Blockchain Venture Capital Report

Cointelegraph
Consulting

Research Partners

TRGC

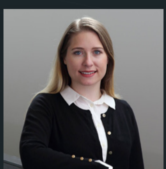
DRAPER GOREN HOLM

#HASHED

PNYX ventures

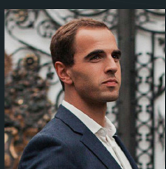
We thank our research partners for their support of this report

Authors



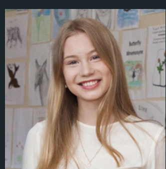
Demelza Hays

Demelza Hays is the director of research at Cointelegraph, former Forbes 30 Under 30, U.S. Department of State Fulbright Scholar and fund manager of two regulated crypto funds.



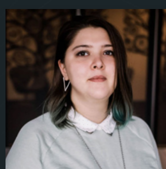
Dmitry Elkov

Dmitry Elkov is an analyst at Cointelegraph and has over five years of experience in traditional and crypto corporate finance.



Helen Rosenberg

Helen Rosenberg is a research analyst at Cointelegraph, holds a bachelors' degree in economics and finance and has co-authored three reports at Cointelegraph Research.



Natalie Malkhasyan

Natalie Malkhasyan is a senior research analyst at Cointelegraph, has over six years of experience in strategic consulting at Big Three and Big Four companies.

Igor Kravchenko

Igor Kravchenko is a research analyst at Cointelegraph. He is currently pursuing a master's degree in quantitative finance at the Vienna University of Economics and Finance.

Contents

Highlights

- There are very few blockchain VC funds for retail investors, even though there is high demand. A possible workaround to regulations that stop retailers from investing in blockchain VC funds is to mimic the coin/token holdings of professional investors. Similar to copying Berkshire Hathaway's trades, investors can watch what investments blockchain VC funds make and then add tokens to their own privately managed portfolio if the blockchain company has a token. For example, Messari tracks Polychain's portfolio containing Bitcoin (BTC), Ether (ETH), Polkadot (DOT), Tezos (XTZ), Filecoin (FIL), Cosmos (ATOM), Yearn.finance's YFI, Maker (MKR), Compound's COMP, Zilliqa (ZIL), 0x (ZRK), Celo, Orchid (OXT), Avalanche (AVAX) and Nervos Network (CKB).[1] You can also see Digital Currency Group's token holdings here: https://dcg.co/portfolio/.
- Dedicated blockchain VC funds have significantly outperformed the market and regular VC funds over the past seven years. While traditional funds have their Rate of Return in the low double digits, several blockchain venture capital funds have managed to match those returns 10 times over including Blockchain Capital and CoinFund. As the market matures, those returns are likely to taper off, however, we are still very early. Blockchain venture capital amounts to less than 1% of the entire VC market.
- Blockchain venture capital funds exhibit low correlation with traditional markets, which is a sought-after quality for alternative asset classes. For the most part, correlations between blockchain VC and stocks, bonds, and commodities have been in the 0.00 – 0.14 range. Although VC funds normally have a quarterly net asset value, or NAV, the tradable shares of Blockchain Capital's third fund, Fund III, have a weekly NAV. When comparing the correlations of the weekly log-returns of the fund since inception in April 2017 to December 2020, the diversification potential for investors interested in venture capital is loud and clear.
- VC investments in the blockchain industry are under serious economic pressure from COVID-19. Blockchain VC investments decreased by 13% between 2019 and 2020, while traditional VC investment increased by 18%. The total amount invested in blockchain VC dropped from $3.17 billion in 2019 to $2.77 billion in 2020.
- Decentralized Finance was the 2020 hot trend in blockchain Venture Capital (and more particularly, DeFi on Ethereum, since over 90% of the total value locked in those protocols resides there). Out of 676 registered blockchain VC deals in 2020, over 100 of the projects were related to DeFi.
- The Asian blockchain VC market may be the equivalent of emerging market stocks. While Asia is currently in the third position in terms of blockchain VC investment at 25.08% compared to 56.29% in North America, the trend may be reversing. Mass adoption of blockchain networks may happen in Asia faster than in the rest of the world because of the sheer number of possible users. For example, Klaytn and Link (by Line) already have 50 million and 165 million users, respectively, while Facebook's Diem, formerly referred to as Libra, and Telegram's TON have been stopped by regulators in the West. Nervos Network is one of the darling investments stemming from Asia that is held by several blockchain VCs.
- For firms that are in their Series A funding round and beyond, price to sales (P/S), price to book (P/B) and price to earnings per share (P/E) are common comparative analysis multiples used to value blockchain private equity. The valuations of some private crypto companies are astronomically higher than the FANG stocks. For example, one crypto company raised capital with a P/E ratio of 110. To put this into comparison, Apple's P/E ratio after the coronavirus was hovering around 24 but reached a maximum of 41.93 in December 2020. However, this is comparing apples to oranges to some degree.
- Tokenizing a VC fund is similar to equity crowdfunding, a growing industry that emerged after deregulation of the sector by the 2012 Jobs Act in the United States and similar acts in Europe and Asia. In a typical VC structure, it is challenging for both Limited Partners and General Partners to exit their investments as they are locked in for five to seven years. Tokenizing a VC fund and investing in tokenized equity enables LPs, GPs, and other qualified investors to exit their investment faster by liquidating it on the secondary market if the contract with the startup allows early exit.
- While historically, most of the investments in the crypto space happened with little to no VC involvement (82% of all investments to date), 2020 saw a significant shift in those numbers. Last year, only 22% of investments had no VC involvement at all, and the remaining 78% were equally split between crypto VC firms, regular VC firms and joint ventures between the two. The majority of those investments happened at the seed round (which also offers the highest potential returns) and were focused toward blockchain infrastructure.

[1] https://messari.io/screener/polychain-capital-portfolio-6E2FF33B

1 The Financial Landscape

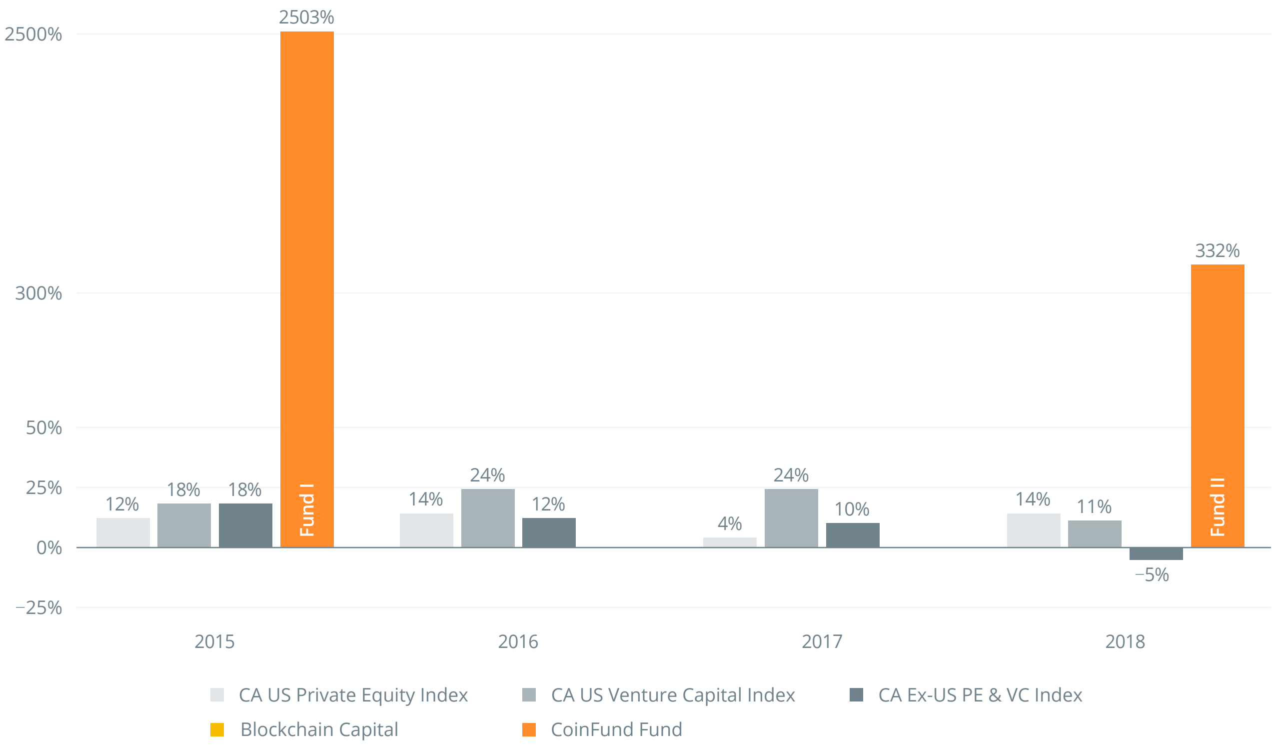
Welcome to the Blockchain Venture Capital Report by Cointelegraph Research. In five chapters and over 75 pages, this report highlights key trends in the blockchain private equity market.

Global private equity investments are a key driver of innovation, job creation and economic growth because they put dormant capital and expertise toward research, development and innovation. Blockchain venture capital has been an increasing important segment of the global private equity market for one simple reason: **outsized return**. In the dataset prepared for this report, we discovered that 942 venture capitalists have invested in over 2,700 private equity deals involving startups and companies in the blockchain space since 2012.[2] The proof is in the numbers. Not only has the crème de la crème of blockchain VC funds consistently outperformed traditional VC funds, the top blockchain VC funds have also outperformed the technology sector as a whole.

Figure 1

Blockchain Private Equity Has Outperformed Traditional Private Equity

Since Inception of the Fund IRR 2013 – 2020



Source: *Cambridge Associates LLC[3], Blockchain Capital LLC[4], CoinFund LLC[5], Cointelegraph Research*

[2] Contact research@cointelegraph.com to gain access to the dataset

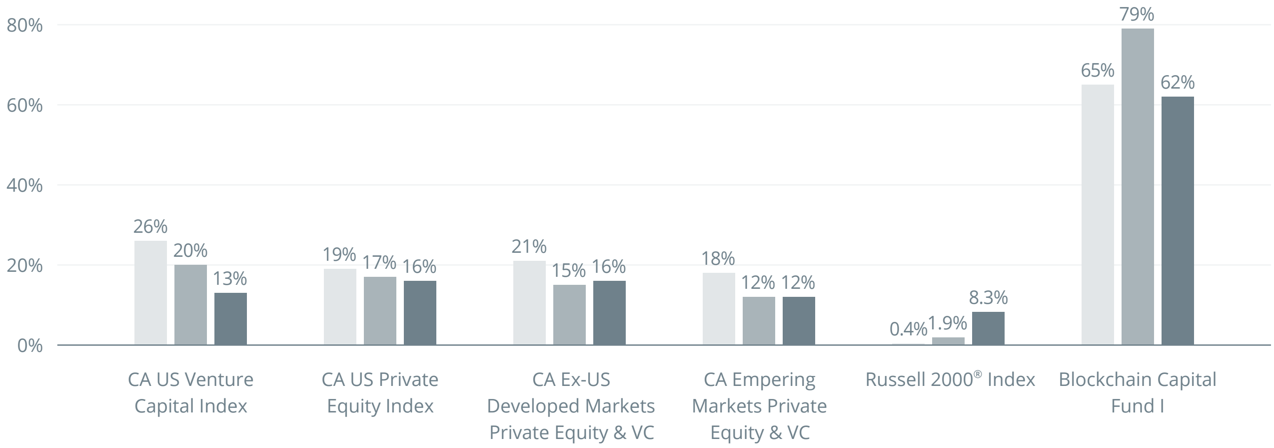
[3] As of June 30, 2020, based on data compiled from 1,529 U.S. venture capital funds, including fully liquidated partnerships, formed between 1995 and 2018, internal rates of returns are net of fees, expenses and carried interest.
https://www.cambridgeassociates.com/.../WEB-2020-Q2-USPE-legacy-Benchmark-Book.pdf
https://www.cambridgeassociates.com/.../WEB-2020-Q2-USVC-Benchmark-Book.pdf
https://www.cambridgeassociates.com/.../WEB-2020-Q2-ExUS-Dev-EM-Selected-Book.pdf

[4] As of Dec. 31, 2020. Blockchain Capital LLC's net IRR figures account for performance and management fees

[5] As of Dec. 31, 2020. CoinFund LLC's net IRR figures account for performance and management fees

Figure 2

Blockchain Private Equity Has Outperformed Traditional Private Equity Across 1-, 3-, and 5-Year Horizons



Source: *Cambridge Associates LLC[6], Blockchain Capital LLC, CoinFund LLC, Cointelegraph Research*

An increasing number of traditional venture capital firms are investing into this space; **however, blockchain private equity still amounts for less than 1% of the global venture capital market.** This signals the high level of risk associated with blockchain private equity, but this also signals just how early we all are in this space and that there is still room for significant growth in the future. During the 2017 crypto bull run, blockchain venture capital almost reached 2% of the VC market. We suspect 2021 may be similar due to market momentum surrounding the Bitcoin halving and the stimulus action of governments.

In comparison with the trajectory of "internet-specific" VC investments, this puts the blockchain industry in a period similar to the early 1990s, about a decade before the dot-com bubble. Between 1990 and 1994, internet-related deal flow grew from 0% to 5%, peaked at over 45% in 2000 and has since corrected to a stable 10% – 20%.[7] Similar to cryptocurrencies and other digital assets, private equity is considered to be an alternative asset class compared to traditional asset classes, such as stocks and bonds. The exotic nature of blockchain venture capital may be one explanation for its slow but steady growth in market share over the past decade.

There might be a few other reasons why blockchain VC is attracting so much attention from limited partners and buy-side investors. In addition to the return rewarding early movers, the return has been uncorrelated with traditional asset classes. To calculate log return correlations, we took the weekly net asset value of the tokenized shares of Blockchain Capital's third fund, Fund III.[8] When comparing the correlations of the weekly log returns of the fund since inception in April 2017 to December 2020, **the diversification potential for investors interested in venture capital is loud and clear.** Blockchain private equity appears to have the highest correlation with hedge fund returns in the US; however, even that correlation is low. Similar to traditional private equity, **blockchain private equity also has the potential to weather bad storms.** In 2018, when the crypto market was tanking along with crypto funds, BCAP tokens returned 264%.

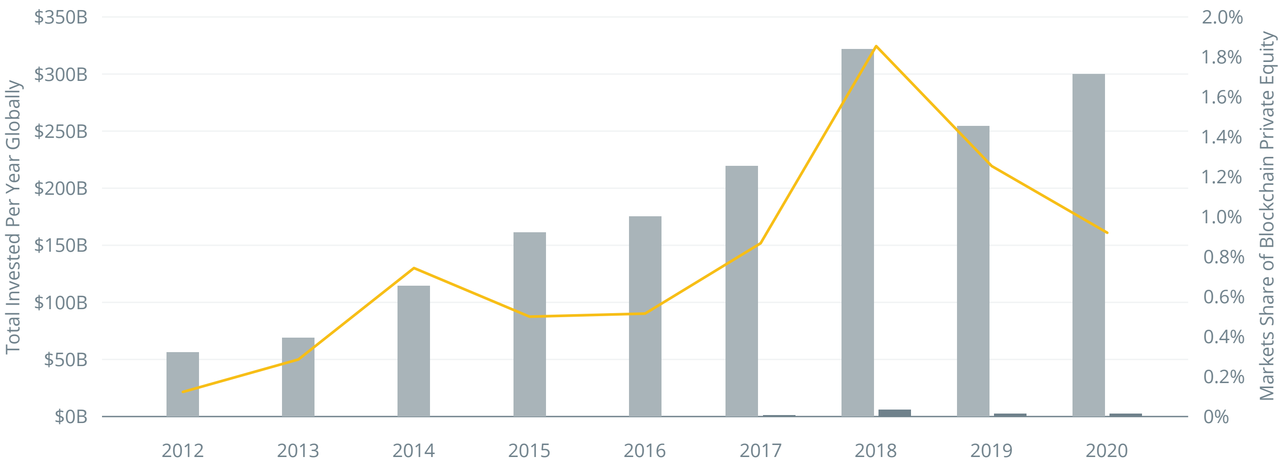
[6] As of Sept. 30, 2020. The index is a horizon calculation based on data compiled from 1,980 U.S. venture capital funds, including fully liquidated partnerships, formed between 1981 and 2020. The calculations for the CA U.S. Venture Capital Index, CA U.S. Private Equity Index, CA EX U.S. Developed Markets Private Equity & VC, and CA Emerging Markets Private Equity & VC are pooled horizon return, net of fees, expenses, and carried interest. The calculation for the Russell 2000 horizon is CA's Modified Public Market Equivalent (mPME), which replicates private investment performance under public market conditions. The public index's shares are purchased and sold according to the private fund cash flow schedule, with distributions calculated in the same proportion as the private fund, and mPME NAV is a function of mPME cash flows and public index returns. Refer to the methodology page of each CA report linked below for details.
https://www.cambridgeassociates.com/…/WEB-2020-Q3-USVC-Benchmark-Book.pdf
https://www.cambridgeassociates.com/…/WEB-2020-Q3-USPE-Benchmark-Book.pdf
https://www.cambridgeassociates.com/…/WEB-2020-Q3-ExUS-Developed-PEVC-Benchmark-Book.pdf
https://www.cambridgeassociates.com/…/WEB-2020-Q3-Emerging-Markets-PEVC-Benchmark-Book.pdf

[7] https://www.pnnl.gov/…/PNNL-19617.pdf

[8] https://loop.blockchain.capital/weekly-nav/

Figure 3

Blockchain VC Still Makes Up Less Than 1% of Global VC Market



Source: *Crunchbase News[9], Blockchain Capital, Cointelegraph Research*

Blockchain Private Equity Is Uncorrelated Traditional Private Equity, Stocks and Commodities

	Log return				
	NAV BCAP	Horizons Morningstar Hedge Fund Index	Bloomberg Barclays High Yield Bond ETF	MSCI Emerging Market Index	S&P 500
NAV BCAP	1				
Horizons Morningstar Hedge Fund Index	0.197340947	1			
Bloomberg Barclays High Yield Bond ETF	0.162562351	0.533313803	1		
MSCI Emerging Market Index	0.238501215	0.614986054	0.612366046	1	
S&P 500	0.195424767	0.77433241	0.818020026	0.776651227	1

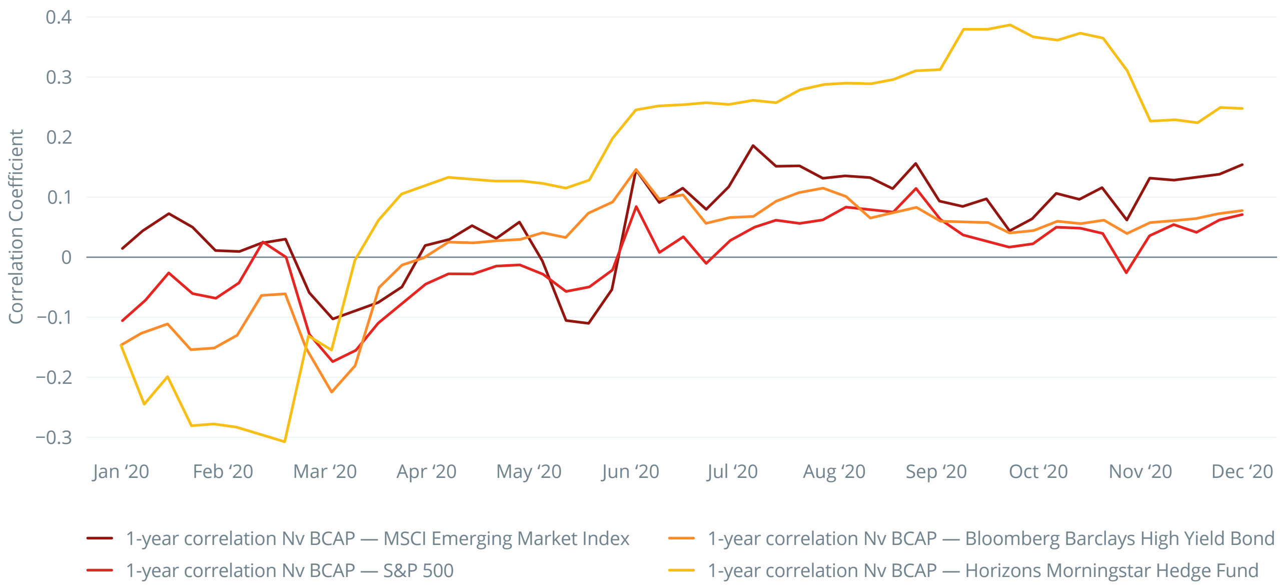
Source: *Data covers the period from June 17, 2017 – December 31, 2020. Yahoo Finance, Blockchain Capital LLC, Cointelegraph Research*

Finally, the allure of increased liquidity has also been touted as a potential driver for the increasing demand for blockchain private equity. The theory goes something like this: If tokenizing assets lowers the cost of raising capital, then small and medium-sized enterprises that are too small to go public on a traditional stock market will now be able to raise capital with blockchain technology. Therefore, if small firms tokenize their private equity, then investors would hypothetically be able to open and close positions a lot easier than in the current VC model involving 10-year lock up periods. However, there are caveats to this potential benefit, and we discuss them in Chapter 4.3.

9 https://news.crunchbase.com/news/the-q4-eoy-2019-global-vc-report-a-strong-end-to-a-good-but-not-fantastic-year/
https://news.crunchbase.com/news/global-2020-funding-and-exit/

Figure 4

One Year Rolling Correlation of Blockchain Capital's BCAP Token's Weekly Log Returns



Source: *Data covers the period from December 18, 2018 – December 31, 2020. Yahoo Finance, Blockchain Capital LLC, Cointelegraph Research*

Learn VC: Limited Partner

Limited partners (LPs) are investors that buy shares of VC funds that invest capital in the private equity of startups and companies.

1.1 The Stakeholders

This overview highlights the ecosystem's investment patterns over the past decade, top performers, investors, locations and industries, and most importantly tries to answer why these charts look the way they do. The financial landscape of blockchain venture capital involves three main stakeholders, entrepreneurs, private investors and venture capital. Being a subcategory of the global VC industry, blockchain VC shares many similarities but also introduces a host of new risks and opportunities.

Blockchain impacts three key areas of the venture capital industry, including how startups raise capital, how buy-side investors can diversify their portfolios, and how sell-side asset management companies can generate new streams of revenue.

The blockchain VC ecosystem involves 3 main parties

Entrepreneurs

who need funding to finance their business

Private investors

who seek high returns for the capital they are providing

Venture capitalists

sources start-ups with high potential and provides mentorship to enhance success rate

Learn VC: General Partner

A venture capitalist, also referred to as a general partner (GP), is a financial intermediary that matches the LP's capital with private companies seeking funding.

