, coin flows to exchanges have provided a clear indication of price dynamics this year, but, it should be noted that with the increasing institutional flow in ETF-like products and OTC trades, exchanges alone might not cover enough of the market activity to provide a complete picture on the positioning of the "whales".

Bitcoin: Net Transfer Volume from/to Exchanges - All Exchanges (7d Moving Average)



glassnode

Figure 3: *Daily Net transfers of Bitcoins to/from exchanges. The expected relationship is that when coins leave the exchanges is to be stored securely and hold on the longer term. A sudden spike of inflows can show investors rushing their coins to exchanges in order to take profit and rotate to cash, or other tokens.*

Source: *glassnode*

Futures Markets have been in strong backwardation three times during the year: in February (just before Black Thursday), during the Summer, and towards the end of the year. Despite the high implied yields for cash-and-carry strategies during those times, the curve has remained completely flat to zero for most of the Spring and the beginning of Summer, creating opportunities for steepener trades.

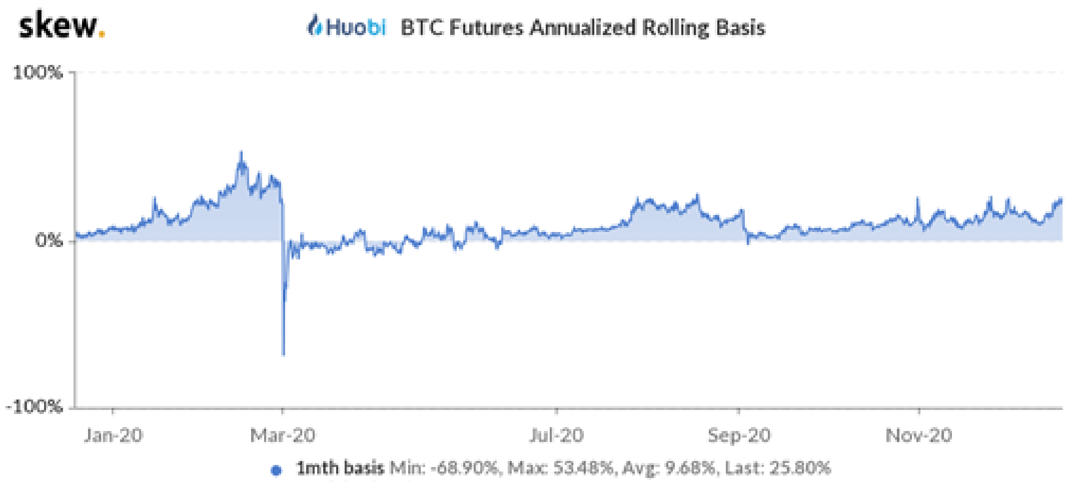


Figure 4: *YTD rolling 1-month Basis estimated from the Huobi future contracts (interpolation of weekly, bi-weekly and quarterly contract). The 4 seasons have brought distinct market behaviours: strong steepening in winter, flat curve in Spring, steepening and rate volatility in Summer, steady steepening from flat in Autumn.*

Source: *Skew*

Despite the parabolic price action, system-wide leverage has remained contained, as demonstrated by the rolling 1-month basis in Figure 4, as well as the open interest on derivative contracts displayed in Figure 5. The latter shows a strong increase in dollar terms, but a decrease in BTC terms, demonstrating how most of the recent price action has been the result of spot activity. Figure 6 shows the stark contrast between Western and Asian exchanges in terms of open interest (OI) over Volume ratio, where the former show considerably less turnover than the latter, suggesting that different market participants trade on the two groups of exchanges.

