

JUNE 2024

Institutional Investor Digital Assets Study: Key Findings

Fidelity Digital Assets Research

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2023 INSTITUTIONAL INVESTOR
DIGITAL ASSETS STUDY: KEY FINDINGS

Methodology

01 Research Objectives and Methodology

Since 2019, Fidelity Digital AssetsSM in collaboration with Fidelity Consulting Strategic Insights has conducted an annual study to better understand institutional investors' perceptions of and approach to digital assets. This report, the Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study, highlights key insights showing trends in overall adoption across the U.S., Europe, and Asia and how institutional investors are thinking about the role of digital assets in investment portfolios.

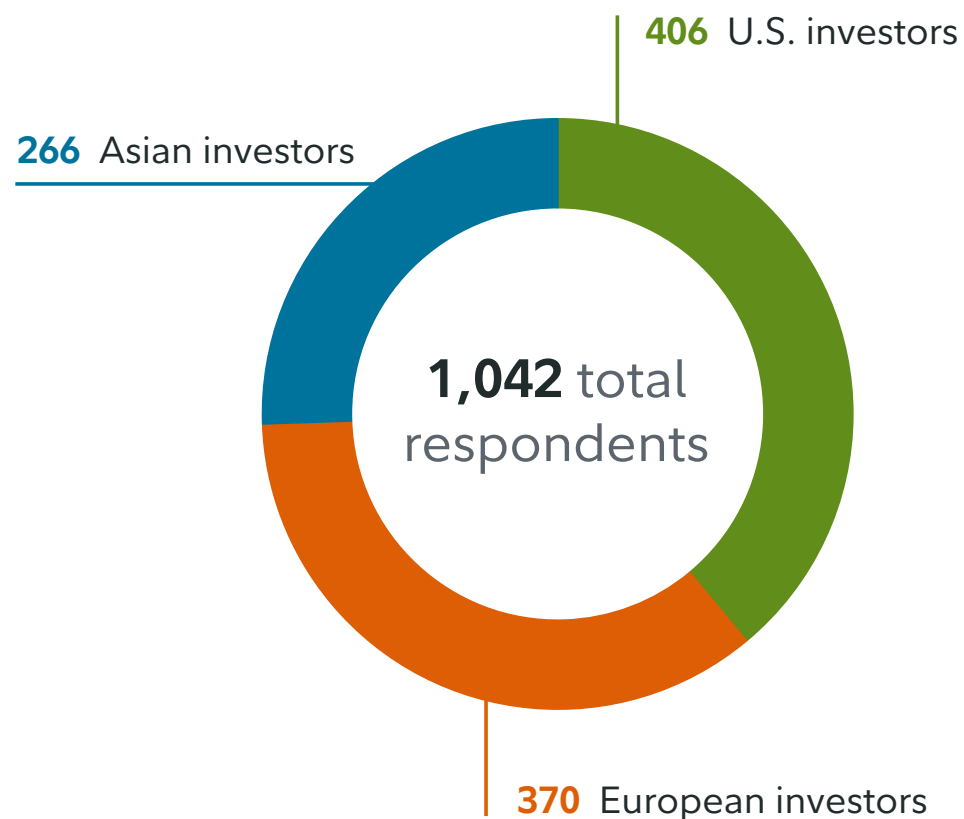
Digital asset markets are incredibly dynamic and 2023 was no exception. While this study reflects respondents' sentiments and behaviors between May 30, 2023, and October 6, 2023, it is important to note that year-end market developments and the macro environment may differ. This report aims to analyze perceptions of institutional industry participants within the context of the shifting landscape of 2023 – along with institutional investor insights into broader use of blockchain technology, like tokenization and DeFi.

“The digital asset industry has proved remarkably resilient after facing significant headwinds in 2023 that rippled through the entire financial system. Through it all, the core innovation and the underlying potential of digital assets never wavered. Perhaps more importantly, neither did the conviction of institutional investors.

While we did see some recent declines in sentiment and adoption, we attribute this to the historical cyclical nature that has since turned positive. Long-term institutional adoption is still on the rise, and it is built on a clear understanding of the core value propositions of digital assets, which we believe are here to stay.”

MIKE O'REILLY, PRESIDENT OF FIDELITY DIGITAL ASSETSSM

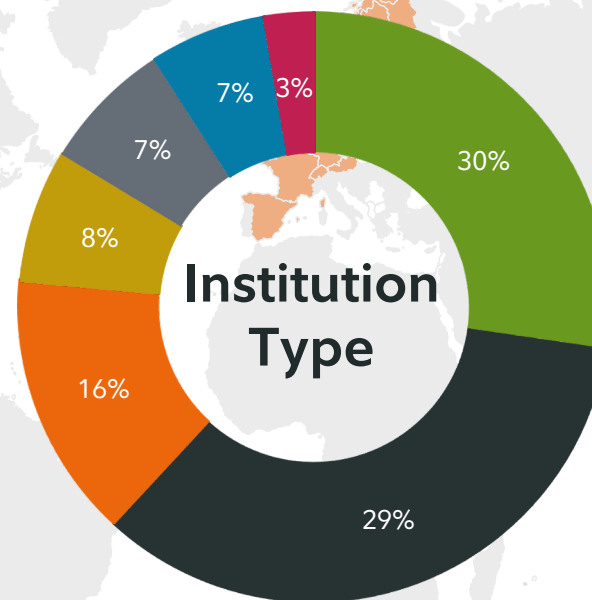
Methodology: Institutional Investor Sample Composition



The research was led by Fidelity Consulting Strategic Insights with Fidelity Digital AssetsSM and The Fidelity Center for Applied TechnologySM. Fielding was conducted between **May 30, 2023, and October 6, 2023**, with a total of 1,042 blind interviews of institutional investors from a variety of firms, completed via a mix of online surveys and one-to-one phone sessions. As in previous years, the survey spanned a range of institutional investor segments and high-net-worth (HNW) individuals, including financial advisors, family offices, crypto hedge and venture funds, traditional hedge funds, endowments and foundations, pension funds, and defined benefit plans.

Methodology: Institutional Investor Sample Composition

- Financial Advisor
- High-Net-Worth Investor
- Family Office
- Pension/DB Pension
- Traditional Hedge Fund
- Crypto HF/VC Fund
- Endowment/Foundation

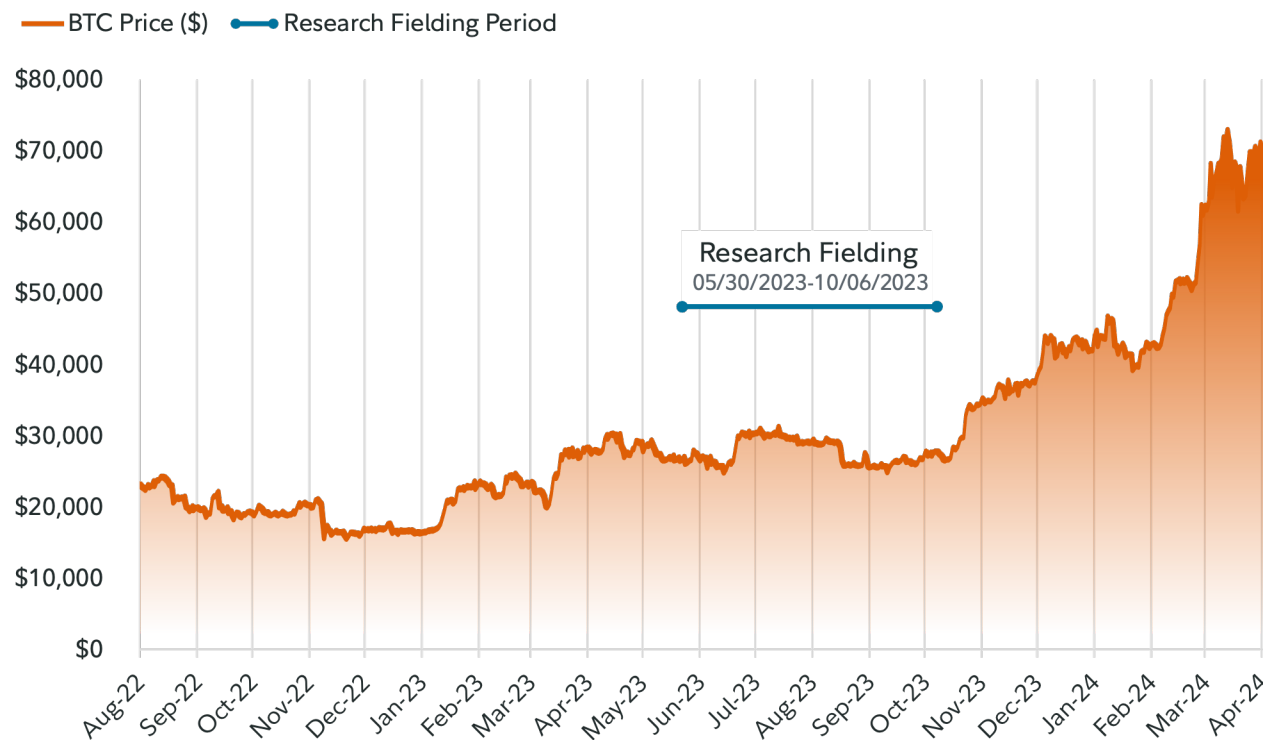


Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Research Fielding in a Range-Bound Market

- **Fielding took place during a period of prolonged market consolidation for digital assets, with the price of bitcoin fluctuating 10% in both directions and consistently trading around \$25,000.** This came after a year and a half of a digital asset bear market and continued bankruptcies, bank failures, and industry insolvencies.
- **The price of bitcoin was still 60% below its all-time high at the completion of the fielding period, although it has since eclipsed new all-time highs.** The fielding period and associated industry events and market action took place before the approval and launch of spot bitcoin ETPs in January of 2024.
- **The Fed hiked interest rates at the fastest pace ever, offering relatively more yield to fixed-income investments.** This dynamic created a more favorable opportunity for risk-off investments. Consequently, institutional investors viewed bitcoin and other digital assets as less appealing investment opportunities.
- Prior research fielding periods took place during sideways price action in both 2019 and 2020, a significant bull market run in 2021, and a bear market in 2022.

