Genesis Sales Project

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1.

Goals and DCG Review

The current state of DCG as it relates to this project

Project Goals

Genesis/DCG Ecosystem Analysis:

❑ Research Genesis's main verticals and how we could leverage the strengths of other companies in the DCG network for mutual gain

New Product Offerings:

❑ Determine how Genesis's and/or DCG's skill sets can be leveraged to create new financial products

Product Offering Marketability:

❑ Discuss which client segments would be attracted to these new products and why

❑ Address the associated risks

Identifying DCG Strengths

Genesis
- Largest institutional lending desk
- Largest derivatives desk

GRAYSCALE
- Trusts for ease of custody
- $13.34 B AUM

coindesk
- One of crypto's largest news outlets

TradeBlock
- API focused institutional trading
- Building out institutional platform

foundry
- One-stop shop for crypto mining
- Institutional access to staking

LUNO
- Large retail exchange
- Over 10 million users

2.

Call Overwriting for Clients

Simplifying options to generate yield

Overview of Call Overwriting

❑ Selling covered-calls is well accepted financial tool to generate return on investments while decreasing volatility
  ❑ Potential losses mitigated while potential gains capped
❑ Currently, this strategy is labor-intensive in crypto, as a client would need to manually sell new contracts each period
❑ DeFi options vaults trying to solve this, but likely not a great option for institutions
❑ Precedent in TradFi: All major indexes have multitudes of overwriting funds

Benefits of Genesis Overwriting Funds

For Clients:

❑ Generate yield on cryptocurrencies while still retaining long exposure

❑ Able to mitigate losses in times of downturns

❑ Lower volatility options for investing in crypto for new players

❑ Avenue for clients to open a relationship with the derivatives desk without large options knowledge

For Genesis:

❑ Many clients already sell calls to derivatives desk, but at sporadic intervals

❑ Aggregates many options orders into one trade , making the process of hedging far simpler

❑ Attracts new customers to the options desk due to its ease of use and lower volatility

Example Call Overwriting Returns Since January 2021

Assumptions: New contract each week, 25% OTM, $150 average price per contract

Returns over time period:

BTC: -34.5%

Overwriting: -8.2%

Additional Considerations

❑ Possible regulatory risk if this could be classified as an ETF

❑ One large trade may make it harder to swap underlying in order to hedge out of contract

❑ Complexities involved with closing out options positions each week and managing cash earned from premiums

3.

Cash Flow Financing

Allowing customers to use future cash flows as collateral

What is Cash-Flow Financing?

❑ Loaning money using the future predicted cash-flows of an entity as collateral

❑ Provides greater capital-efficiency for clients as there is technically no money locked-up

❑ However, future cash-flows are hard to predict, especially with cryptocurrencies

　　❑ Incorrect cash flow predictions may lead to quick firm losses

Market Opportunities Crypto

PoW Mining – Bitcoin

❑ Hashrate of BTC network is predictable

❑ As such, knowing hash rate of clients, their future BTC flows are predictable

❑ Can base loans off these future cash flows

❑ Equipment could possibly be additional collateral

Market Size:

328,500 BTC issued per year*

Currently worth ~$7.5 Billion

PoS Mining w/ Foundry - Ethereum

❑ Post-merge ETH staking rewards will be very predictable

❑ Clients may need to access immediate liquidity, but don't wish to sacrifice holdings

❑ Can base loans off future cash flows from staking and ETH can be additional collateral
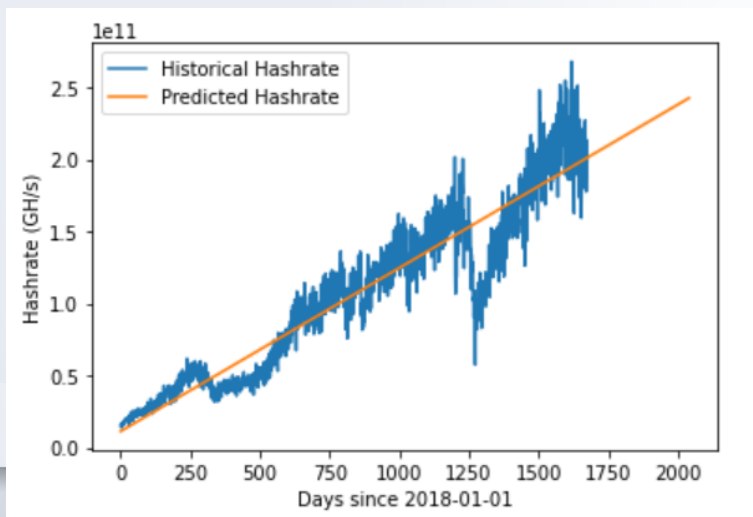
Market Size:

