Queen Elizabeth I Banker
Sir Thomas Gresham
(1519-1579)

This image aims to illustrate Gresham's Law, showing two 16th-century style coins and a scale. The 'good money' is on one side, and the 'bad money', which appears more circulated, is on the other, with the scale tipping towards the 'bad money'.

This image captures the essence of Gresham's Law in the context of modern currency, with Bitcoin representing 'good money' and a worn fiat note as 'bad money', set against a digital backdrop. The scale tips towards the fiat, suggesting its prevalence in transactions over the more preserved Bitcoin. #

Both images on the right were prepared by ChatGPT based on prompts from the author. The idea that Gresham's Law applies to bitcoin and fiat is a novel concept and does not yet have wide acceptance. The concept of Gresham's Law generally is however widely accepted.

Dear Investors,

In this newsletter I cover two topics. Firstly, Bitcoin. I have been learning and speaking about Bitcoin since 2016. As I continue to learn, I find new insights which help me explain the change we are witnessing. Learning about Gresham's Law is one such insight which I cover in this newsletter.

Secondly, '...there is no second best bitcoin…' [1]. Ethereum is something different. It is the base layer upon which the digital world economy is being built. The native asset of Ethereum, Ether, will accrue value as more and more industries build services and products on this base layer. The second topic covered in this newsletter is an analysis of one project building on Ethereum. That project is a gaming platform called ImmutableX. It is just one example of the many thousands of projects building on Ethereum.

But first the cryptomarkets and other news…

The unit price finished the quarter at AUD 5.4464 up 50% for the quarter. We are in the early stage of a bull market. Our Fund has been through 4 bull runs and it does not yet feel to me that

[1] When Michael Saylor was asked 'what is the second best crypto currency he replied '...there is no second best bitcoin…'. This has become a widely quoted meme

we are at that crazy stage where the price goes vertical before an abrupt crash (we have lived through a number of these also). This said, it is very difficult to predict short term movements. Our buy and hold strategy through the ups and down has worked well, it is a strategy we continue to adopt.

The halvening, which is due around 25 April 2024, will not lead to an immediate price spike, rather it will be a gradual but solid increase over 4-5 months as the bitcoin mining economics adjusts to the reduction in supply issuance.

Bitcoin ETF's - The Rundown

Following approval on 10 January 2024, 9 new bitcoin ETF's started trading on exchanges in the US. The so called 'new born nine' are in a race which has become known as the 'Cointucky Derby'.

The most reliable source of information about this race comes from Bloomberg Senior ETF Analyst - Eric Balchunas. Eric has called the launch of these ETF's the most successful in the history of ETF launches. In the first 60 days (working days) of trading they have taken in over USD 30 billion in Net New Assets. The BlackRock ETF alone has accumulated USD 15 billion. The average daily inflow is USD 500 million with a few days of in-flows of over USD 2 billion. The slight pull back in the price of bitcoin over the past couple of weeks has not dampened appetite. In terms of performance, all ETF's are up over 40% from inception in January 2024.

Going forward it is expected that demand will continue to grow as the availability of the ETF's filters through distribution channels.

Ether Application for ETF's in the US

Up to 9 applications for Ether ETF's are pending. The last date for the SEC to approve or reject these applications is 23 May 2024.

There are several political machinations impacting the SEC's positioning with these applications. Most analysts, myself included, put the chance of approval at no more than 40%. The most likely scenario is that (as it was with the bitcoin applications) one or more of the applicants takes the SEC to court seeking to overturn the SEC's rejection decision.

In the case of the bitcoin ETF's the court found that the SEC had acted '...arbitrarily and capriciously…' and had failed to provide a '...coherent explanation…' as to why they had rejected the applications. Subsequently all bitcoin ETF applications were approved by the SEC on 10 January 2024.

BlackRock USD Institutional Digital Liquidity Fund

On 21 March 2024, BlackRock made history by becoming the first traditional financial institution to launch a tokenized, on-chain, money market fund. The ticker is BUIDL. I will cover this news in more detail in a special edition newsletter I am preparing on the topic of tokenization.

