

# Aaro Capital

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## Market Overview

October 2019

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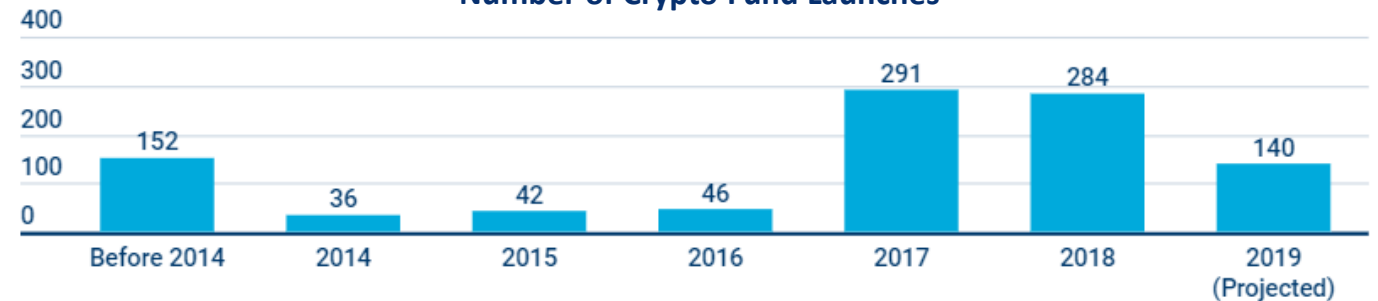
# Market Overview

Rapidly **maturing** market for cryptoassets and asset management

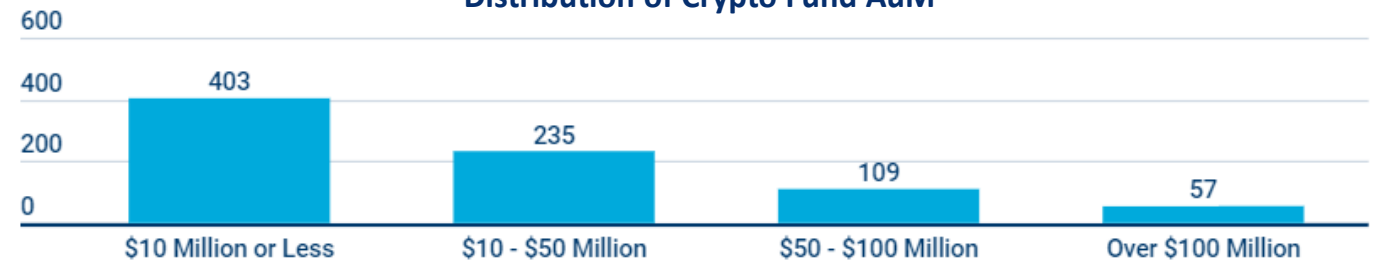
- Cryptoasset market is \$200 Billion today, up from \$18 Billion at the beginning of 2017<sup>1</sup>
- 500+ funds launched in DLT and cryptoassets sector since the beginning of 2017
- Estimated ~\$19 Billion AUM, up from less than \$1 Billion at the beginning of 2017
- Top-tier allocators including [Yale Endowment Fund](#) and [Two Sigma](#) have allocated to crypto
- [Fidelity](#) found half of institutional investors view cryptoassets as having a place in their portfolios

1: Data as of: October 2019 | Source [CoinMarketCap](#)

