

Twitter Thread by Ellie Frost ❄️■



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1/ Who are the investors in GBTC?

Why is there a premium?

And what is the sweet trade they're taking advantage of?

A thread ■

2/ Grayscale's Bitcoin Trust made headlines again with their record 1-day addition of 16,244 Bitcoin, adding to their stack of over 630,000 Bitcoin and an AUM of ~\$23B. Evidently business is good...So who are their investors? And is GBTC's premium an incentive or disincentive?

3/ What is the Grayscale Bitcoin Trust (GBTC)? Grayscale owns BTC in the trust & investors buy shares to represent a # of BTC. There's a 2%/yr fee + a "premium." The premium is the diff. btwn underlying BTC value (Native Asset Value or "NAV") vs. mkt price of holdings (what shares cost)

4/ There are 2 layers of investors. There are the base layer investors - accredited investors selected to buy into the private placement of the fund at the "NAV" price aka the price of the underlying BTC value

5/ They can send USD or Bitcoin and receive a # of shares equivalent to the BTC value (0.00094919 BTC/share). One catch is its 1 way - Once you put BTC into the trust, it can't be redeemed. Investors can sell their shares, but the BTC will remain in the trust and off the market

* Grayscale Bitcoin Trust does not currently operate a redemption program and may halt creations from time to time. There can be no assurance that the value of the shares will approximate the value of the Bitcoin held by the Trust and the shares may trade at a substantial premium over or discount to the value of the Trust's Bitcoin. The Trust may, but will not be required to, seek regulatory approval to operate a redemption program.

6/ Base layer investors have a 6 mth lockup b4 they can sell shares in the open mkt to the 2nd layer of investors. These 2nd investors must pay a higher, mkt price for the shares. Again, the "premium" is the diff. btwn price of open market shares vs.

underlying BTC priced shares

7/ The largest investor is Three Arrows Capital, which recently increased a \$259M position to \$1.4B (~6% holding in the trust). They are one of the investors taking advantage of the trade by getting in as a private placement at the base layer of the fund

8/ By investing at NAV, at base layer, their shares are locked for 6 mths but they then sell the shares at the higher mkt price, locking in the premium. The premium historically stays ~20%, but can ■■■ in a bull mkt where demand for shares is high (in Dec., it was +40%)

9/ Another investor doing this? Blockfi (~5% shares in the trust). Blockfi will give you 6% return when you lend them BTC, b/c they can then lend your BTC to those like GBTC. In this case, they lend Grayscale the BTC and get in on the fund where they take advantage of the premium

10/ For those 2nd layer investors who buy shares in open mkt, the premium is a magnifying risk. If BTC dips hard then losses deepen b/c you have the NAV (price of BTC) drop AND a drop in the premium you bought. Likewise, if you buy b4 a bull mkt/premium pump, your gains are greater

11/ Why the premium? It's the mkt gap btwn supply/demand. Demand for shares > supply b/c new shares are continuously created, but delayed by the 6 mth lockup. Conversely, ETFs keep premiums in check b/c new shares can be created but have no lockup/trade now, arbitraging premiums away

12/ Why do smaller, 2nd investors accept GBTC premium risk vs. a pure BTC buy? 1) You can buy it easily w/ your traditional brokerage acct 2) You avoid self custody 3) Tax advantages, its IRA eligible 4) If you think there's a bull run soon you take advantage of the premium pump

13/ Accredited investors obviously have a strong incentive w/ the premium to enter the private placement, but it's more than that. For some institutional investors GBTC is one of the few ways they can gain BTC exposure

14/ Many investment funds have governing charters restricting direct crypto investment and/or they don't want to custody BTC. But everyone is able to invest in publicly traded assets, like GBTC, so they get the best of both worlds. Internal regulations allow it & they avoid custody

15/ This won't last <https://t.co/iY4DKjIHuh> the mkt matures & there are more options to trade BTC on a public mkt (BTCETF), there will be fewer 2nd investors willing to pay the premium and it will drop to meet lower demand. Then, GBTC will lower the 2% mgmt fee & try to convert to an ETF

16/ TL;DR: The GBTC premium occurs on the 2nd market and provides a very attractive trade for those accredited investors able to join the private placement and invest at Bitcoin's NAV at the fund's base level. However, this premium will begin to disappear as the market matures

<https://t.co/0EAQeZkcPg>

With Record Bitcoin Buys, How Are Grayscale's Investors Doing?

"@Grayscale's Bitcoin Trust (GBTC) made headlines again yesterday with its record one-day addition of 16,244 bitcoin, adding to its stack of over 630,000 bitcoin"

Written by @BlockBytch, <https://t.co/zVdc6nAx7x> pic.twitter.com/KmmNoGeks1

— Bitcoin Magazine (@BitcoinMagazine) [January 19, 2021](#)