

IP Blockchain 2021- Show 3

Participation in the Blockchain Segment and What Investors Look for

This is Investor Perspectives. I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

In our new Investor Perspectives series entitled "How to Understand Blockchain", you'll hear about participation in the blockchain segment and what investors look for.

As the COVID pandemic passes, we emerge into a new world. The blockchain space has made tremendous progress in setting up substantial networks and meaningful applications. Blockchain continues to drive change in the tech space in particular fintech. We have investors and startup founders describe the changes coming up.

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I hope you enjoy this episode.

Our first guest is David Johnston, Managing Director at Yeoman's Capital. Yeoman's Capital is David's personal family office investment arm which acts as an early seed-stage investor. Yeoman's investment thesis is to only invest in Dapps where the Yeoman's team of experts can have a significant positive impact on the project. In the same vein, Yeoman's only advises projects in which it deploys its own capital. David, thank you for joining us.

[00:15:45] **Hall Martin:** so what is your participation in the segment so far? You talked about 40 investments, but can you give us more detail there?

[00:15:52] **David Johnston:** I thought half of those have been protocols or focused on what's called layer one technologies that are sort of securing the main blockchains. Then you've got wallets, exchanges, a lot of products that are serving, face the consumer, like we talked about with NFTs. And so, we tend to be closer to the infrastructure side. I like to say, I don't know who is going to win at the casino, but I know the casino is going to win. And that's another way of saying _____ on the platform is if you look at the economics, for example, of Ethereum, the Ethereum protocols accrued more value than all the applications built on top of it combined. And so, this goes back to what's called the fat protocol thesis, which is that in blockchain, because of the way it monetizes with a token, a lot of the value accrues to the underlying critical. So the question becomes, what is the underlying protocol for each particular use case. In smart contracts, so far Ethereum is dominant. In digital gold, Bitcoin is dominant. People are competing to be who's going to be digital cash. Uniswap, we've talked about has taken off as the first really large decentralized exchange, starting to rival the largest exchange on daily volume. So if you think about those different categories, what we're looking for is the top one or two players in every category that's going to be affected by blockchain.

[00:17:22] **Hall Martin:** Great, and so that's what you look forward to invest in as just the top positioning, or is there additional criteria you put on it?

[00:17:29] **David Johnston:** So in networks, especially open public networks like blockchains and we sort of think as the heart of DLT is really the ability to get a lot of user mindshare. And so, it tends to concentrate in the top two or three players in a particular use case. So I look for who's getting real adoption, who's getting real users. The days of sort of I have a white paper and give me funding are long gone. People, at this point, expect a smart contract, a lot of users. People sort of are diving into whatever is being built before _____ token or something like that. Uniswap did a great job with that, building a community first, and then after they had sort of figured out the mechanics and what to incentivize on the behavior side, then they added the token and ended up sort of really boosting the community to a whole new level.

Our next guest is Dave Hendricks, CEO and Founder at Vertalo. Vertalo is a cap table, compliance, and investor onboarding platform utilizing blockchain to connect and enable the digital asset economy. A chain-agnostic pioneer in "direct custody" and secondary liquidity, Vertalo supports the ongoing asset management needs of private companies and broker-dealers. Dave, thank you for joining us.

[00:12:42] **Hall Martin:** So what is your participation in this segment so far, how are you playing in this new field?

[00:12:47] **Dave Hendricks:** So what Vertalo does is Vertalo takes real world assets, we onboard them onto our platform, and we turn them into tradable digital assets. Those tradable digital assets can either be sold on an exchange, like you would sell any stock or bond, or those tradable digital assets can be collateralized on one of these DeFi platforms. So you can bring an asset, maybe you own a building, you can take that building and digitize it, and then borrow against it. So borrowing and lending is at the heart of DeFi. Today, all of this borrowing and lending is occurring and being done using mostly Ethereum smart contracts, Ethereum or Eth. People stake Eth and they get paid a dividend, and then they do some arbitrage with it. But in the near future, as there's less and less Eth to be staked, people will stake real world assets. Meaning, instead of selling your real estate property, you'll borrow against it, because borrowing against it doesn't have a tax hit. So you can take that property, you can digitize it or tokenize it on a platform _____ and then you can borrow against it. Those are the kind of interesting things that are happening with this combination of currency and technology that is blockchain and Bitcoin.

[00:14:19] **Hall Martin:** So in looking at this DeFi system, what do you look forward to invest in a company there, what's your criteria that makes that a successful one versus a non-successful one?