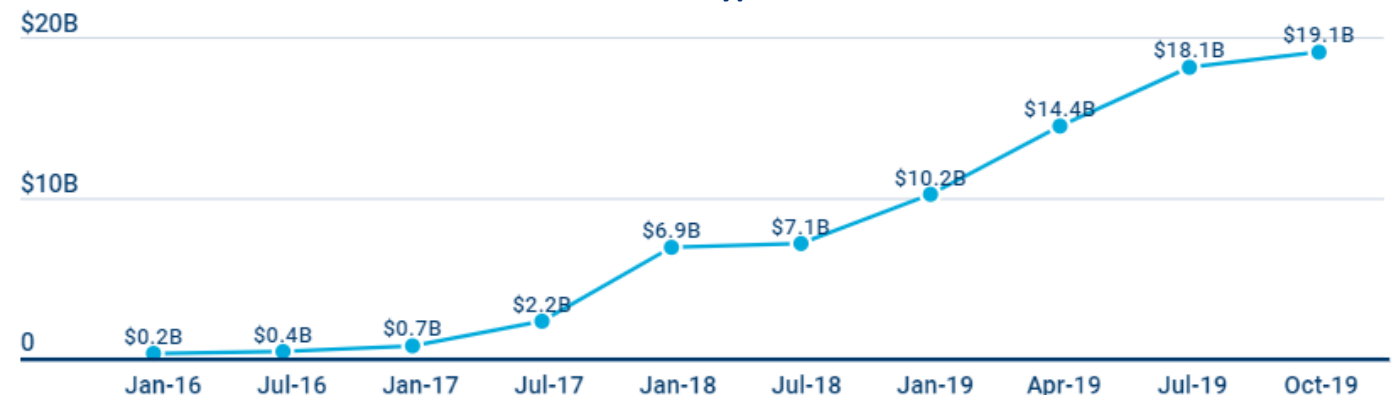
Number of Crypto Fund Launches



Distribution of Crypto Fund AuM



Growth of Total Crypto Fund AuM



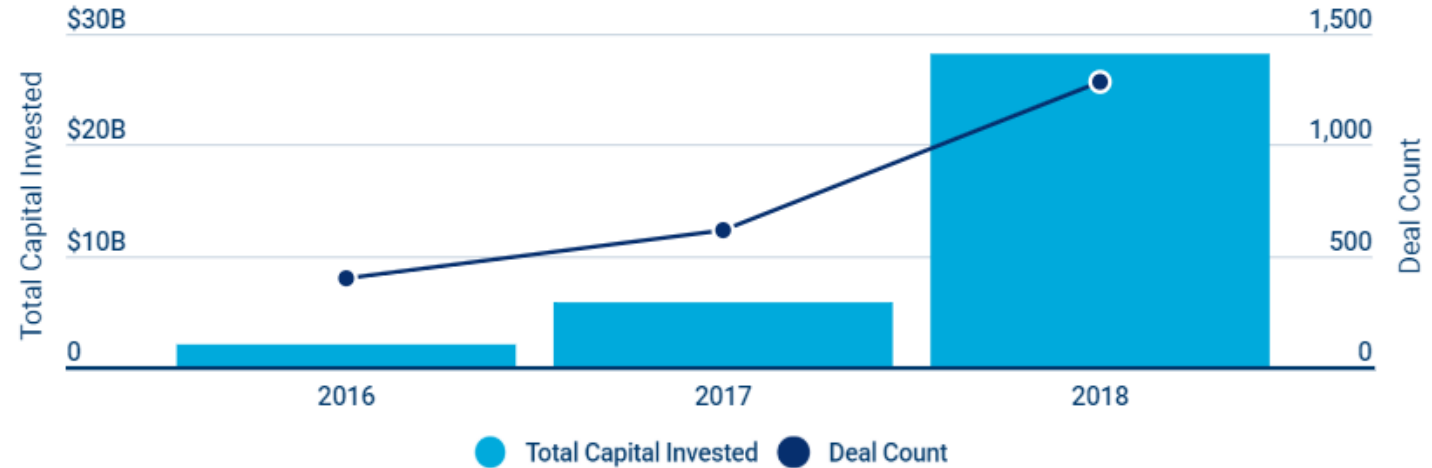
Data as of: October 2019 | Source: [Crypto Fund Research](#)