Blockchain Technology Disrupts the VC Industry

Startups	Buy-Side Investors (LPs)	Sell-Side Investors (GPs)
Larger Pool of Investors: Startups can sell tokens online to a global pool of both retail and accredited investors instead of only to accredited investors. **Lower Costs:** By removing intermediaries such as underwriters and contract lawyers, startups can save money and speed up the process.	**Investment Opportunities:** Distributed ledger technologies offer new investment opportunities to investors. Traditional VCs are gradually diversifying their portfolios to invest in crypto assets and blockchain technology projects. **Exiting Positions:** By tokenizing positions in early-stage and growth-stage venture capital investments, limited partners can exit their positions before the company goes to IPO or is acquired if the original contract with the startup allows early exits. Blockchain enables trading of this once upon a time illiquid investment by tokenizing the investor's rights.	**New Revenue Streams:** On the sell side, VCs are launching crypto-centric private equity funds and fund of funds (FOF). **Inclusive and Transparent Funding:** Several blockchain VC funds have claimed ownership of their Ethereum wallet address, thereby enabling the whole world to watch the investments they make in real time. **Rebalancing Made Easier:** Adjustment of positions can be done by trading the tokenized equity of the companies they are invested in that form the underlying assets for the fund. Tokenized VC funds also enable GPs to buy back tokens from investors off of the open market similar to a share buy-back.

Source: *Cointelegraph Research*

The remaining sections in the report target each shareholder.

- Section 2 focuses on entrepreneurs who are interested in raising capital for their blockchain startup or company. We explore the factors that impact how much a startup raises and discuss key questions, such as how VCs view startups that have done initial coin offerings or token sales in the past.
- Section 3 targets private investors from the traditional finance realm that are curious about blockchain and cryptocurrencies. We compare the average returns and lockup periods for traditional vs. blockchain VC and summarize the regulations and taxes that impact investors in select locations.
- Finally, Section 4 is for the VCs themselves. In this chapter, we discuss the ins and outs of tokenizing a fund and exit strategies for blockchain startups that are nonprofits or decentralized. We also cover strategies for valuing blockchain startups and explain why some are better suited for this industry than others.

The report concludes with our outlook for blockchain venture capital in 2021, including non fungible tokens and the proliferation of decentralized finance.

1.2 2020's Largest Blockchain VC Deals

In the U.S., three companies stole the show: Bakkt, Paxos, and Chainalysis. Together, they accounted for 42% of the total money raised by companies in the U.S. and for 21% of the global blockchain private equity market. They attracted $542 million.

Top 5 companies in blockchain industry by money raised in 2020

bakkt	PAXOS	Chainalysis	BlockFi	Bitso
$300M In 2020	$142M In 2020	$113M In 2020	$60M In 2020	$62M In 2020
$482,5M Total	$240M Total	$167M Total	$158,7M Total	$66,4M Total

Bakkt is a financial services company which focuses on digital currency and specializes in concurrency, rewards, and loyalty. Bakkt has raised over $482.5 million, $182.5 million in Series A in 2018 and $300 million in 2020. In 2020 cryptocurrency derivatives exchange Bakkt partnered with Starbucks to offer a new payment opportunity for Starbucks application users. In the near future the Starbucks mobile app will offer "Bakkt Cash" as an alternative payment solution.

Paxos is a financial technology company that delivers blockchain solutions for global financial institutions. The main product is Bankchain, a cloud-based platform as a service (PaaS) blockchain settlement solution for capital markets. The main product is Bankchain, a cloud-based platform as a service (PaaS) blockchain settlement solution for capital markets. With the funding, Paxos will continue investing in developing corporate infrastructure solutions while improving security, regulation, reliability.

Chainalysis is a blockchain analysis firm which provides data and analytics to government agencies, exchanges, and financial institutions. During 2020 the company raised $113 million in Series B and Series C. Total money raised is $167 million, $1.6 million in seed round in 2016, $16 million in Series A in 2018, $30 million in Series B in 2019. Chainalysis is valued at $1 billion which is quite rare for a blockchain data analytics service firm.

BlockFi is a digital platform that provides crypto savings accounts and crypto-backed loans in addition to supporting crypto trading. A secured non-bank lender, it offers USD loans to crypto-asset owners which collateralize the loan with their crypto-assets. Their products deliver additional liquidity to the blockchain asset sector and satisfy the needs of individuals and organizations that hold blockchain assets.

Bitso is a Bitcoin exchange that is pioneering in Mexican market. It offers a digital platform for trading Bitcoin with Mexican Peso. The company has raised $66.4 million in funding, $1.9 million in seed round and $2.5million in Series A in 2016, $62 million in Series B in 2020.

1.3 North America is Still the Leading Blockchain VC

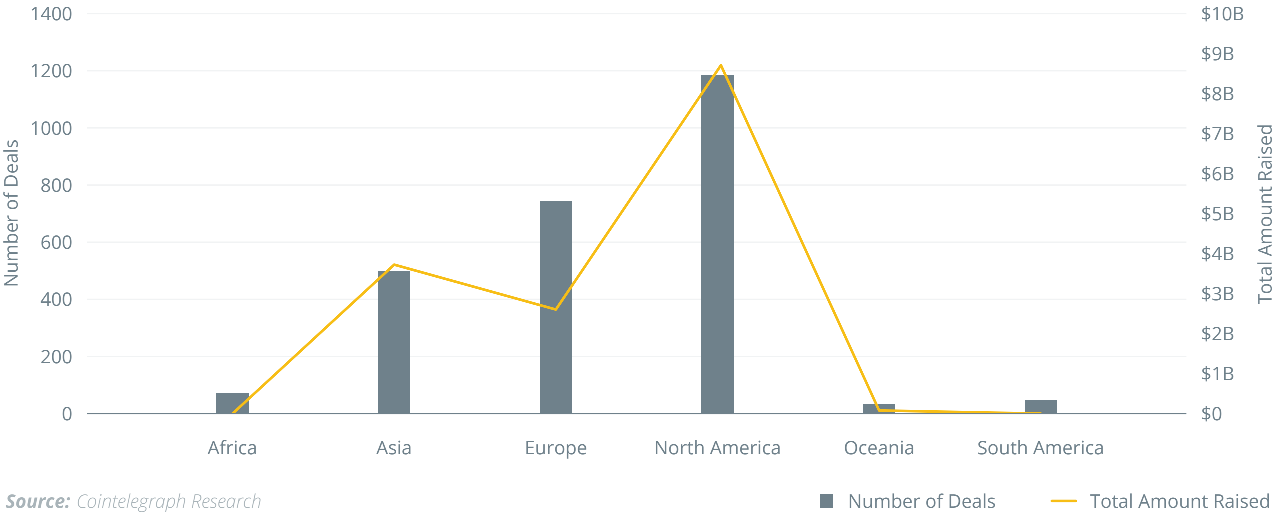
Blockchain companies from North America, Asia, and Europe have led funding for the last eight years. Investors put more than $2.75 billion in 622 blockchain deals in 2020, doubling 2017's numbers of $1.28 billion USD across 322 deals, but far behind 2018's impressive $7.75 billion USD across 833 deals. **To put things into perspective, blockchain-related deals made up 0.92% of all VC deals in 2020.** This is down from 1.25% in 2019, and 1.87% in 2018.

In 2020, North America led the way in the average amount of money raised per deal ($8.3 million) followed by Asia (5.9 million) and Europe ($4.4 million). Although Asia's major economies recovered from government imposed economic shutdowns more rapidly than the rest of the world, the fastest rebound in dealflow following COVID-19 was Europe.

At the country level, the United States, United Kingdom and China account for 68% of the capital raised between 2012 – 2020. Other countries with a significant share are Switzerland with 5% and Singapore with 3%.

Figure 5

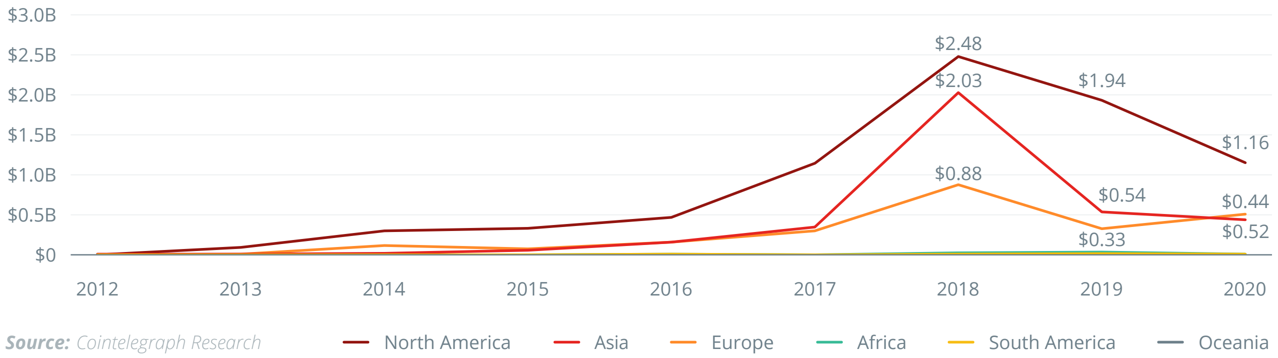
North America, Asia, and Europe Have the Most Blockchain VC Deals (2012 – 2020)



Source: *Cointelegraph Research*

Figure 6

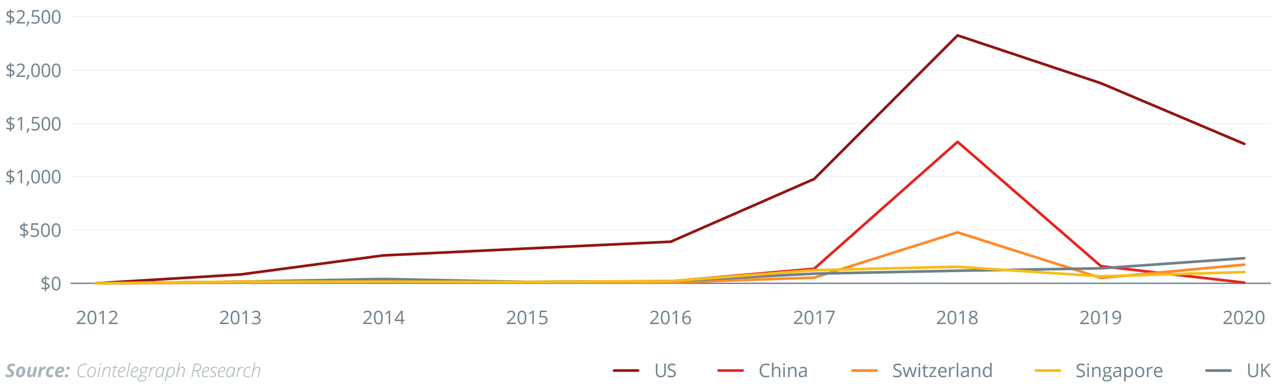
North America, Asia, and Europe Have the Most Blockchain VC Deals



Source: *Cointelegraph Research*

Figure 7

Capital Raised by Blockchain Companies by Country of Company Headquarters



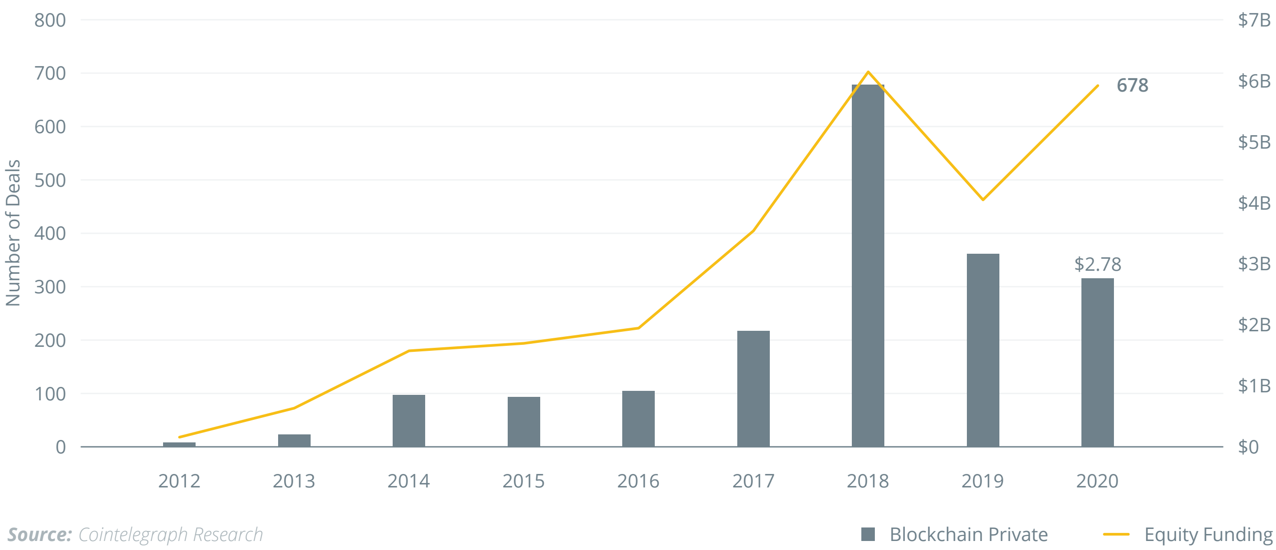
Source: *Cointelegraph Research*

1.4 COVID-19's Toll on Blockchain Private Equity

Overall, **blockchain VC investments decreased by 13% between 2019 and 2020, while traditional VC investment increased by 18%**. This is a perplexing result. We can only explain this result as a response to the 2018 and 2019 downturn in the digital asset market, while traditional stock markets continued to perform well. This may have made some investors cautious to invest further resources in blockchain companies. Although the number of deals decreased from a maximum of 661 in 2018 to 423 in 2019 (a 36% drop), the number of deals rebounded by 25% in 2020, up to 609. The higher number of deals and lower total capital raised reduced the average blockchain deal from $7.1 million in 2019 to $4.2 million in 2020.

Figure 8

Blockchain Private Equity Funding Per Year and Number of Deals



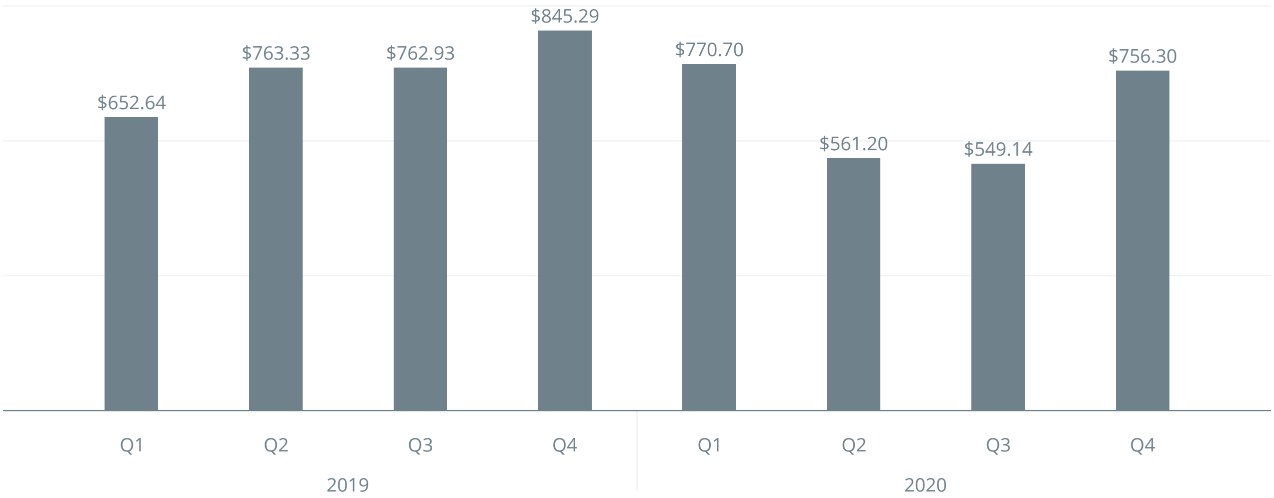
Source: *Cointelegraph Research*

COVID-19 wrecked two quarters of blockchain VC investment across the globe, but Q4 2020 saw a strong recovery. In Q4 2020, the amount of money raised increased 37% in comparison to Q3 2020. This positive trend indicates a possible recovery in VC investments in the near future.

Overall, we expect both the number of deals and the amount of capital invested in blockchain companies to increase in 2021 due to macroeconomic conditions, such as increased government stimulus and microeconomic conditions, for example, the market's response to Bitcoin's 2020 reduction in block rewards.

Figure 9

Global Capital Raised by Blockchain Companies in 2020 in Millions



Source: *Cointelegraph Research*

1.5 Evolution of the Economy

Over the past few decades, we have seen a gradual shift from fully centralized economies to platform economies. This process is characterized by the realization of large companies that they cannot effectively compete with crowd-sourced contributions. Some examples of this are social networks, such as Facebook or YouTube, where content is exclusively produced by the platform users (both with and without external incentives). Similar examples are Airbnb and Uber, where the company does not possess the infrastructure for the offered services but, rather, just facilitates transactions via its platform.

In the examples above, we still have a mostly centralized model where the success of the venture depends on a single entity: the company acting as an intermediary in the process. In a decentralized protocol-based economy, the protocol is the intermediary and the protocol itself is maintained by community contributors. There can still be centralized services offering interfaces to the protocol, but the success of the protocol itself no longer relies on any individual company.

Learn VC: Protocol Economy

#Hashed VC has coined the term "Protocol Economy" to refer to the process of removing unnecessary intermediaries and their associated costs by directly connecting contributors with consumers.

Economic Model Evolution

1850 > Future

	1850 – Mid 1990	Mid 1990 – Present	Future
	Centralized Economy	**Platform Economy**	**Protocol Economy**
Description	**Corporate Model** Employees within companies provide goods and services	**Marketplace Model** Employees and contributors form outside companies generate value	**Permissionless Model** Any and all participants are enabled and incentivized to contribute
Value	**Shareholder Value** Corporates focus on growth and wealth generation for shareholders	**Shareholder Value** Markets generate value for stakeholders, i.e. contributors and end consumers	**Community Value** Networks, with internal focus, provides value to all contributors and users
Data	**Low Data Sophistication** Lack of infrastructure and technology for proper data usage and analytics	**Increasing Data Usage** Industry, market, and consumer data are used to enhance operations	**Data Sovereighty** Data is key to the economy, and is hence prioritized and protected
Examples	NOKIA, Kodak, myspace, yahoo!, Blockbuster, Walmart	amazon, Alibaba Group, YouTube, Uber, facebook, airbnb	bitcoin, Terra, Klaytn, kyber network, ethereum, MAKER

Source: #Hashed VC

1.6 Where Venture Capital Is Forecasted to Flow in 2021

With the fundamental blockchain infrastructure already built, we expect **upcoming venture capital to focus on higher layers of the tech stack:** (1) functionality and (2) apps. For example, if TCP/IP and HTTP are the foundational protocols for the internet, Ethereum and other smart contract platforms are becoming the foundational infrastructure layer on top of which various blockchain applications are built.

As each layer develops, it becomes the foundation for the next one. The currently thriving world of decentralized finance would not have been possible without Ethereum as a base layer. For example, Aave, with nearly $6 billion in Total Value Locked is sitting on top of Ethereum. Then the lending protocol aggregator Yearn.finance was built upon both Ethereum and Aave and many other lending decentralized applications.

With the growth of the space, we are also seeing an increase in mergers and acquisitions as opposed to traditional ways of fundraising. Since the infrastructure around cryptocurrencies is starting to mature, while the overall complexity remains high and talent is scarce, it often makes more sense to acquire rather than to build from the ground-up. Acquisitions happen both within the space (crypto companies acquiring crypto companies) and outside of it (crypto companies acquiring non-crypto companies and vice versa). Some prominent examples in this regard are:

- Binance (one of the largest cryptocurrency exchanges) acquiring CoinMarketCap (one of the largest data aggregators).[10]
- The company behind Tron (the 11th largest cryptocurrency at the time) acquiring one of the largest torrent software providers — BitTorrent.[11]

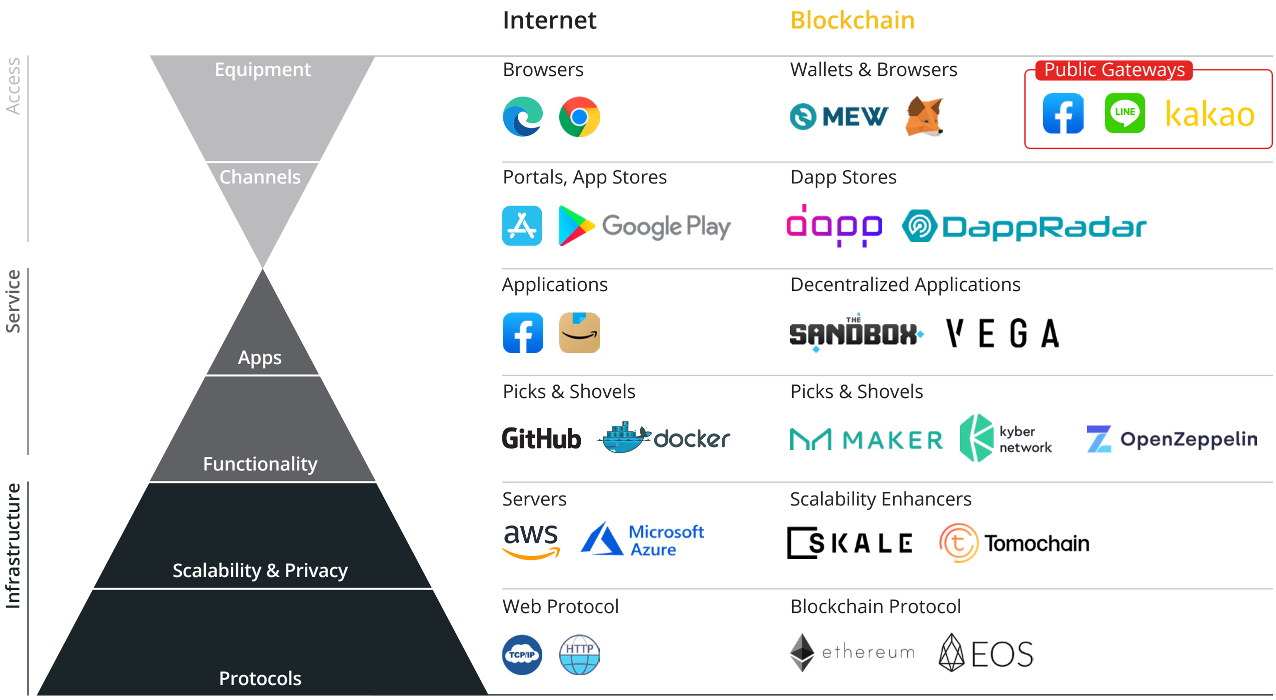
[10] https://cointelegraph.com/news/binance-announces-coinmarketcap-acquisition-cz-gives-the-scoop
[11] https://cointelegraph.com/news/confirmed-tron-acquires-major-p2p-platform-operator-bittorrent

- Facebook acquiring Chainspace (a research company focusing on smart contracts).[12]

On the other hand, there are also a plethora of funds set up to facilitate the expansion of specific blockchain networks. They are usually created by developers or large investors involved in the cryptocurrency project itself. For example:

- Borderless capital (previously Algo Capital), a VC fund focusing on products that accelerate access, bootstrap adoption, and create value globally through the Algorand borderless economy.[13]
- The Dash Investment Foundation, which supports the network's growth by enabling enforceable legal and financial arrangements between the Dash DAO and traditional businesses seeking funding from the network.[14]
- Gitcoin, which is a hybrid funding group for the Ethereum ecosystem.[15]

Comparative Technology Stack



Source: *#Hashed VC*

Key Enablers

“The mode through which capital is allocated is being decentralized as the blockchain technology democratizes access to investment opportunities.”