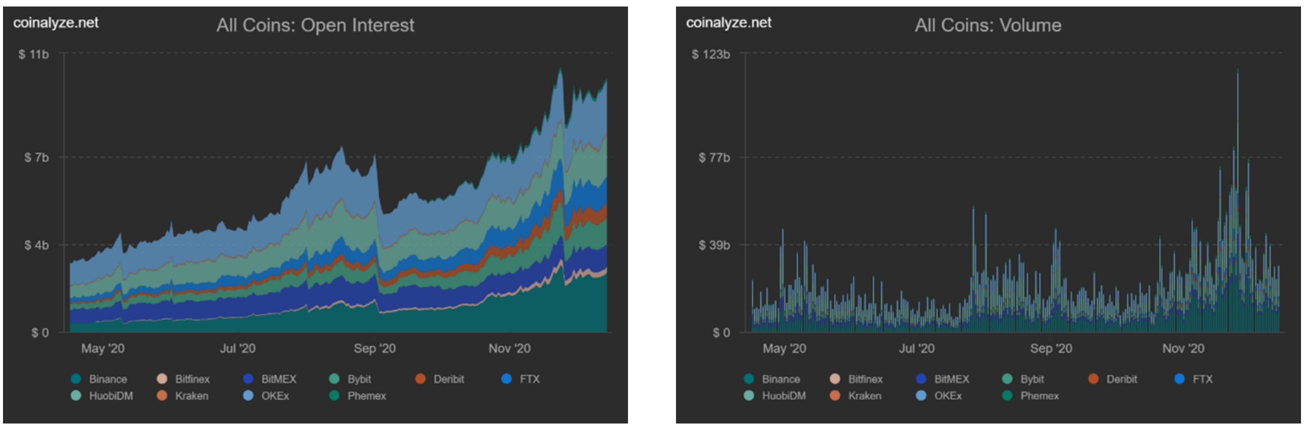


Figure 5: *Derivative Contracts Open Interest and Volume since May 2020. Although the trajectory of the former is increasing, it should be noted that the size of the market has shrank compared to the size of the spot. Volumes have also increased, and, in particular, clustered around the end of November, when Bitcoin attempted, and eventually succeeded, to break above $20,000.*

Source: *Coinalyze*

Are the current price levels sustainable? Most of the clues suggest the answer is yes, despite the parabolic price action which is so characteristics of a Bubble, the small market cap of Bitcoin together with the inelastic supply can also justify its violent moves. Figure 7 shows the realised volatility of weekly Bitcoin returns and, as it can be seen, the current level is just above the long-term average, and below recent spikes.