# Market Overview

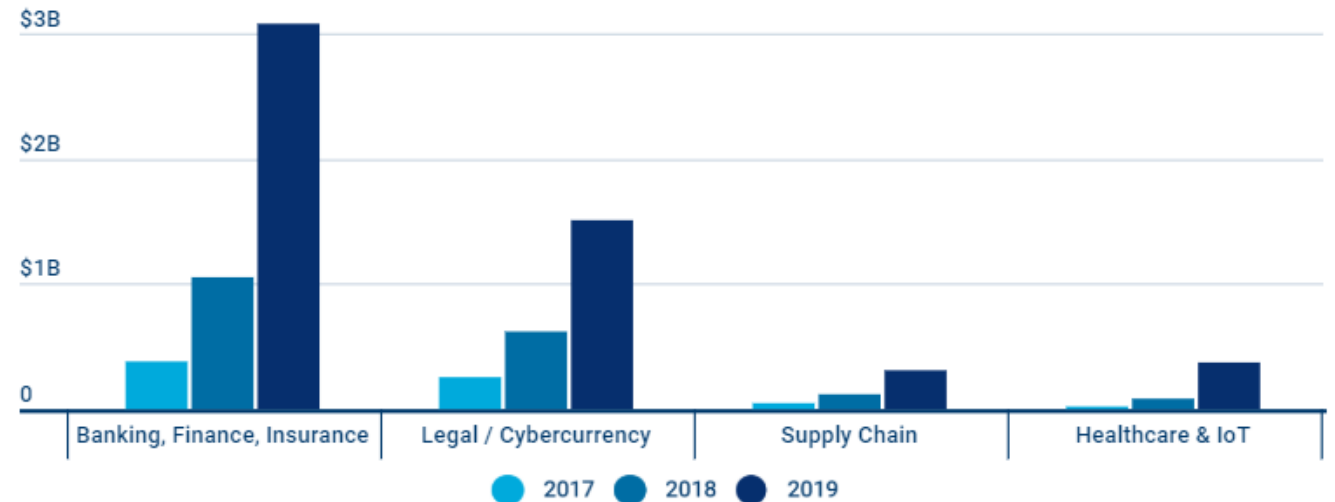
An **evolving** investment landscape

- Over \$28 Billion invested across ~1,300 deals in 2018
- This is up 14x from the \$2 Billion invested across 400 deals in 2016
- Top VCs investing include Andreessen Horowitz, Union Square Ventures, Sequoia Capital and Draper Associates
- [McKinsey](#) has identified 80+ distinct use cases across 14 industries where DLT is expected to impact the market
- The Banking, Finance, and Insurance industries have seen the most investment in recent years

Capital Invested & Deal Count for Blockchain / Crypto



Blockchain Investment by Industry



# Adoption by Enterprises

Well known names are **entering and embracing** this new technology



Exploring Clearing & Settlement with DLT



Leading Blockchain Innovation



AWS Blockchain



Exploring Clearing & Settlement with DLT



Bitcoin Futures & Ether Reference Rate



Recently Announced Libra Coin



Fidelity Digital Assets (Mining, Custody, Development)



Blockchain Cloud Service



Blockchain Integration for Enterprise



Zero-Knowledge Range Proofs



Developing Next-Gen Media Rights



Blockchain-Based Banking



Applied for Payment Patents



Decentralised Identity System



Cloud-Based Blockchain Solutions



Security Token Platform



Trade Settlement Platform



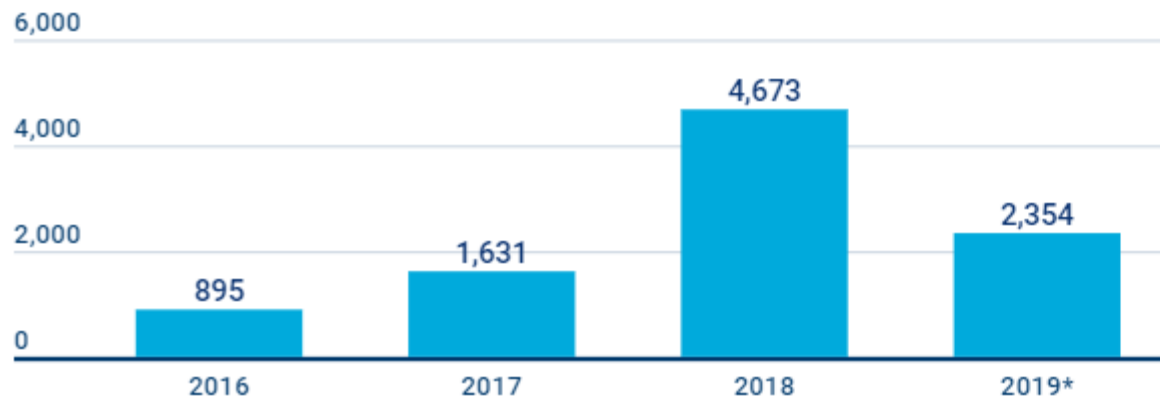
Using Blockchain for Supply Chain

# Adoption by Multi-Nationals

Spending on DLT R&D is hard to estimate, however patent applications suggest **robust innovation** by MNCs

