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NB PRIVATE WEALTH

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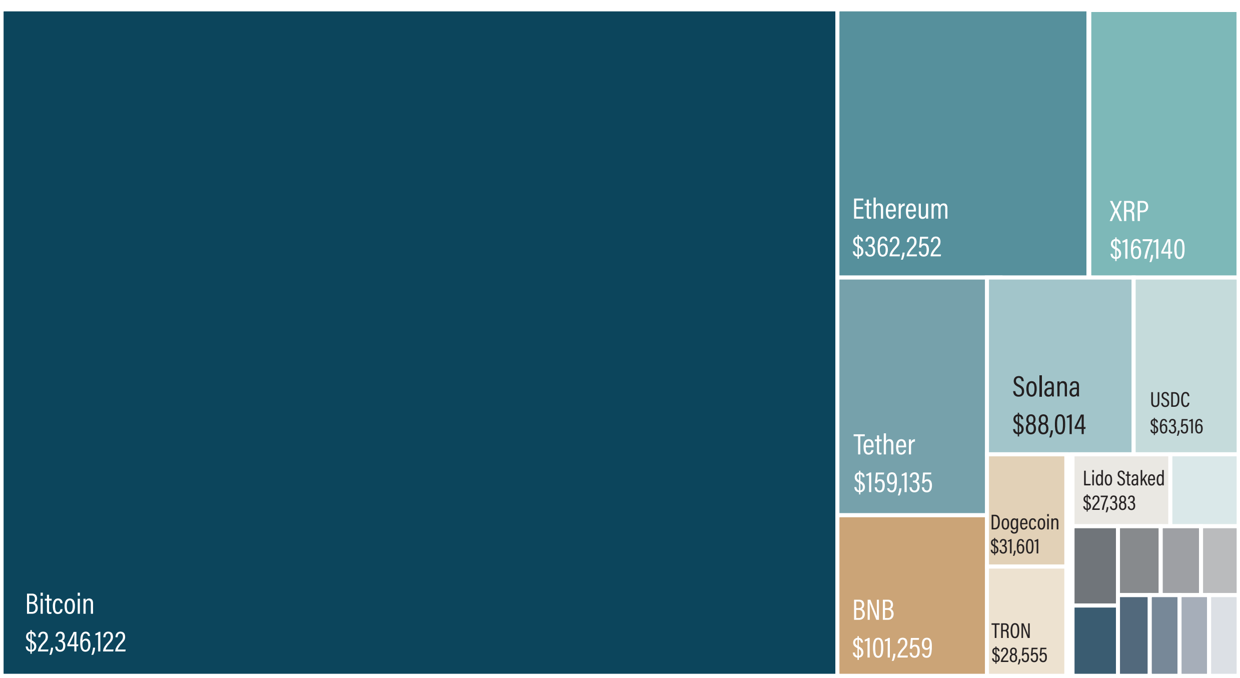
Sizing Up Cryptocurrency

Investors often wrestle with how to fit Bitcoin into portfolios; we share some ideas.

The cryptocurrency universe continues to evolve and grow by leaps and bounds. While once Bitcoin was the only major player on the block(chain), it has been joined by myriad products with various characteristics that are part of the growing category of digital assets. How is the current landscape shaping up, what might be the path forward, and what should investors consider if interested in dipping their toe in the water? We offer some high-level thoughts.

TOP 20 CRYPTOCURRENCIES BY MARKET CAPITALIZATION
($ Millions)



Source: CoinGecko. As of June 30, 2025. Represents actively managed open-end U.S. domiciled funds. Performance is based on funds' oldest share class. Quartile rank is based on the annualized 10-year returns. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

The Current Landscape

As we see it, the cryptocurrency universe includes three foundational constructs, all of which are likely to serve unique functions in the years ahead.

The first is the **digital asset** (such as Bitcoin), which operates as a store of value that, unlike a traditional "fiat" currency, is free from the influence of monetary authorities like the Federal Reserve. Only a finite amount of Bitcoin will be issued over time, with limited new issuance provided to "miners" who verify transactions on the digital ledger known as blockchain, thus potentially limiting the devaluation often associated with fiat currencies. In our view, Bitcoin should represent the cornerstone of any cryptocurrency investment strategy.

