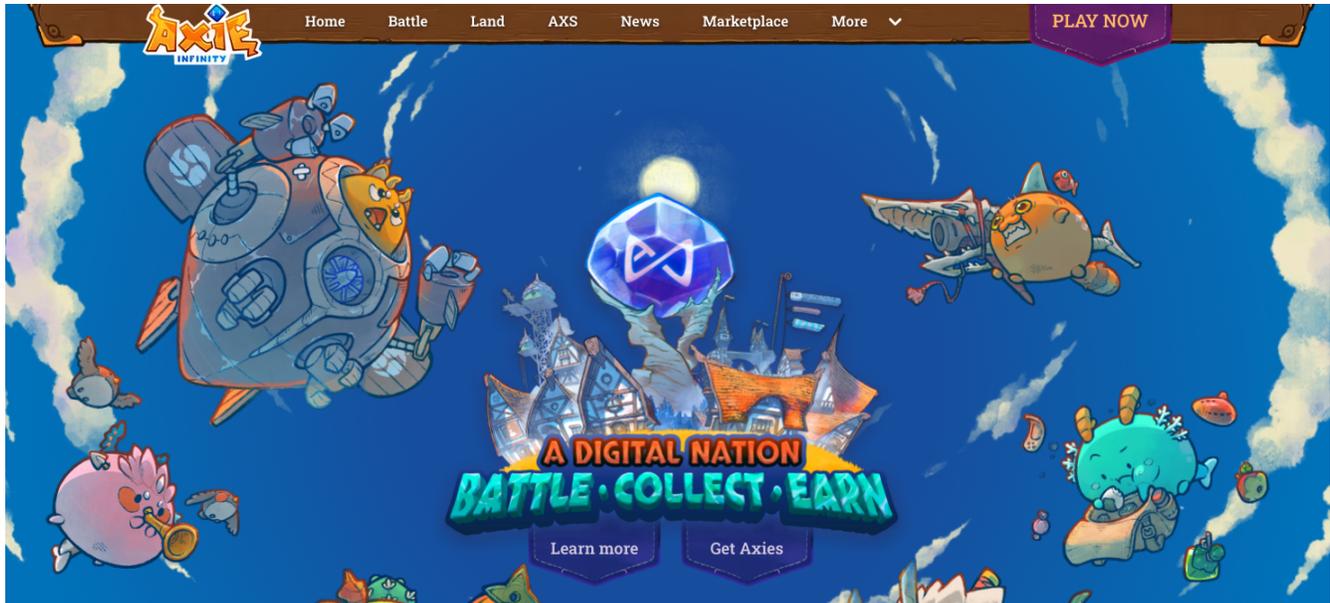




Blockchain Assets

· Cryptoasset Managers · Est. 2017 ·



Dear Investors,

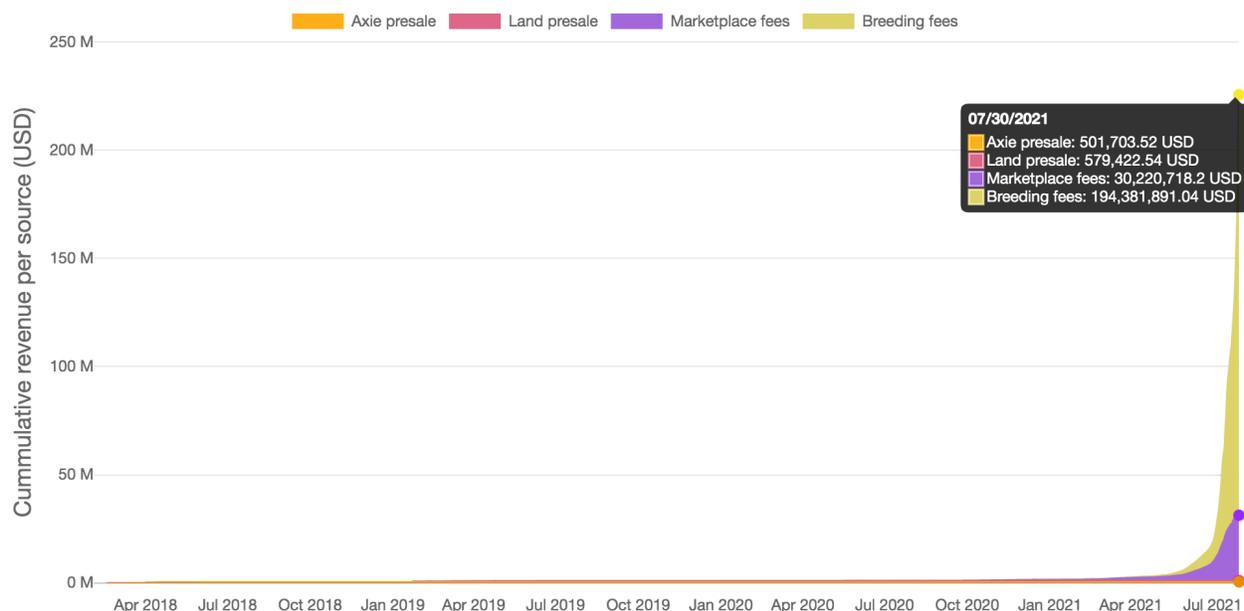
I have mentioned before that I will allocate our portfolio to new assets as and when they emerge. In particular I have been looking for new business models that are enabled by this technology in the same way that Facebook was enabled by the internet. DeFi is one example and we have exposure to this rapidly growing sector via assets such as Synthetics, Yearn, Ox, Nexus Mutual, and Chainlink. I intend to lean more heavily into these and other DeFi assets going forward.