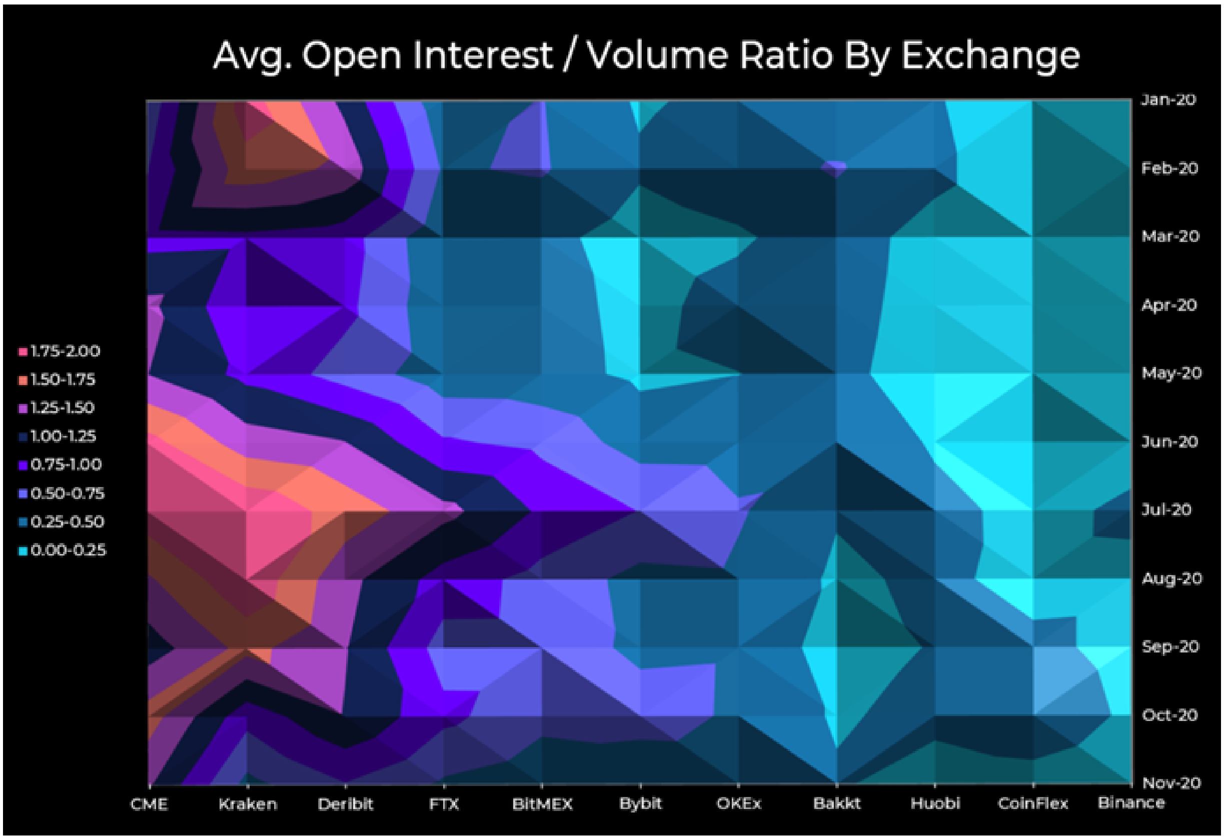


Figure 6: *Interesting representation of the Open Interest (OI) / Volume ratio on different exchanges during 2020. It can be observed the tendency of Western exchanges (CME, Kraken, Deribit, FTX) to have high OI compared to the volume, while the main Asian exchanges (OKEx, Huobi, Binance) tend to show more trading activity compared to the total OI.*

Source: *Delphi Digital*

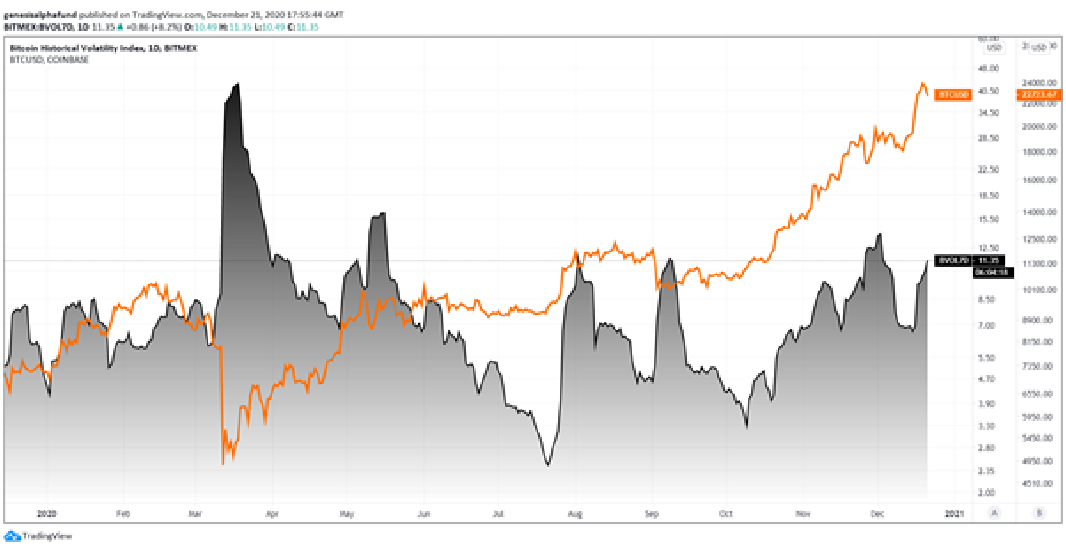


Figure 7: *YTD Bitcoin price superimposed on the time series of BVOL7D, the weekly returns realised volatility index maintained by BitMex and plotted in logarithmic scale. Recently, volatility has remained controlled, displaying an organic buying pressure, rather than the frenzy typical of the terminal phases of a Bubble.*