[00:14:29] **Dave Hendricks:** Well, it's very complicated. So usually, what you're looking at is the smart contract structure and the architecture for the smart contracts. This is not something which is easy for most people to do. So usually, then you're looking at who else is investing, or what other similar projects has this team worked on. You might also be wondering, are the smart contracts audited, because if the smart contracts were properly audited, that means that the protocol could fail and you could lose all of your money. So these are momentum investments. I am not recommending anyone on your show, go make investments into DeFi protocol projects. If they do, they should expect to lose all their money, however, if they're smart, and they know how to navigate this, they may be able to get into the right project that pays a very, very strong dividend. Their equity investment may be worth nothing, but the coupon that they get from it, the currency that the DeFi protocol puts out, which it distributes in an airdrop, they'll get a piece of that. And if you take a look at, for example, Yearn Finance _____ drop a year ago, it was worth \$700, that's where it was trading at early, today it's trading at \$45,000. So if you had been a participant in that, you would have done very, very

well. And those are the kinds of returns that investors in blockchain and DeFi are looking for. They're not looking for enterprise equity investments like most of us are used to.

Our next guest is Christian Kameir, Managing Partner at Sustany Capital. Sustany Capital is a blockchain venture fund headquartered in Newport Beach, California. Aside from investing in blockchain-related projects, the firm lends its expertise to existing companies interested in 'security token offerings'. Christian, thank you for joining us again.

[00:11:35] **Hall Martin:** So what is your participation in the segment so far? What role are you taking?

[00:11:40] **Christian Kameir:** Well, as I mentioned, we have been investing in peer to peer solutions since the late 90s. We bought our first _____ company in 1999, and I've been working personally on a decentralization thesis since 2008, when I sold my last startup. So it became rather apparent to me at that point in time that we never built the worldwide web. So we really built the commercial web, and I started to look for the tools that will enable this decentralization, I will buy it, I probably didn't call it this, I actually have to go back. We created a Facebook group, which is kind of ironic, in 2008, on the topic of how to decentralize the Web. My partner then in 2015 founded the Ethereum Meetups in Orange County, that's how we met. So that our participation there has been very early on, we were allocating to the initial Ethereum ICO, and we have been running meetups here in Orange County ever since. And we've participated in a number of working groups that are super important for the, quote-unquote, correct development, so we're working with the OpenTravel Association, the Decentralized Identity Foundation, to limit extend, the Ethereum Foundation on portable IDs and so forth. And then probably, the last thing that we obviously do is we invest in a lot of projects, we are one of the early investors into the space initially within our own names. And then in 2018, we formulate our first fund, and we just closed that and we're just opening up our second fund to invest in more projects and extend what we already built and extend on the pipeline that we already have.

[00:13:33] **Hall Martin:** So what exactly do you look for to make an investment, what's your criteria?

[00:13:37] **Christian Kameir:** So, in broad buckets, investing is about timing, so we focus on disruptive finance. And then secondly, we focus on Web 3 solutions, and those obviously are intertwined. Within finance, we focus on things such as programmable money and they are, I think, we talked about this for a very long time, it's kind of my passion to understand money and the use cases of money, so if you look at things such as Tether, you can simply observe what people are using it today. Right? So you can see that the main use case of Tether is to stay on centralized exchanges and mostly exchange Tether against Bitcoin, right? So from there, you can then compare this programmable money and see what is the velocity compared to things like the US dollar, because the US dollar's velocity is about 1.2-1.4, in a given quantity; Tether's velocity on a given day is four to five times its market cap, so it's orders of magnitude almost

larger. And so, what we expect to see, and I wrote a very long thesis papers around that as well, we'll see an inflection point within probably the next 18 months with the first implementations of central bank digital currencies. At that point in time, programmable money will be kind of table stakes. So every country that doesn't offer those to the ecosystem, to companies within their territory is going to be at a disadvantage. So that's kind of probably the most important point within disruptive finance.

Then the next point that we touched on already is decentralized finance solution. So I wrote a couple of articles on that around the concept of digital vending machines and money robots. We will, and we are already seeing all of these emerging with topics that didn't previously exist, like, automated market makers and things of that nature, that simply couldn't exist before we have those primitives. Then, third, as you know, one of my passion projects that I've been writing about for five years now, and that's really the most important topic I think long term is that of decentralized autonomous organization. So new types of capital formation, like, new types of capital formation that aren't extractive, that align the interest of shareholders, and now we are seeing larger ones emerge to where market makers and so forth will just airdrop their tokens for community governance. So there's no cooperation attached to that, then lastly, and to me actually more interesting in terms of its long term prospects, non-fungible tokens, NFTs, and they are specifically the real world application. So we invested in the first solutions three years ago, in NFTs, and made examples he in our local meetups, how to use non-fungible tokens in things like supply chains.