Lin & Nestarcova (2019)

[12] https://medium.com/cheddar/facebook-makes-first-blockchain-acquisition-with-chainspace-e35a559e5d36
[13] https://borderlesscapital.io/
[14] https://www.dashinvests.org/
[15] https://gitcoin.co/wiki/grants/

TRGC

A digital asset fund focused on investment opportunities that will spark the internet's next paradigm shift.

About TRGC

Digital assets are revolutionizing the way we create, transact, and transfer value and ownership. Blockchain protocols and DeFi applications are eliminating existing friction points, creating borderless and inclusive opportunities through new peer-to-peer interactions and, as value becomes programmable for the first time, this next architectural shift of the internet represents a generational investment opportunity.

We have spent over four years creating and nurturing an extensive network of reputable industry contacts, resulting in unrivalled access to a wealth of vantage points in the blockchain investment landscape. At the same time, we have demonstrated a consistent and battle-tested ability to source high quality project teams, investing in their vision with conviction.

TRGC leverages deep knowledge of the blockchain technology ecosystem to assess future potential, adding exceptional value at the earliest stages of development and enabling innovation to blossom. Our investment portfolio highlights a verifiable track record of fostering cutting-edge technologies at their point of inception.

Our Approach

TRGC invests across a wide spectrum of distributed technologies; our level of involvement ranges from seed investments in blockchain protocols and infrastructures to deployment of capital in established blue-chip digital assets that **will continue to shape and advance the DeFi ecosystem.**

Our ability to put capital to work efficiently and generate asymmetric risk-adjusted returns comes as a result of applying a rigorous, research-driven investment process. We place a high focus on long-term partnerships with exceptional project teams and founders.

We are able to tap into strong industry connections that help companies navigate today's regulatory uncertainties, enabling teams to forge partnerships, build communities and construct flourishing ecosystems. All of the aforementioned results in tremendous value being captured in a way that was not previously possible.

Our Team

Led by Managing Partner **Etiënne vantKruys,** TRGC comprises a team with a wealth of experience in both emerging blockchain technologies and traditional finance spanning several years.

Etiënne,
an active angel investor and advisor, has a strong network of partners that spans every continent. Etiënne assists trailblazing project teams reach their funding goals, with some reaching up to $1bn in market capitalisation as a direct result of his navigational skills with go-to-market strategies.

Yoon
previously built and led Tremblant Capital's digital sector investments, helping grow its AUM from $200 million to $5 billion in less than five years. Yoon also launched Vestry Capital, a global TMT long and short equity fund seeded by Citadel Alternative Asset Management.

Damian,
who also actively invested in various early-stage technologies, was previously a Partner and Managing Director at several New York-based Hedge Funds. With a focus ranging from Healthcare, Real Estate and Technology, previous positions were held at SAC Capital, Welch Capital Partners and Newgrange Partners.

Combined, the cumulative knowledge, value-add and foresight behind TRGC as a fund has made it well-positioned to make a considerable mark on the blockchain and digital asset economy.

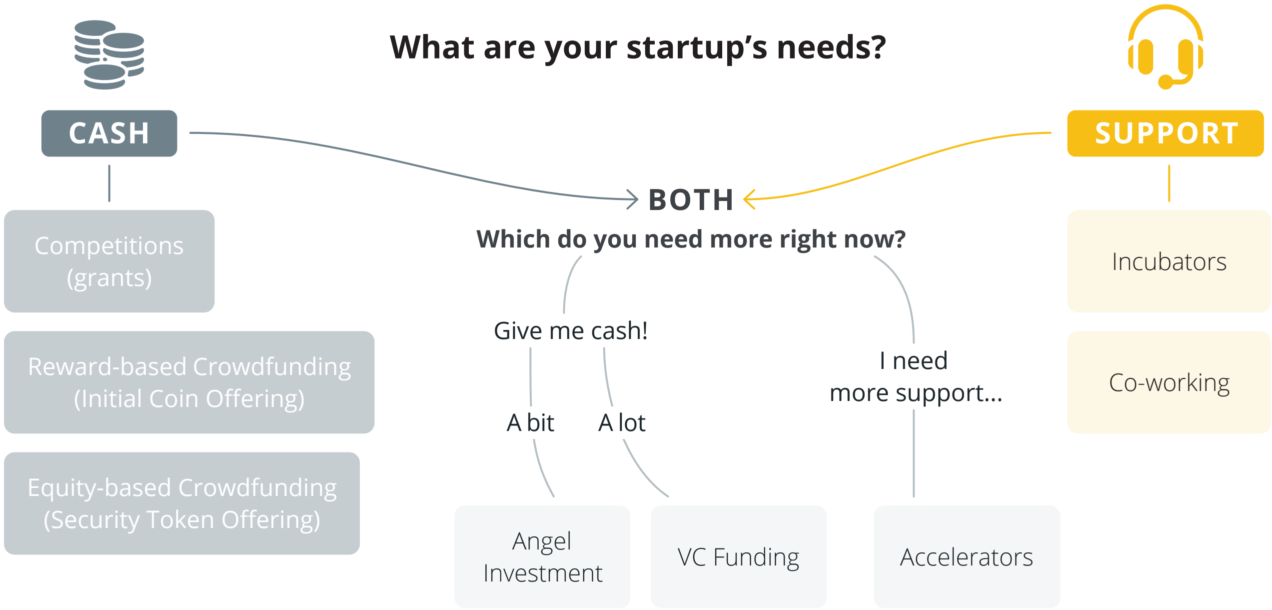
Investing in tomorrow's innovations, today

After working in a closed capacity for nearly half a decade, TRGC is now opening it's fund to outside investors from Q2 2021 onwards. With emerging trends in the ecosystem rising globally and exponentially, we are able to help exceptional project teams unlock value in ways never seen before.

Whilst we see maturity in some areas of the market, other emerging trends are still in their infancy and investing undoubtedly comes with a degree of risk that is not immune to any extreme market forces. This being said, when presented with a generational opportunity, partnering with reputable funds that leverage substantial expertise and valuable market insights allows investors to play a central role in shaping an exciting future.

2 Startups

2.1 Types of Private Equity Investors



Source: *Adaptation from Diane Perlman's blog on Gust.com, Cointelegraph Research*

Traditionally, startups have turned to venture capital firms to raise money for their growing businesses. However, today there are many types of investors that are willing to fund entrepreneurs, including accelerators and angel investors. Furthermore, blockchain technology has created new channels for collecting capital, including the potential of selling to retail investors for the first time since the development of securities laws over the past 70 years (not to mention the borderless nature of this technology increasing the target addressable market of retail investors even further). Raising capital with security tokens, SAFT agreements or variants of ICOs all offer different benefits and disadvantages compared to traditional VC funding.

Overall, the lack of regulatory and geographical constraints inherent to blockchain enables a more efficient use of capital across the world, as venture capital can chase good ideas and flow from capital rich areas to capital poor ideas. Due to the increase in capital flowing from unbacked fiat money printing and the increase in ways to funnel capital into startups with blockchain technology, **we feel that good ideas and capable teams are the scarce assets, not capital.** Over the next few years, we expect to see increasing nominal valuations of startups as fiat currencies continue to be debased, and we also expect to see governments cracking down on SAFT agreements and similar contracts, such as secondary forward contracts.

Notable Examples of Blockchain Accelerators Include

ConsenSys Labs is focused on developing Ethereum-based projects.

Binance Labs looks for new projects that support BNB and Binance Smart Chain.

Tribe Accelerator is supported by the Singaporean government, giving it unique advantages for new projects from that region.

Accelerators

Accelerators are not as common in the blockchain world as they are in traditional startup communities. This is mainly due to the ease of access to fundraising via initial exchange offerings and ICOs, as well as the support of online communities and DAOs. However, many large blockchain accelerators exist, particularly when a secondary motive is present, such as the development of an ecosystem. Many blockchain protocols will also offer grants, technical advice and networking support in exchange for building on their protocol.

Crowdfunding

A public token sale that does not give investors a security or investment contract is considered to be a type of crowdfunding. From a strategic point of view, they provide immediate access to funds and don't attach any legal or fiduciary responsibility to investors. The main drawback is that investors tend to hold very short-term investment horizons and offer very little in the way of strategic, technical or promotional support.

Angel Funding

In addition to venture capitalists that invest on the behalf of others, there are also angel investors that invest their own money into private equity deals.[16] The token "private sale" method has somewhat "decentralized" the need for angel investors, with projects targeting high-profile influencers and key opinion leaders for discounted allocation in exchange for future strategic and promotional support. Many prominent solo investors, such as the Winklevoss twins or Barry Silbert, have gone on to organize venture capital funds.

Incubators

Incubators can offer strategic support, networking and even physical office space to promising projects. While incubators and accelerators offer similar services, traditionally, incubators don't offer funding like accelerators do. Many governments, universities and corporations offer incubators, including JPMorgan, Thomson Reuters, and Cambridge University.

Competitions

Incubators can offer strategic support, networking and even physical office space to promising projects. While incubators and accelerators offer similar services, traditionally, incubators don't offer funding like accelerators do. Many governments, universities and corporations offer incubators, including JPMorgan, Thomson Reuters, and Cambridge University.[17]

VC Funding

VC Funds in the blockchain space are known for investing in a range of assets, such as equity, convertible notes, SAFTs, and non-equity tokens. Notable examples of blockchain VC funds include Draper Goren Holm, Hashed, TRGC, PNYX, Polychain, A16z, IDG Capital, Blockchain Capital, Delphi Digital and Pantera.

Corporate Funding

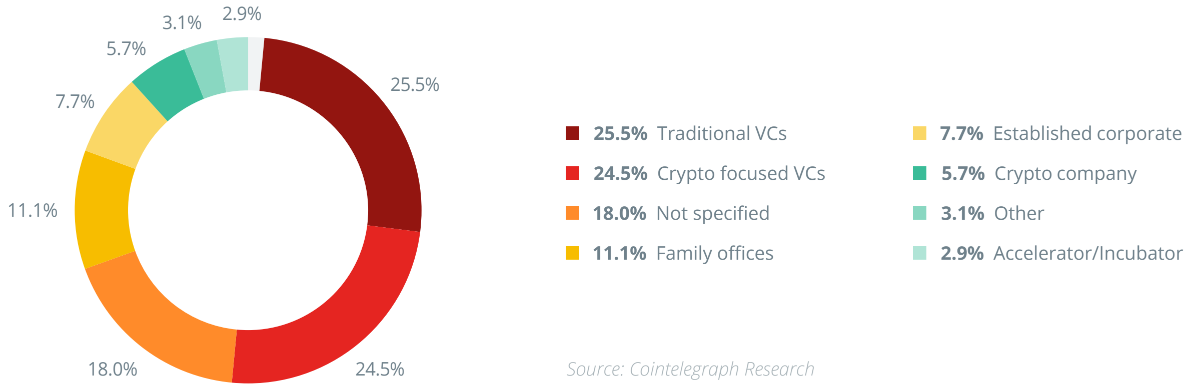
The final group of potential investors in blockchain venture capital are strategic investors, such as corporations. Corporate investors do not follow the same strategy as angels and VCs because they can often find ways to profit from the private equity investment without exiting via an acquisition or IPO.

[16] https://gitcoin.co/results

[17] http://ict-industry-reports.com.au/.../2011-Book-Venture-Capital-and-Finance-of-Innovation-Metrick-Yasuda-Dec-2011.pdf

Figure 7

Percentage of Deals by Investor Type in 2020

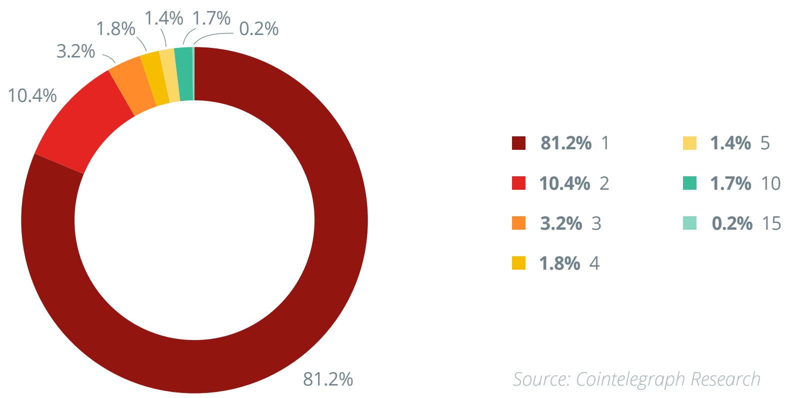


Source: Cointelegraph Research

In terms of where the money is coming from, traditional and crypto-focused venture capitalists account for half of all the investments made during 2020. Over 80% of VCs engaged in one deal or less; however, there were five VCs that engaged in at least 10 deals during 2020. The award for most active VC in 2020 goes to a Netherlands-based crypto VC called TRGC run by Etiënne vantKruys. TRGC made a staggering 22 deals during 2020. Runner-up is a tie with Coinbase Ventures and Dragonfly Capital both with 13 deals. An interesting question is which companies sparked the curiosity of these VCs, and are there any companies that multiple VCs made long-term bets on?

Figure 10

Majority of VCs Made One Deal or Less in 2020



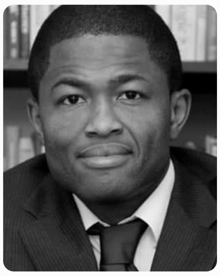
Source: Cointelegraph Research

Most Active Blockchain VC Investors in 2020

VC	Number of Deals	Blockchain Investments
TRGC	22	**Avalanche (AVAX)**, Centaur, Kira Core, StakerDAO, Vesper, finance.vote, Plasm Network, seascape, Akash Network, HydraDX, StaFi Protocol, E-money, Jarvis Network, Gather, Fuse, Persistence, Covalent, Reef, SIFchain, Unilend, WooTrade, Frontier
Coinbase Ventures	13	Amber, Arweave, Audius, Bitso, CoFix, CoinMetrics, CoinDCX, **Curv (CRV)**, Dapper Labs, **DerivaDEX (DDX)**, Dune Analytics, FalconX, Multis
Dragonfly Capital	13	Opyn, **Avalanche (AVAX)**, TaxBit, 1inch Exchange, CoFix, CoinMetrics, Paradigm, Dune Analytics, Cozy finance, Sia Tech, Babel Finance, **DerivaDEX (DDX)**, Numerai
Polychain Capital	12	CoinDCX, **Avalanche (AVAX)**, Compound, Yellow Card, River Financial, Gauntlet Network, Amber, Liquity, Horizon Blockchain Games, **DerivaDEX (DDX)**, Alpha5, StakerDAO
Digital Currency Group	11	Circle, CoinMetrics, **Curv (CRV)**, Dune Analytics, Figure, Fireblocks, Horizon Blockchain Games, Lolli, Paradigm, Skew, Zabo
Alameda Research	11	Paradigm, Covalent, 3 commas, Folkvang, APY.Finance, Mask Network, MathWallet, Balancer, ParaSwap, Mantra DAO, Perpetual Protocol

Insider Insight with Founder of TRGC, Etiënne vantKruys:

As we continue to witness an accelerated shift into the digital age, the world is starting to get a glimpse of the asymmetric opportunities that blockchain presents. With real use cases, blockchain is at the forefront of innovation. Take emerging trends like DeFi, it has demonstrated how banking can be driverless with no human intervention and lending can be non-discriminatory. Today, exceptional founders are laying the groundwork for future growth and maturity of the ecosystem. Projects like AAVE, Covalent, Avalanche, Plasm are recent examples of that.



Insider Insight with **Etiënne vantKruys**, founder of TRGC

However, this is only for 2020. One of the most active firms over the entire dataset is Pantera Capital. Based in the US, Pantera Capital focuses exclusively on projects related to blockchain technologies. The company has had 113 investments since 2014 and is the lead investor of 31 organizations.[18] We especially enjoy Pantera's recorded conference calls that break down aspects of the market in an easy to understand manner.[19] Even as the older funds continue to be very active, 2020 also saw the emergence of strong activities from highly focused and fast growing funds. In particular, TRGC stands out with its 23 investments across the layer 1 and 2 DeFi project category.

[18] https://www.crunchbase.com/organization/pantera-capital
[19] https://info.panteracapital.com/conference-calls

2.2 From the Startup's Perspective: Using Tokens to Raise Capital

Token sales remain a fraction of the traditional fundraising market for startups. According to the annual Venture Monitor report by PitchBook and NVCA, traditional VCs invested $156.2 billion in 2020 in companies in the US alone.[20] This is compared to approximately $13 billion raised via all of the ICOs that occurred between 2017 and 2019 across the globe.[21]

2.2.1 Token Fundraising Options

Initial Coin Offering

The first wave of token fundraising came via initial coin offerings. This began as a form of crowdfunding for new blockchain-based projects, and they quickly grew into a way for any company to raise funds themselves and distribute their tokens to a wide user base. However, ICOs are still unregulated and fall into a legal grey area, which should make startups cautious when it comes to using this fundraising method.

Security Token Offering

The lack of regulation on ICOs has given many companies hesitation when it comes to token offerings. As a result, blockchain startup Polymath created an idea for token offerings that actually gave investors an investment contract and were regulated securities. Security token offerings (STOs) were created to reduce fraudulent token sales and increase transparency and regulation during the sale process. In an STO, it's not just tokens that are sold but also voting rights and revenue distribution as well. These tokens are backed by a company's assets and are treated as securities. A study done by Blockstate found that STOs grew from 35 total offerings in 2018 to 55 in 2019, totalling $452 million in funding.

Simple Agreement for Future Tokens

SAFTs are considered securities and, therefore, adhere to regulations and legal standards. With a SAFT, investors provide immediate capital in exchange for the right to purchase tokens in the future at a discounted rate. The SAFT contract acts as a security, while the future tokens are, in theory, not securities but, rather, usable tokens on a decentralized network. However, SAFTs may no longer be an advisable way for raising funds for blockchain startups.

Learn VC: Simple Agreement for Future Tokens (SAFT)

SAFT agreements were a type of investment contract used to raise funds from sophisticated investors prior to the development of the actual product or technology. The SAFT was popularized by American lawyer Marco Santori and was inspired by the Simple Agreement for Future Equity contract that is used in private equity deals. Although many blockchain projects between 2017 and 2019 used SAFT contracts, the trend is on the decline. In 2020, financial regulators in the U.S. started cracking down on startups using SAFT contracts.

[20] https://pitchbook.com/news/reports/q4-2020-pitchbook-nvca-venture-monitor

[21] A paper compiled by the National Bureau of Economic Research last revised in September 2019 found that more than 1,500 ICOs raised a collective $12.9 billion

Company	Token	SAFT Fundraising Amount	Total Investors
Orchid Labs	Orchid	$36.1 million	42
Protocol Labs	Filecoin	$205 million	2,100
Intantible Labs	Basecoin	$125 million	225

Source: https://www.sec.gov/Archives/edgar/data/1734381/000173438118000001/xslFormDX01/primary_doc.xml
https://protocol.ai/blog/filecoin-sale-completed/
https://www.sec.gov/Archives/edgar/data/1721086/000172108618000001/xslFormDX01/primary_doc.xml

2.2.2 Token Sale Advantages

Community building and grassroots marketing

When a VC firm invests in a startup, it may warrant a headline or news story that fades quickly. The buzz surrounding the fundraising round doesn't generate any additional benefit for the startup other than the capital that was raised. Using a token sale, on the other hand, allows the startup to get a wide range of people invested and involved in its success. For instance, in just the first few weeks of the Ethereum token sale, 6,670 people purchased tokens, thus creating an already established foundational user base that is involved with the project from day one. Even token sales that sell out quickly still generate a wider range of distribution than traditional VC backing. Brave's Basic Attention Token sold $35 million in tokens in just 30 seconds to 130 people.[22] When a startup uses tokens to fund its operations through retail investors, it automatically comes into a new set of supporters who are more engaged with the company itself. It's in the best interest of these investors to promote and spread the company's product. This aligns the investors and startup in a way that becomes mutually beneficial: Investors tout the startup's product, which leads to new investors and/or users, causing the value of the token to appreciate.

New Crypto Business Model — Governance Token

In 2020, we saw the emergence of a new type of token and crypto business model that has arguably reignited the excitement and hysteria in cryptocurrency.

It all started when the lending and borrowing protocol running on the Ethereum blockchain — Compound — launched a token that took the crypto world by storm. Compound was among the few crypto projects that never conducted an initial coin offering at the beginning of its life cycle based on a white paper promise. Instead, the company opted to take the traditional venture capital financing route, raising approximately $33 million from several titans in the crypto space, including Andreessen Horowitz, Polychain Capital, Paradigm and Dragonfly Capital. The money was used to develop the product, find product-market fit, and attain network effects — achieving all this without using a token. From the outside, the VC backing may not look like a purchase of a token, however, the VCs buying equity in Compound did so with the full intention of attaining a portion of future-issued governance tokens.

Insider Insight with **Camron Miraftab**, co-founder of Rarestone Capital

[22] https://techcrunch.com/2017/06/01/brave-ico-35-million-30-seconds-brendan-eich/

Since Compound, we've been witnessing more of the founding teams behind layer-two protocols (mainly on Ethereum) offering their VC backers either equity-to-governance token conversions or, alternatively, a direct purchase of governance tokens.

For many traditional as well as passive crypto investors, the concept of investing in a "token" is met with distaste following the aftermath of the 2017–18 hype cycle, where it became apparent that the majority of utility tokens demonstrated no concrete value-accruing properties.

So, what are governance tokens, and how are they different from the ICO mania tokens?

Background

Just like traditional businesses, applications, such as Compound, that are hosted on a blockchain still attain their competitive advantage through network effects. Despite the fact that although these applications run their logic on a secure decentralized IT infrastructure (Ethereum), the code that governs the application can still be tweaked by those in control of the smart contract admin keys, meaning that "power" is still centralized.

