

RIVEMONT

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Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

“Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as it occurred here”. These are weighty words shared by FTX's new CEO, restructuring expert John J. Ray III, he who held the same role in the Enron saga in 2001. “From compromised systems integrity and faulty regulatory oversight abroad, to the concentration of control in the hands of a very small group of inexperienced, unsophisticated and potentially compromised individuals, this situation is unprecedented.”

Unsurprisingly, it is this saga surrounding the FTX exchange's bankruptcy that

has continued to drive the markets over the past week. According to documents filed Saturday in Delaware bankruptcy court, the company said it owed \$3.1 billion to its top 50 creditors. FTX's top 10 creditors alone hold more than \$100 million each in unsecured claims, according to the filings, or more than \$1.45 billion in total. In this context, aside from the losses of countless investors who used the platform to trade and store their cryptocurrencies, it is the domino effect that this crisis can still have that is causing uncertainty and thereby putting downward pressure on the markets.

Among these, it is possibly Genesis that is getting most of the attention. In fact, the same report lists the third largest creditor as being owed \$174 million. While not officially named, this figure is consistent with what cryptocurrency lender Genesis revealed 10 days ago, that \$175 million in funds were tied up in its FTX account. Genesis launched the first over-the-counter bitcoin trading desk in 2013, before becoming one of the industry's leading players. It has been hit hard by the bankruptcy of Three Arrows Capital earlier this year. Last week, after suspending its lending services and spending the weekend on unsuccessful fundraising efforts, Genesis Global Capital hired investment bank Moelis & Company to explore options, including a possible bankruptcy. At least that's what the New York Times reports, with Genesis still publicly claiming to have no such plans.

To explain the feared domino effect, it is worth mentioning that Genesis Global Capital is a branch of Digital Currency Group, the company that owns Grayscale Investments, which manages the Grayscale Bitcoin Trust. This financial product has \$10.2 billion under management. Supposed to provide passive exposure to the price of bitcoin, it has instead decoupled from the price of BTC over the past year. As a result, the discount to buy a share in GBTC has reached a record 43% relative to the net asset value of the fund with the bitcoins held. To that end, Digital Currency Group founder and CEO Barry Silbert revealed in a note to shareholders that DCG has about \$575 million in debt to Genesis Global Capital, which is due in May 2023. However, he was reassuring about the companies' structure and the risk of cascading: "Genesis Global Capital is not a counterparty or service provider for any Grayscale product.[...] Grayscale

products continue to operate as usual, and recent events have had no impact on product operations." Nevertheless, the perceived risk is crystal clear. Does DCG have sufficient capital to recapitalize Genesis? If not, the fear is that the company will have to liquidate its GBTC product, which would create a new wave of challenges for a range of market participants related to the use of GBTC as collateral.

However, major players say these fears are unwarranted. On Friday, Coinbase Global Inc.'s custodial department vouched for the security of Grayscale's digital assets that it holds. In a letter published yesterday by Silbert, it says DCG expects revenue of \$800 million in 2022, down about 20 percent from last year. He adds to shareholders that "we will let you know if we decide to proceed with an equity round". "Let me be crystal clear: DCG will continue to be a leading builder of the industry and we are committed to our long-term mission of accelerating the development of a better financial system," he wrote. "We have weathered previous crypto winters, and while this one may feel more severe, collectively we will come out of it stronger."

It is in these periods of uncertainty that the best opportunities always emerge. The problem is that this is only evident in hindsight. Nevertheless, some players are definitely seeing an opportunity. This is notably the case of Cathie Wood of Ark Invest, who added \$1.4 million of GBTC to her hedge fund. It must be said that the risk-reward ratio is attractive. Not only is the price of bitcoin in an obvious trough, but this exposure allows for a potential additional profit of over 40% through the discounting of GBTC versus the NAV of the fund. This is the company's second major purchase of GBTC in as many weeks. Ark now holds nearly 6.357 million GBTC shares representing 0.4% of the firm's total investments.

This crypto winter isn't cooling El Salvador's President Nayib Bukele either. The country is finally taking a decisive step towards the realization of its ambitious "Bitcoin bonds" project. Economy Minister Maria Luisa Hayem Brevé presented a bill confirming the government's plan to raise \$1 billion and invest it in the construction of a "bitcoin city." Over the past 12 months, the project


has been delayed several times. It is now expected that the project will be inked by Christmas. It remains to be seen whether investors will be on board.

If you had funds on the Celsius platform, take note that a deadline is now in place to file your request as a creditor. This means that cheated investors have until January 3rd to submit proof of their frozen funds on the defunct crypto lending company.

Despite a rebound in the last 24 hours, the cryptocurrency market is recording another bearish week. The defensive positioning of the Rivemont Crypto Fund, with over 50% of assets in cash, will have mitigated the effect of this decline. Technically, the hope is that the quick rebound after bitcoin fell below \$16,000 can continue to form a "double bottom." It would need to close a day above \$17,300 for the full momentum of this bullish signal to be realized.

In any case, as the death of bitcoin begins to be heralded by some media outlets again, it is important to remember that this is not the 1st crisis in the industry. Each time, bitcoin has risen stronger. No one doubts at this point that 2022 will be a disastrous year for the mother of all cryptocurrencies. However, when you look at this data, at what point in the past did it seem wise to invest in the asset? As we said earlier, however, this evidence only stands in hindsight.

Bitcoin Returns: 2010 - 2022			
Year	Year Start	Year End	% Change
2010	0.003	0.30	9900%
2011	0.30	4.72	1473%
2012	4.72	13.51	186%
2013	13.5	758	5507%
2014	758	320	-58%
2015	320	430	35%
2016	430	968	125%
2017	968	13,860	1331%
2018	13,860	3,689	-73%
2019	3,689	7,184	95%
2020	7,184	28,775	301%
2021	28,775	47,902	66%
2022 YTD	47,902	16,630	-65%


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Rivemont Investments, manager of the Rivemont Crypto Fund.

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