



Annual Crypto
Report

Crypto: Review, Outlook & Conclusion

December 31, 2021

Review 2021

An eventful year 2021 says goodbye; a year that was once again primarily characterized by Covid-19, fiscal aid packages, a still very generous central bank policy, as well as emerging rising inflationary tendencies in many countries. However, it was also a year of increasingly established cryptocurrencies and their underlying blockchain technology.

Cryptocurrencies had another record year in 2021 with annual highs or all-time highs especially in November. Bitcoin (BTC) as a crypto "blue chip" recorded an increase of around 80% since the beginning of the year, Ethereum (ETH) as the most prominent "altcoin" recorded an increase of 320% compared to gold -6%, S&P500 +28% or SMI +22%. As a result, the market capitalization of all crypto stocks also continued to rise and was able to exceed the two trillion dollar mark (see chart).

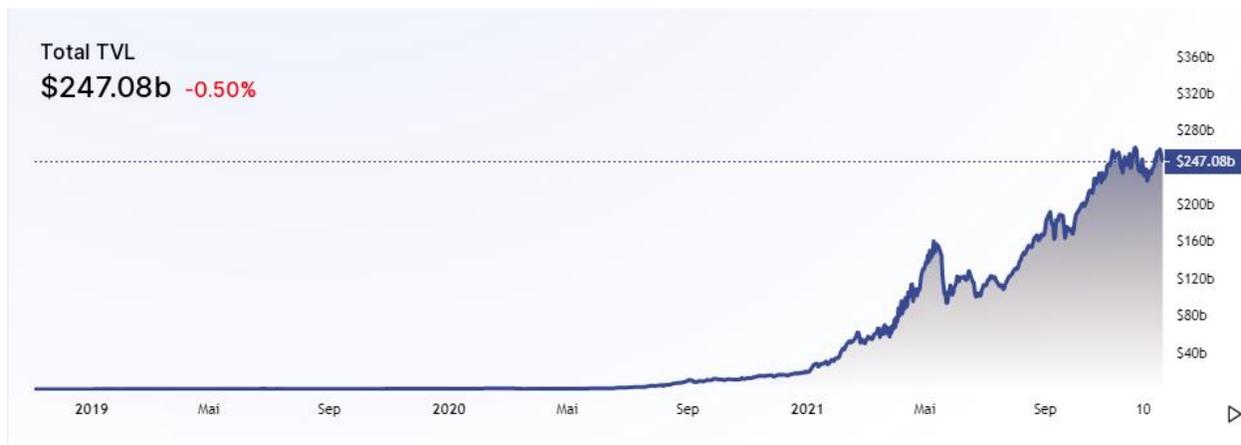


Source: <https://coinmarketcap.com/charts/>

Growth has been driven by a number of converging factors. First, adaptation and adoption of cryptocurrencies and blockchain technology has continued to accelerate, and investment opportunities in crypto products have become more accessible. In February, for example, the first publicly traded bitcoin ETF was approved in Canada – and in October, the US followed suit with an ETF listed on the New York Stock Exchange. Additionally, established names from the financial world

are now also becoming increasingly involved in the crypto world. Fidelity Investments and Invesco, both US fund companies, launched an exchange-traded fund (ETF) backed by physical bitcoins. Moreover, Coinbase, the largest cryptocurrency trading platform in the US, was listed on the US technology exchange Nasdaq in April, reaching a valuation of around \$100 billion when it went public. Second, the crypto universe has been increasingly embraced as a valid investment opportunity for value preservation as well as an investment vehicle for long-term capital appreciation. The list of large institutions investing and participating in cryptocurrencies and the blockchain ecosystem continues to grow, including Tesla, Paypal, Visa, Morgan Stanley, and many high-profile VC funds. Moreover, macro-level establishment is also taking place. El Salvador has adopted Bitcoin as its second official currency, and other countries such as Venezuela, Anguilla, Panama, and India may follow suit. Central banks around the world, moreover, are stepping up their efforts for digital central bank money. According to the Bank for International Settlements (BIS), 85% of central banks are already researching digital currencies, while China is already actively pursuing the path of digitalization with the e-yuan.