Therefore, it is easily achievable to have a for-profit business behind the scenes with the power to tweak the code to increase their share of the transaction fees and scalp from their users. As these applications start to mature and attain stronger network effects, there will be a greater tendency for the shareholders of the company behind the application to leverage their negotiation power and extract more and more value from the network for the betterment of the shareholders. This takes us back to the same problem that plagues the banking and web industry today: monopolization.

Value extraction aside, history has shown us that the centralized management of network-orientated services either end up restricting access to a select group of users (limiting growth) or unjustifiable censorship.

The Solution: Governance Tokens

The introduction of the governance token allows us for the first time to introduce a business model that is able to maintain fairness — post-mass adoption — between the groups of individuals and organizations that typically make up network-orientated services.

Governance tokens give holders the power to influence decisions concerning the protocol and changes to governance parameters. Changes to the protocol may include introducing a transaction fee and distributing those cash flows to the governance token holders at a later date once the network is sufficiently decentralized. It is this expectation of future cash flows that instil confidence in the value-accruing properties of the token among the VC and the broader investment community.

Governance tokens are not classified as a security via regulatory arbitrage

In 2018, a member of the SEC unofficially announced that ETH is not a security, as it is considered "sufficiently decentralized". By that, it meant that according to the Howey Test, there was no evidence that the profits investors hope for are "dependent upon the work of a third party."

In the crypto industry, it is generally understood that layer-two protocol builders — i.e., founding teams for these new types of applications running on blockchains, such as Ethereum — have the power to follow Ethereum's lead by progressively giving executive-level decision making power to the wider community over time and thereby arbitrage the regulatory risk associated with having a single, easily targeted entity with governing power over the protocol. As it is known, decentralization means that there is no longer a centralized authority that has the power to change the rules. Even if the regulatory authorities were to intervene following a vote in favor of cash flows, they would not be able to do anything about it. There would be no "CEO" to go after, similar to how there is no CEO of Ethereum or Bitcoin.

Why is this model better than the legacy business model?

Unlike the legacy model, the critical decision-makers behind a protocol do not consist solely of profit-seeking capital providers. With the introduction and distribution of protocol-specific governance tokens, they encourage the actual users of the service to hold a stake in the application thereby better aligning the interests of everyone involved.

As a result, when the time comes for token holders to vote on whether or not the protocol should introduce transaction fees, the real users now have a voice that holds weight. We start to see market forces trend toward a fairer equilibrium price point even as the network effects progressively get stronger and stronger. This is in stark contrast to our existing model that works in the opposite direction (extracting value for the few).

Cost savings

Reduce transaction costs by relying on a good website, white paper and tech-stack for the token distribution instead of on underwriters.

Equity dilution may not be required

Depending on how a token sale is structured, founders don't need to give up equity of their company. Newly minted tokens are not equivalent to shares or stake in the startup, but rather, they are usable assets. As an example, Protocol Labs raised capital via a SAFT sale for its Filecoin token. Filecoin is used as a form of payment for users to store their files on a decentralized network and is also awarded to miners who use their computing power to store files for other users. Through this method, Protocol Labs was able to raise $205 million from more than 2,100 investors without giving up equity in its underlying company.

Pent-up demand from retail investors

Lin Lin and Dominika Nestarcova (2019) point out that the ICO boom can be partially explained by the desire by retail investors to invest in blockchain venture capital and private equity deals. However, as investors found out to their dismay, most ICOs did not offer them a long-term investment contract, but rather a short-lived speculative opportunity. Due to strict regulations barring retail investment in private equity in most countries, retailers still have pent-up demand. To this day, there are very few examples of financial products that give retail investors exposure to private equity in general, and even fewer that focus on private equity in blockchain companies. Securities Exchange Commissioner Hester Peirce has voiced her concerns regarding this issue several times over the past few years, and she has been working on several initiatives to evolve how regulators in the U.S. approach the retail and accredited investor laws. In addition to respecting an individual's right to self-determination and control of their financial decisions, there are strong economic arguments for enabling retail investment in private equity. Specifically, the more investors there are in the startup, the more dispersed the risk of the investment is.

Do you prefer investing in blockchain startups that have a token or do not have a token? Why?

At Framework, our thesis is that open-source finance (aka DeFi) presents a gargantuan opportunity for innovation in financial products and financial services. Entrepreneurs now have orders of magnitude decrease in the cost and time required to create new financial concepts and an ability to distribute to users around the world via open blockchain networks. Over the last 15 months, we've seen the potential for open networks built on top of blockchains where **a token is the coordination mechanism.** The power resides in the ability to have open-source and composable software creating layers of abstraction that these products are built upon and leading to an ability to produce exponential results. For instance, in September and October of 2020, Uniswap — a team of 8 — facilitated more spot exchange volume than Coinbase Pro. Investing in this area requires a different mindset than traditional VC investing in corporate equity of startups. We specialize in investing in open networks where **a token accrues the value produced by the network,** and we are purpose-built to be the best-in-class partner to the core teams and the communities of these networks.

Insider Insight with **Michael Anderson**, co-founder of Framework Ventures

2.2.3 Token Sale Downsides

Regulatory risk

Regulatory risk is at the top of the list for token offerings. Until now, regulators have been vague in their dealings with cryptocurrencies, especially as they relate to their status as securities. Some token offerings have marketed themselves strictly as utility or currency tokens, leading them to believe that they won't be viewed as securities in the future. But with the recent crackdown on Ripple by the SEC, it's clear that any token claiming not to be a security could be heavily scrutinized. Ripple believed it was simply selling its XRP cryptocurrency in a public sale, but the SEC claims it was holding an "unregistered, ongoing digital asset securities offering." The cascading effect of these allegations are huge and have led cryptocurrency exchanges to delist XRP, causing the value of the cryptocurrency to plummet.

Volatility

The second drawback is that since the startup's equity is trading on secondary markets, the startup is opening itself up to massive volatility in the price of its equity. The valuation of a company can plummet rapidly due to massive dumps of its token from short-term speculators.

Technology risk

Offering a token sale immediately brings technology to the forefront. If the token being created is done so in a way that is insecure, it could lead to problems down the road. The industry is riddled with companies whose tokens have been stolen, hacked and comprimized by bad actors. This is especially a risk for any startup that is working with little to no knowledge of cryptocurrencies and is simply looking for another outlet to raise capital. According to an Ernst & Young report from 2018, more than 10% of the $3.7 billion raised via ICOs at the time was stolen. In just one example, a 2017 ICO completed by CoinDash was hacked, resulting in a loss of funds for investors. Hackers replaced the Ethereum wallet address on the CoinDash website with their own, causing $7.3 million to be sent to the hackers' wallet. There is no shortage of stories like these that make token offerings a technological risk for startups if mismanaged.

Lack of mentorship and industry expertise

Retail investors lack the expertise of venture firms. It might just take one introduction or idea from an experienced venture investor to turn a startup around or help pivot the company into a new market. And even though token sales can onboard a larger investor base, these investors may not provide value to the startup itself. In fact, venture investors spend a significant portion of their time providing support to their portfolio companies. According to estimates from the Harvard Business Review, venture investors spend 25% of their time serving as directors and monitors of startups, 20% of their time recruiting management, and 10% of their time assisting in outside relationships. This time investment by venture firms with experienced fund managers is completely lost when a startup opts for a public token sale.

> "Instead of mediating the transactional relationship by regulations and contracts, the fundraising process can be carried out using deterministic code (smart contracts) that automates the relationship between the ICO issuer and investor."

Lin & Nestarcova (2019)

2.3 Determinants of Fundraising Success

When a startup is raising money, it is helpful to know if their goals are realistic and if there are any variables that can help or hinder the success of their funding round. In the dataset prepared for this report, we observed several noticeable patterns including:

1. **The majority of blockchain investment deals have been in the seed round.** Between 2012 and 2020, our dataset recorded 1448 deals in the seed round compared to 248 angel investor rounds and 378 Series A. Interestingly, only five companies have done a Round D or E including: Circle, Coinbase, High Fidelity, TradAir, and Robinhood, although Robinhood's crypto trading abilities does not really make it a "blockchain company" like Circle or Coinbase. Coinbase and Robinhood are both planning IPOs this year, and Circle is rumoured to be planning an ICO. The British-based TradAir has not announced any plans to go public, and the San Francisco-based High Fidelity shut down their blockchain-related business in 2019, and moved into an almost entirely new product line.[22]
(Figure 11)

2. **However, Series A and B rounds have seen the largest amounts of capital** with $3.89 billion and $2.90 billion respectively between 2012 and 2020.
(Figure 12)

3. **The majority (69.2%) of blockchain companies have only engaged in one funding round.** However, there have been 38 blockchain companies with at least 5 funding rounds or more. The award for highest number of funding rounds goes to Crowdz, with 11 funding rounds.
(Figure 13, 14)

4. 2020 saw a notable trend in VC investments in blockchain infrastructure, trading infrastructure, and wallets.
(Figure 15)

[22] https://www.hypergridbusiness.com/2019/12/high-fidelity-shutting-down/

Figure 11

Number of Deals per Funding Round 2012 – 2020

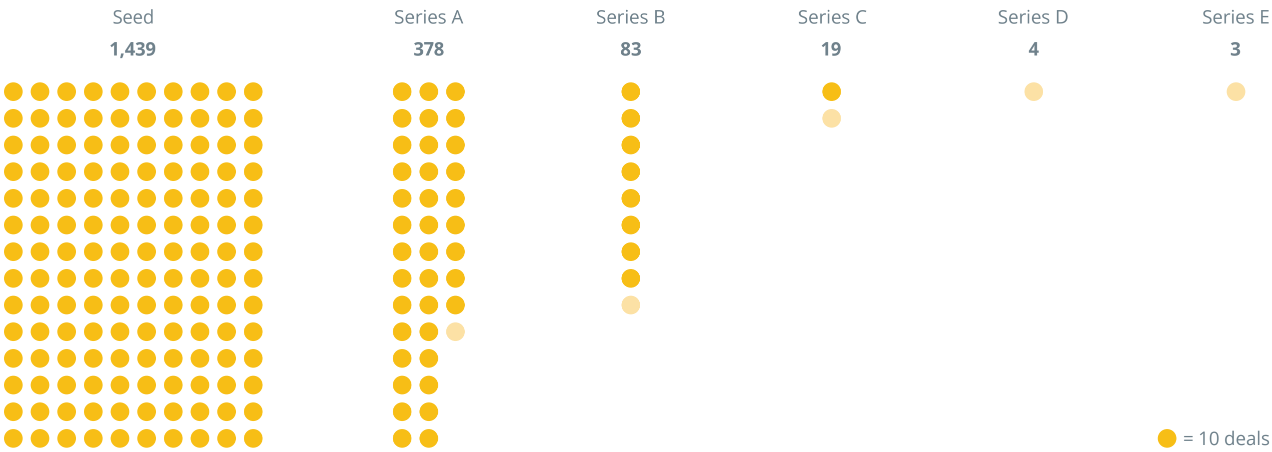


Figure 12

Capital Raised per Funding Round 2012 – 2020

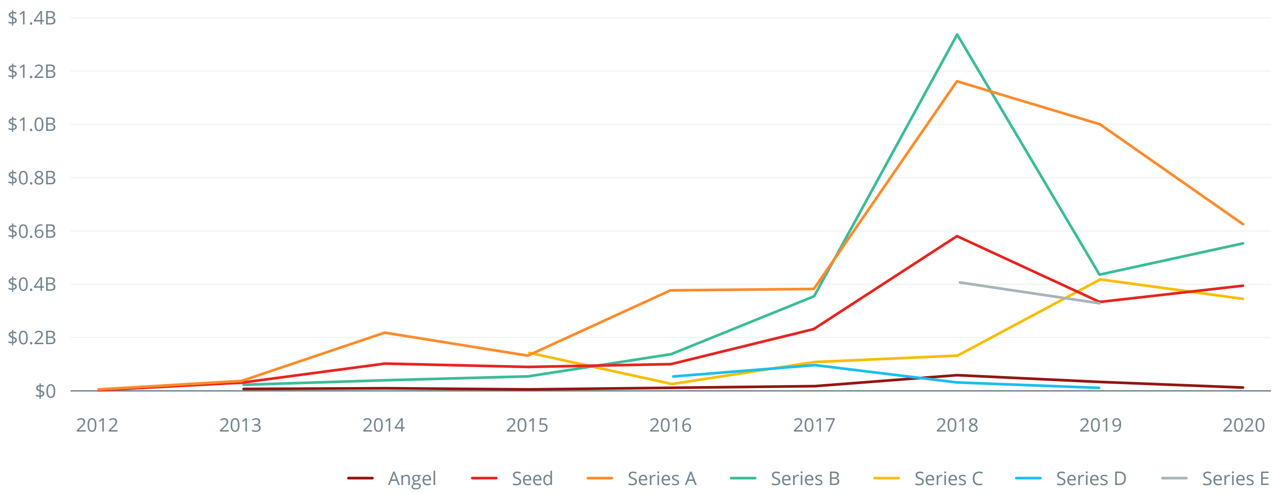
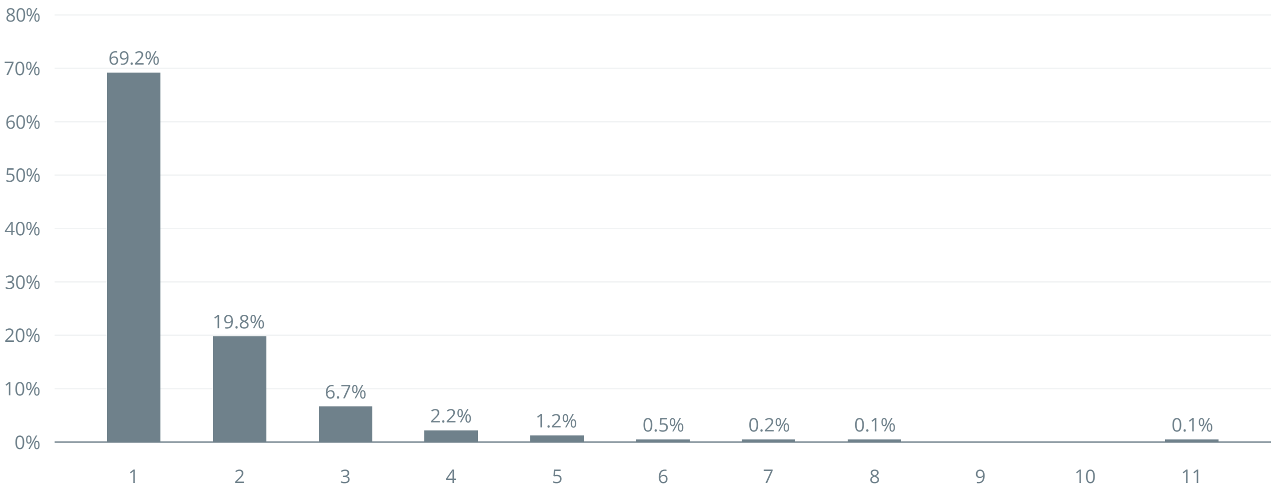


Figure 13

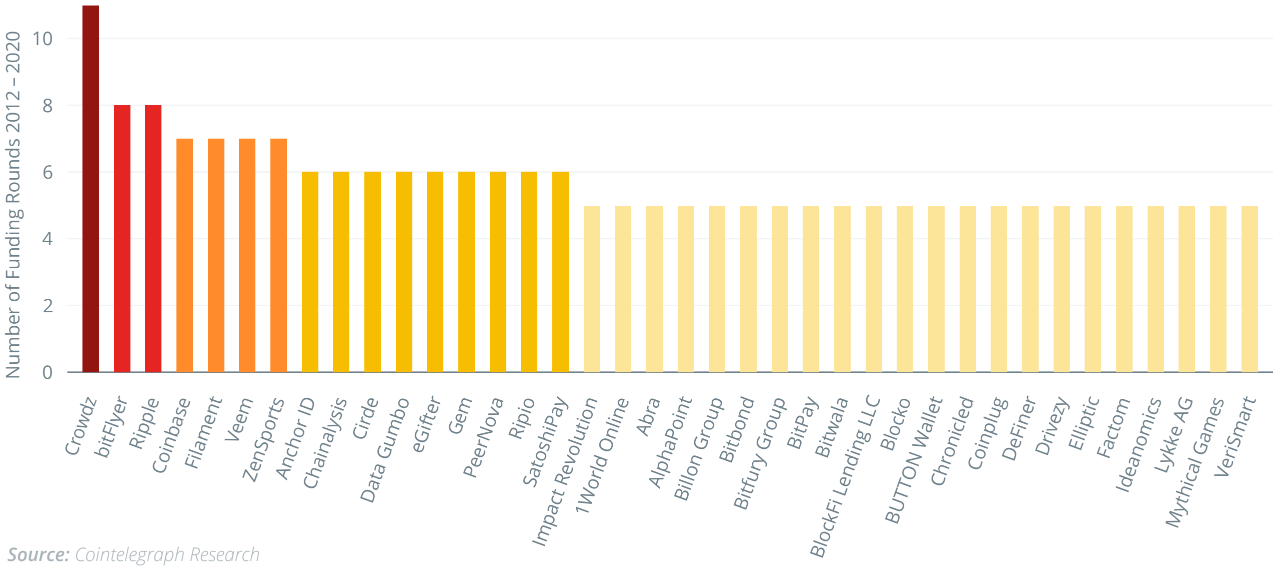
Number of Funding Rounds Per Blockchain Company 2012 – 2020



Source: *Cointelegraph Research*

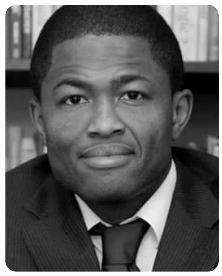
Figure 14

Blockchain Startups With Over Five Funding Rounds



Source: *Cointelegraph Research*

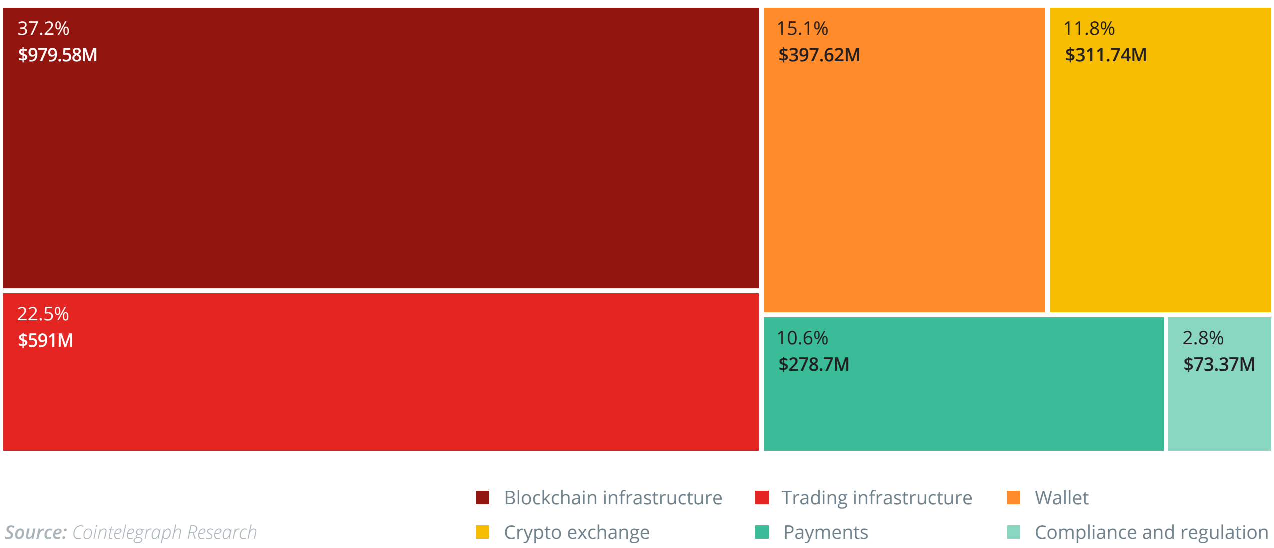
The current market environment is similar to that of us being on a high speed bullet train whilst simultaneously laying the tracks as we go along. Whilst capital is readily available for the most ambitious teams, we've seen that teams need support beyond capital. Enabling founders to navigate regulatory uncertainties, build communities and ecosystems leads to tremendous value being captured in a way that is unseen before.



Insider Insight with **Etiënne vantKruys**, founder of TRGC

Figure 15

Capital Raised by Category in 2020



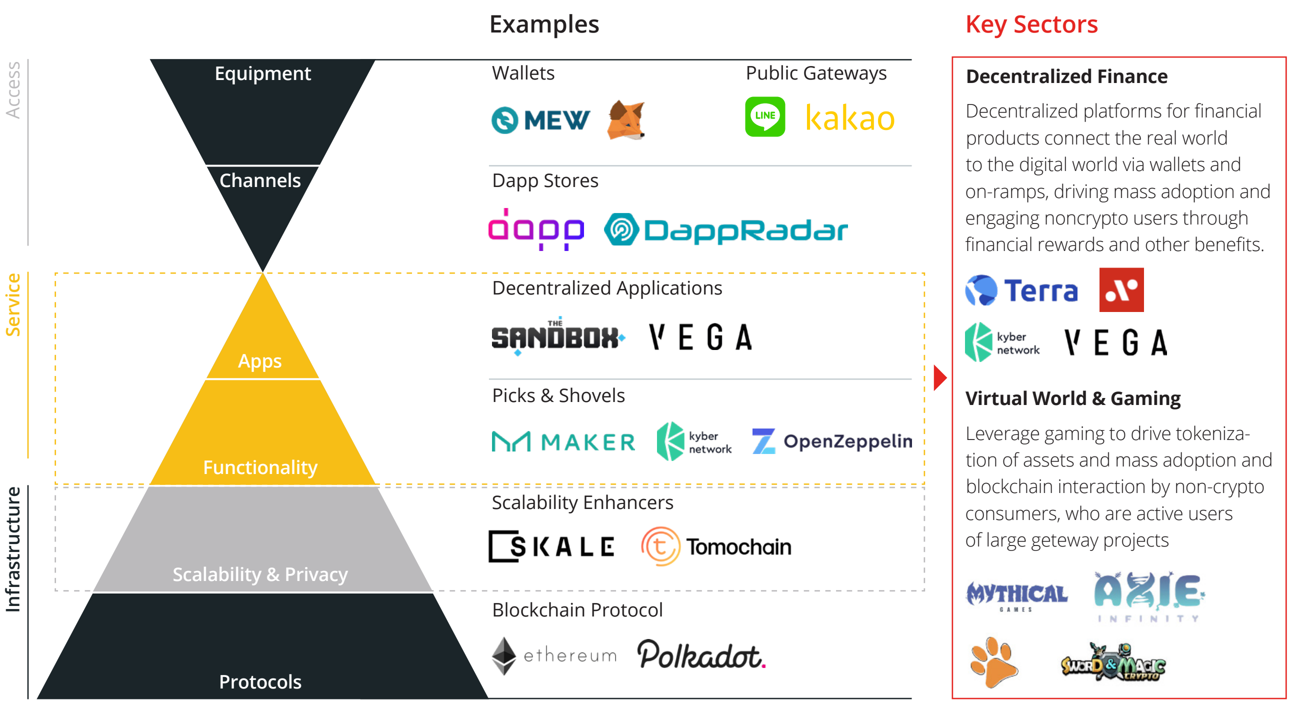
Source: *Cointelegraph Research*

2.4 Venture Capitalists Are Funding Decentralized Technologies

Crypto media outlets named 2020 the "year of DeFi," and it definitely was so before the BTC rally stole the show. DeFi is building an alternative to the traditional financial system and democratizing finance by giving individuals access to financial products that are often restricted to professional investors. DeFi protocols are mainly focused on lending, trading and payments at the basic level of functionality, yet it also offers sophisticated instruments, such as derivatives and flash loans.