Bitcoin Price



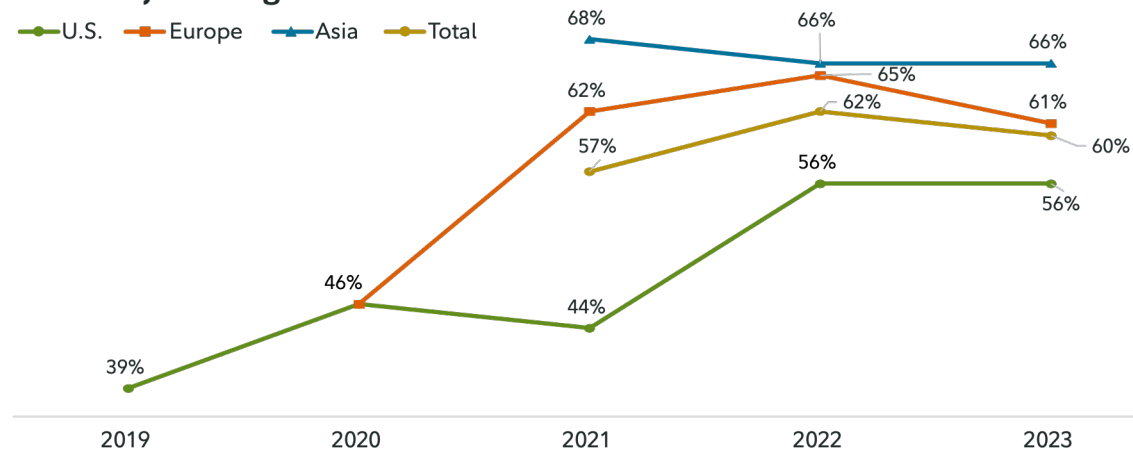
Past performance is no guarantee of future results. Data source: Coin Metrics, as of 04/10/2024.

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DIGITAL ASSETS STUDY: KEY FINDINGS

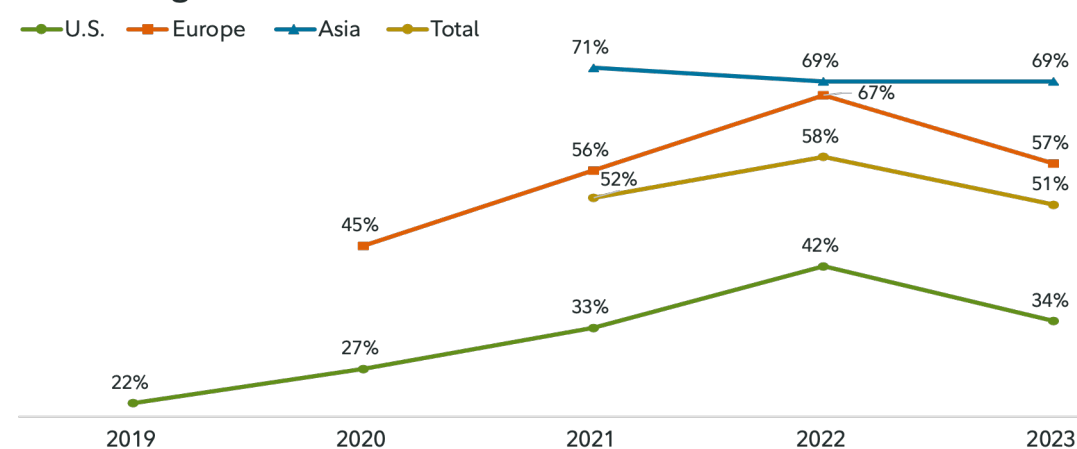
Ownership of and Attitudes Toward Digital Assets

Familiarity and Adoption of Digital Assets

Familiarity with Digital Assets



Invest in Digital Assets



Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

- **Given market headwinds, institutional investors surveyed in total reported decreased familiarity, perception, and investment in digital assets.**
- **Institutional investors are still very much invested in digital assets and believe they should be part of a portfolio.** However, negative news and sentiment may have weighed on investors, as almost half (49%) cited both too much fraud and bad press made their views change for the worse.
 - The decline in investment is not a surprise given the steep price decline. In other words, price is largely driven by investor actions so we would expect some investors to retreat in a deep bear market. These actions may reflect classic investor psychology.
 - Yet on a longer-term basis we note the percentage of positive responses by those surveyed as being invested in digital assets or being familiar with digital assets are still at or above levels seen only two years ago, with fielding conducted *before* the approval of bitcoin spot ETPs.

05. Digital Asset Attitudes

Negative news and limited access to banking options has adversely impacted most appetites for digital asset investing. Unsurprisingly, negative news and press were cited **more** as reasons investors were concerned about investing in digital assets when compared to other attitudinal statements.

Despite the volatility, **55% of investors** believe the asset class is here to stay for the long term.

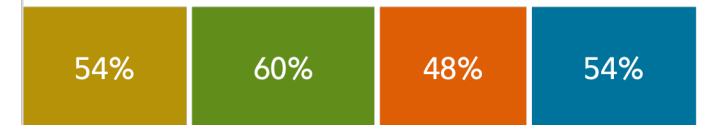
Percent Agreeing with Attitudinal Statements

■ Total ■ U.S. ■ Europe ■ Asia

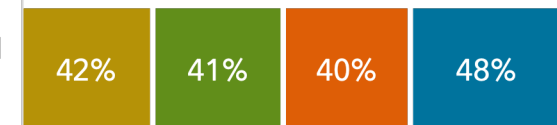
Negative news/press has made me more concerned about investing in digital assets (1,025)



Limited access to banking options makes me less interested in crypto (1,014)



Recent regulatory announcements have decreased my interest in investing in digital assets (1,019)



Despite the volatility, digital assets is an asset class here to stay for the long-term (1,016)