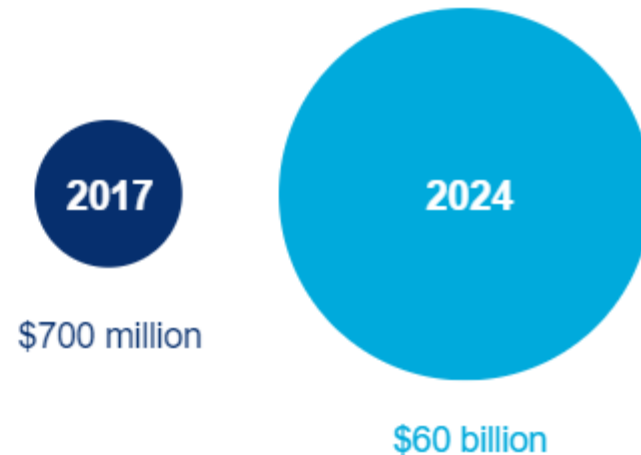
- Over 4,000 blockchain patent applications filed in 2018, already more than half of that as of April 2019
- Blockchain-as-a-Service market expected to expand rapidly

Number of Blockchain Patent Applications



Data as of: February 2018 | Source: [Statista](#)

Blockchain-as-a-Service Market Projections



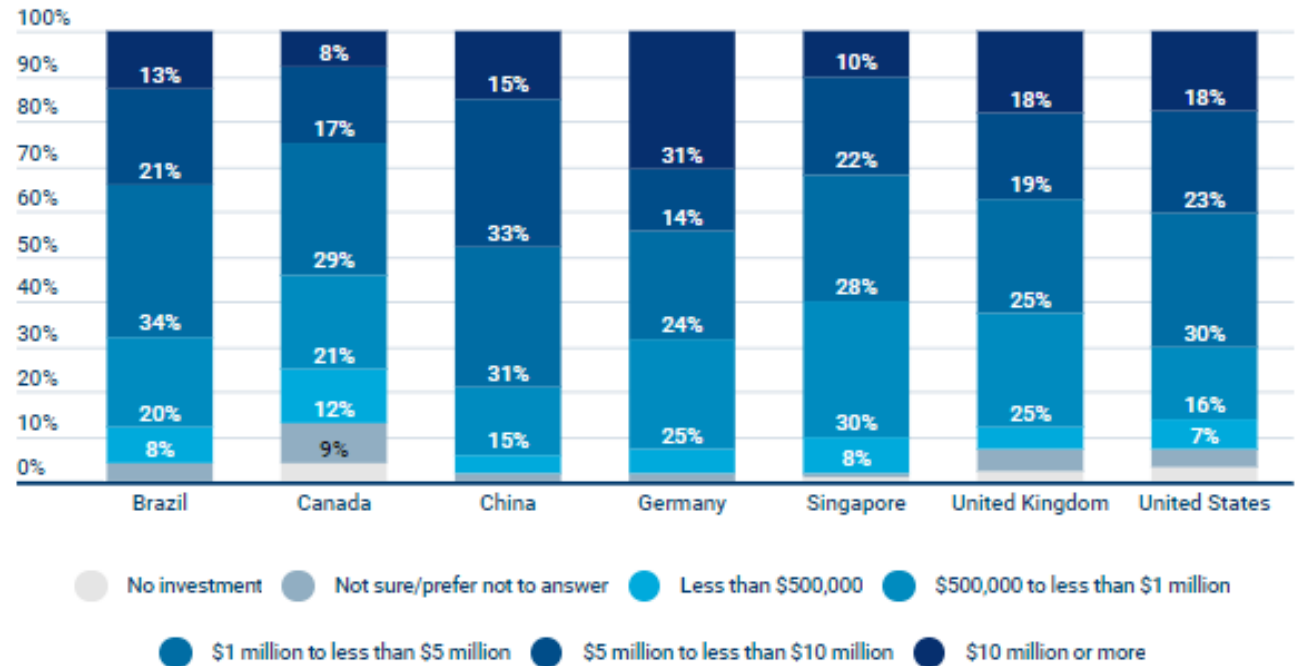
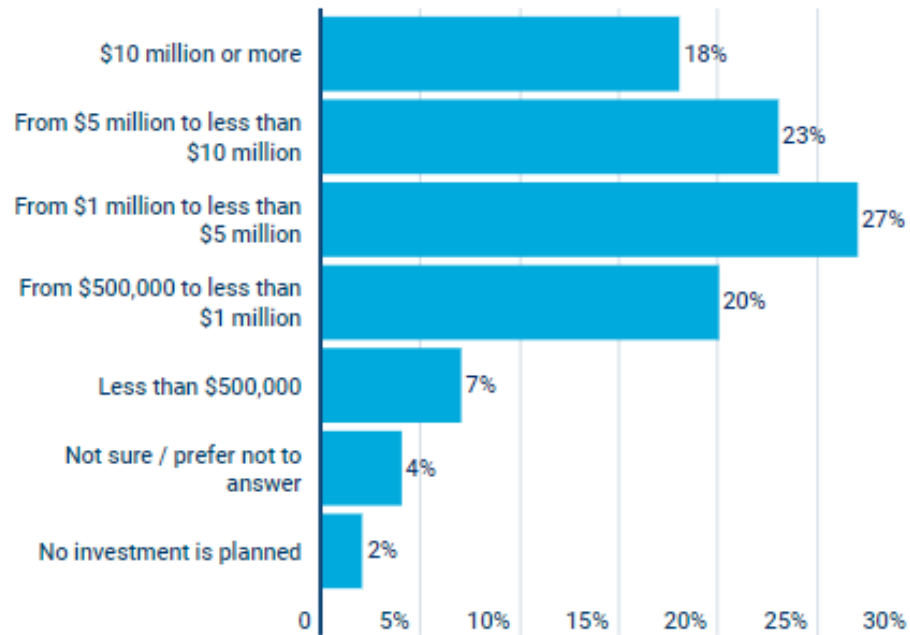
Data as of: April 2018 | Source: [Market Reports Center](#)