With over $39 billion locked in DeFi protocols as of Mar. 7, 2021, this industry has only started to discover the power of this technology to disrupt traditional financial services. Over the past year, many DeFi protocols increased their user bases significantly[23]: for instance, Uniswap, a popular DEX, achieved 15x growth in the number of unique addresses in 8 months of 2020. Such rampant growth drew the attention of VC investors to the DeFi sector. As the metrics on the emerging sector speak volumes,, more than 100 projects have received money from venture capitalists during 2020.

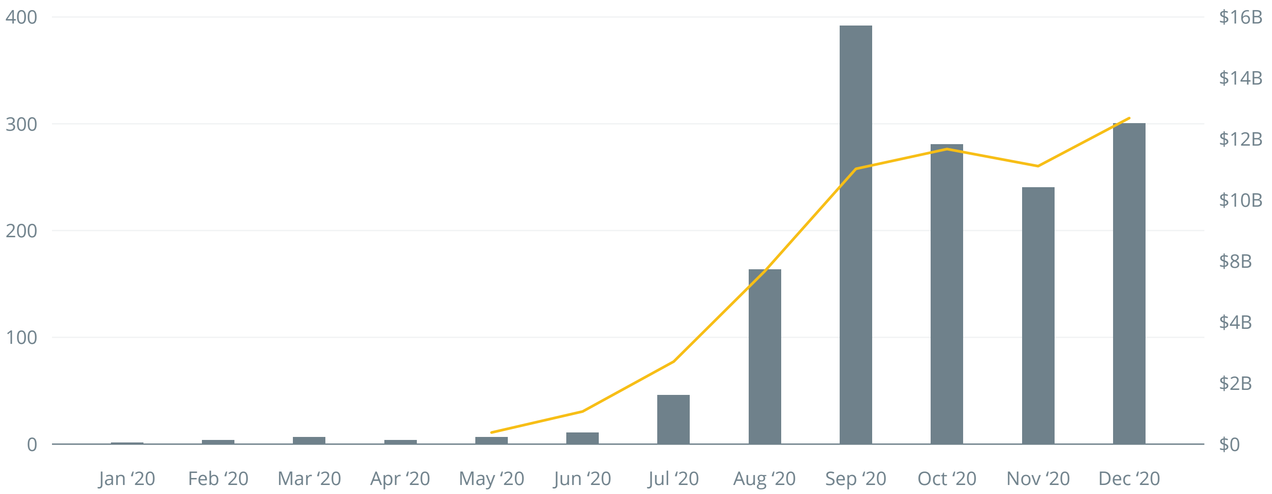
Blockchain Technology Stack



Source: #Hashed VC

[23] https://uniswap.org/blog/year-in-review/

Figure 16



Source: *Cointelegraph Research*

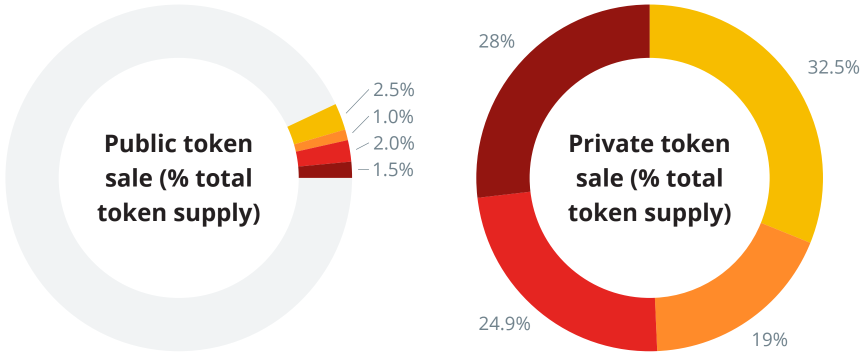
However, VCs made the first steps in the field of DeFi back in December 2017 when MakerDAO raised $12 million in a round led by Andreessen Horowitz and Polychain Capital. Following that, 2018 can be categorized as the year of the first big wave of VC capital inflow to the emerging segment. The backbone projects of the DeFi industry, such as dYdX, Compound, Universal Market Access, Argent and Set all raised funds during 2018. In aggregate, the five startups collected $28.2 million in equity and token sales during those early days of DeFi.

From 2019 on, the sector has been growing exponentially in total value locked in decentralized finance protocols, and so has the importance of VC-led funding. After the explosive "summer of DeFi" in 2020, venture capitalists are more confident about the product-market fit of their portfolio projects. During late summer and autumn of 2020, funding rounds for DeFi protocols were publicly announced at a quickening pace, with venture capitalists, such as Polychain Capital, Framework Ventures and CoinFund, being heavily involved.

Our research revealed that venture capital has become the predominant way for DeFi projects to raise funds, making the DeFi boom significantly different from 2017 cryptomania, or the era of ICOs. In 2018–2020, only 3 of the major DeFi companies — Bancor, Loopring and Kyber Network — opted for a "classic" ICO without the support of VCs at all, which resulted in $258 million in capital raised. In other words, very few DeFi projects relied on massive participation from retail investors during their fundraising.

Traditionally, venture capitalists invest in companies in exchange for equity. However, this model did not live long in the DeFi sector as the introduction of governance tokens upended venture capital investments into decentralized finance. The ubiquity of the governance tokens has brought about a new era in fundraising in the DeFi sector, and both ICOs and equity sales became rare for the decentralized finance industry. The majority of the newly launched DeFi projects pursue a "combined" strategy as they raise capital in private token sales first and then conduct public token sales. While many DeFi protocols, such as Instadapp or DeBank, raised VC funds without a token, some platforms, such as Uniswap and 1inch, made the lucrative decision to raise VC funds first and then airdrop a token later to early users. dreessen Horowitz and Polychain Capital. Following that, 2018 can be categorized as the year of the first big wave of VC capital inflow to the emerging segment. The backbone projects of the DeFi industry, such as dYdX, Compound, Universal Market Access, Argent and Set all raised funds during 2018. In aggregate, the five startups collected $28.2 million in equity and token sales during those early days of DeFi.

- **Blank Wallet**
  Spark Digital Capital, Woodstock Fund, A195 Capital, Altonomy
- **Dafi Protocol**
  Rarestone Capital, AU21 Capital, Morningstar Ventures, Polymer Capital
- **ChainGuardians**
  Twin Apex Capital, Moonwhale, GBV Capital, Moonrock Capital
- **Vortex DeFi**
  Faculty Capital, Magnus Capital, X21 Digital, A195 Capital



Recent fundraisings by DeFi projects. ***Source:*** *ICO Analytics, Cointelegraph Consulting*

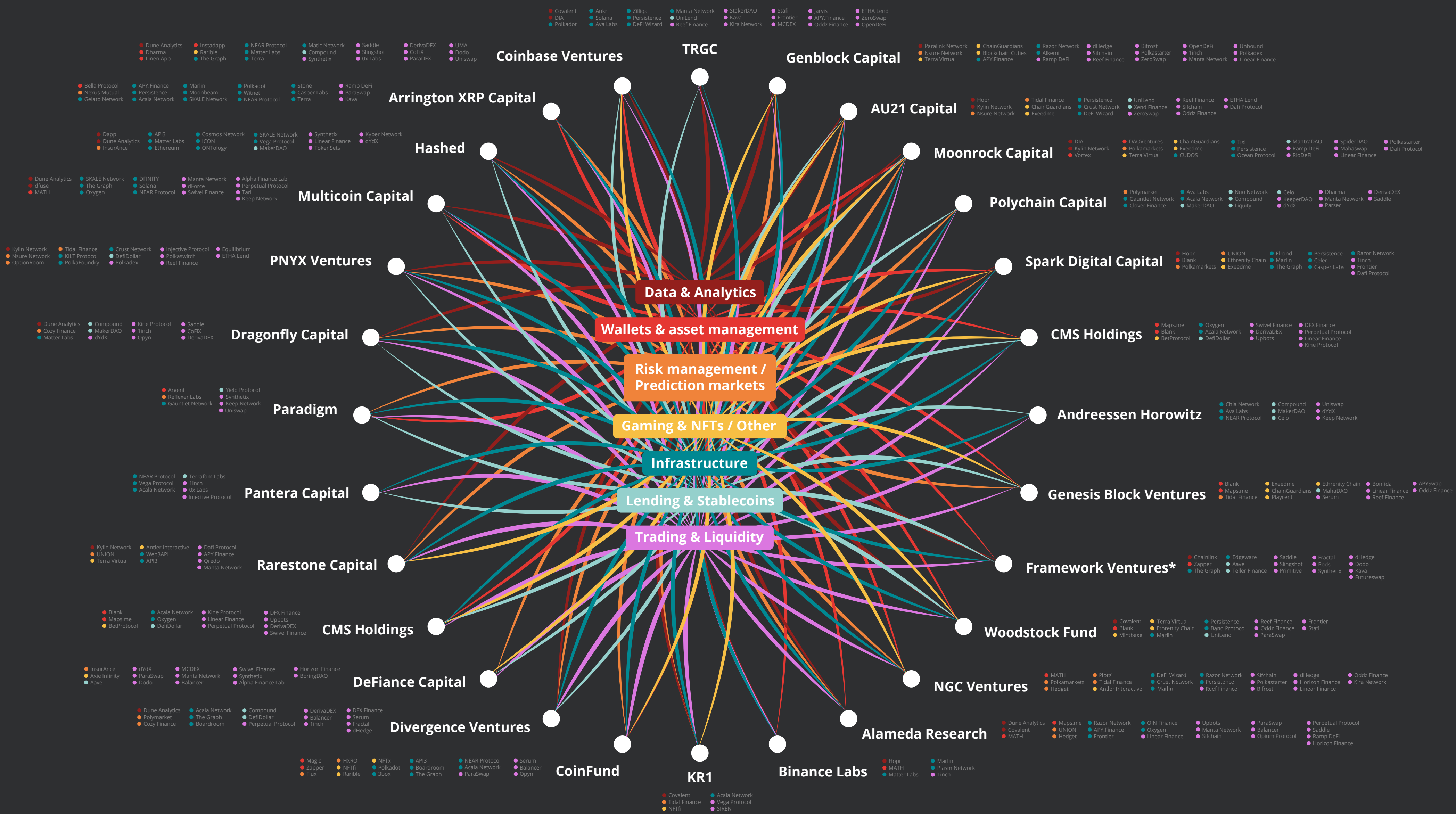
But take away the legal designation of — taking into account that both equity and governance tokens represent a share of ownership in a project — and the core capital provider remains: those are VCs who are fueling the growth of the DeFi projects. Indeed, the majority of the top-20 protocols by TVL — including Uniswap, Compound, Synthetix and Aave — are VC-backed.

The unprecedented growth of DeFi and VC activity by established venture capitalists might have had FOMO-inducing effects among the DeFi-agnostic funds and forced them to reconsider their strategies. However, they may have ample reasons to refrain from investing in decentralized finance. A consistent trend of increasing TVL and decentralized trading volumes gives a feeling that DeFi is a segment of untapped opportunities. Even so, the protocols are full of risks: exploits and hacks result in multi-million-dollar losses with alarming frequency. Forks, clones and “vampire attacks” on protocols can see market shares fluctuate with the same volatility that investors come to expect of their tokens. Although hardly any of the VC-backed projects have had their vaults drained, allocating capital in this unregulated and highly experimental field requires rigorous due diligence from venture capitalists.

2.4.1 Most Popular DeFi Companies For VCs

There are five main verticals inside the decentralized finance segment: trading and exchanges (including liquidity and derivatives projects), lending, infrastructure, data and analytics, and a side category for other startups. With 18 funds active in funding DeFi projects, the map comprehensively represents the fundraising activity in the DeFi industry as well as portfolios of the dominant players. Of 220 venture capitalists that participated in at least one publicly announced funding round, 28 have carried out 6 or more DeFi investments in 2020, and more funds are joining the group of DeFi backers.

The map of investments by most active VC funds



Source: *Cointelegraph Research*

If 2020 was the year of DeFi for blockchain venture capitalists, what will 2021 be?

2020 has been a year in which many experiments were carried out around DeFi. We expect to see meaningful use cases of DeFi in 2021. We have been keeping a close eye on DeFi since early 2019. The industry was growing organically until the yield-farming explosions occurred. However, this growth in TVL was due to DeFi tokens, and there was a lot of surplus demand. Now, we are seeing the demand bubble fade away and expect meaningful use cases of DeFi through real demand in derivatives, synthetic assets and NFTs.

With the attention DeFi received, we saw the number of transactions in decentralized services surpass those of centralized services. Centralized exchanges felt the need to collaborate with the DeFi projects or launch decentralized services of their own. We expect to see more wallets being integrated into mainstream services in 2021. In Asia, wallets have already been integrated into Kakao and Line, and we look forward to seeing explosive growth in digital asset exchange activities through wallet integration to many B2C services in the near future.

Traditional financial services are coming into the DeFi space. For example, KB (one of the biggest commercial banks in South Korea) has launched a digital asset management company to offer crypto custody-related services for institutional investors who are rapidly jumping into the DeFi space. We believe that DeFi will be a compulsory layer — not merely a complementary layer — in all blockchain services in the near future.

Insider Insight with **Baek Kim**, Principal of #Hashed

2.4.2 DeFi VC in 2021 and Beyond

In Cointelegraph's survey of DeFi projects in September 2020, 36% of the DeFi protocols surveyed expect institutions to become a crucial market segment for decentralized finance.[24] We expect the VC activity in the space to remain strong over 2021 and 2022; however, we do not expect corporate or non-crypto experienced venture capitalists to engage heavily in DeFi. As Lyn Alden pointed out in a recent interview with Raoul Pal on Laua Shin's Unchained podcast, DeFi is the realm of no KYC/AML, and this keeps heavily regulated investors away. However, Pal pointed out that over time, heavily regulated investors will join DeFi, too, once the industry is too big to ignore — similar to how investors started following Bitcoin.

[24] DeFi Adoption 2020: A Definitive Guide to Entering the Industry, Cointelegraph Research 2020.

Hashed Overview

Committed to enabling mass adoption of blockchain technology, Hashed commands a global presence in the emerging economy of digital assets, with strategic locations in the US and Asia. In the US, Hashed International, LLC operates out of its principal office in San Francisco as a vehicle to provide research and advisory services. Working in tandem with Hashed Inc., located in Seoul, South Korea, Hashed offers a unique combination of both traditional and entrepreneurial acumen, utilizing its investment management team and an extensive network of visionaries and advisors to realize meaningful growth for the industry.

Simon Kim

CEO & Managing Partner at Hashed, leading a keynote speech during Korea Blockchain Week 2018 with over 10,000+ attendees

Hashed in the US and South Korea

Silicon Valley and the broader US regions have been the powerhouse of world-class technical talents. Hashed takes an ecosystem approach when investing in the blockchain industry, focusing on cultivating a tight-knit community of founders who are pioneers in cryptography, distributed systems, consensus algorithms, and high-performance trading infrastructures. In addition, Hashed leverages employees' past experiences at Google and Amazon, remaining vigilant to not only identify points of innovation but also make possible strategic alliances in corporate partnerships with companies such as Samsung and LG.

As a leading blockchain advocate in South Korea, Hashed initiated local awareness and educational campaigns involving the public as well as the government. Notably, Hashed has hosted a number of blockchain events and conferences, among which Korea Blockchain Week has become established as one of the most seminal blockchain events in Asia. Since 2018 the event has attracted more than 10,000 participants and 300 companies from around the world, including industry giants such as Samsung, LG, SK, etc. Hashed takes pride in having paved the way for leading blockchain projects to enter the Asian ecosystem via South Korea as its main gateway.

Hashed Vision

This experience has culminated in the creation in December 2020 of Hashed Venture Fund I, valued at USD $120 million and with strategic investors including leading IT companies and conglomerates in Korea. Through this first fund, Hashed aspires to realize its original thesis that the world is evolving from a centralized platform-based economy to one that relies on a protocol economy underpinned by blockchain. With corresponding technological advancements being made to enable global access, more transparent design, direct incentives for network contributors, and the protection of data sovereignty and privacy for individuals, Hashed believes that this evolution will foster significant changes to the socio-economic and even the political dimensions of our future lives.

At this critical point, we recognize that there is a clear gap in the VC ecosystem, with no incumbent VCs providing both capital and supporting services aimed specifically at blockchain start-ups—an industry white space that Hashed is uniquely positioned to fill. In addition, Hashed distinguishes itself from others by having its roots in both Asia and the US. Up until now, two thirds of the biggest exchanges by trading volume have been based in Asia. By combining retail interest and technical sophistication to tap into an unprecedented number of active users via its biggest messenger portals, Asia is now poised to become an explosive site for successful and promising projects being developed around the world. It is this bridge that Hashed will build to further expand its global contribution.

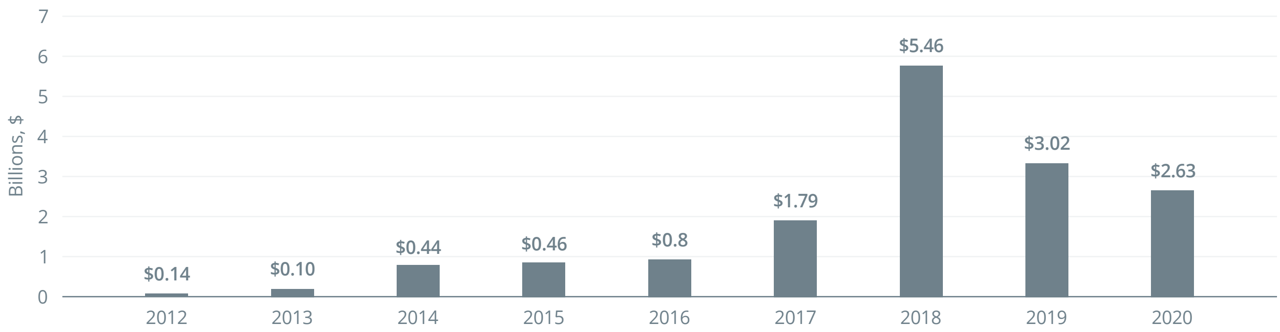
3 Limited Partners

3.1 Blockchain VC Investment Thesis

In the era of negative interest rates and the quest for positive returns, first-mover investors have chosen to look beyond traditional investments in search of new and alternative opportunities. The blockchain private equity market has grown rapidly since its introduction in 2012, with total investment funding increasing from just $1 million to almost $3.07 billion in 2020.

Figure 17

Blockchain Private Equity Funding Per Year



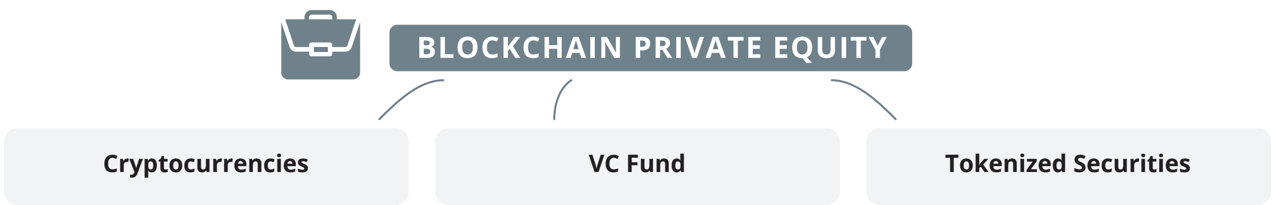
Source: *Cointelegraph Research*

Compared to traditional VC, blockchain VC offers two main benefits: diversification and liquidity.

1. Diversification: Blockchain startups offer LPs the ability to gain exposure to a new industry that is often uncorrelated with how private equity performs in other industries.

2. Liquidity: Due to the private nature of the portfolio companies, LPs are often locked into investments until the company is acquired or has an initial public offering. However, investors can mitigate this issue by investing in tokenized funds that enable LPs to sell or adjust their positions on a secondary market instead of having funds locked up for several years with limited ability to trade. This applies to all tokenized funds, including real estate funds and biotech VC funds.

Limited partners and buy-side investors that are interested in having exposure to blockchain private equity have several options, including **direct investment in crypto assets, such as Celsius' CEL token, or directly in the private equity of the company Celsius.** An additional option is to **invest in a VC fund that focuses on blockchain technology.** This section covers the different investment profiles, including historical risks and returns and key considerations before entering the market.



Source: *Cointelegraph Research*

3.1.1 Buying Digital Assets Directly

Buying digital assets gives more opportunities to retail investors because there isn't a professional investor requirement. There is also often no minimum investment amount or lockup periods, although large investors can negotiate deals with startups. For example, Celsius gave professional investors steep discounts on their token price in exchange for locking up CEL tokens for a period of time.

The advantages of buying digital assets directly include greater liquidity than traditional private equity, often no KYC/AML, 24/7 trading, and no management or performance fees. Price volatility is the main problem of digital assets. Additionally, there are cybersecurity risks, and investors are responsible for their own private key storage. Buying digital assets is often impossible with traditional e-brokers, although some e-brokers, such as eToro and Robinhood, do offer products that track the prices of digital assets.

Notable examples of non-equity tokens

celsius

In May 2018, Celsius raised what was then $50 million worth of crypto in CEL's initial coin offering. In 2020, CEL increased 4,000% from $0.14 to $5.72. Although Celsius CEO Alex Mashinsky says that CEL is not a security, CEL may come under scrutiny following the SEC's case against Ripple. Celsius also sold private equity in its firm during 2020 on the website BnkToTheFuture.

the graph

In the summer of 2020, the Graph raised $5 million in a "simple agreement for future tokens" format for accredited investors from Framework Ventures, Coinbase Ventures, CoinDesk parent Digital Currency Group, Multicoin Capital and DTC Capital. GRT tokens started trading in mid-December and had slightly less than a 100% return before the month ended.