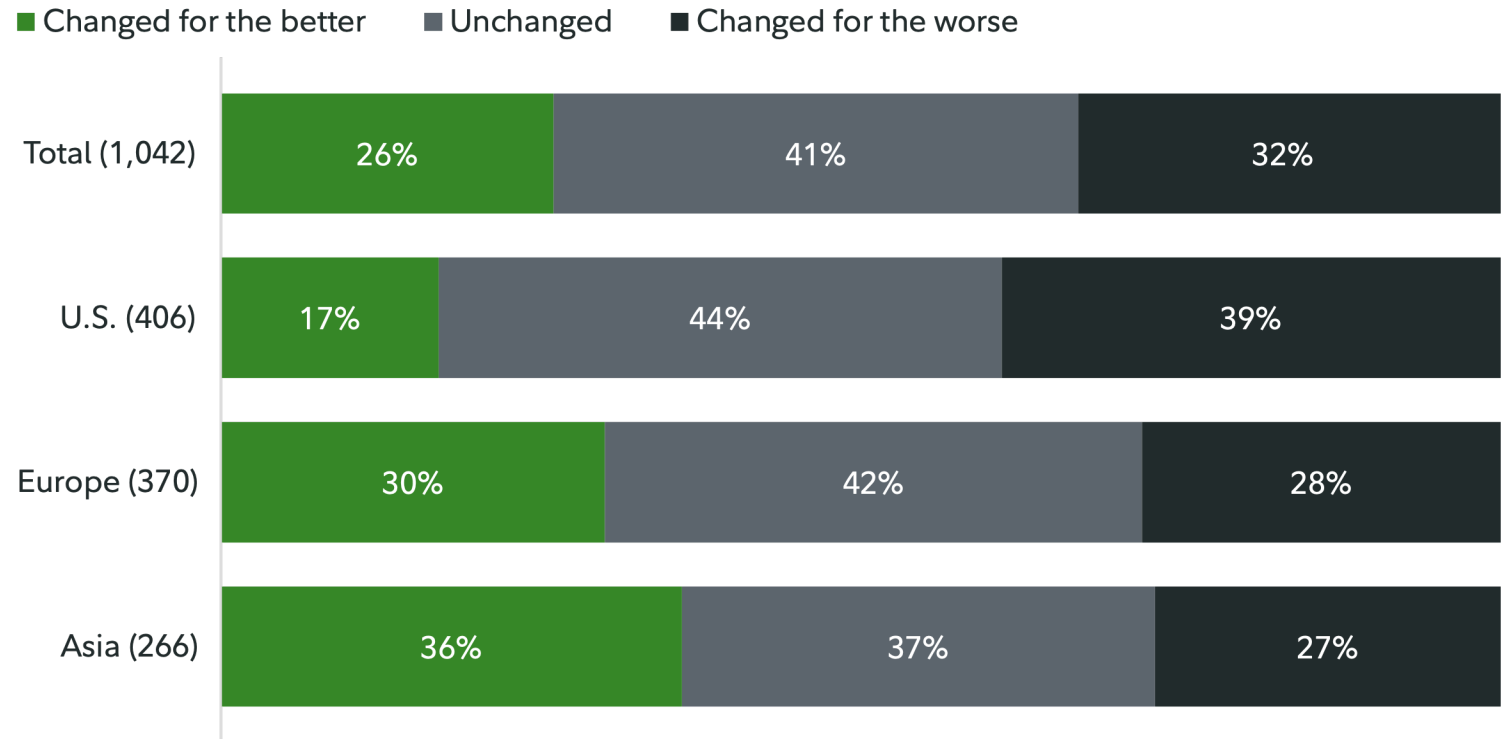


Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

05. Digital Asset Perceptions

Regardless of tumultuous market events, one-quarter (26%) of survey respondents overall said their perception of digital assets changed for the better over the past year. Additionally, 36% of Asian respondents and 30% of European respondents said their perception of digital assets changed for the better.

Changes in Perception of Digital Assets Over the Past Year**



Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

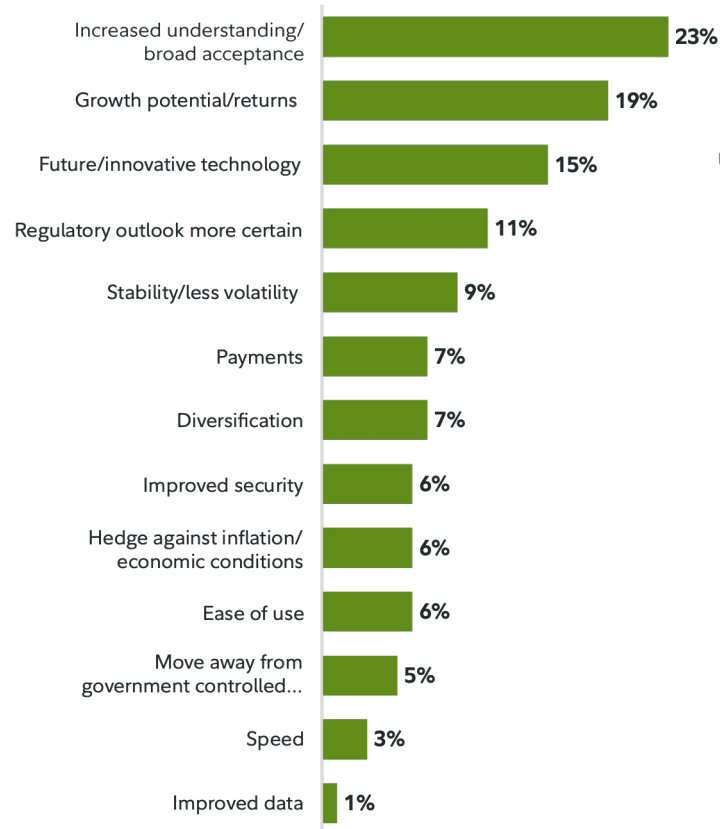
**New in 2023

05. Digital Asset Perceptions

- Increased acceptance, growth potential, and innovative technology have helped some investors view the space more **positively**.
- Bad actors, negative news, regulatory uncertainty, volatility, and poor market conditions have adversely impacted perceptions.
- 49% of respondents noted **both** too much fraud and bad press as reasons why their view of digital assets changed for the worse.
- It is important to note these reasons are not problems with digital assets themselves but rather the fraud and scandals in the industry stemming from bad actors in centralized positions of power.** This could lead to bad press, which can catalyze a negative feedback loop of downward movement in price and more headlines on price declines.

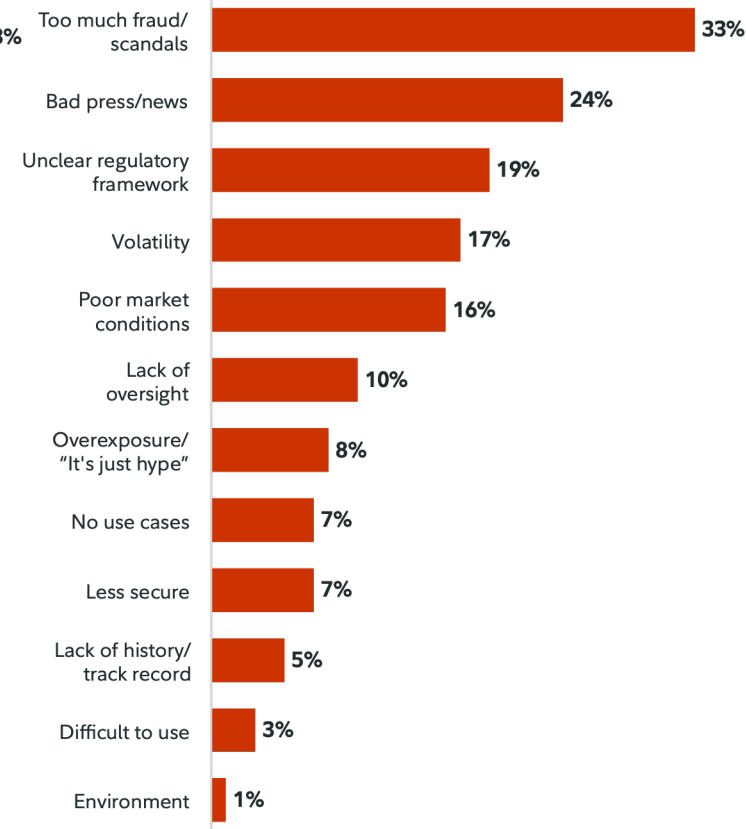
Reasons Why View of Digital Assets Has Changed for the Better

(Base: 26% of respondents with improved view)



Reasons Why View of Digital Assets Has Changed for the Worse

(Base: 32% of respondents with worsened view)



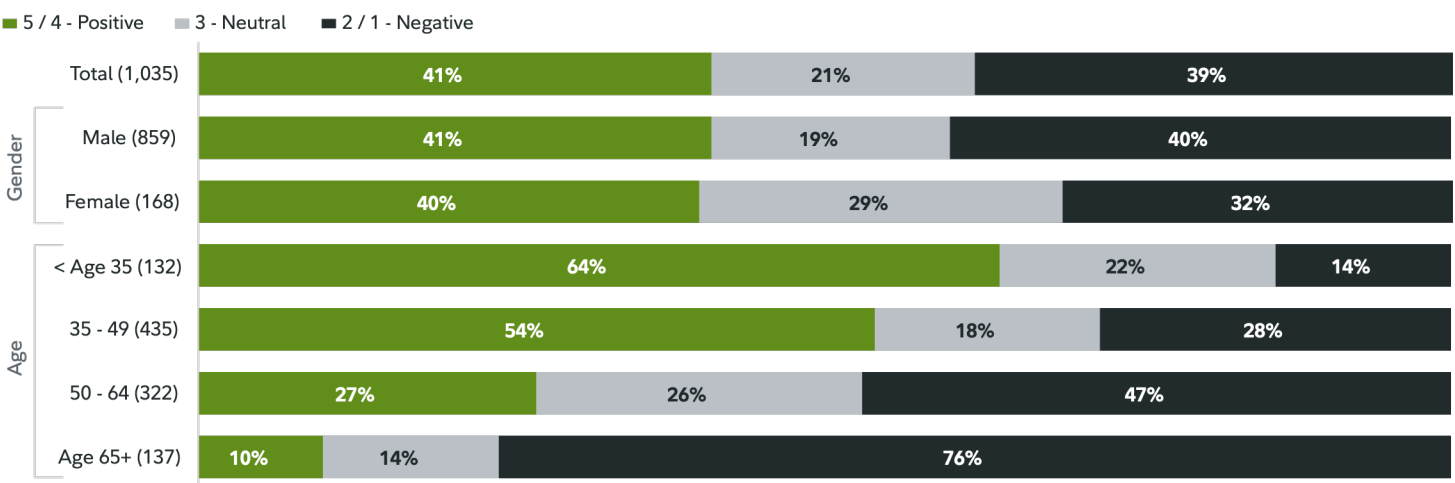
Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.
New in 2023