# Projected 2020 Investment

Investing in DLT is a **priority** for many companies

- Deloitte surveyed over 1,000 companies investing in blockchain technology. Out of these respondents, 39% reported that their organization will invest \$5 million or more in blockchain technology in the coming year.

“What is the approximate investment your organization will make in the next calendar year in blockchain technology?”



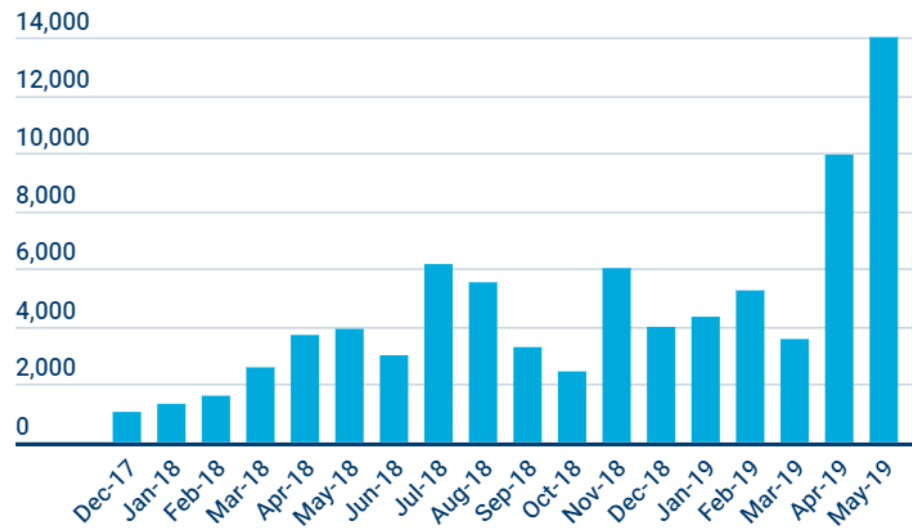
Data as of: May 2019 | Source: [Deloitte](#)

# Institutional Interest

CME activity suggests increased **institutional interest** in crypto

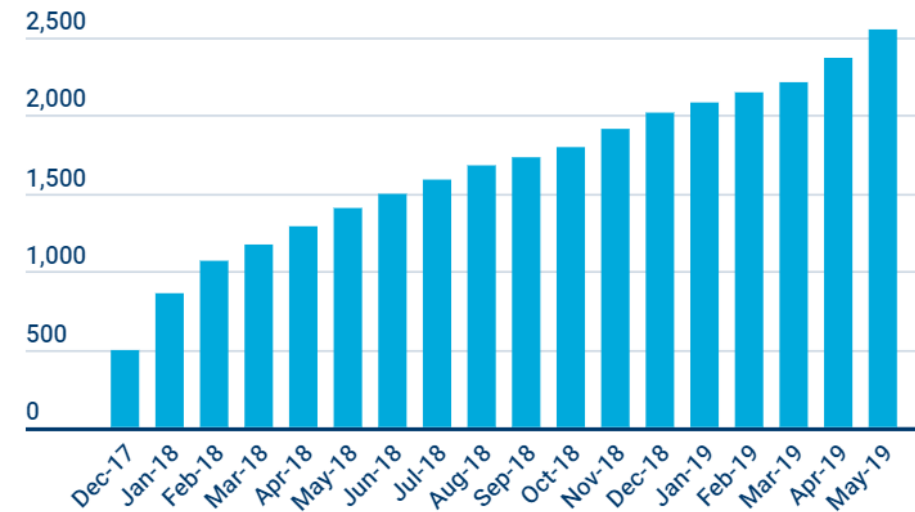
- Steady increase in trading of Bitcoin Futures on CME
- May 2019 set new record with ADV of nearly 14,000 contracts (around ~70,000 BTC), 41% greater than April (previous record)
- CME's Q2 2017 ADV is 164% greater than Q1
- Over 2,500 separate accounts have traded Bitcoin Futures since their launch in December 2017