In this news bulletin I focus on the gaming sector which - like it was with the internet - is becoming the pathway for onboarding billions of people to blockchain technology and crypto. But it is not just new forms of gaming that are of interest to me, it is the development of the metaverse as a whole which has me super excited. We already own some assets in this space, Decentraland, MyNeighbourAlice, Flow and more recently Axie Infinity.

According to International Data Corporation data, the video game industry is a bigger moneymaker than the global movie and North American sports industries combined. Blockchain, NFT's, the metaverse, cryptocurrencies, virtual reality, augmented reality all combined will develop digital economies the size of small nation states, these will be decentralised and they will be user developed and owned. Axie Infinity is one of the early examples of how this technology will manifest itself in the real world.

Axie Infinity (AXS)

[Axie Infinity](#) is described as ‘...a Pokémon-inspired universe where anyone can earn tokens through skilled gameplay and contributions to the ecosystem...’. AXS is a **Play-to-Earn** game, this is a new genre and it is hugely popular. The revenue growth has gone from USD 11m in June 2021 to over USD 200m in July 2021. This must be one of the fastest revenue growth stories ever experienced and it shows no signs of declining.



Where does the revenue come from and where does it go?

There are presently 4 sources of revenue.

1. Axie Pre-Sale. This revenue (in ETH) is the direct sale of Axies by the creators of the game, Sky Mavis, the proceeds go to Sky Mavis Pte Ltd
2. Land Pre-Sale. This revenue (in ETH) is the direct sale of Land (virtual land) by the creators of the game, Sky Mavis, the proceeds go to Sky Mavis Pte Ltd.
3. Marketplace Fees. When new players enter, they don't buy Axies from Sky Mavis, they buy them from other players, who sell their own Axies. In other words, existing players sell entry tickets to the universe. The Axie protocol takes a 4.25% commission on each trade on the marketplace. As an example

the most expensive Axie (below) sold for USD 814,000, the fee on this was USD 34,595.00. The sale proceeds (which is not included in the revenue graph above) go to the game player who owned the Axie and the fee (purple zone above) goes to the 'Community Treasury'.



4. Breeding Fees. Like real-world pets, Axies can be bred to create new offspring. To avoid hyperinflation of Axies there is a maximum amount of times an Axie can be bred before it is sterile. Breeding an Axie costs 4 AXS and some Smooth Love Potion tokens (I will explain below) depending on how many times the Axies have been bred. The proceeds (yellow zone above) from breeding fees are held in the 'Community Treasury'.

The revenue items #3 and #4 make up 99.99% of the revenue and this revenue is held in an account called the 'Community Treasury'. The account currently holds USD 438m in a mixture of ETH and AXS (the Axie Infinity token), the account can be viewed [here](#).

What assets are there and how do they capture value?