In contrast, the Ethereum platform looks to facilitate peer-to-peer **digital "smart" contracts** and applications built within blockchain to individual specifications. Rather than set a finite limit on issuance, supply of the "Ether" cryptocurrency is managed by balancing minting (or creation of new tokens) with "burning" (or deletion) of existing tokens.

Finally, **stable coins** provide a "time deposit" (like a CD) that is linked to the value of a hard currency. Stable coins including Tether's USTD and Circle's USD Coin (USDC) allow investors to keep their money in digital form while maintaining parity with the U.S. dollar. Investors can move into, out of or between these digital assets without going to a bank or broker. While USTD's global, less-regulated structure has many adherents, we believe that other stable coins, including USDC and Circle's euro coin (EURC), should gain traction, with increased acceptance by regulators and financial providers, as more investors move into the digital economy.

Key Terms

Cryptocurrency is digital currency secured by encryption and operating on a decentralized system.

Blockchain is the technology used to record cryptocurrency transactions and issue new units without the need for a bank or government.

Bitcoin is by far the largest cryptocurrency; it is designed for investment and to serve as a store of value.

Ethereum is a cryptocurrency platform that facilitates smart contracts and applications.

Stable coins are digital assets linked to hard currencies such as the U.S. dollar or euro.

Evolution

How things evolve in 2025 and beyond remains uncertain. Broad blockchain technology adoption across public and private markets may lead to a relatively independent digital asset ecosystem, with a spectrum of securities and investment exposures offering unique payoffs compared to other asset classes. However, the enthusiasm of investors regarding these assets may for a time be overshadowed by the lure of artificial intelligence, given its more obvious potential implications for corporate profits.

We believe the blockchain technology that enables cryptocurrency will likely become the backbone of public and private digital financial ecosystems—most importantly for contractual obligations and digital transactions. Specifically, blockchain and digital assets could serve as a global digital "patent/copyright office," helping to protect and reward those who create original content from AI bots that constantly scrape the internet to train and upgrade AI systems. The vast amounts of information and resources required for this purpose are unlikely to remain free on the internet for much longer.

Assessing Diversification Benefits

Clearly, the growth of cryptocurrency seems likely, with its continued integration into mainstream finance and the growing popularity amid increased economic, trade and market turbulence. But, more basically, should investors consider adding cryptocurrency to diversified portfolios and, if so, in what proportion?

A first step in considering this question is meaningful reflection, and an assessment of whether a volatile asset is appropriate for you and what you are trying to achieve for your portfolio. More technically, asset allocators have typically based their recommendations on traditional risk/return and drawdown analyses of Bitcoin's performance. Where a given investor has shown interest in such exposure, this has resulted in a growing industry consensus of allocating 1 – 2% of portfolio assets to Bitcoin.

At that level, assuming that Bitcoin continued its ascent (following back-to-back 100%+ return years), its inclusion could provide diversified investors a modest bump in overall portfolio returns. In large part, we think this would be due to Bitcoin's (as noted) constrained long-term issuance, increased regulatory acceptance and broadening investor ownership. Conversely, if Bitcoin proved to be a failed experiment, then a worst-case scenario given this allocation would leave investors with a 1 – 2% loss of portfolio assets—the equivalent of a tough trading day on Wall Street.

On balance, we believe the logic behind a relatively conservative allocation is sound, but it may prove incomplete given the broader array of digital investment products that are now available.

In practice, the diversification benefits apparent in a traditional portfolio construction analysis are largely a function of Bitcoin's meteoric price gains coupled with its outsized volatility. Statistically, it is almost impossible for an asset to have the extreme price volatility and strong gains that Bitcoin has achieved and not be a "diversifier" for traditional portfolios. Going a step further, digital assets are often highly correlated with technology exposures—particularly to the downside.

In our view, there could be a time when historical cryptocurrency performance becomes representative of its future. However, at present, we believe there's not enough data to make that call, and so it should not be the basis for allocation decisions—except, arguably, when it comes to the persistent volatility of the asset class.