CME Bitcoin Futures Average Daily Volume



Data as of: May 2019 | Source: [CME](#)

Cumulative Unique Accounts Trading CME Bitcoin Futures

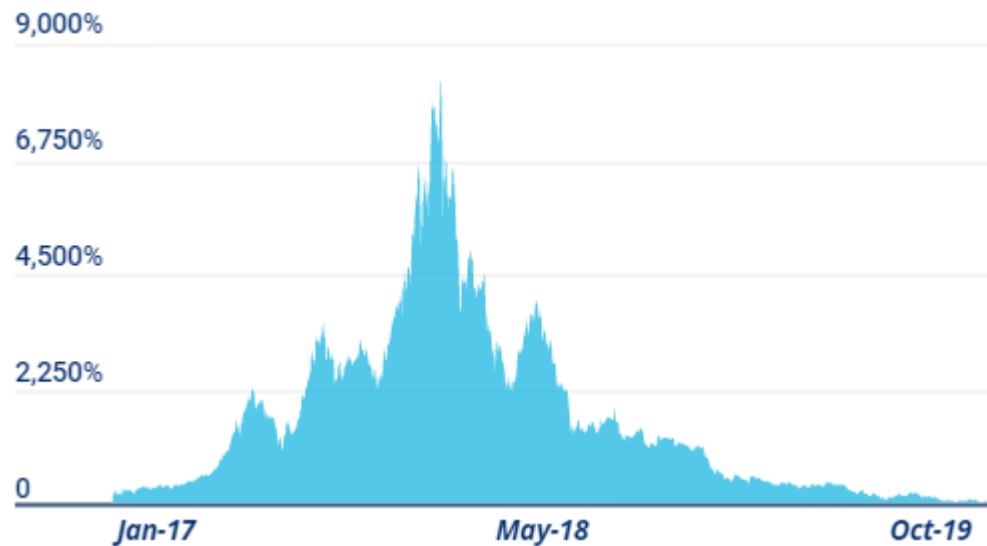




# Investment Opportunity

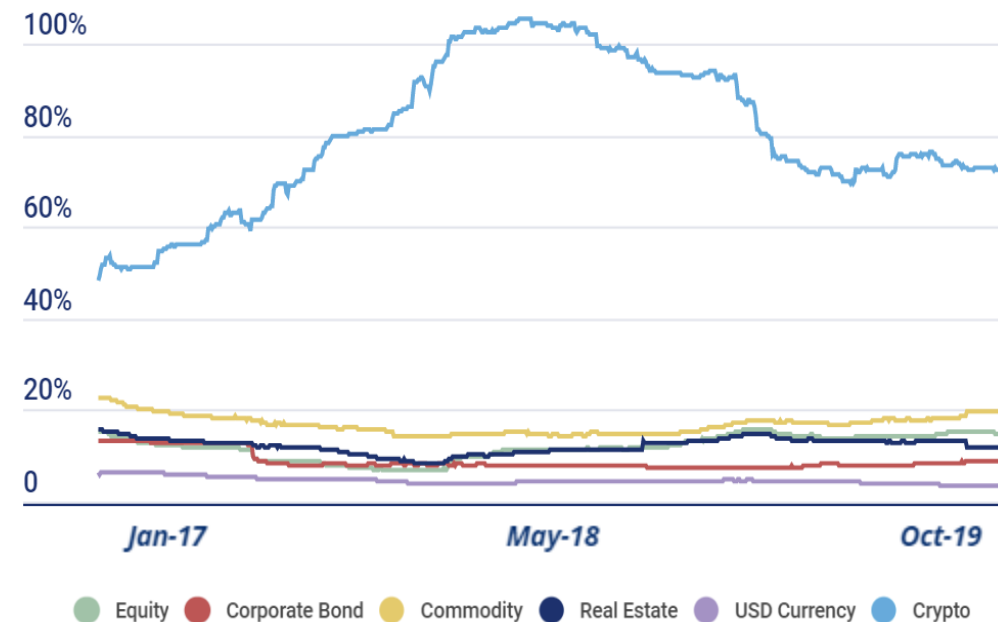
- The crypto market has outperformed every other asset class
- Increased volatility offers significant opportunities for volatility-based trading strategies
- Note: DLT VC returns are difficult to quantify