1. *There is One Centralised Company*

The Company behind AXS is a Singapore incorporated company called Sky Mavis Pte Ltd. It has raised circa USD 650,000 from Axie Presales (#1 above) and USD 4m from Land Presale (#2 above) and USD 9m in seed funding. The team is based in Vietnam.



2. *There are Two Native Game Tokens*

The AXS token. This is a governance token which holders can use to vote for different proposals relative to the development of the game and the ecosystem. For example, they can decide how the funds in the Community Treasury should be allocated. AXS is also used to pay a portion of the breeding fees and can be used to buy assets in the marketplace. The third initial utility of AXS is staking (we are currently staking a portion of our AXS tokens and earning 15%pa).

The Smooth Love Potion (SMP). This is a transactional/fee token which is needed to breed Axies, it can be earned by playing the game or it can be purchased via crypto exchanges.

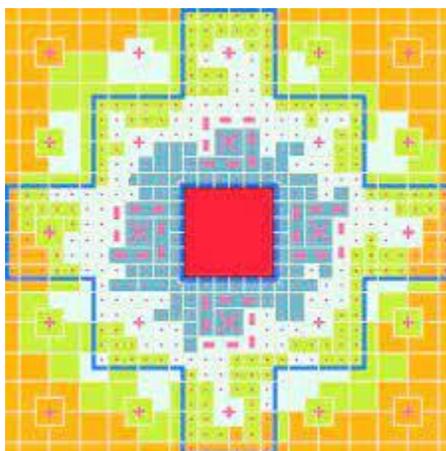
Both tokens have well thought out tokenomics designed by leading firm [Delphi Digital](#).

3. *There are Three types of Non-Fungible Tokens*

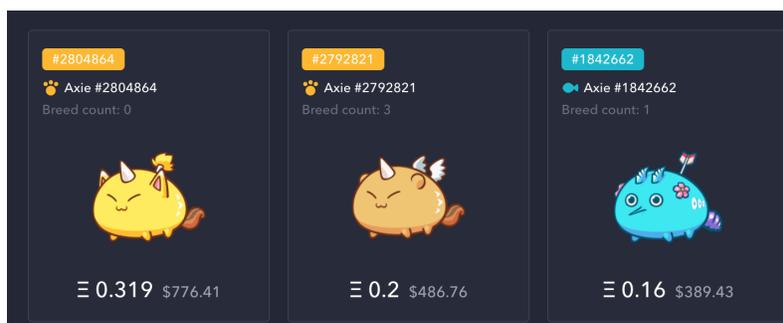
Land. Lunacia, the Axie homeland, is divided into tokenized plots of land which act as homes and bases of operation for their Axies. Plots can be upgraded over time using a variety of resources and crafting ingredients that can be found when playing the game.

In addition, land-owners might find AXS tokens on their land plots, or use the Axies that occupy the land plot to explore resource nodes on the map. When interacting with resource nodes Axies can find AXS and potentially other resources.

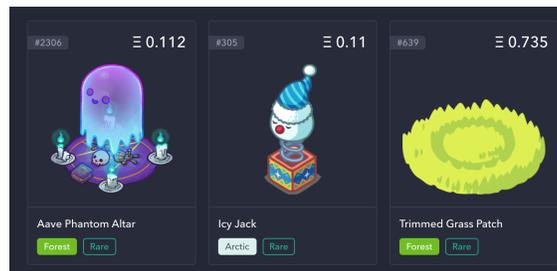
The map of Lunacia is set out below.



Axies. It is possible to buy Axies directly from Sky Mavis from time to time or to purchase them from the marketplace. As an example, the below three Axies are available for a total of USD 1,651.



Items. These are various things which can be used to decorate your land or create an avatar etc. an example of the latest items is set out here, the price shown in ETH.



Game Play

Above all else, for **Play-to-Earn** games to succeed they need to be fun to play and this means a good level of complexity and strategy and an evolving environment. Only by having an immersive gaming experience can the ecosystem attract enough participants to accrue value to the network. Users are flooding to Axie Infinity not just because it is a fun way to make money but it is a fun game in itself.

Aside from the game itself there are other types of value that Axie players gain through their journey such as:

- Joy of owning a pet;
- Fun, rest, and relaxation;
- Making friends and finding business partners/mentors; and
- Learning how to use an important new technology. There's no need for paid 'blockchain classes'.