Some Ways to Invest

Individual investors have multiple ways to gain exposure to cryptocurrency. Here are a handful:

DIRECT PURCHASE
Buying cryptocurrencies through a crypto exchange

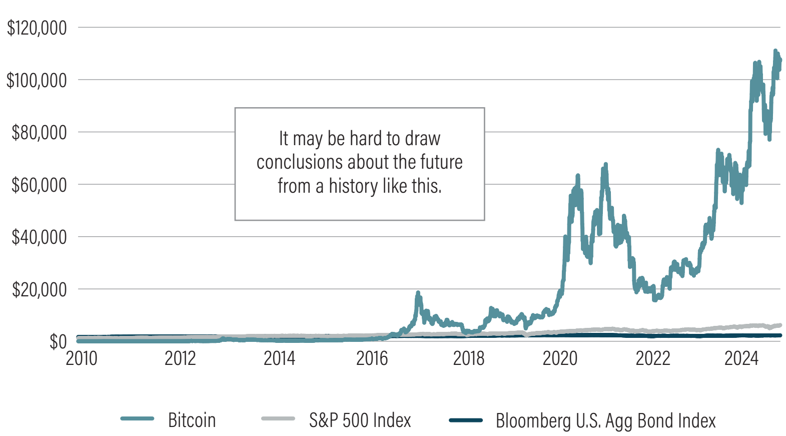
EXCHANGE-TRADED FUNDS AND MUTUAL FUNDS
Investing in pooled vehicles that track cryptocurrency prices or hold crypto-related assets

STOCKS
Investing in companies involved in the cryptocurrency industry, whether directly or through a portfolio strategy

FUTURES AND OPTIONS
Using financial derivatives linked to cryptocurrency prices or volatility without owning the underlying assets

BITCOIN'S PERFORMANCE: THE SAMPLE IS LIMITED

Daily Price (November 2010 – June 2025)



Source: Bloomberg. Data through June 30, 2025.

Right-Sizing the Opportunity

One way to look at cryptocurrencies is to compare them to another volatile asset category: venture capital startups. Estimates of the failure rate in venture capital vary greatly, but we believe it sits between 75% and 90% of companies, with a Fortune article identifying the top reason startups fail as making "products no one wants."[1] If we view Bitcoin and cryptocurrency through the lens of venture funding, the discussion of sizing allocations to cryptocurrency can be less dependent on statistics and focus on what we see as its key investment merits: useful products/services and diversified implementation, ideally facilitated by quality investment partners.

Given the likely continued venture capital-like characteristics of digital assets over the next few years, it may be worthwhile to tie initial digital asset investments to the equivalent of a single year of portfolio income—something less than 5%, informed by individual goals, risk tolerance and time horizon. An allocation of this size could allow investors to meaningfully participate in the growth and development of the digital asset economy and the expansion of artificial intelligence tokenization while limiting the risk of significantly impairing portfolio return potential during periods of elevated volatility.

Importantly, digital assets are replete with unique risks that require investor attention and thoughtful portfolio construction. Price volatility levels and drawdown risks are material, adoption by traditional financial firms remains limited, regulator plans are uncertain and blockchain security varies across platforms. From an investment perspective, each of these challenges may be addressed through modern portfolio techniques, including sizing, diversification, active management and hedging. However, substantially reducing or eliminating the risks that accompany digital asset investing would lead to a significant erosion of return potential. Risk management in traditional financial markets is not "free," and that's true for digital assets as well. And in practice, the latter is generally more expensive given the levels of uncertainty.

Conclusion: Aligning With Individual Needs

Despite their relatively new arrival to the capital markets, digital assets are becoming increasingly prominent in the financial world, and may merit study as to how they could become part of your investment portfolio. For those who are intrigued by digital assets, we believe a first step should be consultation with your NB Private Wealth team to assess whether they fit particular needs and goals. Building out diversified exposure may extend from there.

[1] Griffin, Erin, "Why startups fail, according to their founders," *Fortune,* September 25, 2014.

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