05

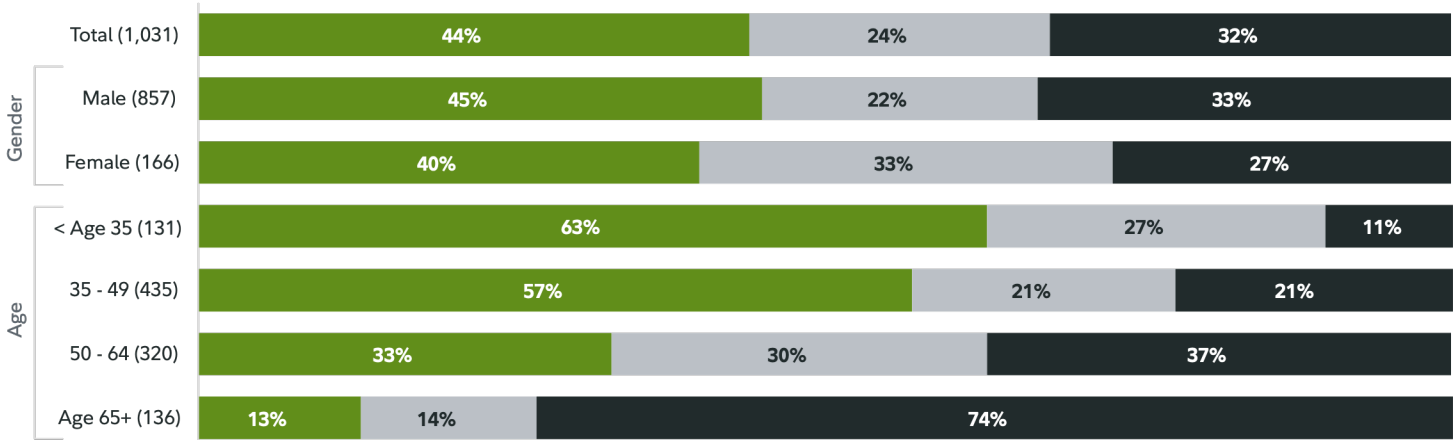
Perception of Digital Assets by Demographics

- **Positive views are higher amongst younger investors for both bitcoin and digital assets broadly.** Older investors (65+) are the most *negative* cohort on digital assets.
- We see this as an indicator that younger investors are more likely to accept this as an *innovative* and *emerging* asset class compared to older investors.

Perception of Digital Assets – By Key Demographics

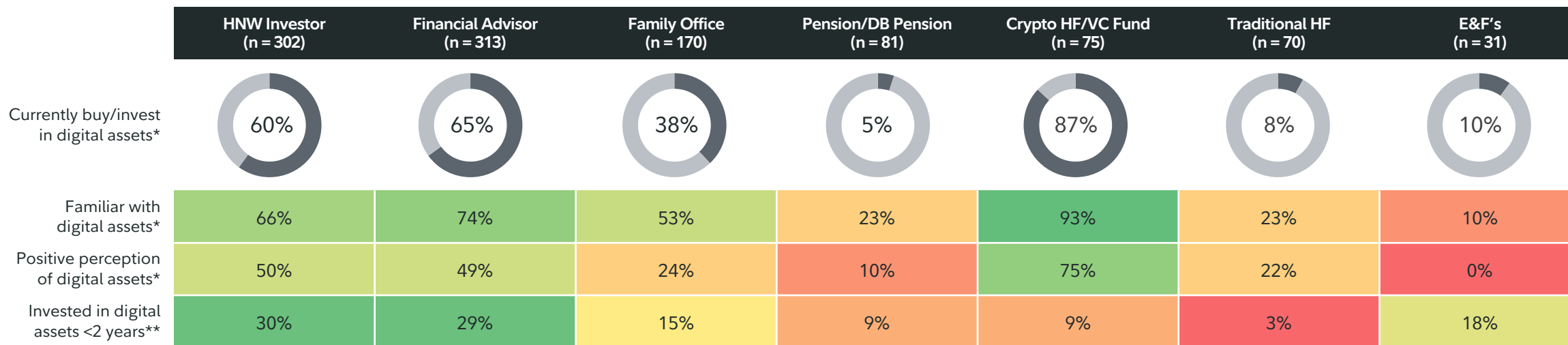


Perception of Bitcoin – By Key Demographics



Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Global Adoption and Consideration of Digital Assets



*Total base: 1042

**Total base: 813

Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Adoption and consideration of digital assets among those surveyed remains highest among **high-net-worth (HNW) investors, crypto hedge funds/venture capital, and financial advisors**. This higher adoption may be a result of their organizational structures and investment decision-making policies. When comparing to last year's survey, adoption and consideration of digital assets from HNW investors and financial advisors dropped year-over-year. This could be driven by the fact that **individual** investors may be more influenced by sentiment than other institutional investor segments on a relative basis.

Adoption remains lower among **family offices, pensions/defined benefit (DB) plans, traditional hedge funds, and endowments and foundations**. Despite the lower overall adoption, endowments and foundations increased from **6%** to **10%** from last year's finding, albeit off a small sample size.

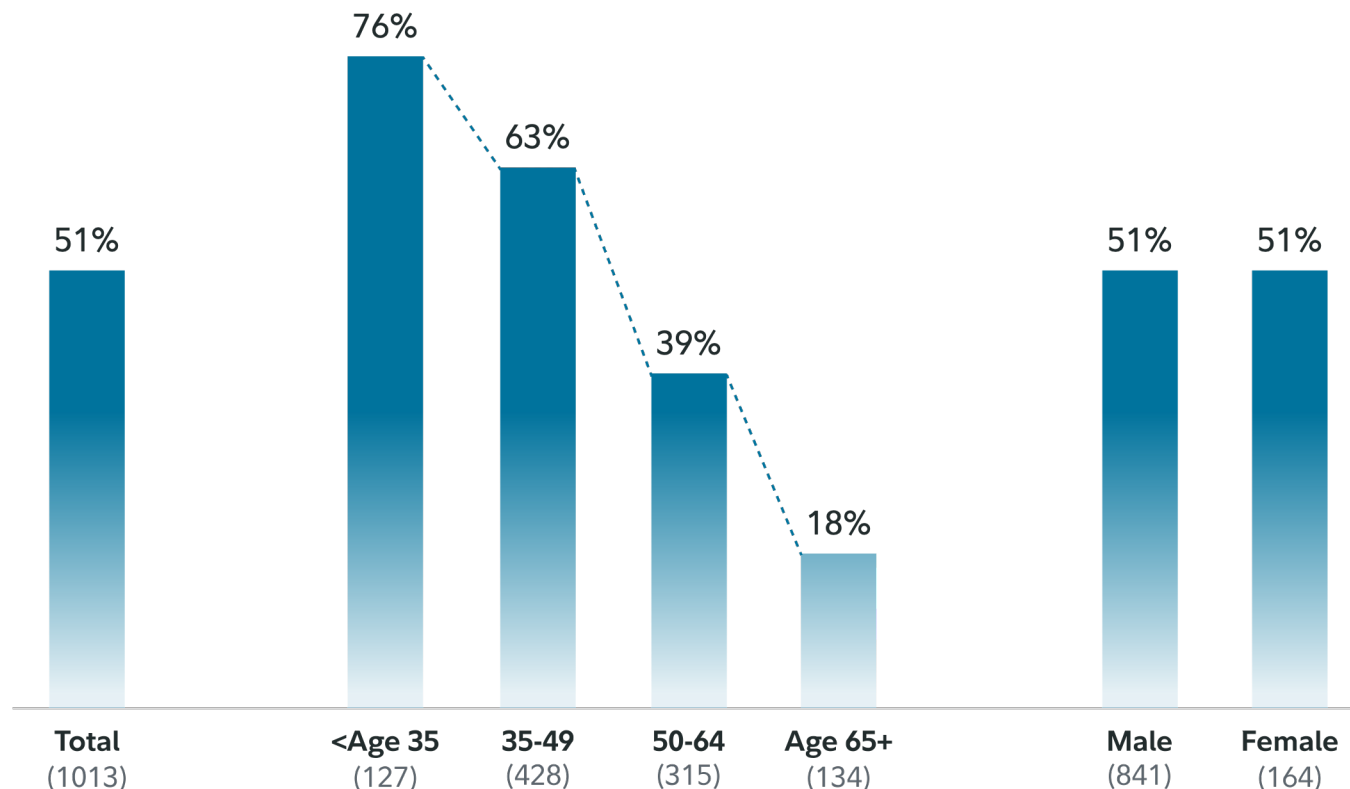


Ownership of Digital Assets by Demographics

- Digital asset ownership skews heavily toward younger institutional investors, with *three-fourths* of those under the age of 35 invested (4x ownership of age 65 and older). However, there are no differences in ownership by *gender*.
- Not only do younger institutional investors have a more positive perception of digital assets, but they are also more likely to act on those perceptions by *investing* in them.

Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Currently Buy/Invest in Digital Assets – By Key Demographics



07% Appeal of Digital Assets

Institutional investors report that the features of digital assets that they find most appealing are the **high potential upside**, innovative tech play, and enablement of decentralization.

