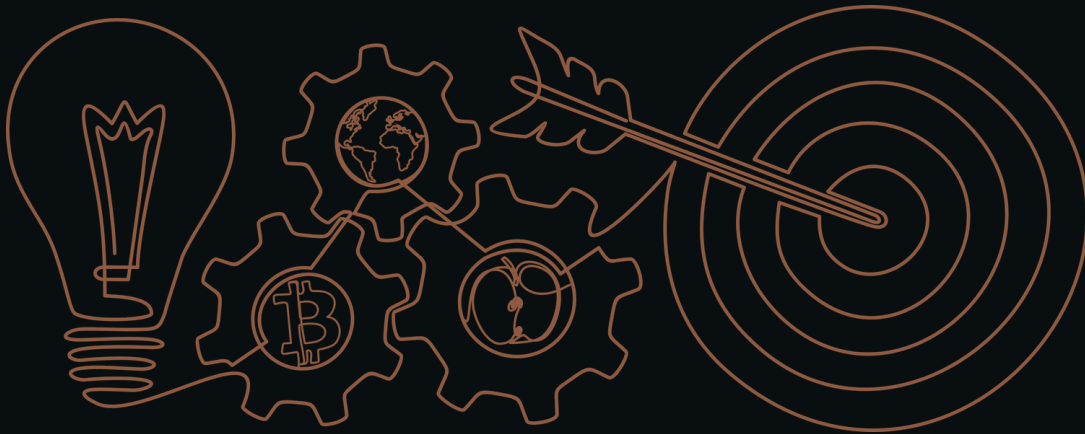


BITCOIN & DONOR ADVISED FUNDS*

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For those who acquired bitcoin before 2018 (and even for those who acquired bitcoin in 2018 and later), the wealth now associated with their bitcoin may far exceed their wildest expectations. Nonetheless, these same bitcoiners often are HODLers (short for Hold On For Dear Life) because they believe their coins will generate ever increasing wealth in the years to come. Given this paradox, bitcoiners may want to consider strategic philanthropy for some of their coins.

Strategic philanthropy with bitcoin not only takes advantage of the U.S. tax code that encourages philanthropy, but it is philanthropy structured in a way that takes advantage of the anticipated increase in value of the bitcoins over time.

However, bitcoiners must exercise caution. Of the relatively small but growing number of charities that accept bitcoin, most require immediate liquidation of the bitcoin upon contribution, thereby stunting the benefit to charity of bitcoin's future growth. Thus, to accomplish strategic philanthropy the bitcoiner must work with advisors like The Bespoke Group who have pioneered this strategy and can structure the philanthropy for sales of the contributed bitcoin over a prolonged period of time and in a manner that funds the bitcoiner's philanthropic giving each year, while retaining as much of the bitcoin stack as possible to benefit from future appreciation of the asset.

* This is an abbreviated version of the article *A Framework for Bitcoin-Based Philanthropy*, from the same author.

DONOR ADVISED FUNDS

A common tool for philanthropy is the use of a Donor Advised Fund or DAF. DAFs are funds established by an irrevocable gift from the donor to a "sponsoring organization," which is a public charity. Thus, the donor receives an upfront charitable deduction for the fair market value of the assets contributed, which can include cash, securities, and with some sponsoring organizations, bitcoin. Thereafter, the donor requests that the fund make grants to IRS-approved charities, although the sponsoring organization is not obliged to honor such requests.

In practice, however, sponsoring organizations typically honor the donor's grant requests if the recommended charity is IRS approved.

While only a handful of DAF sponsoring organizations will accept bitcoin, even fewer will permit the fund to continue to hold bitcoin. Most sponsoring organizations require the immediate liquidation of bitcoin upon contribution to the fund. Thus, it is imperative that the bitcoiner work with a sponsoring organization that will hold the bitcoin via an advisor-managed fund with a mandate tailored for bitcoin until a sale is necessary to satisfy grants, which may be many years in the future. In this way, the fund can strategically sell only when it makes sense to do so, and not within an arbitrary timeframe set by the sponsoring organization. Identifying "strategic" times to sell bitcoin is the goal of Bespoke's BTC Treasury Management strategy.

BESPOKE'S APPROACH TO BTC TREASURY MANAGEMENT

Bitcoin held in a DAF where the sponsoring organization permits the fund to sell the bitcoin with discretion offers the best opportunity to maximize the long-term value of the fund – and of the philanthropic giving that it enables.

Bitcoin is a real asset with a finite supply and should continue to appreciate over time against currencies for which the supply is not finite and subject to political decision-making. However, bitcoin prices make wide swings around that long-term appreciation path, with these swings often taking place over months or even years.

Because the price of bitcoin is highly volatile (25%+ annual standard deviation) relative to other financial assets like equities, Bespoke has developed a strategy to make that price volatility work in the fund's favor. By using a rules-based approach to identify periods when the bitcoin price is "overbought" (i.e., swinging too high) or "oversold" (i.e., swinging too low) on a monthly timeframe, Bespoke's strategy aims to concentrate client

liquidations near the upper half of the long-term price band – and avoid liquidations near the lower half. When pursued successfully with such a volatile asset, this strategy adds significantly to the long-term average value of the underlying CRT or DAF. The fund can meet its annual objectives for charitable giving while liquidating fewer bitcoins – and while holding onto a larger bitcoin stack to maximize exposure to the future appreciation of the asset.

In addition, if the donor seeks to diversify the bitcoin used for initial funding into active strategies focused on impact aligned with their specific values, or to operate an endowment-style investment portfolio within the DAF, a tailored liquidation and allocation strategy can be developed and implemented by Bespoke that harnesses the same rules-based liquidation strategy.

For example, suppose OG Bitcoiner contributes \$25M of bitcoin to a DAF at OGB's local community foundation. Like most DAFs, the local community foundation DAF requires the immediate sale of the bitcoin. If the bitcoin price retraces 5% between the time of the gift and sale, that fund will be worth 5% less upon sale, or \$23.75 Million. Conversely, if the sponsoring organization permits the fund to sell bitcoin as desired, OGB could wait until the price rebounds and then sell only the amount necessary to satisfy impending grants. In this case, the balance of the bitcoin in the fund can continue to appreciate as the price appreciates over time. In other words, OGB can create an endowment that will likely provide significantly increased funds for charity over time.

CONCLUSION

Those with significant bitcoin can use strategic philanthropy to accomplish many objectives, including creating an endowment through a Donor Advised Fund. DAFs can be particularly powerful if the structure can continue to hold bitcoin over the long term.

For more information, or to speak with a member of the Bespoke Advisory team, please visit us at bespokeadvisory.io.

IMPORTANT INFORMATION:

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RIAs have an obligation to comply with the applicable provisions of the Investment Advisers Act of 1940 and the rules that have been adopted by the SEC. Additional information is available at: adviserinfo.sec.gov/firm/summary/323909.

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