

# Physical Bitcoin ETFs have launched, but what happens when evolution gets the better of a pioneer?

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Once a pioneer as a regulated closed-end fund providing access to bitcoin, the US based Grayscale Bitcoin Trust (GBTC) is seeing its grip on the bitcoin fund market slip away. At its height, the fund oversaw 43.6bn1 in assets under management but the advent of physical bitcoin exchange-traded products (ETPs), listed in Europe in 2019, was the first step in a series of events that now has investors seeking the exit door. The latest event, the launch of spot bitcoin exchange-traded funds (ETFs) in the US, has changed the entire bitcoin investment landscape, where the name of the game is low-cost physical exposure.

After a 10-year process, physical bitcoin ETFs launched in the US. Following the lead from European physical bitcoin ETPs, launched in 2019, US investors are now able to access physical bitcoin via ETFs, without the complexities of managing private keys or dealing with cryptocurrency exchanges. What is now being taken for granted was once a differentiating point for Grayscale's proposition.

## Challenges with the closed-end structure

The ETP wrapper provides investors with a more transparent and efficient investment vehicle than closed-end funds. The launch of bitcoin ETPs, in Europe, virtually eliminated one of the big issues US investors were experiencing with the Grayscale closed-end structure: wide pricing discrepancies at which investors could invest in or exit (premiums and discounts) versus its net asset value (NAV). Unlike closed-end funds, ETFs and ETPs trade on an exchange throughout the day at prices closely tracking the fair value of the underlying assets. ETPs showed that there may be a better way to do things.

Another issue, as widely reported, was that investors could buy shares of GBTC on the secondary market, but the process of redeeming shares was initially subject to a lock-up period. Typically, these lock-up periods lasted for six months, during which investors couldn't redeem their shares. Ultimately, this redemption program had to be halted.

As a function of the closed-end structure, when investor demand was high, it usually led to a premium as the market price outpaced the NAV. Conversely, during periods of lower demand or increased selling pressure, discounts emerged, signalling that investors are willing to sell their shares at prices lower than the underlying Bitcoin's NAV. This resulted in notable disparities in performance between the trust's shares and the underlying asset it was intended to mirror. As depicted in Figure 1 below, there were instances

where the premium exceeded 100% in 2017, while the discount approached 50% towards the end of 2022 and early 2023.

In effect, many investors were stuck in the fund for the last two years as the only way to come out would be to sell at a large discount. In other words, they would be selling each of the Bitcoin they owned through the Trust at half its market value.

*Source: WisdomTree, Bloomberg. From May 2015 to December 2023. Historical performance is not an indication of future performance and any investments may go down in value.*

## **US physical bitcoin ETFs change the market dynamics**

The approval of US-listed physical bitcoin ETFs on 10 January 2024, signalled a changing of the guard. On 11 January, GBTC became an ETF, with a reduced management fee of 1.5% (down from the 2% it previously charged as a closed-end fund). The listing took place alongside bitcoin ETFs from 10 other issuers, including WisdomTree. The move, in effect, freed GBTC investors to exit at “real” market price.

The launch of US-listed bitcoin ETFs has ushered in a fee environment unlike anything we’ve seen before. Several providers opted to waive fees for initial investors for a limited time and offer low long-term fees. Only one of the US-listed bitcoin ETFs has experienced net outflows since launch and they stand at \$5.45bn<sup>2</sup>. The combination of high fees and previous structural inefficiencies could potentially be the contributing factors driving the outflows of this specific ETF.

## **What does it mean for European Investors?**

In Europe, investors have had access to physically backed institutional-grade bitcoin ETPs since 2019. European ETPs are passported for distribution across many European countries and listed in major regulated European exchanges. While European investors may face hurdles, such as regulatory complexities, limited distribution channels, and tax implications when attempting to access US-listed ETFs, European ETPs, unlike US-listed alternatives, allow for in-kind creation/redemption. This creates a more robust trading infrastructure that allows for T+0 settlement, higher security (as there is no need to link hot wallets), and potentially narrower spreads as there is no risk of slippage costs.

The [WisdomTree Physical Bitcoin ETP](#) with a management expense ratio (MER) of 0.35% is a lower cost option to some of the other alternatives. In fact, the [WisdomTree Physical Bitcoin ETP](#) is now the lowest cost physically backed bitcoin ETP in Europe that doesn’t participate in crypto lending.

Investors in Europe have an established market to access, and a wide variety of exposures listed on major regulated exchanges ranging from single coins to baskets. WisdomTree was the first established ETP issuer to bring European investors access to bitcoin in 2019.

Physically backed crypto ETPs provide investors with a simple, secure and low-cost way to gain exposure to a range of cryptocurrencies. The ETPs allow investors to access crypto without the need to hold cryptocurrencies directly, store private access keys or interact with the blockchain or digital currency

infrastructure in any way. Investors also receive access to institutional-grade storage solutions without needing to set it up with a custodian or maintain a digital wallet themselves.

WisdomTree's crypto ETP range taps into its tradition of innovation and leverages the firm's deep expertise in physically backed ETPs, gained from 20 years of experience providing and managing physical gold ETPs. Pioneers pave the way for others to follow but investors' needs evolve. WisdomTree remains committed and well positioned to support investors on their journey through crypto and the future of finance.

1 Source: Bloomberg. As of 9 November 2021.

2 Source: Bloomberg. As of 30 January 2024.

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