Source: *TradingView*

What about Bitcoin dominance? As discussed earlier, 2020 has been a year that has brought structure and purpose to the market. One of the most interesting sectors shown in Figure 2 is DeFi, the world of decentralised finance, insurance, real estate, art etc. At the fringe of this world the NFTs, non-fungible tokenised assets (art, collectibles, in-game valuables), are attracting some attention and a non-negligible amount of money. A nice read can be found here. Under the spotlight however we found the purely financial applications: trust-less lending first, followed by automatic market makers (AMMs) and crowd-sourced asset management. The explosive growth in the balance sheets of these protocols does not show any signs of slowing down, as more and more innovation reaches the space, and the sprouts of FOMO and the scams get washed away. Currently on track to surpass 20bn AUM early next year, the space continues to remain attractive even after the triple-digit APY incentives on liquidity provision deflated after the heat of the Summer.

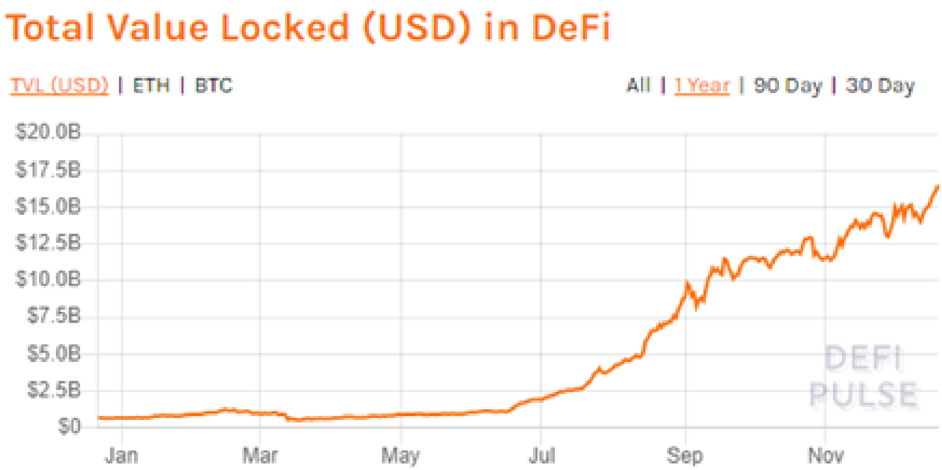


Figure 8: *YTD time series of the total value deposited within the different DeFi protocols. More than 40% of this value is used as reserves for lending protocols, 25% approximately is providing liquidity to decentralised exchanges, while the remaining is either invested autonomously by the asset management protocols or used as collateral to support payment and derivative trading services.*

Source: *DeFi Pulse*

2020 CRYPTO/BLOCKCHAIN INSIGHTS	
FINANCING	M&A
APPROXIMATELY **$3.1 Billion** IN FINANCING VOLUME	APPROXIMATELY **$691 Million** IN M&A VOLUME
774 TRANSACTIONS	**83** TRANSACTIONS
Venture funding in 2020 stayed fairly consistent with 2019 dollar volumes in spite of a 61% drop off in total funding from Q1 to Q2, due to COVID-19.	Most M&A transaction volume ever, and a 28% increase year-over-year. Second highest dollar volume ever, with the acquistions of CoinMarketCap, Blockfolio, and Tagomi making up roughly 96% of the dollar volume.