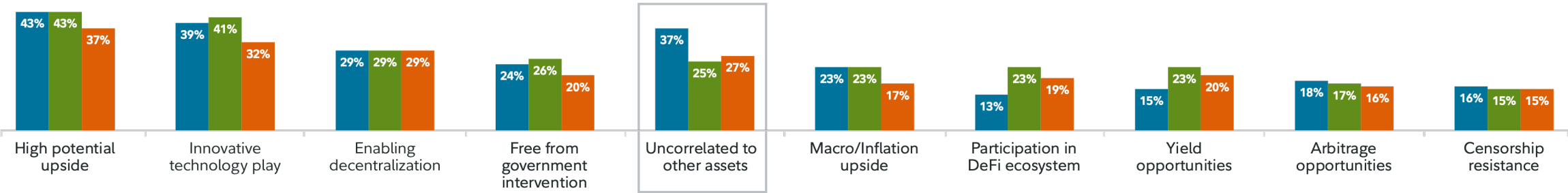
DeFi participation and yield opportunities declined year-over-year, yet more investors surveyed (27%) cited lack of correlation compared to 2022 (25%)—with a larger increase among U.S. respondents, which is not surprising given the increasing appeal of alternative investment types as part of portfolio construction. While most of these responses did not deviate much from the prior year, it is not surprising to see a smaller percentage of respondents cite the macro/inflation upside as an appealing characteristic based on the macro dynamics of the past year.

The prevailing sentiment among respondents is that the **high potential upside** of digital assets is their most appealing feature.

Appeal of Digital Assets

Total Respondents

■ 2021 ■ 2022 ■ 2023



Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

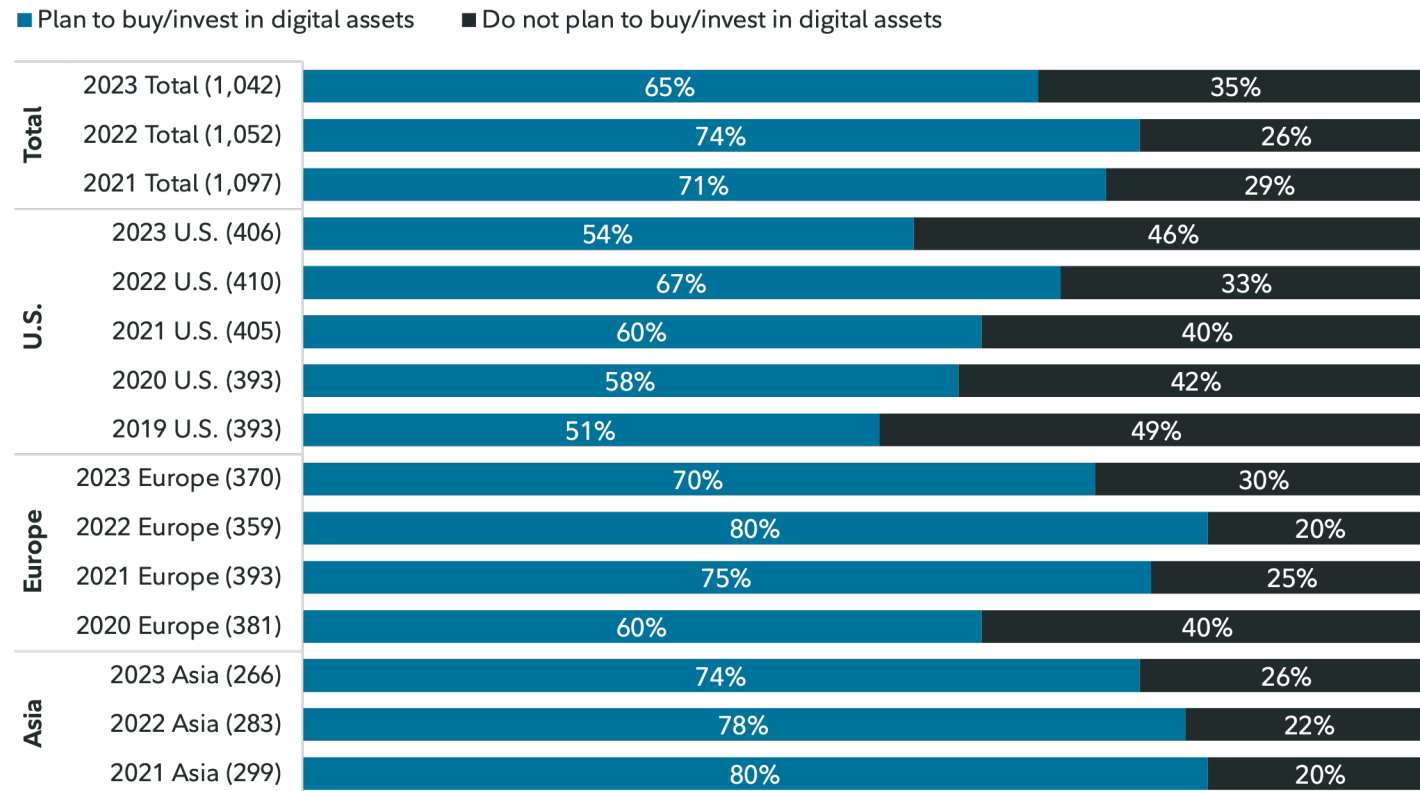
08 Future Purchase Preferences

Expectations to buy in the future have waned across regions, yet *two-thirds* are still planning to buy digital assets.

Three-fourths of Asia expect to buy digital assets in the future.

In the aftermath of a bear market featuring bankruptcies, fraud, and insolvencies, we believe the results of this fielding period showcase future opportunity and growth. The fact that most institutional investors *still intend* to invest in digital assets in the future is significant, in our opinion.

Preference to Buy in the Future - By Region



Note: Total data across all 3 regions (U.S./Europe/Asia) is only available for 2021, 2022 & 2023.
Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.



Obstacles to Investing in Digital Assets

Price volatility is the most cited barrier to investment reported by investors surveyed (48%), which is consistent with prior years of the study. However, the overall percentage of respondents citing this as a barrier **decreased** year-over-year when compared to last year's survey. U.S. respondents citing price volatility as the most prevalent obstacle to investing in digital assets decreased from **59%** in 2022 to **53%** in 2023. Some institutional investors may seek allocations to tech stocks as part of their portfolio construction for their high upside potential driven by volatility, and we think this similar investment psychology may be considered by institutional investors looking to make allocations to digital assets.

Other concerns cited by investors surveyed include **concerns around security** (40%) and **market manipulation** (40%), **concerns around regulatory classification of certain coins as unregistered securities** (39%), and **lack of fundamentals to gauge appropriate value** (37%).

Regulatory concerns are the most prevalent obstacle cited in the U.S. However, since the survey was completed before the approval of spot bitcoin ETPs, we believe the recent approvals may help provide more clarity. Out of eight crypto/digital asset ideas evaluated, a bitcoin ETF was most popular in all regions (appealing to 36% of U.S. investors, 43% in Europe, and 50% in Asia).

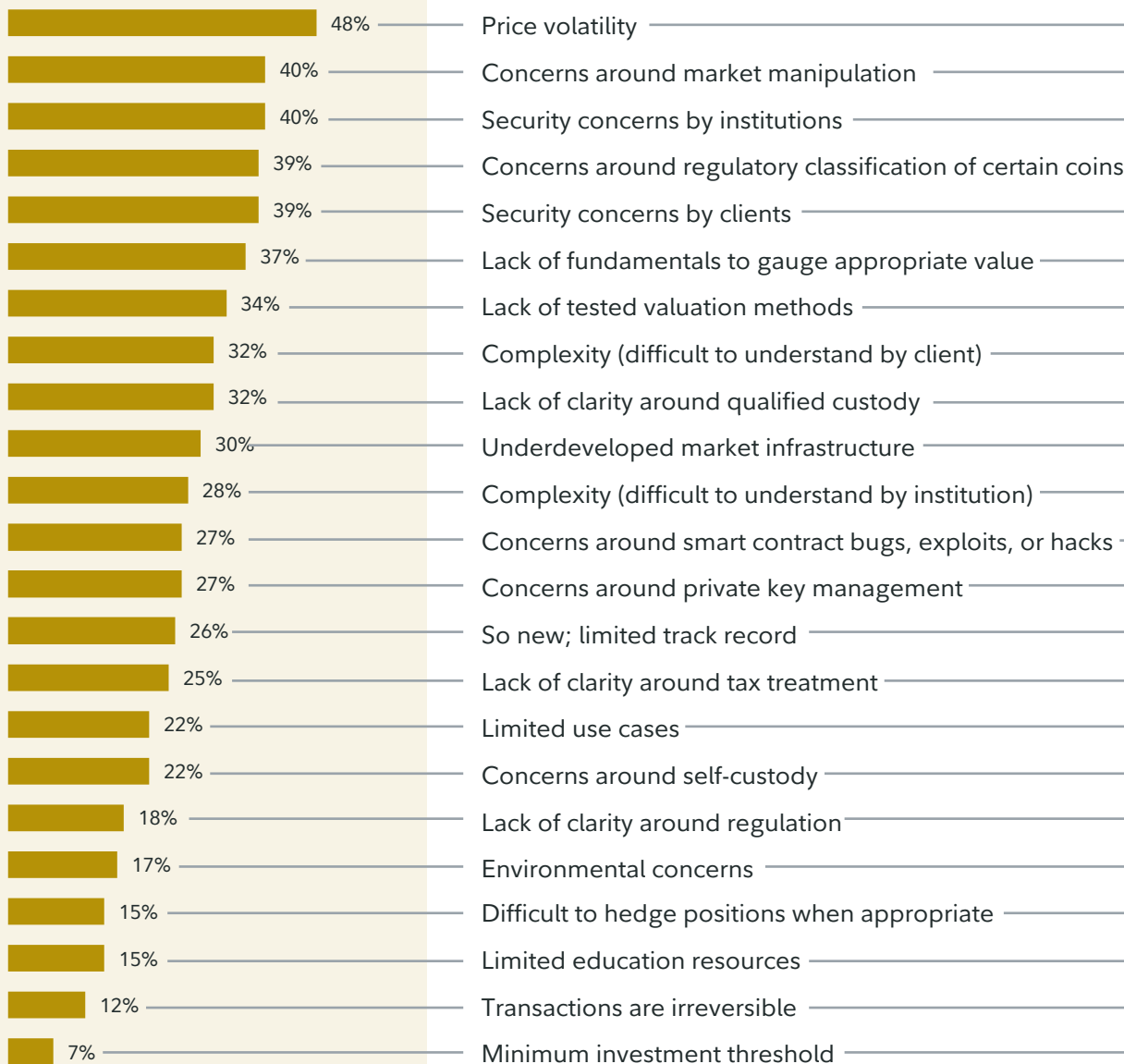
In the U.S., 28% of respondents say lack of clarity around regulation is a barrier to digital asset usage, nearly twice as high as Europe (15%) and more than three times higher than Asia (8%). When it comes to digital asset topics U.S. investors are most interested in learning about, regulation is the number one, cited by **41%** (vs. 32% for Europe and 31% for Asia).