In my mind, there should be a digital twin or a digital clone for every physical item that exists in the digital world, and that should exist before you even instantiate that physical item. And I can talk about that topic for like three hours, and I'm constantly frustrated actually that I don't have these already because I've been asking for these for three years. And then the much larger topic is the Web 3 stack. So all of these things that I mentioned earlier, they really fit into the Web 3 stack and the decentralization of the World Wide Web. So anything that we have in centralized fashion right now, so data storage, compute, bandwidth; and then I think most importantly, and still very much underestimated, is the decentralization of addresses, as in, right now, any service provider you registered your domain from, could just shut you down, could just take your domain away from you, and has many, many times, and so now we have different ways like the fire protocol, decentralizing the address space, which needs to happen for Web 3 to emerge, right? Because otherwise, there's still the single point of failure where the provider, whoever runs a DNS system, and was providing you with domain could receive a subpoena, and for whatever reason, shut you down, or it could just be technology failure.

And again this is also big long topic can of worms, and for the time being, we're kind of in the middle of the stack where we got this intermediary solutions that we need, like indexation of blockchain, things like the graph or we got things that create interoperability of blockchain, like polygon, for example; we got intermediaries that need to onboard, what we call, identity in a new way. Because now you see, with the introduction of health data and biometric data, you'll see this necessity of actually, for the first time protecting this data from abuse, because that's kind of the legacy of the legacy infrastructure that we call Web 2.0, which is, this combination of

databases connected to networks, which was a big and still is a big security risk. You cannot protect databases in any usable form, so you need to onboard your own identity to this network in a way that you get self-control, so a lot of times people refer to it by the name of self-sovereign identity. Anyway, I'm going to stop it here, because again, as you can tell, it's a very deep, deep topic which I am very passionate about, very, very passionate about.

Our next guest is Jake Ryan, CIO at Tradecraft Capital. Tradecraft Capital manages a macro/thesis-driven crypto fund with the objective of delivering asymmetric returns by investing in the emerging asset class of crypto assets. The firm's investment thesis focuses on the next long-wave economic cycle, which the firm calls the "Age of Autonomy". Jake, thank you for joining us again.

[00:08:47] **Hall Martin:** And so, what's your participation in this segment so far?

[00:08:51] **Jake Ryan:** Yeah, so we invest again, we have an overarching thesis, and we have four or five investment themes that we use that help drive our investment plan. So sound money is, we think, very interesting as central banks around the world continue with money printing. We distinguish the difference between consumer or price inflation and monetary inflation, and we're seeing monetary inflation continue. I thought one of those very interesting notes were 27% of all US dollars ever were printed in 2020. So sound money is a particularly interesting investment _____. Another is that open finance or decentralized finance. We're looking at building a digital decentralized financial system. One thing you cannot get in the traditional financial system right now is interest or yield, and right now you're able to generate the killer app of crypto right now is being able to generate yield. I think that really is one of the killer apps of decentralized finance. So we look at that space, and that's really growing. I think at the beginning of – at the end of 2020, there was something like 15 billion in assets locked as collateral within DeFi. I suspect that we'd get around 45 to 50 billion in assets by the end of 2021. And I think by my quarterly investment letter, we'd already hit 45 billion, so I had to readjust that. So we are seeing extreme amounts of growth within decentralized finance.

[00:10:45] **Hall Martin:** So what do you look forward to invest in this space, what's your investment thesis and criteria?

[00:10:50] **Jake Ryan:** Yeah, so we think things are interesting and that help support that decentralized finance. You can think of some of the basic services within traditional finance, you have exchanges, you have lending, you have derivatives, one thing we think is interesting is insurance. So right now, there are crypto projects that provide interest on risk – sorry, they provide insurance on some risk like smart contract risk. So you're able to take out insurance policies to insure against various risks. And so, as these services get more mature, the entire space is able to mature.

Our final guest is Rashad Kurbanov, CEO and Co-founder of iownit.us. iownit.us is a digital asset securities platform that powers tomorrow's private markets by providing the end-to-end digital infrastructure to issue, manage, buy, and sell digital asset securities. Rashad, thank you for joining us.

[00:09:01] **Hall Martin:** And so, what is your participation in the blockchain segment so far, what are you working on these days?

[00:09:06] **Rashad Kurbanov:** We're focusing on using the distributed ledger technology to digitize the private securities and investments, kind of move away from paper based processes that are costly, complex, antiquated, and really move the private securities markets into the 21st century. Blockchain for us is a key enabler of that transformation, a lot of firms are working on that. We believe that we have a very distinct approach to using the technology. But that's our focus. So for us, it's defined industry, defined problem set technology solution that has quantitative and qualitative advantages over the existing processes, and a pretty large market of users that is out there. And that I think is what everybody should be striving for, when they're trying to address or use the technology.

[00:10:09] **Hall Martin:** Great. And so, when you make investments in this space, what do you look for to determine if that's a good investment or not in the blockchain area?

[00:10:17] **Rashad Kurbanov:** For us, the key thing is, are you really solving the problem or you're trying to use a fashionable word, or, hopefully fashionable word, to just mask the fact that the underlying business case does not make sense. So if the decision on whether this particular application of technology makes sense or not really is almost secondary to what is the business problem that you're trying to solve, then demonstrate how the technology can make it easier to solve.