THE BLOCK Research

Another important trend that has characterised 2020, and did not go unnoticed, is the arm race to consolidation and institutional offering currently underway, complemented with the first IPOs and some DeFi M&A. Some of the biggest companies in the space are racing to build a complete prime brokerage offering, acquiring the pieces which are missing from their current suites. Others are focusing on strengthening their current market position by adding complementary services and increasing their retail reach. Two examples of the latter case are FTX's $150M acquisition of Blockfolio, a retail focus portfolio tracking app and Binance's $400M acquisition of CoinMarketCap, the reference catalogue of cryptocurrencies. The Prime Brokerage race has been even more heated: with Genesis acquiring its custody business via Vo1t, Galaxy adding lending capabilities through the acquisition of DrawBridge and strengthening its market making through Blue Fire Capital, Japanese financial powerhouse SBI Holdings acquiring London-based liquidity provider B2C2 , American Express backing a trading platform - FalconX, and BitGo launching a Prime offering following the acquisition of tax management and portfolio monitoring company Lumina.

Coinbase, however, offers the perfect case study as it started the year by being granted a principal membership from Visa, then acquiring Tagomi with eyes on the Prime Brokerage business (it acquired Xapo in 2019 to power-up its custody solution), and finally in December filing S-1 registration with the SEC to go public (A shadow here is the “apolitical stance” case back in October). Current estimations see the company valuation around $30B (although FTX’s pre-IPO futures are currently implying twice that figure), making it by far the largest public crypto-native business. Possible future IPOs targets may include Kraken and, potentially, BlockFi. DeFi M&A is also capturing some attention, so far taking the shape of shared resources, effort, and a roadmap among teams of developers. Yearn has dominated the playground, coordinating merges with Pickle, Cream, SushiSwap, Akropolis, and Cover, in order to create an ecosystem where derivatives, insurance, asset management and money markets interact symbiotically, optimising the capital usage.

Traditional businesses have not ignored the rising tide either, some scaled up their blockchain related operations, others went straight for the directional bet investing hundreds of millions of dollars in Bitcoin. The former group is led by PayPal, that with its massive retail flow single-handedly buys up more than the entire daily issuance of new Bitcoins.

The hoarders, on the other hand, have seen Michael Saylor, CEO of MicroStrategy, rise to prominence as patriarch of the movement. Plotting his coup on fiat reserves in secret, he then revealed a $300m investment in Bitcoin, shortly followed by $200m more and then a $650m convertible to finance yet more still. Far from being alone though, the companies welcoming Bitcoin on their balance sheet are becoming a crowd, with many notable names like Ruffer, Square, MassMutual, Guggenheim Fund and StoneRidge, among others. In Figure 8 we show yet another dimension of the institutional adoption, with data on the inflows and AUMs of the main publicly traded crypto products.