The following page illustrates the obstacles to investing in digital assets ranked by the institutional investor respondents.

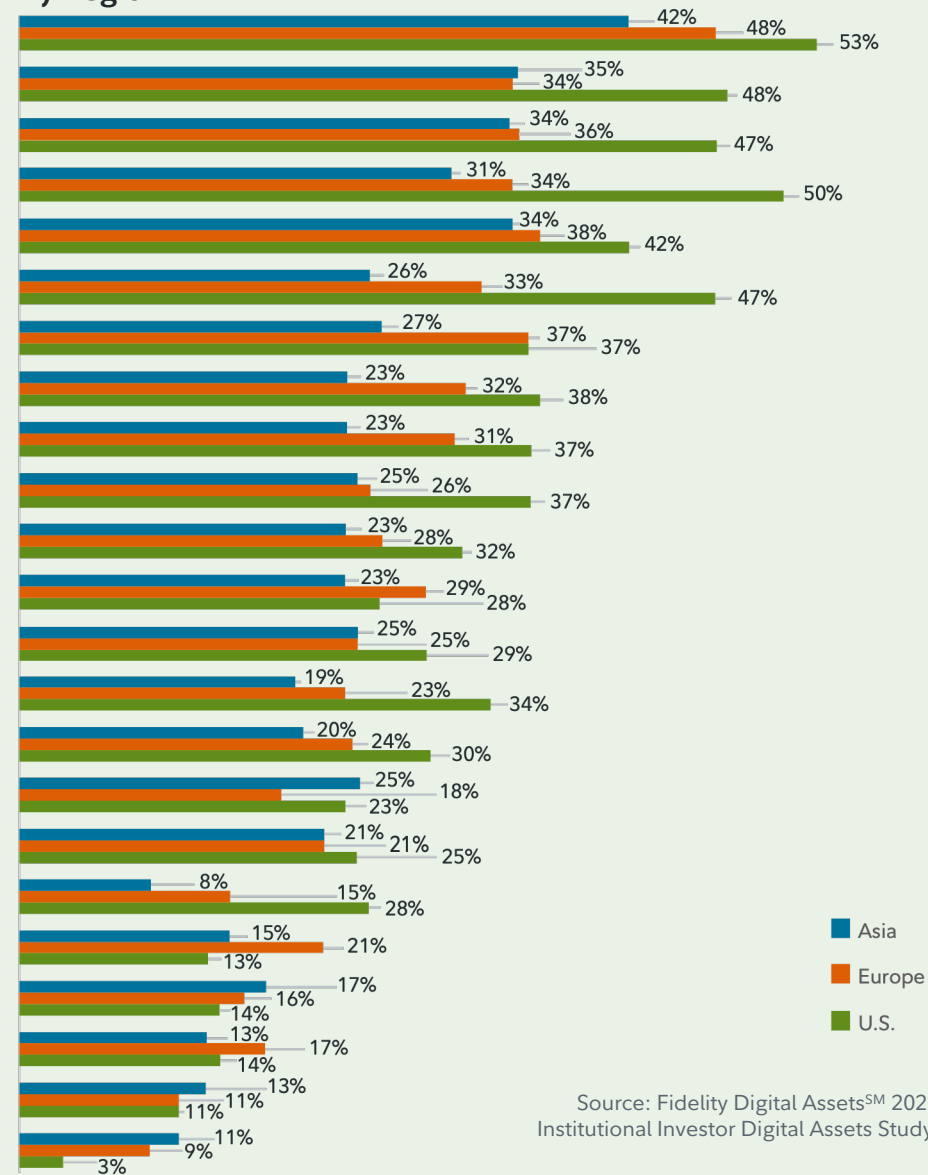
Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Obstacles to Investment in Digital Assets

Total (Global)



By Region



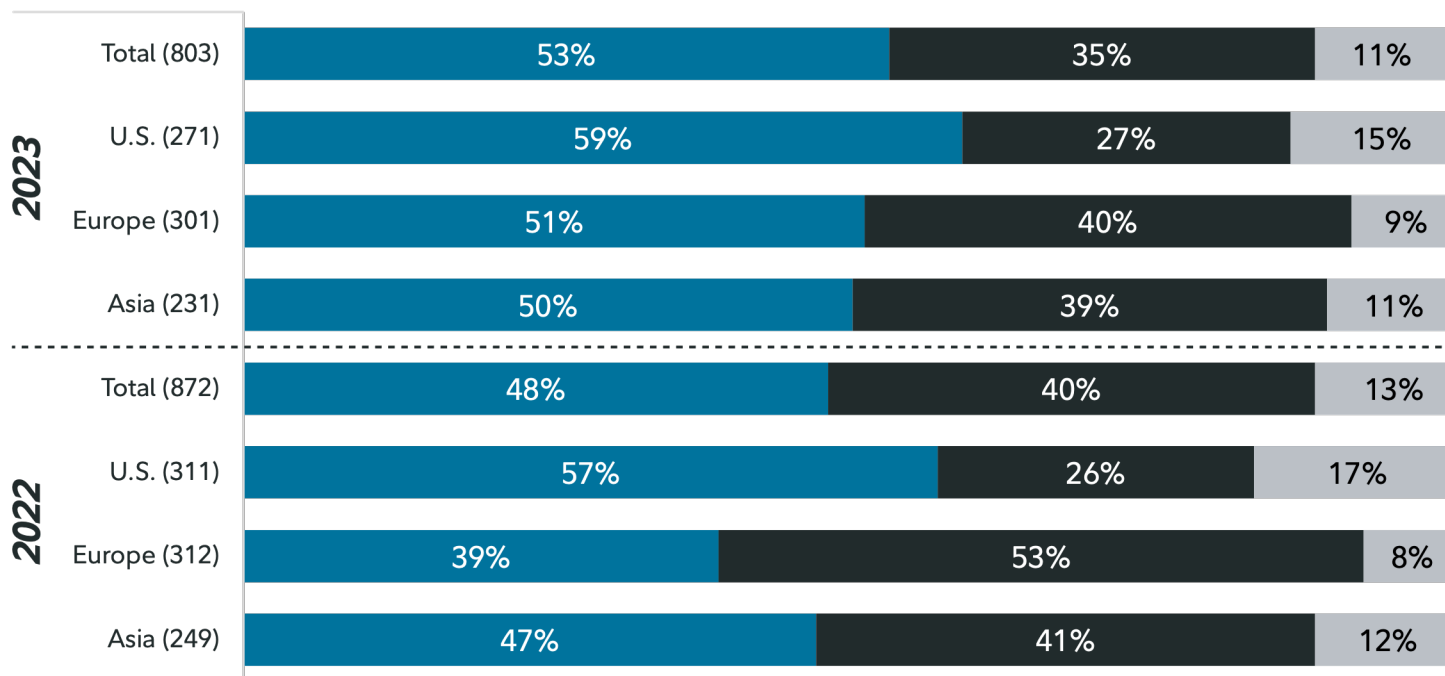
Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Environmental Concerns Decreased in 2023

Overall, only about **one-third** of investors say environmental concerns make them less likely to invest in digital assets. Additionally environmental concerns became **less of a focus** in 2023, with fewer investors saying this might dissuade them from digital asset investment, driven by Europe.

Do environmental concerns impact decisions to invest in digital assets?

