

Presentation to:



Preparing for the Crypto Era

January 11, 2022

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Investing involves risk, including possible loss of principal. An investor should consider investment objectives, risks, charges and expenses carefully before investing.

Bill Ullman

Financial Services and FinTech professional for 30 years - investment banker, investment manager, FinTech exec and advisor, Board Member and entrepreneur...and part time podcaster...



**Water Street
Advisors LLC**



Agenda

Crypto Update and Review:

Bitcoin Review

Prices, News, Trends

Regulatory Environment

Independent School Use Cases

Endowment Portfolio

Annual Giving

Education

Moving Forward / Getting Started

Risks

**Q & A with Sarah Walton, Director of
Development, The Calvert School
(MD)**

Let's start with Bitcoin...what is it?



First mentioned in 2008 in white paper by Satoshi Nakamoto

A system and currency for “trustless” digital payments

- No central authority
- Purely digital existence
- Transactions recorded / verified on a “distributed ledger” - so called “blockchain” technology
- Bitcoins are are “mined” by computer programmers that solve equations to create coins

Bitcoin - continued



Some Key Features of Bitcoin:

Limited supply: 21 million total Bitcoin of which about 19 million in circulation today

Held in “**wallets**” (online) or in “**cold storage**” (eg., offline on a memory stick)

Traded on exchanges (exchanges can also be wallets) eg., Coinbase, Gemini

“**Digital gold**” (store of value) **AND** a “**currency**” (you can buy things with it)

Value determined by the market - forces of supply and demand; it can be volatile!

Crypto Dominating Recent Financial News

**Bitcoin Climbs to Record High
After Futures-Based ETF Debut**

**US Claims Bitcoin Mining Crown Following China
Crackdown**

**DraftKings Co-Founder Matt Kalish Explains Why the Betting
Site Is Serious About NFTs**

**Proposed Bank Jewel Wants to Become a Global
Stablecoin Issuer, With Bermuda's OK**

**Regulators Racing Toward First Major
Rules on Cryptocurrency**

News and Trends

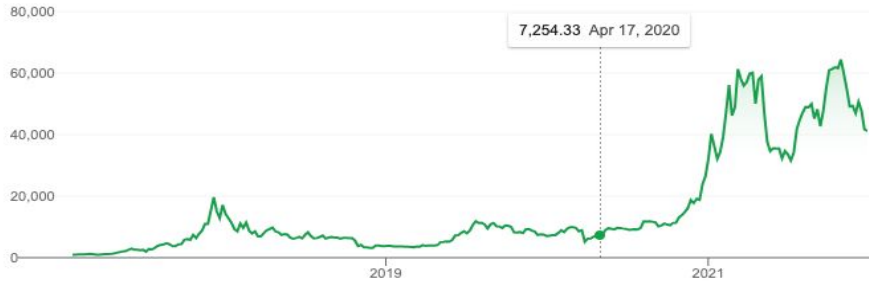
Market Summary > Bitcoin

41,206.10 USD

+40,281.04 (4,354.42%) ↑ past 5 years

Jan 10, 6:10 PM UTC · [Disclaimer](#)

1D | 5D | 1M | 6M | YTD | 1Y | **5Y** | Max



Prices up substantially over last 5 years; Bitcoin ↓ 30% from record highs; >\$2.5 trillion of crypto outstanding!

Global expansion and reach of crypto continues:

- Bitcoin declared official currency in El Salvador
- First licensed “crypto bank” in Bermuda announced (Jewel)

NFTs gaining momentum - over \$15 billion traded since 2017

First futures based Bitcoin Exchange Traded Fund (ETF) launched on the NYSE - over \$570 million of assets raised on first day

Regulatory Environment: Discussion Without Clarity



Multiple Regulators: IRS, SEC, FINRA, CFTC, the Fed, US Treasury, State Banking Depts.

Is a crypto-asset a “security” or a “commodity” or something else?

SEC in public argument with Coinbase CEO over interest earning products - no resolution!

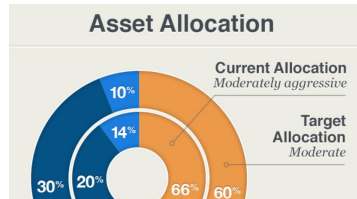
Independent School Use Cases For Crypto

Endowment

- Objectives and Allocation (%)
- Ways to Invest
- Risk Recognition

Annual Giving

- Mechanism to Accept
- Conversion to USD



Education

- Not just coding instruction
- Economics, math, history

Crypto and Endowments – A Discussion Framework

Allocation and Allocation Amount

Procedures of Investment Committee

Use of outside advisor(s)

Determine percentage allocation

Following in footsteps of Harvard, Yale, Brown and University of Michigan (source: CoinDesk)

Investment Strategy

- 1) Crypto Funds - currencies and tokens
- 2) Blockchain and Crypto Ecosystem Funds - VC / PE
- 3) Direct Investment into Crypto

Issues to Consider

- 1) Fees and Expenses
- 2) Ease, Time Consumption and Reporting Requirements
- 3) Liquidity, Volatility and Other Risks

Accepting Crypto for Annual Giving

- Likely already accept appreciated stock, bonds, art as gifts
- Need account to accept donations in crypto (eventually NFTs?)
- Reporting tax deductible amount (asset volatility) and integration with School's books and records
- Depending on the crypto asset, guidelines around converting to USD immediately, holding period or staged sale

It's Already Happening...