~600,000 ETH issued per year*

Currently worth ~$1 Billion

*until 2024

*post-merge estimate

Example PoW Loan Logistics for RiotBlockchain

❏ Riot needs access to liquidity to expand its operations

USD returns calculated w/ current value of BTC

Current Hashrate: 4.2 EH/s

```
----------------LOAN DETAILS----------------
Loan Period: 365 days / Interest Rate: 8.00%
Expected Average Hashrate: 221,912,227,496 GH/s
Expected Client Hashrate Dominance: 1.89%
Expected Client BTC Returns: 994.7717
Expected Client USD Returns: $21,884,977.02
Maximum Loan: $20,263,867.61
--------Genesis Expected Profit--------
$1,621,109.41
```

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Example PoS Loan: Working with Foundry

❑ A DAO has large ETH holdings in its Treasury and want to pay developers **$1.5 million USD** for a new feature

❑ **Problem:** They don't want to liquidate their position, but a traditional over-collateralized loan still requires repayment, effectively kicking the can down the road

❑ **Solution:** Genesis loans them **$1.5 mm** in return for **$40 mm** ETH being staked with Foundry and Genesis having claims to its rewards

❑ With current ETH staking rewards at 4%, this is effectively a self-repaying loan with an interest rate of 6.67% for 1-year

foundry

Associated Risks

❏   The "cash-flows" for these examples are in reality flows of crypto currency, so loans reliant on them have price exposure

    ❏   Possible solutions: Equipment/coins as additional collateral

❏   Supply shocks to mining or staking pools whether from staking/ mining supply or transaction volume

❏   Increased regulation of PoW mining operations

4.
Miner Case Study

Putting it all togther

A large mining client wishes to expand operations and as such want to better optimize their holdings. Currently they mine BTC and liquidate half immediately, using the other half for holdings/trading as they prefer to be long cryptocurrency. However, some of their investors are concerned with recent market volatility.

A Suite of
Solutions via Genesis

❑ Genesis provides an upfront loan allowing the mining company to expand operations with the promise of future cash flows

❑ Instead of simply holding 50% BTC, some block rewards are put into a Genesis overwriting strategy, allowing them long BTC exposure while quelling investors' volatility concerns

❑ All the rest is either liquidated via Genesis spot OTC trades or retained by the company, to their discretion

Mining Rewards Breakdown

20% of mining rewards are immediately liquidated to fund operations via Genesis spot OTC

20% of mining rewards are held by the company for trading or any other uses*

30% of mining rewards are put towards repaying a cash flow financed loan from Genesis used to upgrade their equipment

30% of mining rewards are placed in a Genesis overwriting strategy to create less volatile long exposure to BTC
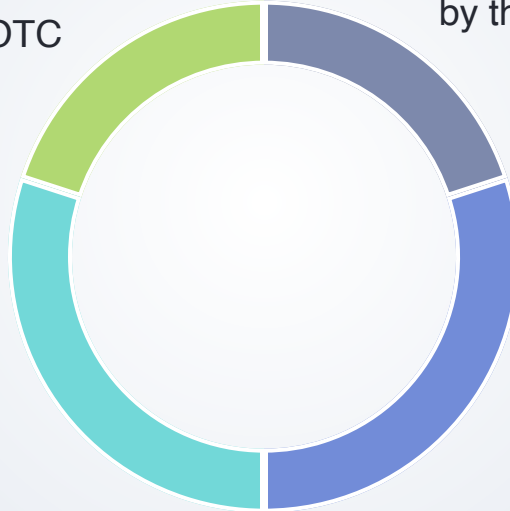
- Holdings
- Loan Repayment
- Overwriting Vault
- Liquidations

*can also be accessed for loan repayment

Questions?