

CRYPTO—TECH PLATFORM OR SPECULATIVE BUBBLE?

Sion Evans
Investment Manager
VenCap International plc



1. INTRODUCTION

Writing in the New York Times back in 2014, Marc Andreessen argued that blockchain technologies like Bitcoin had the potential to disrupt the global economy in the same way the Internet has done over the last 25 years.

“Bitcoin gives us, for the first time, a way for one Internet user to transfer a unique piece of digital property to another Internet user, such that the transfer is guaranteed to be safe and secure, everybody knows the transfer has taken place and nobody can challenge the legitimacy of the transfer. The consequences of this breakthrough are hard to overstate”

Whereas the Internet allowed people to digitize and transfer information, Bitcoin and blockchain technology (“Crypto”) allows users to digitize and transfer ownership. Seven years on, we can start to assess how this prediction has fared and what this means for investors looking to future-proof their portfolios.

2. THE NEXT INNOVATION PLATFORM

For over 50 years the technology industry has moved from platform to platform – first it was mainframes, then client/server networks, then personal computers, then the internet and finally mobile. Each of these platforms was an order of magnitude larger than its predecessor, both in terms of user base and economic value. While still relatively early in its development, Crypto has the potential to be the next major technology platform.

3. DECENTRALISED FINANCE

Bitcoin was the original Crypto protocol, allowing users to digitise value. Today, entrepreneurs are using this property as a building block, rather than as an end unto itself. Enter the world of decentralized finance, or “DeFi”. DeFi protocols move far beyond the simple

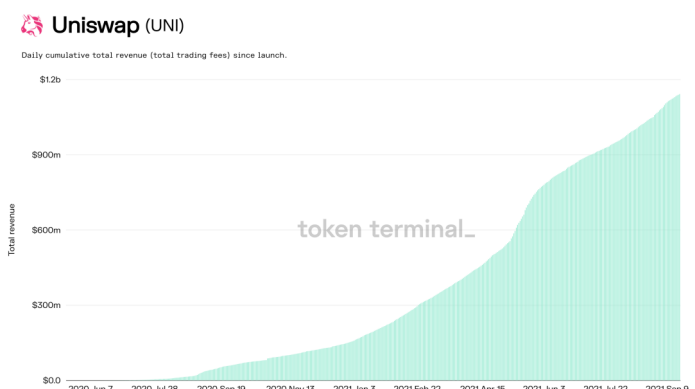
transfer of value, replacing cumbersome financial contracts and middlemen with cutting edge computer code. DeFi protocols in the market today already span trading, lending and derivatives.

These new protocols are completely automated, transparent and open – the antithesis of the manual, opaque and secretive world of traditional finance. The DeFi ecosystem today holds approximately \$108bn* of assets - tiny compared to the traditional finance industry but growing exponentially. DeFi protocols are also showing strong fundamentals with the top 10 protocols generating over \$3.7bn of revenue over the past 12 months.

4. UNISWAP

The most prominent DeFi protocol today is Uniswap, a decentralised exchange for digital assets. The Uniswap protocol runs autonomously on the Ethereum blockchain and its code is publicly available for anyone to audit. Since launching in November 2018, it has processed over \$400bn in trading volume, generating over \$1.1bn in fees. This is a real-world application of Crypto technology, and one that has gained significant traction in a short period of time. At the time of writing the Uniswap protocol is worth approximately \$11bn.

Figure 1 - Uniswap Cumulative Trading Fees



Source: Token Terminal

Like many DeFi protocols, Uniswap was backed by leading venture capital firms. According to data from Pitchbook, Uniswap raised its series A financing at a post-money valuation of \$50m in June 2020. Just over

a year later, its \$11bn valuation is a case study in the explosive upside of new technology platforms. At VenCap, we gave our investors early stage exposure to Uniswap through our underlying venture capital funds.

5. FUTURE-PROOFING YOUR PORTFOLIO

Innovative technology companies have been disrupting incumbents for decades, and this time will not be different. The internet transformed the way all companies operate, bringing with it countless efficiencies, opportunities, and innovations. Crypto has the potential to extend this transformation further, allowing value to be expressed and transferred natively over the web. We're already seeing traction in finance, but Crypto has the potential to rearchitect industries as disparate as social media, art, video games and, possibly, even the fundamental structure of companies themselves.

To VenCap, Crypto is a textbook venture capital opportunity. Entrepreneurs are creating products enabled by new technology, with the winners likely to generate enormous value. Backing these entrepreneurs acts as a natural hedge to a portfolio of traditional companies and gives investors an early look at disruptive trends.

6. CONCLUSION

It's easy to write off Marc Andreessen's comments from 2014 as Silicon Valley hubris and declare Crypto a speculative bubble. However, there are plenty of examples of emerging technologies being dismissed early in their lives, before their full potential has become apparent. The technology remains in its infancy - it's difficult to use, transactions can be slow and expensive - but real products with meaningful traction have already been built. Whatever one thinks of today's hype, or the price of Bitcoin, we strongly believe that this technological breakthrough is here to stay. We also believe that some of the biggest winners in venture capital over the next decade could come from Crypto. In an industry driven by outliers, that matters.

VenCap's underlying venture managers have been investing in Crypto for almost a decade, giving us early access to the likes of Uniswap, Coinbase, Bitcoin, Ethereum, Compound, Maker and Flow. These investments have performed phenomenally well to date, with our investors benefiting from being at the forefront of technological innovation. We look forward to continue allocating a prudent but meaningful amount of capital to the opportunity going forward.

*All Crypto data courtesy of Token Terminal as of 21 September 2021

ABOUT VENCAP

VenCap is an independent investment firm focused on investing in top-tier venture capital funds in the US, Europe, China and India. Since its inception in 1987, VenCap has been an investor in funds that have offered investors early exposure to many of the most significant companies that have been formed in the last 30 years, for example Facebook, Google, Netflix, NVIDIA, Spotify and Zoom.

To find out more about us, please click [here](#). To see our latest fund offering, please click [here](#).

VenCap International plc is authorised and regulated by the UK Financial Conduct Authority. VenCap (Channel Islands) Limited is registered and domiciled in Jersey, Channel Islands and is regulated by the Jersey Financial Services Commission for the conduct of Fund Services Business, Investment Business and AIF Services Business.