UNISWAP

Uniswap is a decentralized protocol for automated liquidity provision on Ethereum. The UNI token's major purpose is governance over the Uniswap protocol and offers revenue sharing. The governance contract includes a fee switch that enables UNI owners to earn a share of the protocol's fees. The switch is subject to a 180-day timelock, providing investors half a year to prepare for the shift to the new revenue-sharing model.

What percentage of your portfolio is in private equity, and what percentage is in non-equity tokens? What are the differences between investing in private equity versus non-equity tokens?

In our previous proprietary fund, our investments in equity and non-equity tokens have been two-to-eight. All investments from Hashed Venture Fund I will be in equity. In essence, we aim for optimal balance between the two depending on various factors as there are both benefits and downsides to each form of investment. The main differentiation factor is that with the token investment we are more focused on network development, whereas we pay more attention to the projects that have long term adoption value in the equity side. Also, with the latter, we establish closer relationships with the founding team to optimize our value add.

From the ICO bubble, we have learned to be cautious of rapid network expansion prior to product stability since it could cause harm for the community members and projects involved. On the other hand, there are also cases when the projects require network effect from the beginning. By assessing the product offering and their development needs and phases, we take a holistic approach in assessing the optimal form of investment. Overall, the trend in 2021 has been that we are finding more equity opportunities in the industry than before.

Insider Insight with **Ryan Kim**, Co-founder & Partner #Hashed

3.1.2 Buying Security Tokens

Tokenized securities enable investors to directly invest in startups instead of investing in venture capital funds. Benefits of buying security tokens directly include slightly lower minimum ticket sizes than VC funds and no management or performance fees. However, the requirement to be a professional investor is a barrier to entry for some. Purchasing security tokens is similar to buying individual stocks. Even though security tokens are issued on a blockchain, they are still securities. Thus, they are heavily regulated to protect investors and prevent fraud. Due to the limited supply of security tokens, portfolios that focus on such tokens will have less diversification, and there may be an asymmetry of information. If an investor buys security tokens directly, this gives the startup all of the investor's capital upfront. In contrast, VC funds typically invest their capital over a period of time instead of all at once to ensure the startup is meeting milestones.[25]

There are only a few websites that enable investors to purchase security tokens, such as Tokensoft, tZero and Openfinance. In Singapore, 1exchange, iStox and InvestaX are notable examples of security token platforms.[26] Interestingly, several security tokens are launching directly on Uniswap instead of paying fees to digital asset marketplaces, such as Tokensoft. A good resource for professional investors interested in learning about which security tokens exist and where they are traded is https://stomarket.com/.

Learn VC: Security Token

Security Token presents the ownership information of the investment product recorded on a blockchain. In the case of investment in traditional stocks, ownership information is written on a document and issued as a digital certificate. It's the same process for security token, but ownership information is recorded on a blockchain and issued as a token.

Notable examples of security tokens:

Mt Pelerin

Mt Pelerin is a fintech company established and regulated in Switzerland. It was bootstrapped by its own community through an equity crowdfunding that raised more than $2 million in 2018, the first one to offer a tokenized share with full voting and dividend rights to the public. Mt Pelerin has been one of the leading actors in the asset tokenization space since then, and it is currently working on the creation of a tokenized full reserve financial institution in Switzerland.

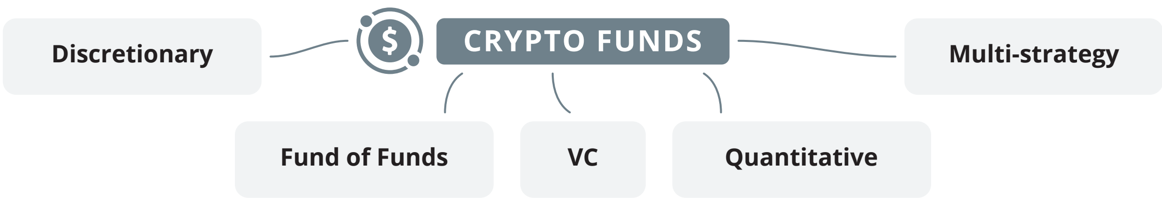
RealT

RealT, an American company based in Florida, enabled real estate investments for the public through tokenization. Since 2019, RealT allows its clients to invest starting from a few dozen dollars in ownership shares of high yield (10% to 13%) residential and commercial real estate in the US, with rental revenue being proportionally and directly paid to token holders in stablecoin. With 75 properties sold and new ones being offered on a weekly basis, the huge success of that model also brought increasing costs and complexity to manage each new sale, the many investors of RealT and the distribution of rental revenue.

[25] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3339040
[26] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3634626

3.1.3 Buying VC funds

There are several types of crypto hedge funds, and blockchain VC funds are just one subcategory. According to the "Crypto Hedge Fund Report" by PricewaterhouseCoopers and Elwood, there are four types of crypto hedge fund strategies including discretionary long-only, discretionary long/short, quantitative and multi-strategy. In addition to this, there are also VC funds and fund of funds. When an investor invests in a VC fund, their capital is being dispersed across several investments. This enables investors **to benefit from diversification.** If one of the startups in the fund fails, a fund investor will not lose their entire position because they still have exposure to other startups. Second, VC funds typically have sophisticated methods for gauging a startup's competence and its probability of success as mentioned in the last section. However, the downside of investing in VC funds are the fees. The other entry barriers include wealth and geographic limitations imposed by government regulations



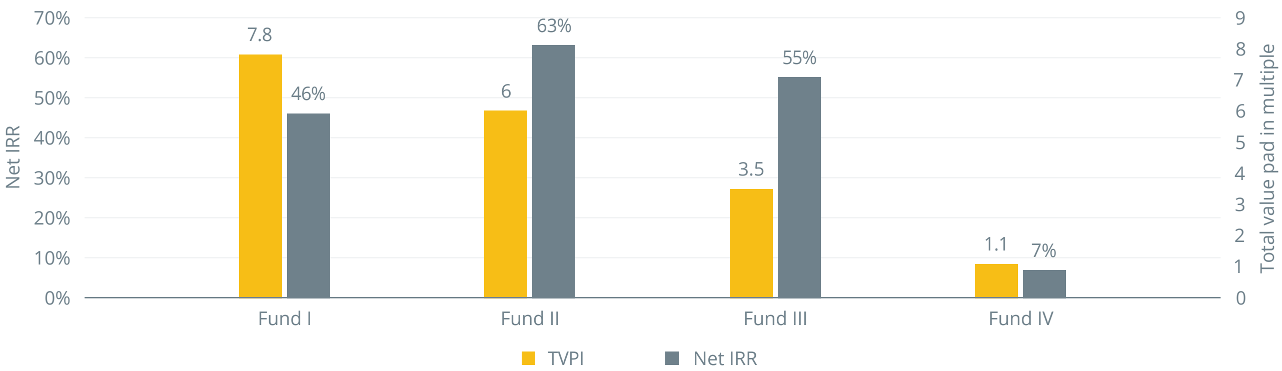
Source: *Cointelegraph Research*

Many of the famous blockchain VCs do not accept outside investors (third-party limited partners) even if they are accredited. For example, Digital Currency Group, which owns Coinbase and CoinDesk, does not accept external investment. Even the blockchain VCs that say they accept outside investors are reluctant to provide any information. When trying to receive investor information from blockchain VCs, only a few respond.

However, Blockchain Capital and Delphi Digital are open for investment, and they respond to investor information requests. Blockchain Capital was founded in 2013 by Bart and Brad Stephens and they have invested over $150 million in a total of 80+ blockchain technology companies and crypto assets over the last seven years. The performance of its previous four funds has had **net IRRs of +46%, +63%, +55% and +7%.**

Figure 18

Blockchain Capital's Historical Return of Funds I – IV



Source: *Blockchain Capital, Cointelegraph Research*

It is primarily famous for its tokenized VC fund, Fund III, which was one of the first tokenized securities and for its early involvement with Brock Pierce. As of Dec. 28, 2020, its fund token, BCAP, had a net asset value of 6.4, making a 73% return for 2020.[27] The token's return since inception in 2017 is 540%.[28] The holdings that make up BCAP include equity in companies, such as Securitize and Harbor, and in digital assets such as Nexus Mutual (NXM), BlockStack (STX), Nervos (CKB), ETH and BTC.

It is currently raising its $250-million Blockchain Capital Fund V, which is a traditional venture capital fund (not tokenized) for accredited investors with a term of 10 years. It closed the first funding round of Fund V in April 2020 with $62 million. The new fund is anchored by one of the largest publicly traded payment companies and includes participation from an endowment, foundations and the family offices of multiple prominent Silicon Valley entrepreneurs. Its previous Fund IV was oversubscribed within six months of announcement.

What types of returns do you hope to earn from an investment and within what time frame?

We take a venture-style approach to any investment we make. This means we have a multi-year investment horizon even after there is a liquid token. We also take a more concentrated approach, given that we dedicate financial and software development resources to the networks post-investment. With any investment we make, we expect that it can return a multiple of the entire fund.

Insider Insight with **Michael Anderson**, co-founder of Framework Ventures

Traditional VC vs. Blockchain VC

	Traditional VC[29]	Blockchain VC
Average Annual Return	15 – 27%	73%
Average Management Fee	2%	2.3%
Average Performance Fee	20%	23%
Average Lockup	5 – 10 years	Quarterly — 10 years
Average Minimum Investment	$200,000	$133,000

Source: *Cointelegraph Research. The averages for Blockchain VC funds are based on a limited sample of VC funds that we could find information about online.*

Delphi Digital, a bespoke blockchain consulting firm, is also in the process of launching its first VC fund. It is looking to raise $20 million with the same fees as Blockchain Capital — i.e., 2/20. Unlike Blockchain Capital, Delphi Digital only has a lock-up period of three years, and it is happy to take smaller sized tickets of $50,000. **One of Delphi Digital's big picks is DeFi platform Synthetix and its SNX token.** Similar to mimicking the holdings of Berkshire Hathaway's portfolio, investors can watch what investments blockchain VC funds make.

[27] https://loop.blockchain.capital/
[28] https://www.securities.io/blockchain-capitals-bcap-token-outperforms-market-in-q2-2020/
[29] https://vcstarterkit.substack.com/p/how-vcs-make-money https://seraf-investor.com/

Notable examples of Blockchain VC funds:

TRGC PNYX ventures #HASHED DRAPER GOREN HOLM

Select Crypto Fund Terms

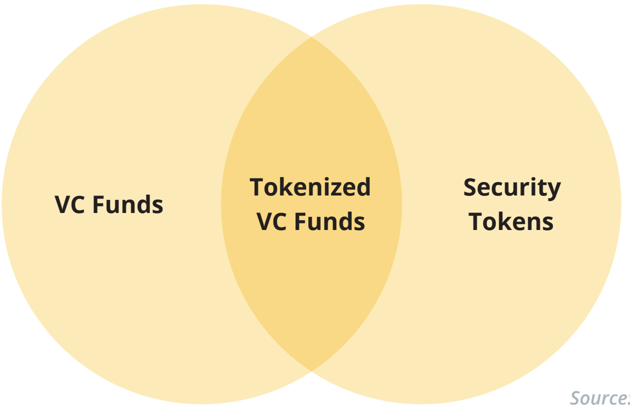
	Pantera Capital ICO Fund [30]	Delphi Digital	Blockchain Capital Fund V
Management Fee	3%	2%	2%
Performance Fee	30%	20%	20%
Redemption Lockup	Quarterly [31]	3 years	10 years
Minimum Investment	$200,000	$100,000	$100,000

Source: *Cointelegraph Research.*

Risk Alert

Be careful not to send money or crypto assets to invest in blockchain VCs without being sure you are sending the funds to the correct address. There are many scammers that pretend to be Pantera or Dan Moorehead and put up fake websites in order to trick investors.

Some VC funds are tokenized and are examples of tokenized securities. These funds add the additional benefit of being liquid.



Source: *Cointelegraph Research.*

Notable examples of tokenized funds:

SPiCE BLOCKCHAIN CAPITAL BARD;VENTURES COSIMO X 500 startups Life.SREDA STARTA VENTURES

[30] https://static1.squarespace.com/static...Factsheet.pdf
[31] With 12 months' notice

Future trend: The death of VC funds?

Someday, there might be a fourth way of investing — VC DAOs. A decentralized autonomous organization has certain features that make it ideal for fundraising, investing and supporting a project through a period of rapid growth. The network effect and ability to crowd-source investment are particularly effective at raising awareness among potential users, investors and developers, with fewer formalities associated with raising capital via a VC. Some DAOs are encroaching on the early-stage fundraising market, an area previously controlled by VCs and angel investors.

Investing in a DAO is relatively easy, especially if you know how to buy Ether and already have a crypto wallet. DAOs have much more flexibility to invest in novel strategies beyond equity investing and even basic token investing. They can make OTC markets for unlisted assets, invest in managed trading funds, sponsor teams in competitive crypto gaming leagues, buy and securitize NFTs, and generally monetize any new trend the crypto-native asset class spawns next.

VCs still maintain a number of key advantages, such as more legal and regulatory clarity, strategic support and personal connections to other industry players. Those VCs looking to innovate can consider how a DAO uses network effects and influencers to rapidly conduct due diligence, fund and raise awareness for projects. Not all of these advantages are unique to DAOs but, instead, are a bi-product of open and transparent business operations.

Notable examples of VC DAOs:

1. MetaCartel Ventures is a for-profit community that targets Ethereum DApps and includes prominent Ethereum developers, such as Stani Kulechov of Aave and Hugh Karp of Nexus Mutual

2. The LAO is a member-directed venture capital fund registered in Delaware that has already backed over 30 blockchain projects.

3.2 Do Asian Blockchain Companies Offer Higher Returns with Lower Risk?

Crypto Native	Slow Adoption in West (2019+)	Mass Adoption in Asia (2020+)
Bitcoin 1m Daily Active Accounts in Dec 2020	Ton by Telegram 0 Active Accounts (Launch Canceled)	Klaytn by Kakao 50m Active Users Onboard (Launched in June 2020)
Ethereum 590k Daily Active Accounts in Dec 2020	Libra by Facebook 0 Active Accounts (Launch Postponed)	Link by Line 165m Active Users Onboard (Expected in 2H 2020)

Source: #Hashed VC and Coinmetrics (October 2019)

Due to the sheer size of potential adopters, Asian blockchain companies may be the equivalent of emerging market stocks. While Europe is currently in the second position in terms of blockchain VC investment (24.1%)compared to 53.9% in North America, the trend may be reversing.

Hashed VC believes that mass adoption of blockchain networks will happen in Asia faster than the rest of the world, given the push by large messenger players to launch their own tokens. For example, Klaytn and Link already have 50 million and 165 million users, respectively, while Facebook's Diem, formerly referred to as Libra, and Telegram's TON have been stopped by regulators in the West. Due to the positive regulatory stance that many Asian regulators are taking, the higher return associated with blockchain companies may not even be accompanied by higher risk.

Asia's blockchain VC market peaked in early 2018, declined in 2019, and regained momentum in 2020. Hundreds, and maybe even up to 1,000, VC funds launched in China and Hong Kong between 2016 and 2018. As early as 2015, Chinese funds — such as Node Capital, founded by Jun Du, CEO of Huobi.com, and Fenbushi, founded by Bo Shen — were actively making investments in the blockchain space. In 2016, Credit China Fintech Holdings, Shanghai Xinhua Distribution Group Ltd, Jilin Province Investment Group Corp Ltd and others launched a $1.44-billion fund of funds for investment in fintech including blockchain.[32] Kenetic followed suit in 2016, and NEO Global Capital sprung to life soon after in 2017 with offices in Singapore, Shanghai and the United States.[33] During the summer of 2017, the People's Bank of China announced support for new technologies, such as blockchain and artificial intelligence, in order to advance economic reform in the country.[34] With this positive sentiment toward blockchain from the government, blockchain VC funds in China proliferated. The following year, a government-backed blockchain fund called Xiong An Global Blockchain Innovation Fund was launched with a starting capital of $1.6 billion in Hangzhou.[35] Also in 2018, Huobi launched a research wing, with an initial investment of $1 billion.[36] However, by late 2019, many Chinese VCs had left the market due to the downturn in crypto prices. Chinese blockchain startups raised $368 million via 71 funding deals; however, this was still 67% less in total deal volume compared to 2018.[37]

How does the Asian blockchain scene compare to the United States'?

While the fundamental blockchain infrastructure was largely built in the U.S., we expect to see mass adoption of blockchain applications in Asia more quickly than in the rest of the world due to the push by large messenger players to launch their own tokens (Klaytn by Kakao and Link by Line), as well as the strong retail capital flow fueling the development of promising projects.

Chai provides a real example of how blockchain-based payment services are capable of scaling to a point of mass adoption in Korea as well as other Asian markets.

While the fundamental blockchain infrastructure was largely built in the U.S., we expect to see mass adoption of blockchain applications in Asia more quickly than in the rest of the world due to the push by large messenger players to launch their own tokens (Klaytn by Kakao and Link by Line) as well as the strong retail capital flow fueling the development of promising projects.

Chai provides a real example of how blockchain-based payment services are capable of scaling to a point of mass adoption in Korea as well as other Asian markets.

Terra (a public blockchain) provides Chai with blockchain-based payment services by utilizing Terra's own stable coin (KRT). Chai pays Terra significantly less transaction fees than those of traditional payment gateways.

Insider Insight with
Ethan Kim,
Co-founder & Partner
#Hashed

[32] https://static1.squarespace.com/static...Factsheet.pdf
[33] With 12 months' notice
[34] http://www.gov.cn/xinwen/2017-06/27/content_5205951.htm
[35] https://www.chinamoneynetwork.com/2018/04/10/hangzhou-sets-up-1-6b-government-backed-blockchain-fund-to-invest-in-start-ups
[36] https://medium.com/@LindaWillemse/huobi-labs-announced-it-will-launch-a-us-1-billion-global-blockchain-industry-fund-9b9193624b48
[37] https://www.coindesk.com/after-painful-2018-chinese-blockchain-vcs-are-getting-back-into-the-market

Outside of China, the rest of Asia was not asleep. In 2018, SBI Holdings Inc. launched an AI and blockchain fund, with $457 million in assets under management out of Japan. In 2019, the blockchain-focused Woodstock Fund was started by Pranav Sharma in India.

While VCs from Asia consolidated in 2018, North American VCs started to look east. Polychain Capital invested in the Chinese token project Nervos in 2018, and in 2019, Texas-based Multicoin Capital hired Beijing-based investor Mable Jiang to search for new deals in Asia.[38] Despite COVID-19's interruption of global affairs and business, the crypto market kept humming. 2020 saw a renewed state of interest in blockchain startups due to uncertainty surrounding government stimulus packages and capital controls. South Korea's Hashed raised $120 million for the venture fund for crypto deals. Huobi launched a new lab dedicated to DeFi and vowed to invest in and incubate startups in this space,[39] and SPiCE VC's $15-million tokenized blockchain fund is also focusing on Asia. In 2020, they launched their token on the only exchange in Asia allowing digital assets, Malaysia's Fusang exchange.[40]

Although expansion into the Asian VC market may be interesting for some investors, there is also a steep learning curve. Funds that lack knowledge of Asia may be better off focusing on the regions where they have connections and asymmetric information.

3.3 Venture Capital Taxes for Investors

Criteria to invest in blockchain VCs

Most countries lack specific regulation on venture capital funds that invest in DLT technology. Consequently, regulatory frameworks that apply to venture capital funds in general are also applicable to blockchain-focused VCs. In most countries, investors cannot enter VC funds unless they are qualified as a high-net-worth individual or accredited or professional investors. As a result, VC funds are mostly financed by institutional investors who are subject to stringent evaluation criteria prior to joining the VC fund.

Earnings and payouts

Traditional VC funds, as well as blockchain VC funds, have two ways to pay their earnings to shareholders:

- Income dividends
- Capital gains distributions.

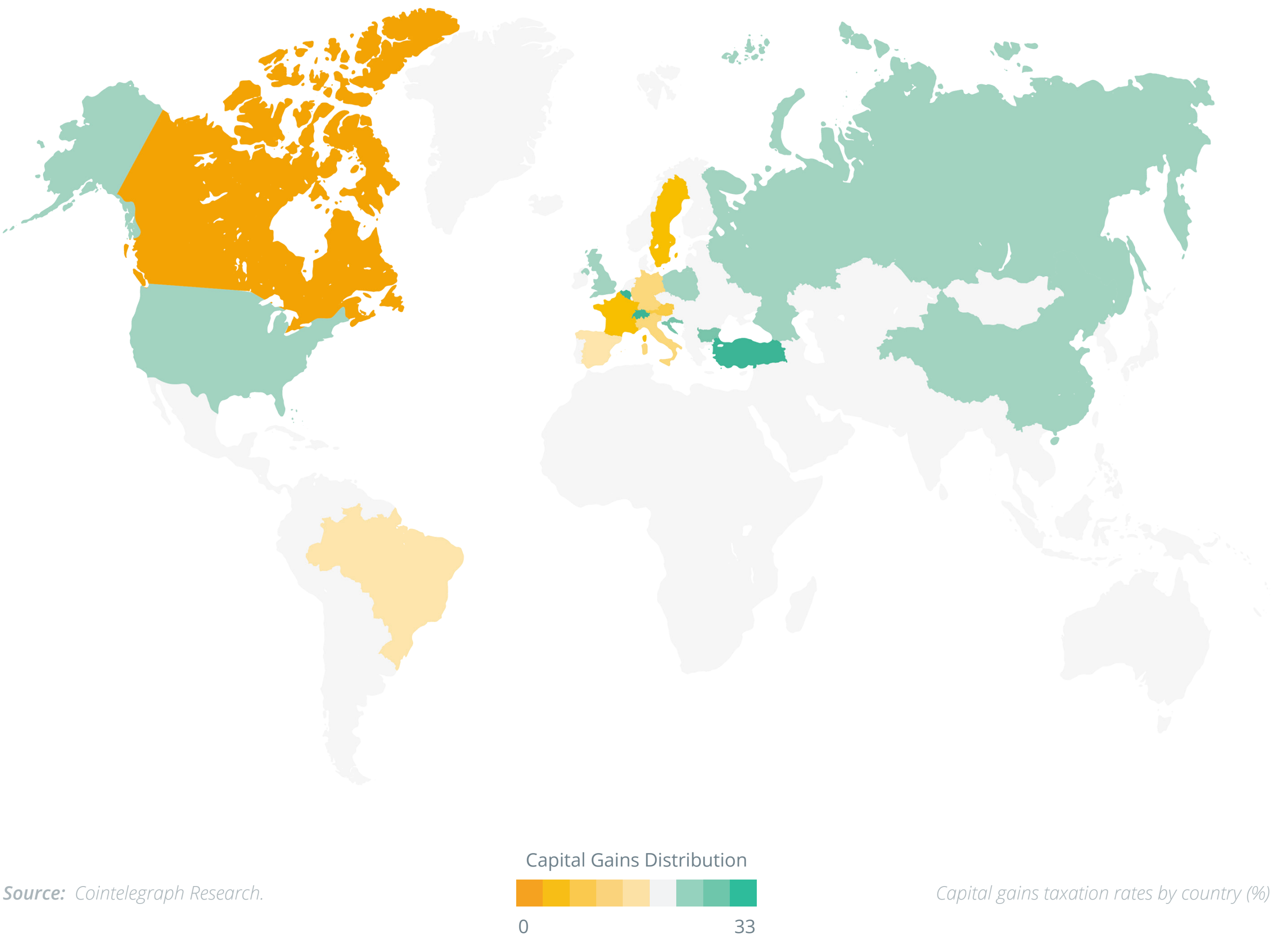
Dividends are distributed monthly or quarterly in most cases, whereas capital gains are distributed once a year. Income dividends and capital gains are taxed at different rates in various countries; rates are also dependent on the level of income for multiple countries.