In the meantime, the short story here is incredibly good news as BUIDL (they have adopted the crypto lingo of swapping the letters around like the drunk typo HODL) will use the Ethereum blockchain. This is a trillion dollar fund manager now using Ethereum it's issuance and settlement layer for one of their funds. As a touch point between existing and new systems of finance, it does not get bigger. It is hard to overestimate the significance of this for our Fund's hodlings of Ether.

Hedera New Council Members

Hedera Hashgraph (hBAR), one of our sleeping giants, announced three new members of their Governing Council. These announcements take the total number of Governing Council members to 32 (maximum is 39).

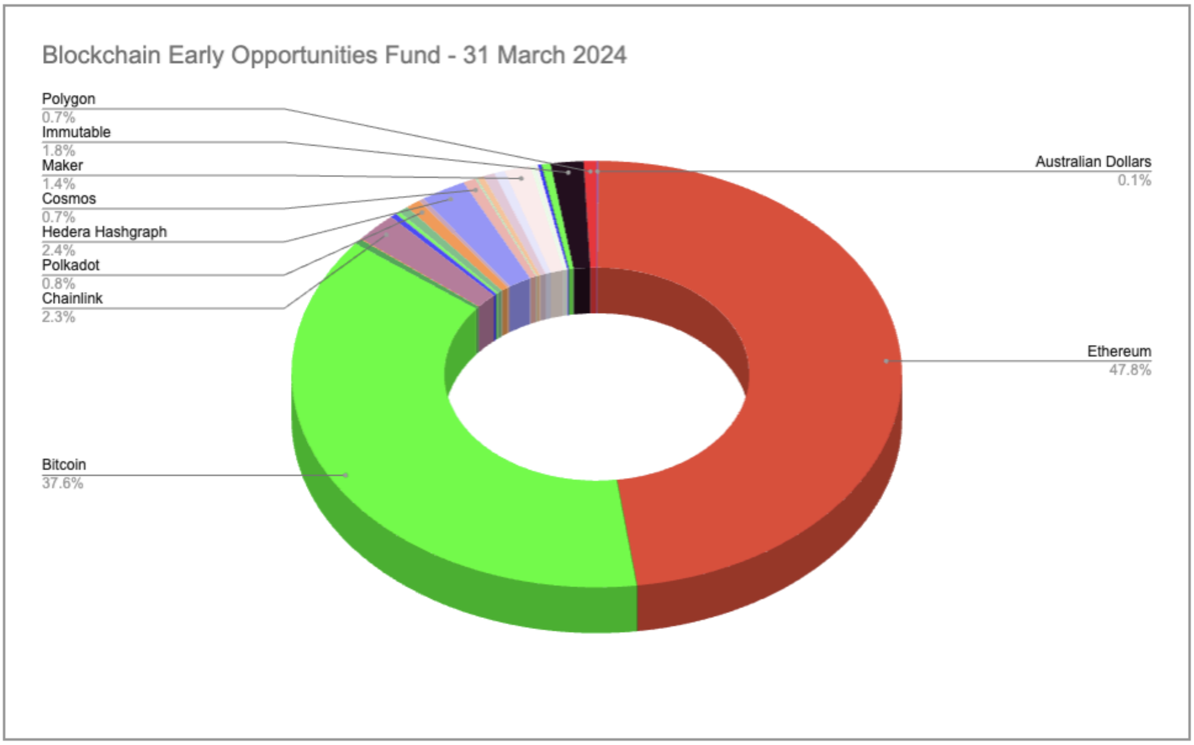
The new members are : Mondelez (one of the largest snack companies in the world with global net revenues of approximately USD 36 billion in 2023), Hitachi (US) and BitGo (a cryptoasset custodian, wallet and service provider).

Notwithstanding the positive view we hold on the Hedera project, the price of hBAR continues to disappoint. Also the lack of news about the adoption of Hedera by Council Members is a mystery. We would have expected that by now companies like Google (who became a Council member on 10 February 2020) would have been able to announce some level of product or adoption by now.