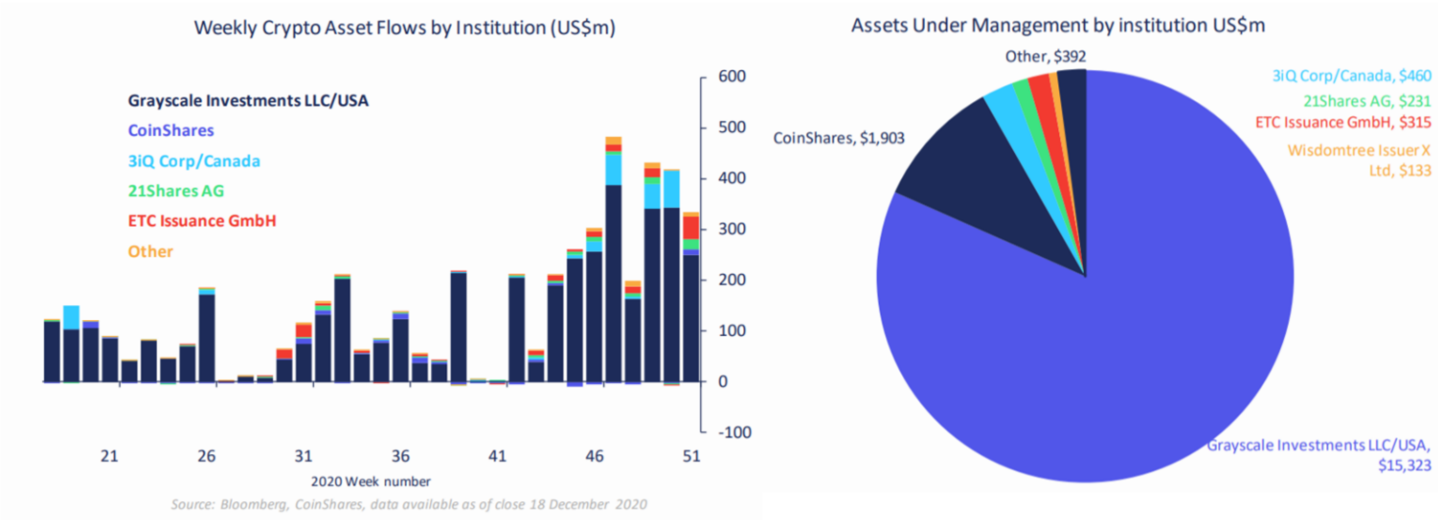


***Figure 9:** Weekly inflows and current AUM by the main publicly traded Crypto products. Grayscale alone is estimated to be making more than $15m in revenues per month.*

***Source:** CoinShares*

2021 is expected to bring more of the same, if not in terms of price action, surely in terms of adoption. We conclude this 2020 review with four different scenarios for next year that take inspirations from some of the narratives we hear around.

2021 SCENARIOS

There is surely no lack of moon-landing scenarios for Bitcoin. But if all we believe are extremely bullish outcomes, then we should bet directionally. A market neutral approach means accepting that the future could look different from what we think, or hope. We believe that it is a useful exercise to visualise the “what if”. Although this might not be the same “what if” that you read about on Twitter.

- ## The Moon

We could not start with anything else than the Moon scenario (we do not want to be the bears here; we are just cynics). As we prepare this document, Bitcoin is breaking through the ATH at $20,000 and continuing its relentless march upwards past 21 - 22 - $23,000. At this pace, when you read these lines, this scenario might already have come to pass. The increasing crowding of the trade from institutions and “contrarian” fund managers is actually a very modest allocation when compared to the money flowing to traditional assets around the world.
Every additional pair of institutional eyes looking at the asset class inflates the valuations by widening the giant gap between available supply and demand. When everyone wants in for the long run, who is going to sell? Companies operating in the space see their valuations grow at multiples of Bitcoin price, feeding a positive loop of innovation that sparks ever increasing demand for the underlying use cases offered by the different projects. The nitty-gritty of the market is unlikely to change much, despite the unstoppable forces of market efficiency acting through the arms of the newly formed prime brokers and the increasing sophistication of the average market player. The tremendous growth in price is likely to maintain the high opportunity cost characterising the industry and ultimately sustaining yields higher than in traditional markets.

BITCOIN STATS	
Bitcoin Marketcap	$422B
BTC Inflation Rate (next 1yr)	1.81%
% Supply Issued	88.45%
BTC Settlement Volume (24hr)	$8.12B
Real Exchange Volume (24hr)	$6.93B
Active Addresses	1.10M
Mining Reward Value (24hr)	$20.8M
GBTC Premium	30.17%
BTC Down From ATH	4.13%
BTC Up From Cycle Low	626.37%

RATIOS			24hr change
Gold:BTC (marketcap)	27.13x	+0.99	+3.79%
M2:BTC (marketcap)	45.58x	+2.17	+5.01%
BTC:Oil (price)	462.58x	-25.36	-5.2%
Gold:Oil (price)	38.35x	-0.6	-1.55%

US GOVERNMENT STATS			30-day change
Federal Reserve Balance Sheet	$7.36T	+$120B	+1.65%
M1 Money Supply	$6.58T	+$851B	+14.84%
M2 Money Supply	$19.23T	+$118B	+0.62%

