



NAPOLEON

AM

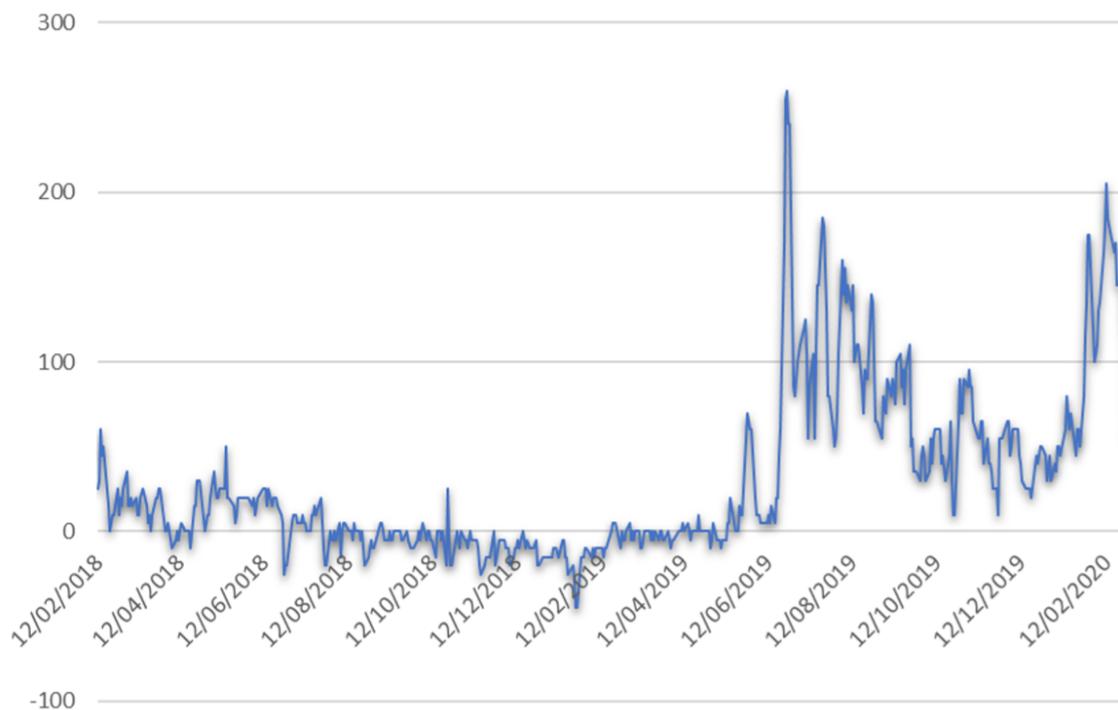
Newsletter. March 4th, 2020

NAPOLEON-AM.COM

February was bumpier with BTC.USD price being up 11% during the month to end down 8.5% at the end. This was expected at some point given the strong start of the year for BTC price. It is interesting to notice that decorrelation played its role during the month of February which was very bumpy for the equity markets as up and downs were not synchronized between these markets. We truly believe that should we enter in a longer protracted financial markets, crypto should be able to bring diversification and potentially strong performance this year.

We continued to monitor the spread between Futures contract as this is the main tracking error we are facing to replicate Bitcoin performance. Like the previous month spreads were relatively high and cost us on the monthly performance. However, they came down quite dramatically the very last day when most of managers had already rolled their positions (including us). We also saw selling pressure during the last 3 days prior the expiry as is usual and might be linked to non-directional strategies that aim to benefit from this spread.

2nd vs 1st month CME BTC Futures spread (USD)



After having looked at various ways to value BTC in the last Newsletter, we wanted to highlight a very rare phenomenon that has only happened 2 times since the BTC launch i.e. the halving that is anticipated for sometimes in May this year. This happens every 210,000 validated blocks. The time depends a little bit on supply / demand and remuneration for block validation.

Initial remuneration was 50 BTC for the validation of 1 block, that fell to 25 BTC in 2012 and has been 12.5 BTC since 2016. Starting from block #630,000, it will be 6.25 BTC. Why does it matter? Well, you have to understand that miners, the ones participating in the creation and security of the BTC blockchain need to deploy important calculation capacity (measured by the hash rate).

In order to win the right to mine a new block, these miners need to spend a lot of money buying machines (like GPUs but dedicated to mining), paying for data centre to operate them as well as electricity. All these costs are payable in fiat currencies mostly. That means that when they win BTC through mining, they will become natural sellers of these BTC to cover for their expenses. So, when block reward is halved, there will be 50% less new BTC hitting the market, so selling pressure will be halved, hence price should go up, basic supply and demand. Moreover, as the production cost of 1 BTC will not go down, these actors need the price to go up to remain in business.

This strong up price action has been observed during the last 2 halvings. Of course, as markets are anticipating, they do not happen right the halving day. Usually the phenomenon lasts for a few months starting a little bit before and lasting several months after, ending up usually in a blow off top. So, there is a high probability that it will happen again this time. At the time of this coming halving, 18.375 million BTC will have been produced out of 21.0 million that will ever be produced. It is anticipated that these halvings will occur every 4 years until 2140.

The BTC protocol has really been designed to create scarcity by construction. This looks like the production of precious metal where scarcity is the reason why they are precious and valuable. Whether BTC will become valuable and stable over time is another story and only time will tell. But in a world where financial markets could fall apart on the back of over leverage and earnings cratering due to an external shock, maybe it is time to start thinking about diversification with scarce assets that are linked to an emerging technology.

About Napoleon AM

Napoleon AM aims to support institutional and professional investors in their search for portfolio diversification thanks to its expertise in quantitative management, blockchain and digital assets.

Napoleon AM is a management company regulated by the AMF, registered under number GP-19000015. Its registered office is located at 59 rue Montmartre, 75002 Paris (France). It is a member of Napoleon Group, a French fintech based in Paris. It was founded in 2019 by Arnaud DARTOIS (PhD), Jean-Charles DUDEK and Stéphane IFRAH. The company is amongst the first to offer regulated crypto-asset investments for professional clients and has developed a quantitative trading expertise, especially on the most liquid crypto-assets (BTC, ETH, EOS, LTC, BNB, BCH and XRP) via funds or mandates.

Napoleon AM has been **recently awarded AM Tech leader 2019** by Agefi.

Napoleon AM Contact

www.napoleon-am.com

Jean Charles DUDEK

59 Rue Montmartre, 75002

jean-charles@napoleon-am.com

Paris Asset Management registration number
GP-19000015

+33 (0) 9 72 58 22 21

Disclaimer

This newsletter has been prepared by a member of Napoleon AM solely for the benefit and internal use of its addressees. Napoleon AM is an asset management company (AIFM Status) which AMF registration number is GP19000015. This document does therefore not carry the right of publication or disclosure, in whole or in part to any third party not being a direct addressee of this document. Any information in this newsletter, except available from the public domain, is to be deemed as strictly confidential unless otherwise confirmed in writing or by email from competent representatives of Napoleon AM.

For the avoidance of doubt, this material, issued and prepared by Napoleon AM, is produced for information purposes only and does not constitute:

1. *an offer to sell nor a solicitation to buy, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or*
2. *any investment advice.*

Neither this presentation nor any of its contents may be disclosed, passed on or used for any other purpose than that it has been prepared for without the prior consent, which necessarily must be either in writing or as email by competent representatives of Napoleon AM.

If you are not an intended addressee of this presentation, you are hereby notified that any use, distribution or copying of this presentation in part or in whole or taking any action based on it, is strictly prohibited by law and may cause liability and / or other significant consequences. If you received this presentation due to an error or by mistake, please return it immediately or destroy it.

