

Arca Live Q&A

September 23, 2020



Disclaimer

Nothing stated on this Q&A should be taken as investment advice, which would require a thorough assessment of each investor's personal financial profile and risk tolerance.

Statements regarding past performance are not necessarily indicative of future returns.

Where do you think we are in terms of the overall life cycle of the asset class? Are we in “early innings”, or perhaps not even?

- The pitcher is still warming up in the bullpen
- The investable universe is finally evolving and growing
- Top tokens will one day be issued by household names

What do you see as the 3 most pressing issues currently for digital assets (whether positive, negative, or unknown)?

Investors need:

- Better Education
- Better investment products
- Security and service providers
- User Adoption

User Adoption comes from:

- Better UI/UX
- Wallet apps on every phone
- Well known companies issuing tokens

What milestones are you looking for that could signify continued growth of the digital assets space?

- Regulatory / Tax clarity on custody, asset-backed tokens, etc
- Non-“crypto” company issues a token
- Investment bankers emerge

How do you see institutional investor interest changing in the asset class? Is it different this time?

- Increased interest amongst traditional institutional allocators
- Still very early
- Technical constraints vs investment thesis constraints
- Still “On/Off” but will soon switch to “Specialized”

How do you think about digital asset price movements that aren't supported by fundamentals?
How do you decipher between conflicting fundamentals?

- Fundamentals differ for each of the 4 types of digital assets
- Price typically follows observable growth trends
- On chain metrics, publicly available earnings, direct correspondence with companies
- Metrics are always conflicting - it's our job to interpret

How do you think about valuations within DeFi? What are the relevant fundamentals?

- Traditional financial metrics (P/E, P/S)
- Digital asset specific metrics (Price / TVL, Price/Volume, P/DE)
- Relative Value / Yields
- Unique properties/attributes (i.e. Bonding Curves)

How do you think about managing risk across digital assets? How do you adapt when things aren't working?

- Low beta / High cash
- Derivatives (BTC puts)
- Blockscore analysis (proprietary risk software)
- Risk Committee

To what extent is dispersion an input into your process, and how does a different environment (high dispersion/low dispersion) impact your portfolio allocation?

- We quantify downside, not upside
- Higher volatility → Lower position sizes
- Upside/Downside capture
- Blockscore risk model

What token economic structures do you seek out / avoid?

Seek

- Value accrual mechanisms
- Real CFs
- Productive assets
- Velocity sinks
- Low inflation
- Governance

Avoid

- No value capture
- Unproductive assets
- High inflation
- Token not needed

What do you think about active vs passive management in digital assets?

- Asset class too immature for passive
- Rules-based Indexes are outdated the second they are released
- Diversification only makes sense when aided by research and risk management

Thank you!

To continue the conversation from today or to ask any further questions, please email irir@ar.ca to schedule time to speak with Peter or the Arca team.