CALVERT SCHOOL

ABOUT US

ADMISSIONS

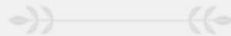
COMMUNITY

ACADEMICS

ATHLETICS

GIVING

Calvert School Now Accepting Cryptocurrency



10/28/2021



tax.

When donating cryptocurrency to a 501(c)(3) nonprofit like Calvert, you do not have to pay ordinary or capital gains



CALVERT SCHOOL IS NOW ACCEPTING
CRYPTOCURRENCY

LEARN MORE AT
WWW.CALVERTSCHOOLMD.ORG/GIVING/WAYS-TO-GIVE

Setting Up Institutional Accounts for Crypto – Selected Players

coinbase

NYSE listed company; >\$35 bn market cap

 **GEMINI**

NYS regulated Trust Co.; custodian; fiduciary

Fidelity  DIGITAL ASSETSSM

Large, trusted and stable asset manager

 **GALAXY**
DIGITAL

NYC based crypto asset manager, trader & Investment bank; > \$3 bn in AUM

 **Giving Block**

Founded in 2018; over 1000 non profits



Selected Risks

Volatility

Liquidity

Fraud/Hacking

Custody

Exchange / Trading Disruptions

Regulation / No Regulation!

Tax Laws

Energy Usage / Environment

Q&A / Crypto Consultation

Thank you!

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Glossary of Crypto Related Terms (from the Coinbase S-1 Filing)

- Address:** An alphanumeric reference to where crypto assets can be sent or stored.
- Bitcoin:** The first system of global, decentralized, scarce, digital money as initially introduced in a white paper titled *Bitcoin: A Peer-to-Peer Electronic Cash System* by Satoshi Nakamoto.
- Block:** Synonymous with digital pages in a ledger. Blocks are added to an existing blockchain as transactions occur on the network. Miners are rewarded for “mining” a new block.
- Blockchain:** A cryptographically secure digital ledger that maintains a record of all transactions that occur on the network and follows a consensus protocol for confirming new blocks to be added to the blockchain.
- Cold storage:** The storage of private keys in any fashion that is disconnected from the internet. Common cold storage examples include offline computers, USB drives, or paper records.
- Crypto:** A broad term for any cryptography-based market, system, application, or decentralized network.
- Crypto asset (or ‘token’):** Any digital asset built using blockchain technology, including cryptocurrencies, stablecoins, and security tokens.

Glossary – Continued

- Cryptocurrency:** Bitcoin and alternative coins, or ‘altcoins’, launched after the success of Bitcoin. This category of crypto asset is designed to work as a medium of exchange, store of value, or to power applications and excludes security tokens.
- Cryptoeconomy:** A new open financial system built upon crypto.
- Customer:** A retail user, institution, or ecosystem partner on our platform.
- DeFi:** Short for Decentralized Finance. Peer-to-peer software-based network of protocols that can be used to facilitate traditional financial services like borrowing, lending, trading derivatives, insurance, and more through smart contracts.
- Ecosystem partners:** Developers, creators, merchants, asset issuers, organizations and financial institutions, and other groups building decentralized protocols, applications, products, or other services for the cryptoeconomy.
- Ethereum:** A decentralized global computing platform that supports smart contract transactions and peer-to-peer applications, or “Ether,” the native crypto assets on the Ethereum network.

Glossary – Continued

- Fork:** A fundamental change to the software underlying a blockchain which results in two different blockchains, the original, and the new version. In some instances, the fork results in the creation of a new token.
- Institutions:** Businesses that include hedge funds, small to large financial institutions, and corporations.
- Miner:** Individuals or entities who operate a computer or group of computers that add new transactions to blocks, and verify blocks created by other miners. Miners collect transaction fees and are rewarded with new tokens for their services.
- Mining:** The process by which new blocks are created, and thus new transactions are added to the blockchain.
- Network:** The collection of all miners that use computing power to maintain the ledger and add new blocks to the blockchain. Most networks are decentralized, reducing the risk of a single point of failure.
- Protocol:** A type of algorithm or software that governs how a blockchain operates.
- Public key or private key:** Each public address has a corresponding public key and private key that are cryptographically generated. A private key allows the recipient to access any funds belonging to the address, similar to a bank account password. A public key helps validate transactions that are broadcasted to and from the address. •**Retail users:** Individual users with an account on our platform.
- Security token:** A crypto asset that is a security. This includes digital forms of traditional equity or fixed income securities, or may be assets deemed to be a security based on their characterization as an investment contract or note.

Glossary – Continued

- Smart contract:** Software that digitally facilitates or enforces a rules-based agreement or terms between transacting parties.
- Stablecoin:** Crypto assets designed to minimize price volatility. A stablecoin is designed to track the price of an underlying asset such as fiat money or an exchange-traded commodity (such as precious metals or industrial metals). Stablecoins can be backed by fiat money or other crypto assets.
- Staking:** An energy efficient equivalent of mining. Stakers use pools of tokens as collateral to validate transactions and create blocks. In exchange for this service, stakers earn a reward.
- Wallet:** A place to store public and private keys for crypto assets. Wallets are typically software, hardware, or paper-based.