This is happening in the real world. There is a 20 minute documentary film [here](#) which sets out the story of how the game is being adopted in the Philippines where people are earning sufficient income to literally put food on the table, or in the case of one elderly couple, pay for medicine. [Here is an interview with the filmmaker.](#)



Blockchain

The team at Sky Mavis are huge supporters of Ethereum and active members of the community. However, given the game's size and it's growth potential they have decided to build an Ethereum-linked sidechain made specifically for Axie Infinity. In this context Ethereum acts as the bridge between Axie and the real world and in a sense Ether becomes the global reserve currency for the Axie Infinity ecosystem while AXS is the in-country currency.

[This video](#) is a 23 minute presentation by co-founder Aleksander Larsen at the Ethereum Community Conference held in France on 21 July where he explains Axie Infinity and Ethereum.

The Metaverse

The Metaverse refers to alternate digital realities where people work, play, and socialize. It has been under construction for a long time. An early example would be that popular game of the early 1980's called Space Invaders, then there was Second Life, an internet based virtual world. Then games such as Fortnite, Minecraft, and Animal Crossing, which are games involving detailed virtual worlds, and user-generated content emerged and have millions of users. As new technologies have emerged the metaverse evolves. We can now see virtual reality, augmented reality and blockchain technology coming together to blur the lines between physical reality and the digital universe.

If we zoom out from Axie Infinity the game and consider it in the context of the metaverse it is clear that Axie is building more than a game, it's building a virtual nation with its own economy. But it all starts with the game. The Land aspect of the gameplay is still being actively developed and will be released in phases. The plan is to turn Lunacia (the Axie homeland) into a virtual world with a focus on user-generated content. Players will be able to create games using the Lunacia Software Development Kit

and place these games on land that they own. Real world businesses, sports and events will be able to establish virtual shops, stadiums and concert halls etc, where visitors can pay a fee to enter or attend an event. Already land in Lunacia is becoming valuable with rare plots selling for millions of dollars.

Conclusion

There are three assets that will accrue value as the Axie ecosystem grows : Equity in Sky Bridge Pte Ltd; in-game tokens (AXS and SMP); and in-game Non-Fungible Tokens (Axies, Land and Items).

Of these I believe that AXS has the most attractive risk reward profile. Firstly, it is a highly liquid asset, the 24hr volume being USD 1.1bn which is 44% of market cap at USD 2.5bn. There is a maximum supply of 270m AXS tokens and Delphi Digital has developed a strong crypto economics for the project. AXS can be staked and, as the native currency for the ecosystem, it will be in high demand as game adoption increases. SLP is attractive for the same reasons.

Equity in Sky Bridge Pte Ltd would also be an attractive asset to own, however it is not a liquid equity and currently not available. I will be keeping an eye on this company in case there is an equity opportunity down the track.

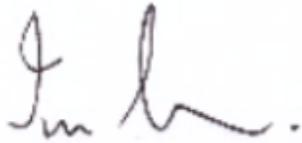
The NFTs themselves will no doubt create many millionaires but it will mainly be full time game players who are able to build, play and trade the NFTs who are best placed to identify which NFTs to buy. I will not speculate on the NFTs themselves.

Given the above, our Fund purchased 8582 AXS tokens at a price of AUD 25/token on 10 July 2021, they are currently trading at AUD 56/token and they are the 5th largest holding in our fund. We are staking a portion of these tokens and earning a yield of 15%pa on those we have staked.

Of course Ether will benefit from the growth of gaming and the metaverse because many of these applications are being built on the ethereum blockchain. I still hold the view that the most valuable assets in our portfolio will be the protocol layer assets such as ethereum. This said I will be seeking to allocate moderately more to the gaming space, DeFI and other market segments, such as Distributed Autonomous Organizations (DAOs) as we move forward.

As always, please do not hesitate to contact me if you have any questions or would like a general catch-up.

Best Regards



Ian Love

To the extent that any of the information which we have supplied to you may be deemed to be “general advice” within the meaning of the Corporations Act, we draw your attention to:- (a) in preparing, supplying or conveying such advice, we did not take into account your investment objectives, financial situation or specific needs; and (b) (before acting on the advice) the need to consider, with or without the assistance of an authorised representative, the appropriateness of the advice having regard to your investment objectives, financial situation or specific needs and any relevant Information Memorandum.