Crypto Rolling 2-Year Returns



Data as of: October 2019 | Source: [MVIS CryptoCompare Digital Assets 100](#)  
Gross Returns, calculated in USD

Rolling 12-Month Volatility Across Asset Classes



Data as of: October 2019  
Gross Returns, calculated in USD

Equities: [Vanguard Total World Stock Index Fund](#)  
Corporate Bonds: [iShares Global Corporate Bond UCITS](#)  
Commodities: [S&P GSCI Commodity](#)

Real Estate: [iShares Global REIT ETF](#)  
USD: [US Nominal Dollar Broad Index](#)  
Crypto: [MVIS CryptoCompare Digital Assets 100](#)

# Risk Adjusted Returns

Risk adjusted returns have been **higher** than other asset classes

Asset	Sharpe Ratio (Since Jan-15)
Cryptocurrencies	1.14
USD Currency	0.64
Corporate Bonds	0.52
Equities	0.37
Real Estate	0.16
Commodities	-0.33

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Gross Returns, calculated in USD

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Rolling 2-Year Sharpe Ratios Across Asset Classes\*



\* Ideally rolling periods would span longer time periods (i.e. at least 3 to 5 years) to smooth the effects of short-term fluctuations in markets. For example, the recent decline in the 2-year rolling Sharpe ratio for cryptocurrencies is a direct result of basing their initial value on the abnormal market conditions of 2017's bull market.

# Correlation vs Other Assets

Distinctly **independent** from movement of other asset classes - very low correlation

- No significant correlation with aggregate macro variables (e.g. inflation and the term structure of interest rates)
- Diversification is the only 'free lunch' in finance

Correlations Since Jan-17

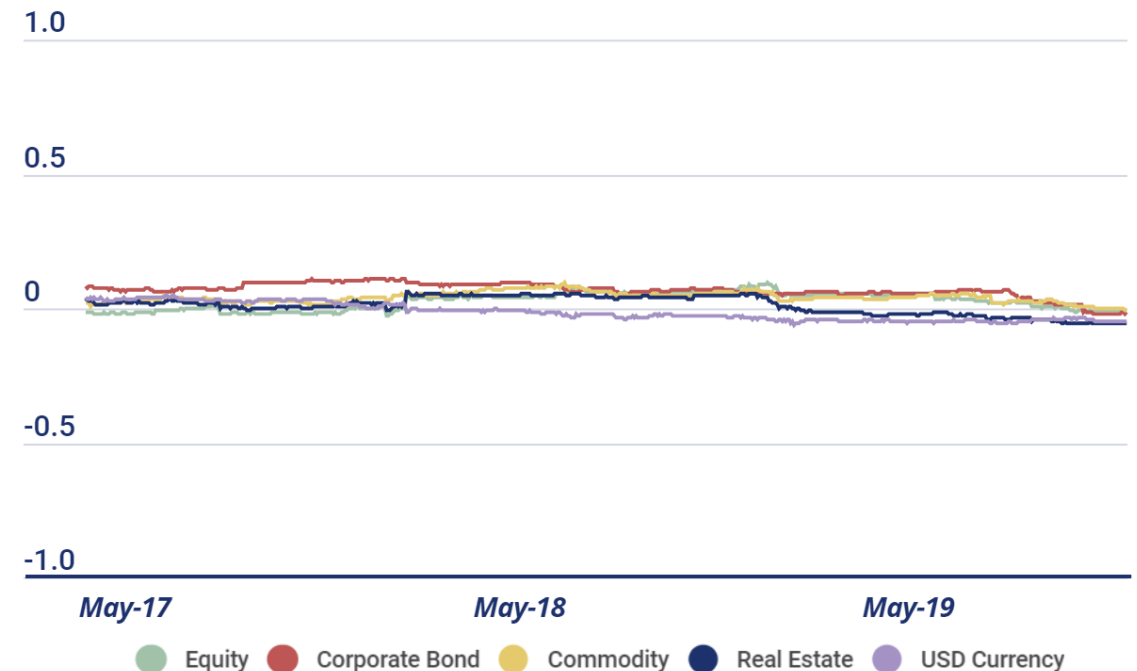
	Equity	Bonds	Commodity	Real Estate	Currency	Crypto
Equity	1.00	-0.08	0.34	0.53	-0.33	0.00
Bonds		1.00	-0.07	-0.04	0.22	0.01
Commodity			1.00	0.17	-0.25	0.02
Real Estate				1.00	-0.21	-0.03
Currency					1.00	-0.05

