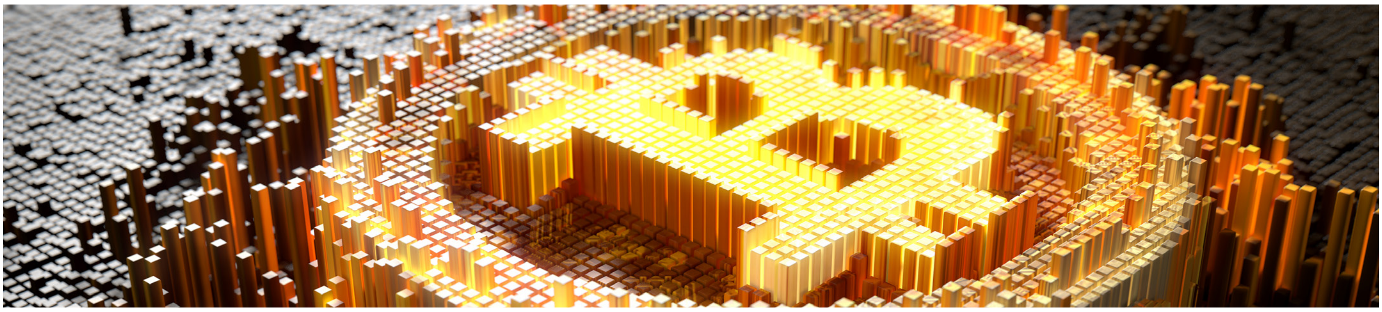
FALCON



About Bitcoin

Summary

- Bitcoin is the largest cryptocurrency in terms of market capitalisation
- It was created in 2009 and is one of the earliest cryptocurrencies born out of the blockchain technology
- Blockchain technology can be used to transact any type of payment between parties

What is Bitcoin and how does Blockchain work?

One way to think about Bitcoin is as one of the assets in the class of blockchain assets, just as gold is one of the precious metals. Blockchain technologies use securely encrypted blocks of data, stored in an open, distributed ledger. The ledger is replicated across a large public network, and the consensus of the network's nodes ensures the veracity of the data. The ledger can record transactions between two parties efficiently and in a verifiable and permanent manner. This distributed database maintains a continuously growing list of ordered records called 'blocks'. Each block contains a time-stamp and a link to a previous block. As a result, by design, data on the blockchain are effectively impossible to modify once recorded. Through the use of a peer-to-peer network, a blockchain database is managed autonomously.

The result is of major consequence to almost every aspect of the world economy. Blockchain can be used to transact any type of payment between parties, store music and other intellectual property, record titles to real property, keep financial records, set up automated payments for rent, utility payments, interest on bonds and a whole array of transactions that are now required to go through the banking system. Blockchain technologies allow parties to transact directly with one another in a trusted manner, eliminating the need for financial intermediaries. It results in much greater efficiency, reduced cost, and a much lower risk of fraud. The first blockchain database was devised by a person or group operating under the pseudonym Satoshi Nakamoto in 2008 and implemented the following year as a core component of the digital currency, which became known as Bitcoin, where it serves as the public ledger for all transactions.

Bitcoin is one of the earliest cryptocurrencies created on the blockchain and it is currently the largest by capitalisation. There are many more in existence, and yet more to follow. Like with other assets, cryptocurrencies will compete to become the most widely accepted medium of payment, exchange and store of value. Over time, we expect the depth and breadth of exchangeability of cryptocurrencies to widen so that they become a widely accepted medium of exchange.

Merits of investing in Bitcoin

Diversification: Bitcoin exhibits a low correlation with most other investment products and thus provides portfolio diversification benefits. The idea that Bitcoin is an asset class was popularised already in 2013. As market capitalisation grows, this becomes an increasingly legitimate approach to investing in blockchain assets. Bitcoin is an anti-inflationary store of value due to its finite supply: the maximum amount of Bitcoins that will ever be created is limited to 21 mn, as encoded in the Bitcoin protocol. In this regard, Bitcoin has characteristics similar to gold, leading to the popular label 'digital gold'. Bitcoin's favourable supply/demand dynamics support long-term price appreciation.

Flight to safety: in times of political uncertainty or economic turmoil, Bitcoin's independence from central banks' control makes it an attractive target for capital flight. Trust in the asset is underpinned by the Bitcoin protocol's transparent, neutral, predictable and cryptographically secure nature. Growth potential: as blockchain assets are still in the very early stages of widespread adoption, the potential for significant growth remains. The technology is still not widely understood and

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Falcon Private Bank Ltd. Pelikanstrasse 37 P.O. Box 1376 8021 Zurich Switzerland +41 44 227 55 55 falconprivatebank.com

used, the potential for businesses to be built on the Bitcoin open source code and for the growth of the Bitcoin economy is still largely unexploited, and fund flows into the asset from large investor groups have not happened yet. All this suggests that a lot of the growth is still ahead and predictions of extraordinary future price appreciation abound.

Pent-up demand: direct investment in Bitcoin has required a degree of technological expertise, and involves taking a risk on newly established entities for settlement and safekeeping. This has kept many investors from engaging, as demonstrated by the strong demand for indirect investment vehicles. Bitcoin trusts and certificates have consistently traded at premia to NAV, some trading as high as more than double the NAV. Certificates issued have seen multiple increases to the issue size. This all points to significant as yet untapped demand for the asset.

Risks of investing in Bitcoin

High volatility: as cryptocurrencies are still in the early stages of adoption, the number of users is relatively low and the market relatively illiquid, resulting in high volatility. Larger orders can lead to dramatic price moves without any change in the underlying fundamentals. As the views about the future of Bitcoin are based on a few important assumptions (such as the robustness of the technology, or the increasing mainstream acceptance of Bitcoin), if there is any concern that these assumptions may not hold, this can result in very sharp price corrections.

Regulatory risk: if the government of a large economy bans its citizens from holding Bitcoin, this would have a significant negative effect on the price. This would be especially true for a ban by the Chinese government, as a very large portion of Bitcoin trading is currently occurring in China. Other (supportive or unfavourable) regulatory announcements can also lead to significant volatility.

Ongoing development: the Bitcoin technology is still in the process of maturing. As the community of developers is seeking to make improvements to the code, certain technological risks remain. As the implementation of new features requires consensus, disagreements among developers can also create uncertainty and cause volatility.