■ Environmental concerns have no impact on my likelihood to invest ■ Environmental concerns make me less likely to invest ■ Unsure

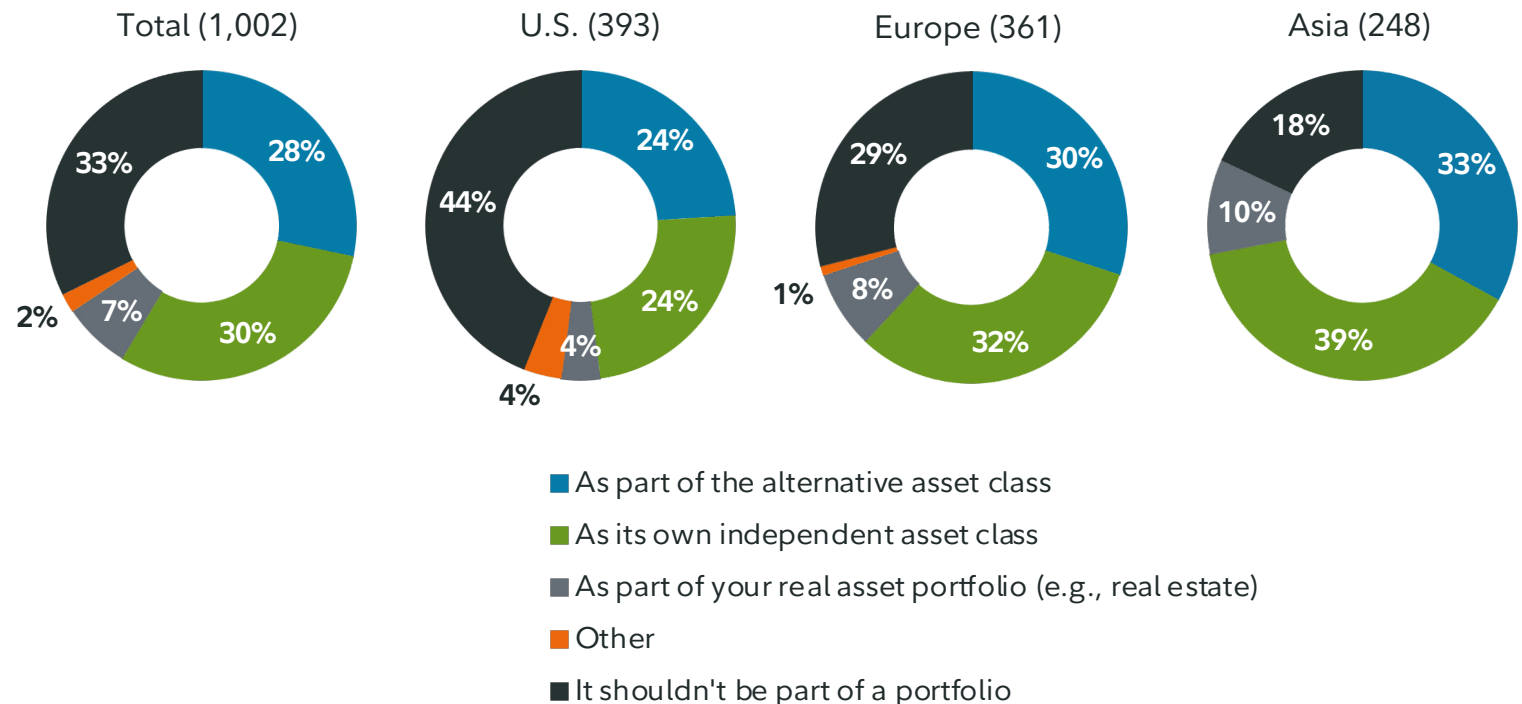


Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

10. The Role of Digital Assets in Portfolios

- **67%** of institutional investors surveyed view digital assets as having a role in investment portfolios.
- Institutional investors in **Europe** and **Asia** report more acceptance of digital assets in portfolios than those in the U.S.
- Since 2021 there has been a shift away from viewing digital assets as an alternative to also an **independent** asset class.
- The most cited reason across regions for this shift is for the **underlying/unique characteristics** of digital assets.

How Do You Believe Digital Assets Should Be Part of Your Portfolio?



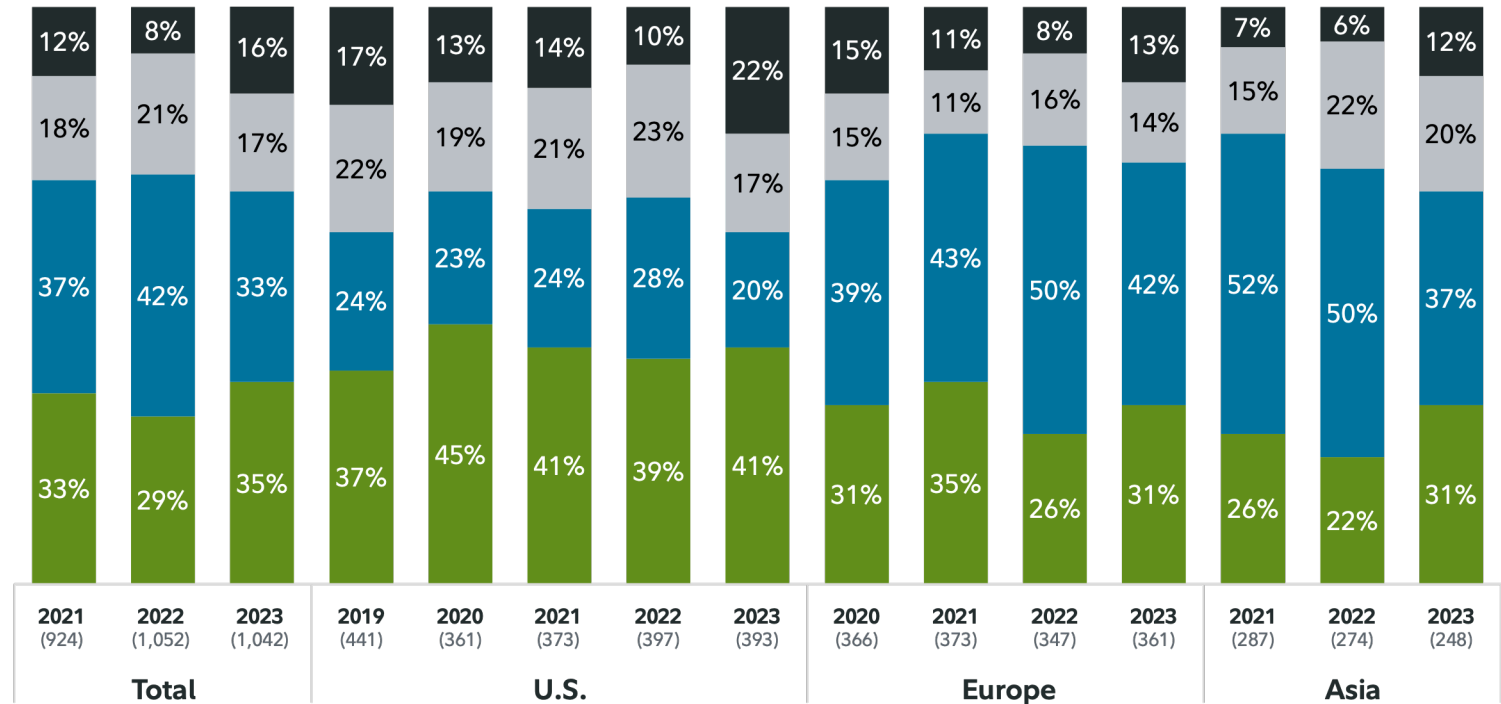
Number in parentheses indicate the base count.
Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

Institutional Investor Preferences for Purchasing Digital Asset Investment Products

- Tides shifted in 2023 toward purchasing investment products from traditional financial firms, according to surveyed investors.
- It is important to note this survey was completed *before* the approval of U.S. spot bitcoin ETPs.
- The U.S. continues to lean strongly toward *traditional firms*. While Europe and Asia still lean toward digital asset-focused providers, the gap is narrowing relative to traditional firms.

What type of institution would you prefer to purchase a digital asset investment product from?