Data as of: October 2019  
Gross Returns, calculated in USD

Equities: [Vanguard Total World Stock Index Fund](#)  
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Rolling 2-Year Correlations with Crypto

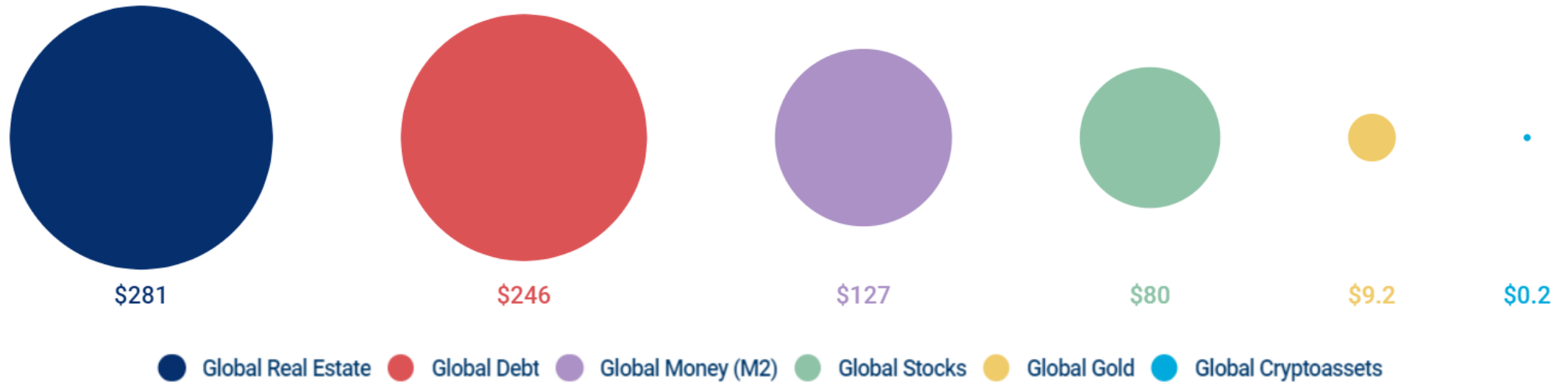


# Global Asset Class Comparison

Cryptoassets have **significant growth potential**

- The asset class has the potential to capture a significant proportion of the value of other asset classes

Total Value of Asset Classes (Trillions)



Global Real Estate | Source: [Savills](#)  
Data as of: December 2017

Global Debt | Source: [IIF](#)  
Data as of: July 2019

Global Money | Source: [Money](#)  
Data as of: October 2017

Global Stocks | Source: [Jefferies](#)  
Data as of: October 2019

Global Gold | Source: [World Gold Council](#)  
Data as of: October 2019

Global Cryptoassets | Source: [CoinMarketCap](#)  
Data as of: October 2019

# Active Management

Professional active managers can produce better **risk-adjusted returns**

<i>Data Since Jan 2015</i>	MVIS Digital Assets 100	Eurekahedge Crypto-Currency Hedge Fund Index <sup>1</sup>
<b>Total Return</b>	3268.6%	2535.5%
<b>Annualized Volatility (Monthly)</b>	104.6%	79.7%
<b>Sharpe Ratio</b>	1.02	1.12

1: Reported returns as of 23<sup>th</sup> October 2019. Based on equally weighted index of 12 constituent funds

MVIS: [MVIS CryptoCompare Digital Assets 100](#)  
Eurekahedge: [Eurekahedge Crypto-Currency Hedge Fund Index](#)

Data as of: October 2019 | Gross Returns, calculated In USD