



Dear Investors,

One of our smaller but highly hopeful '[hodlings](#)' is Chainlink. In this briefing I explain what Chainlink is, how it is being used in the 'real world' and how value accrues to the Link token.

### *What is Chainlink*

Chainlink is two things. It is a for profit company called Chainlink Labs. This Company is incorporated in the Cayman Islands but based in San Francisco. The founders are [Sergey Nazarov](#) and [Steve Ellis](#). The mission of the Company is to '...accelerate smart contract innovation and adoption by empowering developers to build feature-rich decentralised applications and providing global enterprises with a universal gateway to all blockchains...'. To achieve this mission they have built some critical base layer infrastructure namely : a decentralised oracle network protocol; and a Cross Chain Interoperability Protocol (CCIP). I'll explain what these are later.

Chainlink is also a token, it is an [ERC-20 token](#) called Link. In 2017 the Company issued the token through an Initial Coin Offering (ICO) process and raised USD 32mio.

Our Fund hodls 16,445 Link tokens. We purchased them during the last bull market for a cost of USD 20.56/token, they are currently trading at USD 10.56. The all-time-high was USD 52.25, we are confident that this will be exceeded in the next cycle.

### *How is it being used in the real world*

A decentralised oracle network is a group of unrelated individuals or institutions that provide factual data independently from each other. For example, the Australian Bureau of Meteorology (BoM) is an oracle for Australian weather. Another Australian weather oracle is Weatherzone, this company provides bespoke weather information to industries. Another one is Seabreeze, there are a number of such companies providing weather oracle services.

These oracles are decentralised but they are not networked. So if a user needs accurate weather information, say for an insurance claim, an agreement needs to be made about which oracle to use. Chainlink, in this example, does two things.

Firstly it consolidates all the data provided and puts the data on-chain so that it cannot thereafter be manipulated or changed. Once on-chain smart contracts can access the data and execute the contract as instructed. In this way Chainlink '...accelerates smart contract innovation and adoption...'

Secondly, Chainlink enables different chains to link together seamlessly. So for example, take the **SWIFT** global financial messaging service and think of that as a chain of information. What if the SWIFT 'private chain' wants to use the Ethereum network, Chainlink can facilitate this interoperability using their Cross Chain Interoperability Protocol (CCIP). This provides an 'on-ramp' for existing real world systems and blockchain native systems to integrate. For example, the **ANZ Bank** have recently completed a proof-of-concept project which involved a client using ANZ's web app to buy tokenized carbon credits denominated using a digitised AUD on Ethereum with a different stablecoin issued on another blockchain.

The ANZ/Chainlink trial demonstrated that tokenized real world assets, together with stable coins can trade automatically across multiple blockchains and existing traditional banking infrastructure (see full report [here](#)). This potentially unlocks trillions of dollars of liquidity as assets are tokenized. 'The World Economic Forum estimates ([see here](#)) that USD 876 trillion of assets could be tokenized.

Chainlink's CCIP provides '...global enterprises with a universal gateway to all blockchains...'

### *How does value accrue to the Token*

The Chainlink project has the potential to be critical on-boarding infrastructure for the global financial system (indeed all systems) but that does not necessarily mean the Link token will have any value beyond speculation.

The Link token is an ERC-20 token with 1 billion tokens (see contract [here](#)).

The initial allocation of tokens was :

- 35.00% allocated to Private/Public Token Sale (raised USD 32mio in September 2017);
- 35.00% allocated to Node Operators & Ecosystem; and
- 30.00% allocated to the Company (company controlled by the founders Chainlink Labs).

Of these circa 50% are in circulation, the remaining will be released either as employee tokens vest or as grants to developers and community participants (current distribution details etc. can be found [here](#)).

The Link token is used for two things.

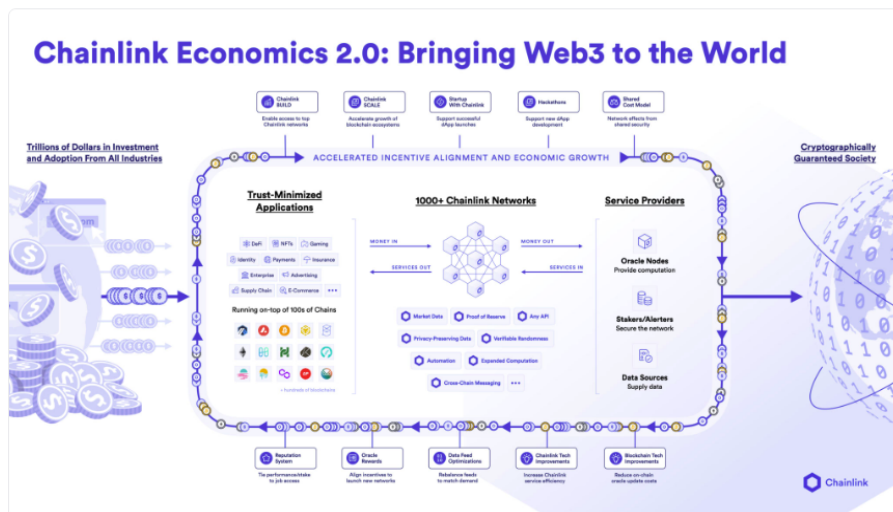
1. Users of the oracle services have to pay for the service using the Link token. It is the native currency of the Chainlink ecosystem; and
2. Link can be Staked (put up as a pledge) by Chainlink oracle node operators.

Forcing users of a system to use the system's currency does not in our opinion drive significant value. We always take the view that if Ether can be used, why not use Ether. We do not see a world where every single application has its own currency. This said, there will be many hundreds of currencies and if the systems that they support are used at scale

(moving trillions of dollars of value) these systems can justify having their own currency as a specialist service provider. In such cases supply and demand will determine its value.

Of more interest from a value capture perspective is the ability to Stake the token. Staking token essentially removes them from the short term liquidity pool. When there is a limited supply asset and growing demand, the price increases. Staking such an asset puts a pinch on supply. In addition to pinching supply, Staking provides a yield on the asset, which of course adds to the demand for the asset.

Explaining on the economics of the Chainlink Staking model would take another newsletter (see [here](#)). But in short. The income comes in the form of fees paid by those who want to use the network (like ANZ for example). Then part of that income is paid to Stakers who essentially monitor the provision of data provided to the system, a bit like auditors, who verify the data integrity of the system. So for example if the weather service providers mentioned above formed a network of nodes, each of them could Stake Link as surety to other members of the network that the data they provide is correct with the parameters they have agreed. If a rogue weather data provider is identified, some of the rogue's Staked Link token is confiscated and allocated to the remaining service providers. The diagram below may help explain.



Chainlink Economics 2.0 is a new era of sustainable growth, cryptoeconomic security, and deeper value capture in the Chainlink Network.

We plan to add to our Link holding. If you want to learn more, [this podcast](#) with Founder Sergey Nazarov is a ripper.

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As always, please do not hesitate to contact me on 04 5090 0151 or at [ian@bca.fund](mailto:ian@bca.fund) if you have any questions.

Best Regards



Ian Love  
Founder and CEO

*The content of this newsletter has primarily been prepared by a human, Ian Love. Artificial intelligence may have been utilised for some fact-checking and for providing explanations of some specific words and concepts.*

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