[38] https://www.coindesk.com/multicoin-capital-hires-principal-in-asia-as-crypto-vcs-look-east
[39] https://www.prnewswire.com/news-releases/huobi-announces-the-establishment-of-huobi-defi-labs-301104641.html
[40] https://www.coindesk.com/spice-unable-to-get-liquidity-in-the-us-takes-tokenized-blockchain-vc-fund-to-asia

Tax Rates in the U.K., the U.S., Hong Kong and Brazil for Single Individuals

Country	Income Dividends	Capital Gains Distributions
The United Kingdom[41, 42]	Basic rate — 7.5% Higher rate — 32.5% Additional rate — 38.1%	Basic rate — 10% Higher rate — 20% Additional rate — 20%
The United States[43]	Taxed as ordinary income with the rate ranging from 10% to 37%. Qualified dividends are taxed at rates from 0% to 20%, but several criteria should be met (see publication 550[44] by IRS).	Income level less than $78,750 — 0% Income level between $78,750 and $434,550 — 15% Income level higher than $434,550 — 20%
Hong Kong[45]	0%	0%
Brazil[46]	0%	Capital gain: • not more than 5 million BLR — 15% • between 5 and 10 million BLR — 17.5% • between 10 and 30 million BLR — 20% • over 30 million BLR — 22.5%

Source: *Cointelegraph Research.*



Source: *Cointelegraph Research.*

Capital gains taxation rates by country (%)

[41] https://www.gov.uk/tax-on-dividends
[42] https://www.gov.uk/capital-gains-tax/rates
[43] https://www.irs.gov/taxtopics/tc409
[44] https://www.irs.gov/pub/irs-pdf/p550.pdf
[45] https://www.investhk.gov.hk/en/setting-hong-kong/tax-basics.html
[46] https://taxsummaries.pwc.com/brazil/corporate/income-determination

PNYX ventures

PNYX Ventures came together in early 2017 as a proprietary trading entity with expertise in trading traditional macro markets and technology expertise from the start-up world. Right then we meticulously modeled up order books, identified liquidity avenues across different exchanges, and quickly established a niche in systematic trading with some dynamic blend of discretionary perspectives to extract alpha on a risk-adjusted mandate. Soon enough the bear market ensued and we were still able to consistently generate returns through delta-neutral strategies and even achieve profits from shorter-term directional trades.

As the market evolved and became saturated, the opacity of trading in the early days soon matured and trading profits started to narrow. We went back to our start-up pedigree to better understand blockchain designs, their utility, and value. Soon enough the bet on open finance as a form of decentralized money as a derivative layer on top of a primitive understanding of the simplistic store-of-value in digital assets reached its fruition through the culmination of the DeFi summer this past year. Not only trading was relevant across a myriad of decentralized platforms, understanding the technology and intent of protocols became essential to have the foresight to derive and seek value. PNYX Ventures took to some primary market opportunities to galvanize our thesis in certain DeFi ideas and aspirations which eventually translated into much success. Through our advisory on certain projects and the help from making markets since the early days of decentralized liquidity pools, we not only added value from a token design or ecosystem cross-pollination but rather down to the bootstrapping of a protocol during the infancy stages as it finds relevance and product fit.

With the heat of DeFi, we soon discovered certain limitations in the Ethereum network and first looked to help improve efficiency. However, through revisiting incumbents and exploring the new frontier, Polkadot and Web3's vision became aptly coherent to solve real existing issues while generating value through an addressable market. The days are still early but just as an early-stage Venture Capital style of investment, PNYX Ventures is pre-positioning ourselves ahead of the point of inflection. The research has been relatively approachable given the solid foundation laid by previous chains and protocols. Thus, a majority of our investment thesis is built on the successes we've seen in the current market, coupled with good implementation procedures and the team's execution. The aforementioned criteria have always been the key in inventive start-ups where problem-solving and pivoting are imperative towards eventual success no matter the arduous journey prior.

We have now identified Polkadot and particularly the substrate layer to be technologically superior versus the incumbent and there can be a flippening of DOT's value against that of ETH's. The most appealing notion of Polkadot is not it's grand ambition to conquer and destroy but rather assimilate and accommodate. This in itself is elegant in coalescing the essence of good and leaving behind the bad, ultimately optimizing and scaling towards a Web3 future. We continuously seek out high-caliber teams and ideas building towards this paradigm to work together in navigating blockchain capital markets from the starting point of tokenomics till launch in the secondary market. We remain very constructive of a decentralized future with the technology improving lives.

Equilibrium

"Equilibrium is the first cross-chain money market on Polkadot that combines a comprehensive lending platform with the professional DEX. It's offering all things Ethereum-based primitives can do but with less risk, in an interoperable manner, and in a single interface."

https://equilibrium.io/en

Kylin

"Kylin Network aims to Build a Cross-chain Platform Powering the Data Economy on Polkadot. It will be the Data Infrastructure for DeFi and Web 3.0 Powered by Polkadot."

https://kylin.network/

MANTA NETWORK

"Manta Network is a privacy-preserving, decentralized exchange. Built as a layer-one solution on Substrate, Manta Network is natively compatible with other projects built on the Polkadot ecosystem."

https://manta.network/

4 General Partners

4.1 Valuation Methods for Blockchain Companies

Valuation in the VC industry is one of the most important topics for startups and investors. Founders need to find a balance between funding needs and the share in the company that can be sold without losing control over the project's development. On the other hand, investors try to calculate a reasonable price for the company's shares in order to maximize their investment return. Due to the general hype around the words "blockchain" and "cryptocurrency," many companies in this space are valued highly. For example, Michael Saylor's MicroStrategy shot up to $494 million after announcing plans to buy Bitcoin in August and September of 2020. Grayscale's Bitcoin Trust is still trading at a 20% premium to Bitcoin's spot price, its Ethereum trust has a 140% premium and Litecoin has a massive 6,000% premium. The interest to gain exposure to the blockchain industry without holding private keys via regulated financial vehicles has bid up the price per share of blockchain-based companies and has attracted a lot of phony entrepreneurs looking for a get-rich-quick deal.

For the most part, traditional private equity valuation methods can also be applied to blockchain deals with a few caveats, such as how to choose relevant examples for a comparative analysis and how to calculate the discount rate for a discounted cash flow analysis. Basically, there are two groups of valuation techniques: quantitative and qualitative. This article focuses on the former.

The two most common quantitative techniques are comparative analysis and discounted cash flows (DCF). Some analysts also use a cost-to-duplicate approach that aims to estimate how much money an investor would need to spend in order to build a similar business, but usually, it gives only a lower boundary for the company's value and says nothing about the idiosyncratic aspects of the project.

Learn VC: P/E Ratio

The same goes for the P/E ratio. For example, if this cryptocurrency custody company had $2.5 million in profit in 2019, then its earnings per share is $2.5 million divided by 1 million shares outstanding equal to $2.50 in earnings per share. If it is selling its shares at $275, then the P/E ratio is 110. For example, Apple's P/E ratio after the coronavirus was hovering around 24 but reached a maximum of 41.93 in December of 2020. Therefore, to justify an investment in the cryptocurrency custody company, its future would need to be significantly more promising than Apple's future.

Comparative analysis of Binance

The metrics used to investigate a deal can depend on the funding stage that it is in. For firms that are in their Series A funding round and beyond, price to sales (P/S), price to book (P/B) and price to earnings per share (P/E) are common comparative analysis multiples. CA assumes that similar businesses have comparable financial ratios, such as EV/EBITDA, P/E, EV/Sales and others. To make a CA valuation, you can use financial statements of the company you are estimating or you can make forecasts about the company's future results. The easiest and the most precise way to get market multiples is to take publicly traded peers. They publish audited financial statements, and you can find the actual price of their stock on an exchange. Unfortunately, there may be no direct peers to the company you are evaluating. Then, you should either take some comparable publicly traded companies from a slightly different area, or you can find information about fundraising activities of private companies in the sector your evaluated company operates in. But you should be very cautious with the data about the private deals since it is usually unverifiable.

For example, to evaluate the private equity value of Binance, we analyzed three blockchain peers of Binance: Square Inc., a payment technology company that allows users to buy and sell Bitcoin; DocuSign, an e-signature company that has an exclusive Ethereum blockchain program for select users; and Silvergate Capital Corp., a company that provides U.S. dollar loans collateralized by Bitcoin. Ideally, you should find several direct peers that operate in the same segment. In a recent report by Messari on the upcoming Coinbase IPO, Messari looked for publicly traded crypto exchanges and found two: BC Technology Group on the Hong Kong Stock Exchange and Diginex on Nasdaq.[47] Despite being a new company with only semi-annual revenues of $300,000, Diginex's P/S ratio was 274x. Messari disregarded Diginex due to its unbelievably high ratio, but we think that is an accurate indicator of the demand for publicly traded blockchain companies. Messari found BC Technology Group's average 2018–2020 P/S ratio to be 19.9x, although this average disregarded its 2020E multiple of 30x because, again, it was considered an outlier.

Since Binance is a private company, it does not publish financial statements, so we need to make some assumptions. First, we assume that exchange fees are the core source of Binance's revenue. The average fee is 0.1%, and the daily trading volume is estimated to be $3.4 billion. These assumptions give us an annual revenue of $2.5 billion. Second, Binance publishes the dynamics of the BNB token's quarterly burning. Initially, the BNB white paper stated that each quarter, Binance bought off of the open market a number of tokens equal to 20% of its profits. In 2019, Binance updated its white paper so that the amount of BNB to be burnt is linked to the exchange's trading volume.[48] The company does not disclose which volumes are taken into account (total, spot, taker/maker). However, trading fees are the core source of revenue for Binance. If Binance's profits have not substantially changed since 2019 and if trading volumes are highly correlated with the profit, then we can still consider the dollar value of BNB tokens burnt to be 20% of Binance's quarterly profit.

Since Binance has already burned $181 million worth of tokens in 2020 and the forecast for the fourth quarter is $98 million to be burned, the estimated profit for 2020 equals $1.4 billion. The company does not disclose whether this is net profit or gross profit, so we assume $1.4 billion to be gross profit. We also assume that the long-term growth rate of this crypto exchange will be 10% per year. Finally, we do not expect huge capital expenditure and changes in working capital in the future. The table below shows the data of Binance's peers required for making the calculation.

Multiples of Binance's Peers

	DocuSign	Silvergate	Square	Average
MarCap, USD bln	38.62	0.51	82.97	–
Revenue, USD bln	0.97	0.09	4.71	–
Gross profit, USD bln	0.73	0.08	1.89	–
EV/Revenue	39.7x	6.7x	17.6x	21.0x
EV/Gross profit	52.8x	6.4x	43.9	34.3x

Source: *market data, Cointelegraph Research.*

An EV/Revenue multiple of 21x along with the estimated revenue of Binance give us a value of $52.5 billion. **An EV/Gross profit multiple of 34.3x gives the value for Binance's private equity of $47.4 billion.**

[47] https://messari.io/article/coinbase-ipo-could-command-28-billion-valuation

[48] https://bitcoinexchangeguide.com/research-reveals-binance-whitepaper-changed-to-burn-bnb-by-trading-volume-vs-profits/

Discounted cash flow analysis of Binance

To calculate the fair value of the company using the DCF approach, an investor has to estimate future cash flows (CF) and a discount rate (r). Usually, cash flow calculation is based on a projection of growth rates in the startup's revenue, costs, capital expenditure, etc. Estimation of this rate is a rather tricky question because you need some sound forecasts that are not always available. The problem of the growth rate calculation can be partially solved by implementing elements of scenario analysis. For example, you can assume that the revenue (or the profit) of the evaluated company will grow by 20% annually with the probability of 0.3, by 30% with the probability of 0.5, and by 40% with the probability of 0.2. In this case, you can develop a DCF model, calculate the value of the company in each case, and then make a probability-weighted estimate.

Consider you have calculated the value of the blockchain startup company Relai.ch given assumed growth rates in its sales and costs, and found out that its potential profits next year could range from $10 million to $20 million. Then, the probability-weighted value of the company will be:

Estimated Company Value = p1 × Value1 + p2 × Value2 + p3 × Value3 = 0.3 × 10 + 0.5 × 15 + 0.2 × 20 = $14.5mln

Alternatively, if you cannot evaluate the probabilities, you can draw a conclusion depending on the growth rate that the value of the company ranges from $10 to $20 million. This range can serve as a starting point in the deal negotiations.

Our calculations show that the discount rate for Binance is 12%. It was derived using the average value from the betas of Binance's peers using the formula $r = r_f + \beta \times ERP$, where r_f is risk-free rate (10Y U.S. Treasury Bond yield, 0.88% as of December, 2020), and ERPis an equity-risk premium for the U.S. market (5.35% in November, 2020, Source: damodaran.com). Betas of public blockchain comparables (DocuSign, Silvergate and Square) are 1.72, 2.45, and 2.09, respectively, so that the average beta is 2.09. Beta is a measure of the volatility of the stock in comparison to the whole market. To calculate, we use the concept of the so-called "total beta," which is better suited than the traditional beta for the valuation of private companies because the latter takes into account company specific risk, while the former considers only the market risk.[49] The beta that we use in our valuation of Binance's private equity is the average of the total betas of the comparable companies. To calculate total beta, you need to divide the standard deviation of the stock's daily returns by the market's standard deviation (SP500). The data is in the table below.

Betas of Binance's Peers

Indicator	SP500	DocuSign	Silvergate	Square	Average
Standard deviation	0.0216	0.0371	0.0530	0.0452	–
Total beta	1.00	1.72	2.45	2.09	2.09

Source: *raw data (quotes) from investing.com*

Therefore, we have the following assumptions: The annual cash flow in 2020 will be equal to $1.4 billion; the discount rate is 12%; and the growth rate is 10%.

$$\text{Binance EV} = \frac{\$1.4\text{bln}}{(1 \div 12\%)} + \frac{\$1.4\text{bln} \times (1+10\%)}{(1 \div 12\%)^2} + \frac{\$1.4\text{bln} \times (1+10\%)^2}{(1 \div 12\%)^3} + \ldots = \frac{\$1.4\text{bln}}{(12\% - 10\%)} = \$67.3 \text{ billion}$$

[49] For more details see https://lotusamity.com/total-beta/

According to the DCF formula, Binance's valuation is approximately $67.3 billion.

The main challenge with the DCF approach is the estimation of the discount rate, specifically the beta coefficient. In traditional finance, you can just use industrial betas that are already calculated by some analytical organizations — e.g., damodaran.com. As the blockchain industry is still nascent, there is not a uniform standard for beta. Instead, VCs must calculate the betas of other blockchain companies and take the average. As early-stage VC investments are risky and blockchain is risky, discount rates can be as high as 40% – 50%.

DCF has some limitations that make this approach less applicable to blockchain VC. First, this method requires long-term growth rates to calculate future cash flows. Extremely high growth rates that are shown in the blockchain industry may lead to an upward bias on the valuation of VC companies. Second, the concept of DCF implies that you can reinvest positive cash flows at a rate equal to the discount rate of your project. However, this is not guaranteed, as the historically high returns in blockchain VC are expected to normalize over time while more money is invested and the industry becomes more mainstream.

Overall, different valuation techniques lead to diverse results. The difficulty of calculating DCF for a company is one reason why many VC investors prefer comparative analysis (CA). While the DCF approach said that the value was $67.3 billion, the comparative analysis showed that it should lay somewhere between $47.4 and $52.5 billion. Overall, we find Binance's valuation to be roughly double the valuation that Messari gave to Coinbase early this year. This may seem high, but Binance's trading volume is approximately 4x that of Coinbase. In early January 2020, Binance registered daily trading volumes above $20 billion, while Coinbase Pro registered in the $5-billion range.

A good practice is to calculate the value of the company using different methods because if investors only use one approach, they may overpay or reject good deals depending on the results of that calculation.

Quantitative vs. Qualitative valuation — which methods do you mostly rely on to analyze a PE investment?

Very simply put, we invest in people, not ideas. Having platforms like LA Blockchain Summit, Global DeFi Summit, Blockchain & Booze, to name a few, we're able to test and see a founders' drive, passion and conviction for the problem they're trying to solve. We're able to get a detailed glimpse on how they act in front of the media, their initial customers, and most importantly, if they can get others to be excited about what they're so passionate about. Sure, we use industry data and market analysis tools like LunarCrush to better understand how people are talking about certain protocols and their industry performance as much as we can, though it really comes down to people and the founders who are building whatever it is that they're excited about.

Insider Insight with **Alon Goren**, founding partner of Draper Goren Holm

4.2 Regulation on VC Funds

Why Do Blockchain VCs Like to Register in Cayman?

Dash Core Group engaged a local firm — Frazer Ryan Goldberg & Arnold LLP — in early 2018 to conduct an analysis of potential offshore jurisdictions for the Dash Investment Foundation, a legal entity that we envisioned would hold assets belonging to the Dash network. This was obviously a great challenge, given the permissionless nature of the Dash network and the ever changing set of participants within it. Our initial screen looked at factors unique to our needs for a network-controlled financial entity, as well as costs from regulatory, tax and reporting burdens. These included legal requirements, such as local directors, number of audits per year and many other factors that drive operating costs.

Once we had a short list of jurisdictions, we evaluated the corporate entity types available in each. In conjunction with local legal counsel in Cayman Islands, we honed in on the benefits of a foundation company limited by guarantee. This was a relatively novel legal structure in Cayman with many benefits well aligned with what we wanted to accomplish. Cayman foundation companies are ownerless and memberless entities with no beneficial owner, which ensures the network could control the entity without worrying about ownership rights. That attribute solved a major hurdle for us because we didn't want beneficial owners, even on paper. Rather, we wanted the DIF to exist exclusively for the benefit of the network.

Today, the DIF has started to make its first successful investments in entities building their businesses in partnership with Dash. As we grow together, the network benefits from its investments, which allows reinvestment in the ecosystem's growth. We hope this model acts as a legal interface between the Dash network and real world assets and can create a more efficient means of investing in the network's growth.

Insider Insight with **Ryan Taylor**, CEO of Dash Core Group

Tokens issued during ICOs may be deemed to be securities in several countries. For example, in the "Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO"[50], the Securities and Exchange Commission (SEC) specified that most tokens issued during ICOs are securities. A relative simplicity of an ICO process and lack of transparent regulation make ICOs attractive for fraudsters[51], so legal authorities in certain jurisdictions, including China and South Korea, have banned ICOs completely. Most countries, however, have not prohibited ICOs completely but have established a relatively stringent regulatory framework for this type of fundraising. Investors may have limited legal protection when investing in ICOs.

Regulation in the U.S.

American VCs that purchase tokens have to take into account that any venture capital fund must adhere to the 20% rule: "Immediately after the acquisition of any asset, other than qualifying investments or short-term holdings, [hold] no more than 20 percent of the amount of the fund's aggregate capital contributions and uncalled committed capital in assets (other than short-term holdings) that are not qualifying investments, valued at cost or fair value, consistently applied by the fund."[52] Therefore, as crypto assets are non-qualifying liquid assets, a venture capital fund is not entitled to hold more than 20% of its capital in assets that are liquid.[53]

50 https://www.sec.gov/litigation/investreport/34-81207.pdf
51 https://cointelegraph.com/news/new-study-says-80-percent-of-icos-conducted-in-2017-were-scams

Furthermore, in the U.S., individuals have to have over $200,000 annual income for the past two years with the same income expected for the current year or over $1 million in net worth excluding real estate in order to meet accredited investor requirements and, therefore, be able to enter a VC fund.[54]

Insider Insight with #Hashed: When investing in blockchain companies, what is the most common obstacle you face?

Lack of harmonization in global regulations on cryptocurrency has been one of the obstacles we face from cross-border investments.

Another critical issue is a lack of standardization in audits within the industry. Due to the lack of reliable audits, we see many hacking incidents in the blockchain space. Unless there are ways to improve audits and safeguard funds on blockchain, we will continue to struggle to bring about mass adoption of this technology.

However, the biggest challenge for blockchain companies still lies in the lack of readily usable products for average users, and we hope to onboard more intuitive projects through Kakao and Line in the upcoming years.

Insider Insight with **Jin Kang**, Head of Legal at #Hashed

Regulation in Hong Kong

In contrast to regulation in the U.S., legal acts in Hong Kong allow investment funds not to be licensed or registered for Type 9 regulated activity (asset management) if a firm only manages a portfolio that invests solely in digital assets, which do not amount to "securities" or "futures contracts." Therefore, a VC fund can invest in ICOs without applying for a Type 9 license.

Regulation in Switzerland

Traditionally, Switzerland has been an attractive location for crypto businesses thanks to the absence of capital gains tax (albeit, there is an annual wealth tax that varies from canton to canton and applies to crypto assets) and crypto-friendly regulations.

What is the best structure for a VC fund in Switzerland?

Most VC or private equity investment vehicles used by fund managers in Switzerland are limited partnerships established in foreign countries. As in other countries — e.g., Hong Kong above — it is uncommon to use Swiss-based funds to be used to structure private equity funds.

However, Switzerland has introduced a new type of fund, the so-called L-QIF. L-QIF must be structured according to one of the legal forms provided for in the Swiss Collective Investment Schemes Act (CISA). Therefore, L-QIF must have either the legal form of a contractual investment fund, an investment company with variable capital (SICAV) or a limited partnership for collective investment (LP). As the aim of the new bill is to promote innovation, the investment regulations regarding the L-QIF will be liberalized, particularly in view of the limited circle of investors. The law thus contains no restrictions regarding possible investments or the distribution of risk, making the concept of the L-QIF extremely flexible. Accordingly, hybrid L-QIFs investing in a combination of different asset classes, such as securities and other assets, are also permitted. Besides the better time to market, this flexibility makes the L-QIF extremely attractive.