Another growing area is the decentralized financial market or "Decentralized Finance" (DeFi), which saw a growth of +1,280% in 2021. This represents a "Total Value Locked" (TVL) of approximately \$250 billion, which is mainly composed of credit or lending protocols, decentralized exchanges (DEX), derivatives and asset protocols. The strong growth has been driven primarily by investors looking to earn additional return with low risk.



Source: <https://defillama.com>

2021 was also the year of the non-fungible token (NFT). This digitized form of an asset, such as drawings, digital artworks, video clips or even real possessions, contains information that proves their uniqueness. This year, Christies's auction house achieved a record price of 69 million US dollars for an NFT in the art world «Everydays – The First 5,000 Days» by the artist Beeple. The particular relevance of these first spectacular use cases can be seen in the fact that they are the first

steps in a new world in which, in the future, an NFT will serve as proof of ownership and pre-ownership for almost all tangible and intangible goods. The renaming of Facebook to Meta also made headlines in this context. Mark Zuckerberg decided to take this step because he has identified the so-called metaverse (virtual worlds) as a new megatrend in which not least NFTs will act as property rights for virtual objects.

Outlook 2022

Despite the slight market slowdown that followed the annual highs and all-time highs in November, the crypto universe will continue to gain popularity and confidence in 2022, leading to steadily higher adaptation and adoption. The disruption of traditional financial markets, which has already started, will continue and cryptocurrencies or blockchain technology will become more established. In this respect, the year 2022 may also provide for new highs. Moreover, it can be expected that there is an extensive pipeline of crypto companies preparing for an IPO and that 2022 will continue the trend set by the newly listed companies in 2021.

The DeFi ecosystem will also continue to evolve and mature, increasingly becoming a potential competitor to traditional financial intermediaries and global investment banks. As secure cash storage and preservation is increasingly becoming the focus of private and institutional investors, driven by a lack of alternatives and inflation fears, the DeFi space offers a valid investment opportunity to generate attractive returns at low risk.

Another rapidly developing area is NFTs. While 2021 was already a breakthrough year, there is far greater potential here. In the case of more accessible user interfaces (UI) of NFT platforms for the general public, as well as the shift from the use of simply holding items in a digital wallet to active participation using the smart contract option, engagement and acceptance will further increase and the market will grow. Developments in the areas of sports ticketing, loyalty points, and e-sports are particularly in focus here. Furthermore, the area of "GameFi" seems to continue to develop into an emerging crypto industry. This is the combination of games and finance, i.e. gamification of financial systems, which allows players (participants) to earn their profit by playing and earning. A focus on cryptocurrencies in this area should continue in 2022.

Conclusion

Digital currencies and blockchain technology have finally gained a foothold and could evolve from their one-hit-wonder status to a valid investment alternative for portfolio diversification. Especially in times when fears of a possible demonetization due to high national debt in the wake of the pandemic are rampant, cryptocurrencies and Decentralized Finance (DeFi) represent important and good investment opportunities to store value.

Belvoir Capital assists you in this regard with crypto mandates, as well as the listed products Crypto Alpha Strategy (Plus) ETI and DeFi Income Strategy ETI.

We wish you a healthy and happy 2022.

Your Belvoir Team

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Appendix: Explanation of terms

Altcoin

Altcoins are all cryptocurrencies that are offered on the market alongside Bitcoin. The technology on which the altcoins are based is mostly similar to the one used by Bitcoin.

Bitcoin

The first and largest cryptocurrency by market capitalization.

Blockchain Ecosystem

A blockchain is a distributed, public database. In the context of Bitcoin, this database is used to manage monetary transactions. The term "chain" comes from the chain to which transactions are added in chronological order. Blockchain ecosystem refers to the entire environment and usage area of blockchains.