■ A traditional financial firm ■ A dedicated digital asset-focused financial firm ■ No preference ■ None - No interest in purchasing crypto assets

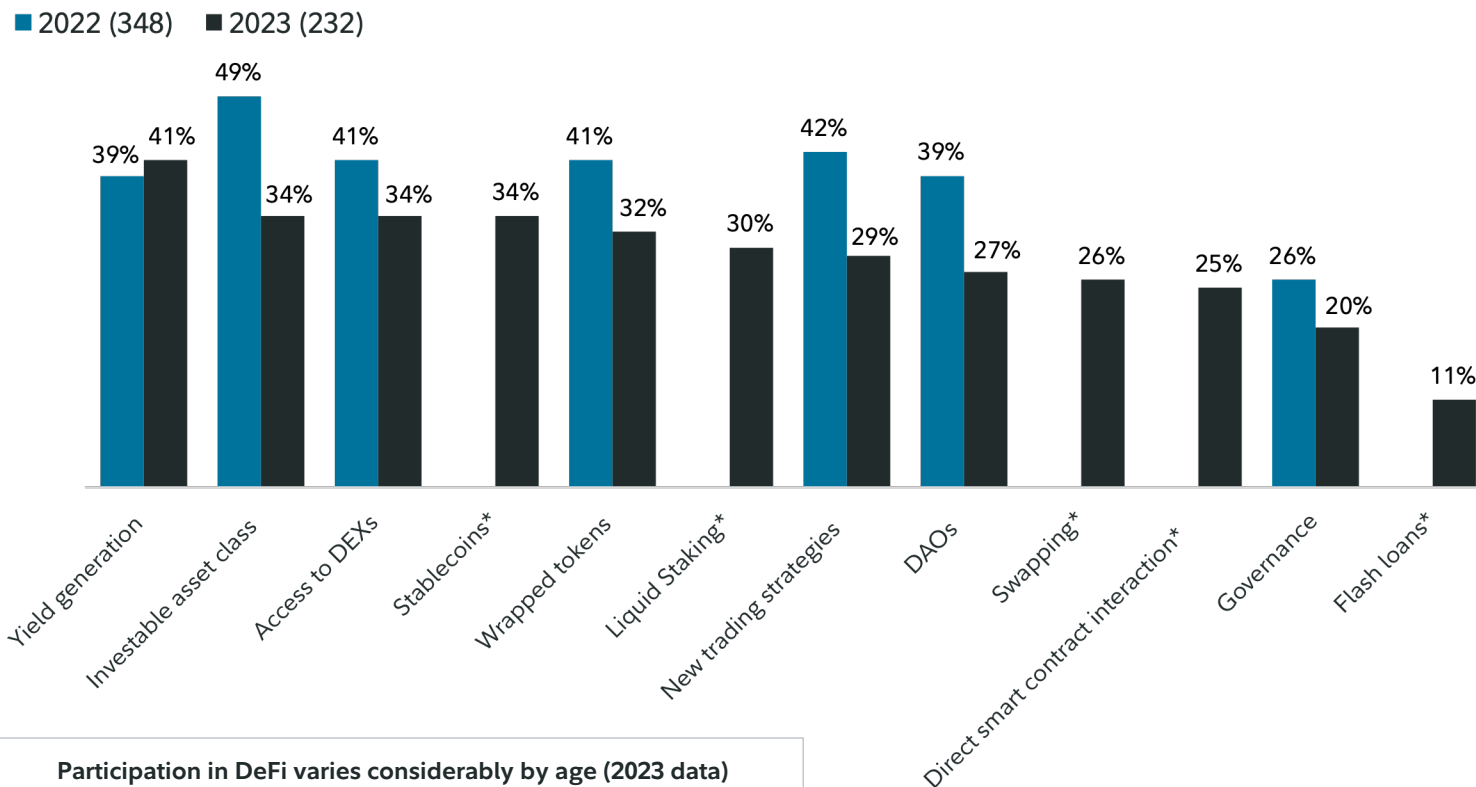


Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

DeFi Participation Waned in 2023

- Participation in DeFi among surveyed respondents **declined** 10 points in 2023 (29% vs. 39% in 2022), with declines across all surveyed regions. **Europe** had the most notable declines, followed by the U.S. and Asia.
- In all regions, DeFi participation is **highest** among Crypto Hedge Funds, Financial Advisors, and HNWI investors.
- Like with the digital assets category broadly, top barriers to DeFi participation are **security concerns** and **price volatility**.

How are you participating in DeFi?* (Among those participating)



Participation in DeFi varies considerably by age (2023 data)

50-64 (234): 14% <35 (121): 50% 35-49 (373): 36% 65+ (71): 4%

Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

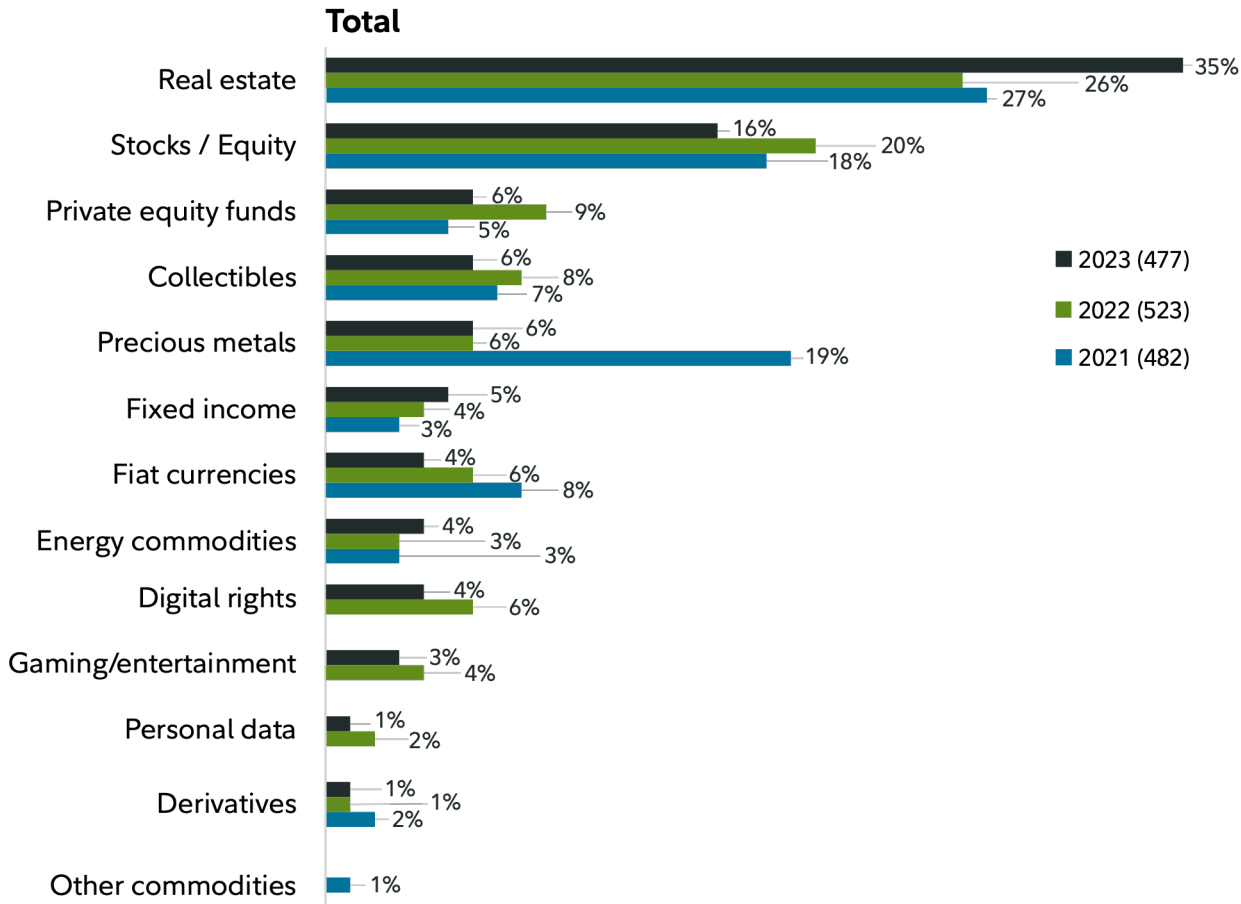
*New in 2023.

12.

Global Interest in Tokenization Varies

- 52% express an interest in tokenization, down five points from 2022. The decline was driven by the **U.S.** and **Europe**, as Asia saw an uptick in tokenization interest.
- Legal and regulatory complexities, **safeguarding/custody**, and security and privacy concerns are top barriers.
- Segments with greatest declines were **HNW** investors and **Financial Advisors**.
- Investors cited many advantages of tokenized asset models across regions. In the U.S., the key advantage is the potential for **fractional ownership**. Rapid transaction settlement is a top advantage in both **Europe** and in **Asia**.

Asset Class with Greatest Potential for Tokenization**



Source: Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study.

**Firms who expressed zero likelihood of gaining exposure were screened out from this question

13 Conclusion

Understanding how investors are engaging with the digital assets ecosystem is increasingly important. These key findings represent some of the most important insights gleaned from the Fidelity Digital AssetsSM 2023 Institutional Investor Digital Assets Study. While this year's study saw year-over-year declines in perception and investments in digital assets globally, it is crucial to highlight that the fielding period came after and during a year of significant market declines, industry bankruptcies, geopolitical turmoil, macroeconomic uncertainty, fraud, and bank failures.

Despite this, and since the conclusion of the survey, bitcoin has reached new all-time highs in price and the industry saw the approval and launch of U.S. spot bitcoin ETPs. Additionally, over half of investors surveyed (51%) were invested in the asset class, with most of those surveyed planning to buy digital assets in the future. As the industry and market infrastructure supporting it continue to develop, we believe that the robust digital assets fundamentals and the institutionalization of the market over the past several years has positioned it to weather recent events. Institutional investors are experienced in managing through cycles, and the largely inherent factors that they cited as appealing in this study will likely remain as the market continues to emerge.

14 Important Information

The blind survey was executed in association with Fidelity Consulting Strategic Insights on behalf of Fidelity Digital AssetsSM and the Fidelity Center for Applied TechnologySM between May 30, 2023 and October 6, 2023. The survey included 1,042 institutional investors in the U.S. (406), Europe (370) and Asia (266), including financial advisors, family offices, crypto hedge and venture funds, traditional hedge funds, high-net-worth investors, pensions and defined benefit plans, and endowments and foundations.

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