Insider Insight with **Patrick Frigo**, founding partner of Wadsack Zug AG

[52] https://www.law.cornell.edu/cfr/text/17/275.203(l)-1

[53] Jonathan Cardenas, The rise of the crypto asset investment fund: An overview of the crypto fund ecosystem, GLOBAL LEGAL INSIGHTS (2018)

[54] https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=8edfd12967d69c024485029d968ee737&r=SECTION&n=17y3.0.1.1.12.0.46.176

However, even though the L-QIF is very flexible, it should be kept in mind that basic principles applicable to all collective investment schemes also apply to L-QIFs. Against this background, the law stipulates the general principle according to which the fund management company, or the SICAV, must ensure that the liquidity of the fund is appropriate to the investments, investment policy, risk diversification, group of investors and redemption frequency.

The second core element, according to the legal definition, concerns the limited circle of investors, with investments in L-QIFs reserved exclusively for qualified investors. According to the CISA, all professional clients, according to the Financial Services Act (FinSA), are considered qualified investors. These include both professional clients in the narrower sense and institutional clients. In addition, private clients within the scope of a long-term asset management or investment advisory agreement with a prudentially supervised financial intermediary are qualified unless they have declared that they do not wish to be considered as such.

A core element of the L-QIF is the waiver of product approval or authorization on the part of the fund company. An L-QIF needs neither approval nor authorization. Consequently, the law provides for an exemption from the obligation to obtain approval of the fund documents of the L-QIF and any amendments thereto. The same applies to the authorization requirement for the SICAV and the LP.

In order to ensure a similar level of transparency for L-QIFs, the institution entrusted with the management of the L-QIF has some notification duties (assumption or abandonment of the management of an L-QIF).

Finally, it is important that an L-QIF be treated transparently from a tax point of view so that taxation only takes place at investor level.

4.3 From the Sell side's Perspective: Tokenizing a Fund

Tokenization of VC funds is a recent phenomenon, with only a handful of VC funds so far being tokenized.[55] Tokenizing a VC fund is similar to equity crowdfunding, which has been a growing industry that emerged after deregulation of the sector by the 2012 Jobs Act in the U.S. and similar acts in Europe and Asia. It provides numerous benefits from the perspective of VCs and their general partners (GP) but also some risks that we will go over in this section.

At a high level, the tokenization of a VC fund helps to make its underlying investments more liquid.[56] By doing that, it provides numerous benefits to the VC fund and its GPs:

- **It provides liquidity to its qualified investors:** In a typical VC structure, it is challenging for both limited partners (LPs) and GPs to exit their investments, as they are locked on for several years. LPs are typically restricted from trading or selling their investments, with typical exits happening through acquisitions or IPOs, and the time horizon of return being five to seven years.[57] Tokenizing a VC fund enables LPs, GPs and other qualified investors to exit their investment faster by liquidating it on the secondary market.
- **It makes capital easier to deploy, which can result in a higher IRR:** By being able to cash out

[55] https://dailyfintech.com/2019/10/07/tokenized-venture-capital/
[56] https://vnx.io/fr/blog/tokenizing-venture-capital-as-the-future-of-investing/
[57] https://hackernoon.com/https-medium-com-firstcrypto-cryptovc-13ec13ff886

on returns earlier, returns can also go back into the fund and provide more capital to be reinvested in a more agile way. This shorter feedback loop, therefore, provides more opportunities for new investments and the potential of a higher potential IRR for seasoned GPs. This higher IRR can also help GPs raise funds more easily as they demonstrate better fund performance.

- **It provides access to a broader investment base, making it easier to fundraise, especially for emerging or unproven VCs:** Most funding for VC firms is provided by institutional investors, such as pension funds and endowment funds, that prefer to work with larger well-recognized VCs due to their limited risk tolerance.[58] Tokenizing a VC fund democratizes access to that asset class by opening its capital to retail investors,[59] thus providing more funding opportunities for emerging VCs.

However, despite all those benefits, tokenizing a VC fund also presents risks, especially at the regulatory level.[60] Specifically:

- **The regulatory framework of tokenized funds still presents some unknowns in contrast to the LP structure:** The LP structure has been well-defined for decades at the regulatory level and in the U.S. tax code.[61] LPs are, therefore, investing in a structure with a well-defined timeline and a clear tax structure. This could make it harder for tokenized funds to raise money from institutional investors as the trade-off between higher liquidity and undefined regulatory framework might not present an attractive risk profile.
- **Compliance issues could impact free and international exchange of security tokens, thus undermining tokenization.**[62]

From the perspective of the VC, tokenizing a fund could also present other drawbacks:

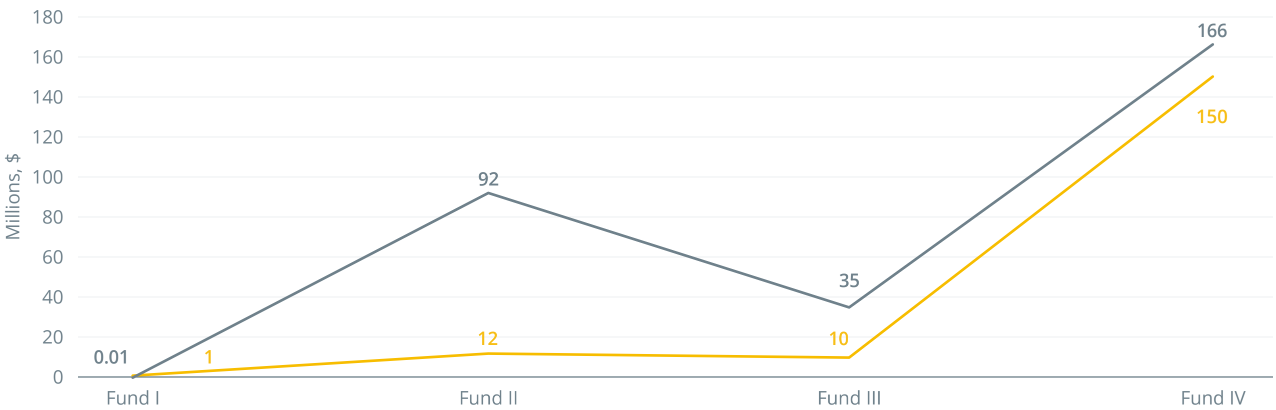
- **Increased competition for established players:** Established VC funds currently have a competitive advantage, as VC funding is largely restricted to institutional investors and high-net-worth individuals. Tokenizing a VC fund would mean competing with a larger less-regulated pool of tokenized funds, thus resulting in increased competition due to lower barriers of entry.
- **Restriction of freedom to operate and higher pressure to deliver returns:** Currently, VC funds are typically private, closed-end funds and don't have liquidity. Making funding more liquid could restrict their freedom to operate, to take risks, and to make "contrarian" investments.[63]

Tokenizing a VC fund is also similar to a publicly traded VC fund; however, publicly traded funds have disclosure requirements for financial figures, which is still not the standard in the crypto market. Publicly traded funds also have a larger pool of voters, and these voters may have incentives to vote for decisions that maximize the token's short-term value at its long-term expense. In order to avoid the issues associated with a broader base of voters, GPs can launch tokens that represent indirect fractional non-voting economic interest in the fund, similar to Blockchain Capital's III Digital Liquid Venture Fund that raised $10 million in only six hours with an entity incorporated in Singapore . Blockchain Capital held an ICO of BCAP tokens for 99 accredited American investors and 901 foreign investors. Blockchain Capital sold to U.S. investors under the exemptions from registration pursuant to Regulation D and Regulation S of the Securities Act 1993. The overseas investors did not need to meet net-wealth requirements and, therefore, could be retail investors but still need to pass KYC requirements.[64] However, as one can see from Blockchain Capital's experience with tokenizing funds, it opted to tokenize its third fund but then abandoned the idea for Funds IV and V.

[58] https://blog.tokenomica.com/tokenization-of-vc-fund-attracting-the-initial-capital-through-tokenized-equity/
[59] https://www.linkedin.com/pulse/tokenization-venture-capital-rob-frasca/
[60] https://dilendorf.com/resources/tokenizing-equity-benefits-risks-and-practical-considerations.html
[61] https://hackernoon.com/the-promise-and-peril-of-tokenized-funds-32d0ea7e5901
[62] https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/lu-tokenization-of-assets-disrupting-financial-industry.pdf
[63] https://medium.com/spicevc/why-tokenizing-a-fund-is-a-good-thing-23a2cd524fd
[64] Laura Shin, This VC Is Sure Venture Capital Is About To Be Disrupted, FORBES (Apr. 18, 2017)

Figure 19

Blockchain Capital Fund's Asset Raised vs Current Assets Under Management



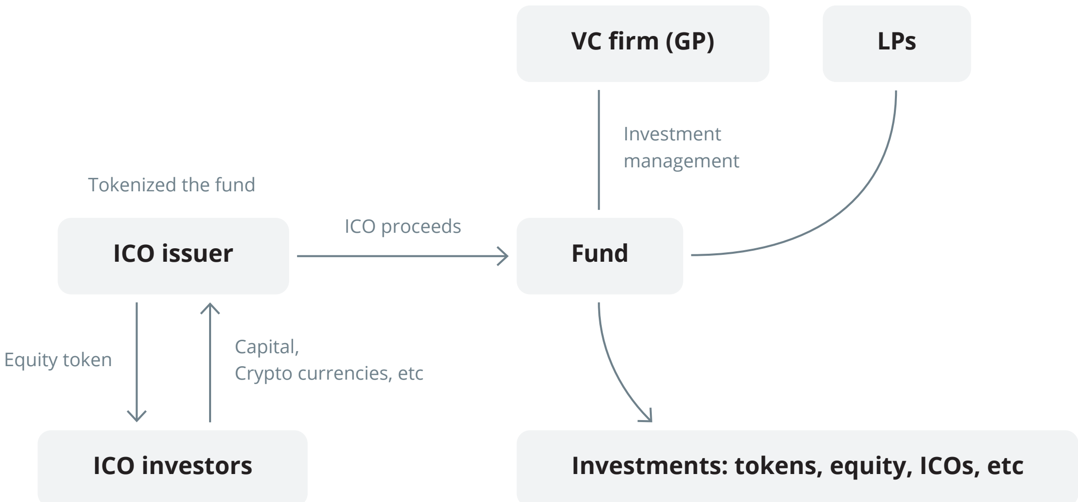
Source: Cointelegraph Research.

How do you find out about deals before other VCs do? Is there a lot of competition for blockchain equity deals?

Our industry's rate-limiter is the number of world-class founders working on blockchain and DeFi concepts. At the earliest stages, we seek to partner with these founders to help them realize their ideas. By seeking out and partnering with the top talent, we become the preferred capital provider but also a core user of the product and network in the initial phases. We've baked this strategy into our thesis and coined it "Network Capital," as it involves being an investor, user, supplier and contributor, and it is how we find the best opportunities as well as dictate the success of our portfolio.

Insider Insight with **Michael Anderson**, co-founder of Framework Ventures

In addition to increasing its pool of potential investors by tokenizing a fund, a tokenized venture fund also enables GPs to rebalance their holdings in a way that is a lot easier than traditional VC funds. The liquidation of positions can be done by buying back tokens from fund holders and then reselling them on a secondary market — either a decentralized exchange, such as Uniswap, or a centralized exchange that has listed the tokens.



Source: Lin & Nestarcova (2019), Cointelegraph Research

4.4 The Exit Strategies

Ex(c)iting positions

Operating in an industry that disrupted the very basics of fundraising mechanisms, venture capitalists had to break new ground in many aspects of the investing process. Private tokens sold instead of equity, and communities of project believers were valued over sound business plans and financials — all has become a new normal for VCs funding blockchain projects. However, the economic rationale of venture capital itself remained unwavering. To realize its gains and sustain its business model, a VC has to exit from an investment at some point after the funding round.

> **Insider Insight with Polychain:** Can you describe what exit options exist for blockchain VCs? As many blockchain companies are decentralized or nonprofit, IPOs seem tricky.
>
> We believe crypto will ultimately become the most liquid asset class in the world precisely because that liquidity is usually not contingent on IPOs or listings on traditional, geographically sequestered financial markets. While IPOs are certainly an option for more traditionally structured equity businesses Coinbase is a great example, and there will be others who follow a similar path) the real opportunities afforded by cryptocurrencies come from their open, decentralized natures and from the new businesses and behaviors unlocked by that decentralization. We often see teams forming, building out a set of DeFi contracts, and deploying them with an associated governance token in under a year. This is a much faster turnaround from formation to launch than you'd expect from any traditional venture-backed business, and each of those token launches represents a potential liquidity event. The process is similar, though generally longer, for teams deploying new layer-one crypto networks, but again, liquidity begins at the genesis block. For these reasons, we're seeing all kinds of novel new capital formation and organization structures happening on-chain.

Token adoption is an overriding factor that makes blockchain- and crypto-focused VCs unique. VCs that invest in a startup's digital token are more flexible in exiting their investment compared to VCs buying equity. With digital tokens, divesting is effortless: A VC can easily sell project tokens on an exchange and then convert crypto into cash. Secondly, token sales allow investors to better time their exits, as VCs are free from the time-consuming search of trade buyers or a grueling IPO process with a following lock-up period. Having tokens as a means for investment, VCs can play by their own rules with no need to adjust to buyers' conditions. As a result, VCs are able to optimize their exit strategies and increase their IRR.

> **Future Trend: Exiting with tokens**
>
> Almost unnoticed in the media, a partial exit of KR1 from Nexus Mutual (token: NXM)[65] is an example of how tokens make an exit flexible for VCs. In July 2020, amid the "summer of DeFi," KR1 sold 35,128.30 NXM tokens worth $492,991.85. Previously, the fund invested in Nexus Mutual in a seed round in 2018 and then made a follow-on investment in 2019, acquring NXM at an average price of $2.24 per token. KR1 seized the moment and sold for $14.03 per token, thus generating approximately 6.3x return on investment. With tokens, KR1 was able to release about a quarter of its initial Nexus Mutual position and continue to hold the other three quarters. Moreover, tokens allowed the fund to tailor its exit strategy to the state of the nascent DeFi market.

[65] https://www.bloomberg.com/press-releases/2020-07-23/kr1-plc-portfolio-update-nexus-mutual

However, buying equity — instead of the project's token — is still preferred by many startups and funds. Private equity exits in the blockchain industry are no different from those common to other VC industries, such as educational technology or healthcare. Traditionally, VCs are tied to three major exit strategies from a successful startup: an IPO (including listings for SPACs), mergers and acquisitions (M&A), or a management buyout. Regarding IPOs of blockchain companies, financial market authorities may pay extra attention to applications and may even reject applications that would be approved if not for the blockchain-related nature of the company. Despite the delays and extra scrutiny of blockchain firms seeking public funds, several companies are going to hold an IPO in 2021.

Future trend:
Top private equity blockchain companies will go public

Coinbase

On Dec. 17, 2020, Coinbase announced it had filed for an initial public offering with the SEC. Research firm Messari declared the 35-million-customer company could be valued at $28 billion.

BlockFi

In July 2020, BlockFi posted a job listing for a chief financial officer that could prepare the team for late-stage investment, acquisition and/or IPO.[67]

Bakkt

On Jan. 11, 2021, ICE's institutional exchange, Bakkt, announced it will launch on stock markets at a possible $2.1-billion valuation.[66] Bakkt is set to merge with VPC Impact Acquisition Holdings, trading under the ticker VIH. VPC is a so-called "special purpose acquisition company," or SPAC. It is a shell company whose only purpose is to buy or merge with another company and allow it to be listed on the stock markets without going through the lengthy and expensive process of an initial public offering.

Gemini

On Jan. 14, 2021, Bloomberg announced that the Winklevoss twins were considering taking their crypto exchange public.[68] The Winklevoss twins are the richest Bitcoin billionaires, with a combined worth of about $2.8 billion in BTC, according to Forbes.[69] They famously invested $11 million into Bitcoin back in 2013. They currently have over $10 billion in assets under custody.[70]

[66] https://cointelegraph.com/news/bakkt-crypto-exchange-to-debut-on-stock-markets-through-spac
[67] https://coingeek.com/blockfi-inches-closer-to-us-public-listing/
[68] https://www.bloomberg.com/news/articles/2021-01-14/winklevoss-twins-consider-taking-gemini-crypto-exchange-public
[69] https://www.forbes.com/sites/michaeldelcastillo/2021/01/11/bitcoins-recent-surge-creates-new-billionaires/
[70] https://cointelegraph.com/news/winklevoss-brothers-reportedly-eye-public-listing-for-gemini-crypto-exchange

Traditionally, M&As are the most common exit route for a VC. To better understand the forces at work behind the development of the blockchain VC industry, we surveyed the landscape of M&A exits.

Most Notable Acquisitions of VC-backed Companies in 2020

Acquirer	Target	Target market	Sector	Deal size	Previous VC funding	Notable VC investors
FTX Exchange	Blockfolio	Retail	Data	$150 million	$17.5 million	Founders Fund, Pantera Capital, Huobi, Abstract Ventures
SBI Holdings	B2C2	Institutional	Prime brokerage	Undisclosed, <$100 million	$30 million	SBI Holdings
Coinbase	Tagomi	Institutional	Prime brokerage	Undisclosed, <$100 million	$28 million	Pantera Capital, Multicoin Capital, Digital Currency Group, Founders Fund, Collaborative Fund
BitGo	Harbor	Institutional	Security token company	Undisclosed, <10 million	$38 million	Founders Fund, Andreessen Horowitz, Pantera Capital
BitGo	Lumina	Institutional	Crypto asset manager	Undisclosed, <10 million	$4 million	Bain Capital Ventures, Craft Ventures
Genesis Global Trading	Vo1t	Institutional	Crypto custody	Undisclosed, <10 million	$3.07 milion	KR1

Source: *Cointelegraph Consulting, Crunchbase database*

M&As can be used as a sobering indicator for the fair price of a company since VCs are known for inflating valuations after they make their investment in the company. News announcements about subsequent funding rounds can have headlines of seven- or more-digit valuations; however, M&As reveal the real market value of a company.

The acquisition of Vo1t, a custody services provider, by Genesis Trading was one of the starkest examples of how an M&A can reveal a company's fair valuation. The company was backed by KR1, a blockchain investment company, and though the deal size was not publicly announced, we can derive it from KR1's portfolio updates. KR1 held a fully diluted position of 7.94% in Vo1t, and the fund received $243,712 for its stake in the company after the deal was inked. This reveals a valuation of $3.07 million under the acquisition deal terms. Notably, back in 2018, Volt raised $2 million at a post-money valuation of $17 million. What went wrong during the next two years? Could some of the blockchain industry startup valuations be VC fiction? *Cough Cough The Graph Cough Cough*. Each investment cycle is unique, but we always advise to read the news with a balanced and objective mind.

We expect at least three large ecosystems to loom prominently in the crypto space in 2021. The fact that these crypto incumbents have been investing heavily into a diverse basket of blockchain-related businesses is a clear prerequisite for the emergence of crypto monopolies that would be able to meet any user's needs and generate enormous revenue. We suspect these companies could further drive consolidation in the blockchain industry through active M&As in 2021. External companies, such as banks, brokers and payment companies, could also throw their hand in the crypto services ring through acquisitions in order to compete for part of the market share of this burgeoning industry before it becomes saturated.

5 Conclusion

It has been an amazing year in the crypto space. The total market capitalization of the cryptocurrency space saw an increase from $191 billion in January to over $765 billion by the end of the year — a 300% increase. One of the major drivers behind this growth was the boom in decentralized finance space with over $26 billion locked in various protocols by late January, 2021. According to the dataset prepared for this report, approximately 25% of the deals funding in 2020 were related to decentralized finance.

Insider Insight with Founding Partner at Draper Goren Holm, Alon Goren:
What will be the major trend in 2021 be?

2021 will be the year for non-fungible tokens. We're already starting to see their very early development in 2020, but 2021 will be the year of more mainstream amplification for these digital collectables. You're going to see gaming companies tapping into fashion-inspired NFT companies as they create unique skins and collectables designed by and for their community at large. You'll see more artists leverage the power of unique digital collectables to amplify their value offering to their fans. You'll continue to see more exciting experimentation done around digital art, new mainstream collaborations, and more. I'm confident we'll see the first NFT being sold for $10,000,000.00.

While the overall investment in the industry was definitely impacted by COVID-19, and we are still way below the 2018 blockchain VC funding heights, we are beginning to see a lot more venture capital activity from both traditional VC firms as well as dedicated crypto firms. This should come as no surprise due to the superior returns that blockchain VC has offered historically coupled with very low correlation with traditional markets.

Going forward, we absolutely agree with Founding Partner at Draper Goren Holm, Alon Goren, when he says that NFTs will be important. We also see an increasing interest in fund tokenization and liberalization of investment regulations in innovative jurisdictions. This is because tokenized funds that can be traded using distributed ledger technology are simply better than legacy trading platforms that limit what investors can do with their assets, such as trading on the weekend, using their shares as collateral for personal loans, or lending their shares to other traders for lucrative interest rates. As the distributed ledger technology continues to penetrate new industries and markets each year, we see a clear path ahead: blockchain VC funds are going to have an influx of capital from a global base of investors, and they are going to benefit from a diversified choice of investment opportunities.

Disclaimer

Cointelegraph is not an investment company, investment advisor, or broker/dealer. This publication is for information purposes only and represents neither investment advice nor an investment analysis or an invitation to buy or sell financial instruments. Specifically, the document does not serve as a substitute for individual investment or other advice. Readers should be aware that trading tokens or coins and all other financial instruments involves risk. Past performance is no guarantee of future results, and I/we make no representation that any reader of this report or any other person will or is likely to achieve similar results. The statements contained in this publication are based on the knowledge as of the time of preparation and are subject to change at any time without further notice. The authors have exercised the greatest possible care in the selection of the information sources employed; however, they do not accept any responsibility (and neither does Cointelegraph) for the correctness, completeness, or timeliness of the information, respectively the information sources made available as well as any liabilities or damages, irrespective of their nature, that may result therefrom (including consequential or indirect damages, loss of prospective profits or the accuracy of prepared forecasts). In no event shall Cointelegraph be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any special, direct, indirect, consequential, or incidental damages or any damages whatsoever, whether in an action of contract, negligence or other tort, arising out of or in connection with this report or the information contained in this report. Cointelegraph reserves the right to make additions, deletions, or modifications to the contents of this report at any time without prior notice. The information contained in this document may not be used for any commercial endeavor without explicit written consent from the author and publisher. Please retain this document for your own exclusive use and treat it as confidential. The value of cryptocurrencies can fall as well as rise. There is an additional risk of making a loss when you buy shares in certain smaller cryptocurrencies. There is a big difference between the buying price and the selling price of some cryptocurrencies and if you have to sell quickly you may get back much less than you paid. Cryptocurrencies may go down as well as up and you may not get back the original amount invested. It may be difficult to sell or realize an investment. You should not buy cryptocurrencies with money you cannot afford to lose.