



NAPOLEON

AM

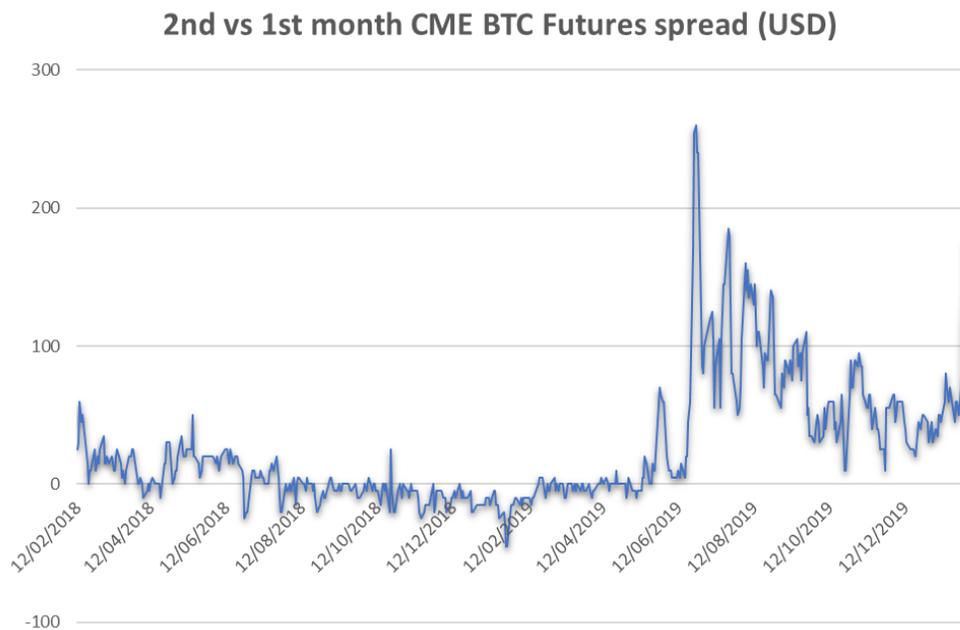
Newsletter. February 5th, 2020

NAPOLEON-AM.COM

What a start for BTC price during January: +30% over the month!

In this context, our **Napoleon Bitcoin Fund generated a +28.25% performance** on its A share over the first month of 2020. We saw some interest on the fund as the market is awakening to the potential of this asset class vs the other financial instruments. Because of the Coronavirus outbreak, financial markets were a little more chaotic over the month, even though Central Banks are still in command.

With the sharp rise in BTC prices over the month, **we also witnessed tension in the cost of rolling BTC Future position**, in line with last June phenomenon. This would tend to demonstrate that large investors are piling in through the use of Future during the start of the year. They might be anticipating the halving that is due for May this year and which has been very supportive the last time they occurred (2012 and 2016). Comparable volumes were 2.5x higher this January vs January 2019, which bodes well for the year.



A lot of BTC haters are arguing that BTC are worthless as there are not backed by a central authority. But we dare to differ here. To help understand how one could price a BTC, we have gathered a few valuation methodologies that are popular and that make some financial sense:

Velocity model: this methodology is based on the analogy of Bitcoin and a traditional currency. A currency should be governed by the equation $MV = PQ$, where M is the total "market cap", V represents the Velocity of money, and PQ the total value of transactions. For the BTC market, which is still in its infancy, there are some difficulties to evaluate the velocity and the total value of the transactions, since a large part of the transactions are linked to trading as opposed to payments.

Stock to Flow model: this is certainly the most accurate and easy to understand methodology to try to value BTC. This methodology is based on the analogy with precious metal which are scarce assets and difficult to extract. Given the limited number of BTC, 21 million, and the mining protocol that is easy to anticipate (by design), this asset really behaves like a precious metal. Over 2010-2020 period, the fit between the model and the actual price has been pretty good with a R-squared statistic test over 90%. And by the way, this model anticipates a sharp acceleration in price around the halving.

Network value: this methodology is based on the value of a network once it is built. Indeed, it was puzzling when social networks emerged, including Facebook, that were valued in billions USD while making no revenues at the time. The business became profitable years after thanks to the size of the network. This could also be a way to approach BTC valuation, even though putting number in front of this network could be challenging. What is interesting is the constant progression of active BTC wallets, at more than 40 million currently. This has so far followed an exponential pattern.

Cost of production: one can look at a BTC as a good produced. It is generally produced in data center type of facilities where miners gather resources in the form of GPU that need to be powered by electricity in a clean and controlled environment. Miners are true industrial actors and need to generate a profit to keep operating. It is currently estimated that the cost of production of one BTC is around 5,000 to 6,000 USD. This cost needs to cover the acquisition cost of GPU, the cost of electricity and the cost to build and operate the facilities. They do not cover the margin of these operators that face huge risks such as the obsolescence of their GPU and the volatility of the produced BTC. The remuneration will almost halved in May this year with the upcoming halving. This also advocates for a bull pattern on the BTC price this year.

To sum up, there are various ways to try to assess how much a BTC is worth. However, the true value will be achieved if the associated blockchain become more popular amongst economic actors. The rise of the blockchain technology has been steady and accelerating and it is praised by numerous actors as a new revolution at the same level as the internet revolution.

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 Paris

Jean-charles@napoleon-am.com

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.