Figure S1: *Key Macroeconomics measures for Bitcoin, and comparison with Gold and Monetary supply. CaseBitcoin.com provides a portal with all that is needed to convince an institutional investor to jump on the Bitcoin bandwagon.*

Source: *casebitcoin.com*

- ## The Regulatory Shadows

Our second scenario is grimmer, but perhaps more controlled and it does, at least, force us to face the elephant in the room: Are world governments going to give their blessing to Bitcoin (and crypto in general) or are they going to crack down on it and purge the system of that which they do not like or understand? (latest)

Asian exchanges might be one of the first targets, but Bitfinex and Tether may find themselves in the spotlight again, with the market cap of the stablecoin USDT surpassing $20bn. DeFi, in addition, presents its whole new set of questions for regulators that are faced with a new creature that defies standard practices. The Bitcoin narrative as a store of value remains alive and well, but the regulatory set-backs prevent institutions from entering the market in meaningful size.
The price of Bitcoin wanders higher, but it also dives lower. You compliment your decision to harness the volatility and inefficiencies of the market without limiting your exposure to a directional view.

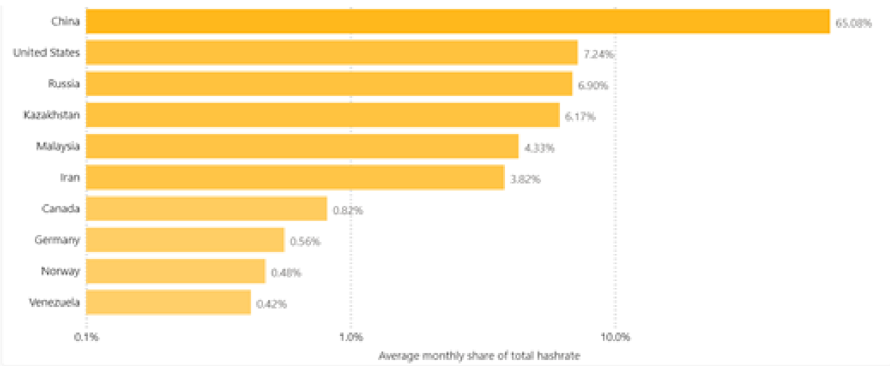


Figure S2: *Mining concentration in different countries as of Q2 2020 in logarithmic scale. The geopolitical risk posed by China, US, Russia and a handful of countries hosting 90%+ of the total Bitcoin hashpower is often taken lightly with the assumptions miners will be able to relocate. But that's not necessarily something quick when the supply of hardware is limited: Bulk pre-orders for the latest bitcoin ASIC miners are sold out until next spring.*

Source: *University of Cambridge: Judge Business School*

• The Doom

Rosenberg, and many others, were right. The buying frenzy was an exaggeration and the result of a herd-like behaviour during a time when the investors seemed to be immune to losses and instead only racked up profits from the relentless inflation of everything (and a depreciating dollar). But the music eventually stops, and as investors come to their senses, a huge value rotation takes place sweeping Bitcoin back to its 365-day moving average. The latter has fluctuated within the $5,000 to $10,000 range for the last 3 years, after quickly jumping there from the sub-$1,000 level during the 2017 bull run. The shocks caused by such a violent move, and the price insensitive sell-off of institutions that rushed in too quickly, open up numerous trading opportunities in the relative value world.

Figure S3: *Daily candle chart of the price of Bitcoin during the last two years. We admit that building the bearish case, and presenting it through one chart, is not an easy task in this environment. Long term Technical Oscillators all point towards an overbought market, with MACD, Stochastic and RSI at upper end of their range.*

Source: *TradingView*

• The Bankless Society

Does it have to be all about Bitcoin? Probably not.