Blockchain Technology

See Blockchain Ecosystem.

Blue chip

Top securities and favorites among listed shares. This term was coined in the US for stocks of the Dow Jones Index, in Germany blue chips are mainly the stocks represented in the German Stock Index (DAX). In the crypto sector, blue chips are analogously the crypto stocks, the top stocks by market capitalization.

Coinbase

Coinbase is a privately held company that is listed on NASDAQ and provides a secure platform to buy, sell, and store cryptocurrencies such as Bitcoin, Ethereum, and others.

Covid-19

COVID-19 (abbreviation for coronavirus disease 2019, also colloquially known as Corona or Covid in German-speaking countries) is a notifiable infectious disease. It has been declared a pandemic.

Credit or lending protocols

Peer-to-peer lending where no intermediary is necessary. Borrowers and lenders meet directly via smart contracts and process the transaction automatically.

Cryptocurrencies

Cryptocurrencies are digital (quasi-)currencies with a mostly decentralized, always distributed, and cryptographically secured payment system. Bitcoin is one of them. Cryptocurrencies have emerged as a serious alternative to payment among private individuals in certain countries.

Decentralized Finance (DeFi)

Decentralized Finance, or DeFi for short, stands for the combination of traditional financial concepts and products, as they are known from banking, with blockchain technology. DeFi is about transferring well-known principles to the world of cryptocurrencies and distributed ledger technology.

Decentralized stock exchanges (DEX)

A decentralized exchange allows users to exchange crypto coins and tokens without a centralized entity.

Disruption

The word "disruption" is derived from the English "to disrupt", which translated into German means to disturb, interrupt, split, break up, tear apart, destroy or break open. A disruptive product ensures that existing structures and processes are broken up and possibly destroyed. A new, simpler, more convenient, cheaper or faster innovation then replaces an old, established solution.

ETF

An exchange-traded fund (ETF) is an investment fund that is continuously traded on a stock exchange. It is normally acquired and sold on the secondary market through the stock exchange rather than through the issuing investment company. Most exchange-traded funds are passively managed index funds that track the composition and performance of a securities index.

Ethereum

Ethereum technology is the home for digital money, global payments, and application software. The community behind it has built a digital economy, created powerful new online income opportunities for creators, and more. It is accessible to everyone.

GameFi

GameFi stands for finance based on games. The term GameFi is inspired by the term DeFi and stands for Game Finance. The term Game Finance has been shortened to GameFi.

Metaverse

Metaverse refers to a kind of virtual reality in which people are supposed to feel close to each other regardless of their location. The idea is to combine elements from physical life with the virtual elements of the online world.

Nasdaq

The largest electronic exchange in the world and the second largest exchange in the United States. It was founded in 1971 and was originally intended as a successor to the over-the-counter "curb trading" that was once popular in New York. As a result, it was considered an over-the-counter trading system in some circles as late as the mid-1980s. NASDAQ has the highest trading volume of any exchange in the world and is a popular exchange for technology companies.

Non-Fungible Tokens (NFT)

NFTs (or "non-fungible tokens") are a special type of crypto asset where each token is unique - unlike "fungible" assets like bitcoin and dollar bills, which all have exactly the same value. Because each NFT is unique, they can be used to authenticate ownership of digital assets such as artwork, recordings, virtual real estate, or pets.

One-Hit-Wonders

A person, group, project, or organization known for only one notable event, product, etc.

Proof of Previous Ownership

Also called provenance. Provenance is the history of ownership of an asset.

Smart Contract

A smart contract works like a traditional contract and specifies the terms of an agreement. However, unlike a traditional contract, the terms of a smart contract are executed in the form of code on a blockchain like Ethereum.

Total Value Locked (TVL)

Total Value Locked (TVL) indicates the number of assets currently deployed in a protocol, or the total amount of underlying funds deployed in a DeFi protocol.

VC funds

Venture Capital Fund