A consortium of enterprises, a supranational organisation, Father Christmas: someone issues a limited supply asset, backed by a combination of real-world tangibles and intangibles, that is fully integrated with the current legal and regulatory system. Such a product offers all the characteristics that make Bitcoin worth more than half a trillion dollars, and more. You might not like the story, but Bitcoin may not remain the ultimate store of value forever (as a Bitcoin maximalist one should find that paradoxically counterintuitive in the first place). Blockchain technology and decentralised financial networks however uncovered a new world of efficient, trust-less solutions to exchange value worldwide. Netscape might have almost disappeared, but the Internet is ubiquitous in our lives and the investors that have not been able to evolve with the market, have financially perished. The DeFi ecosystem is poised to grow exponentially in value, and, with its rise, it might make us to forget about Bitcoin. With it, Ethereum, one of the most promising and by far the most used of the Layer-1 platforms, could be the first to surpass Bitcoin's market cap (the flippening).

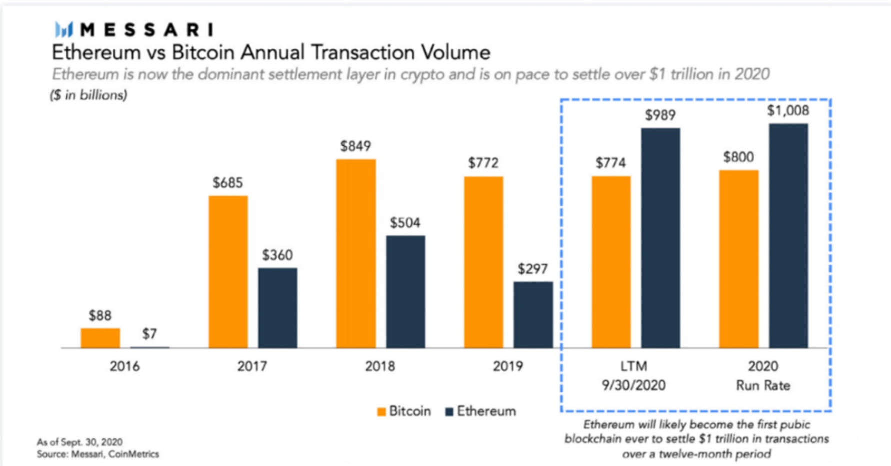
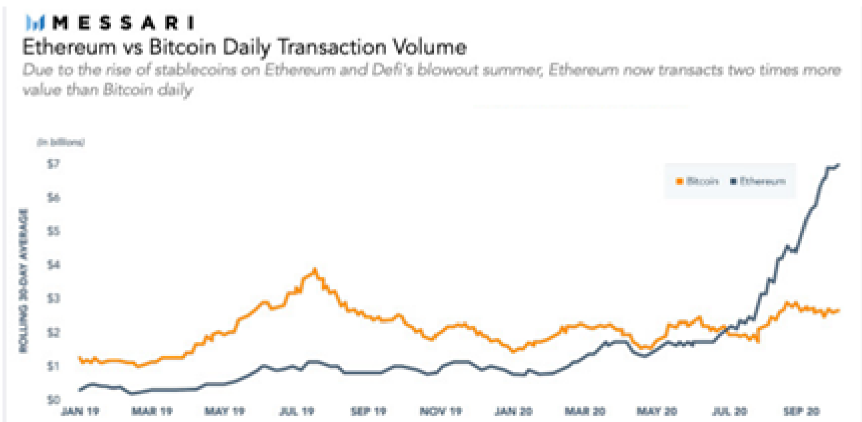


Figure S4: *2020 witnessed the first of the ETH "flippenings" over Bitcoin, with a Transaction volume on track to top $1 Trillion dollars vs the 800 Billion value transferred on the Bitcoin blockchain. Referring back to Figure S1, we see that the money supply is approximately 2x(3x?) the total market value of gold, suggesting that an asset like Ether, at the foundation of the new decentralised financial system, could be worth multiples of a digital store of value akin to gold, like Bitcoin.*



Source: *Messari*