It is encouraging to note from the 14 February 2024 Minutes of the Council that the tokenomics of hBAR are being reviewed. We will continue to be patient with this project.

[End of Page]

Metric	30 September 2017	31 December 2017	31 March 2018	30 June 2018
Unit Price	$0.93	$2.14	$1.18	$1.09
Return Since Inception	-7.00%	114.00%	18.00%	9.00%
Metric	**30 September 2018**	**31 December 2018**	**31 March 2019**	**30 June 2019**
Unit Price	$0.7480	$0.5178	$0.5507	$0.9501
Return Since Inception	-25.20%	-48.22%	-44.93%	-4.99%
Metric	**30 September 2019**	**31 December 2019**	**31 March 2020**	**30 June 2020**
Unit Price	$0.5270	$0.3937	$0.4408	$0.6034
Return Since Inception	-47.30%	-60.63%	-55.92%	-39.66%
Metric	**30 September 2020**	**31 December 2020**	**31 March 2021**	**30 June 2021**
Unit Price	$0.9449	$1.6575	$4.5682	$3.4543
Return Since Inception	-5.51%	65.75%	356.82%	245.43%
Metric	**30 September 2021**	**31 December 2021**	**31 March 2022**	**30 June 2022**
Unit Price	$4.9905	$5.7599	$5.3393	$2.1182
Return Since Inception	399.05%	475.99%	433.93%	111.82%
Metric	**30 September 2022**	**31 December 2022**	**31 March 2023**	**30 June 2023**
Unit Price	$2.3768	$1.7762	$2.7288	$2.8312
Return Since Inception	137.68%	77.62%	172.88%	183.12%
Metric	**30 September 2023**	**31 December 2023**	**31 March 2024**	**30 June 2024**
Unit Price	$2.5963	$3.6139	$5.4464	
Return for the Quarter	-8.30%	39.19%	50.71%	
Return for the past 12 months	9.24%	103.46%	99.59%	
Return Since Inception	159.63%	261.39%	444.64%	
Assets Under Management	$17,408,071.56	$24,513,665.82	$40,709,559.29	



Bitcoin - A Macro Asset

Bitcoin has no intrinsic value. It is not an equity asset. It is a monetary asset, it has monetary value. It should not be thought of as an investment as such, but it should be considered an important part of an investment portfolio. Perhaps the most important part.

Bitcoin has been around for over 15 years, it has been the best performing asset compared to any asset class over almost any time period. Gold (also a monetary assets), with a market cap of USD 11.8 trillion is the largest asset in the world. Bitcoin, with a market cap of USD 1.3 trillion is the 9th largest. Bitcoin is now the 13th largest currency in the world. Not bad for a teenager!

Investment funds in the US are starting to appreciate the monetary qualities of bitcoin, particularly the Store-of-Value use case for monetary assets. More than USD 500 million each day is flowing into the recently listed bitcoin ETFs. The high level of volatility in the price of bitcoin, once seen as a negative, is now viewed over longer time periods and considered a benefit.

We are also seeing some public companies adopt bitcoin as a treasury asset (Microstrategy) and some countries making it legal tender (El Salvador). Others will follow.

Even so, bitcoin continues to be misunderstood by the vast majority of traditional fund managers and investors. This is particularly the case in Australia. Most sovereigns are disdainful of it, central bankers still refer to it as a ponzi scheme and politicians call it money for criminals. Things are changing, but progress is slow.

This is not surprising. Bitcoin challenges the prevailing economic and monetary policy theories of the post WWII period which, for the most part, is Keynesian economic theory.

Australian's love bitcoin, we are one of the largest holders per capita, but the love stops at the individual level. The top end of town has little or no interest. I love a challenge and recently I have been thinking about how to educate Australia's largest investors and corporations (if ever I had the opportunity).

I started by looking for examples in history where hardcoded and widespread views of the rich and powerful have been successfully challenged and changed. I wanted to understand how long the change took and what enabled the change. I focused on the separation of church and state (Martin Luther beginning in 1517), the abolition of slavery, (William Willberforce around 1832) and the financial wizardry behind 3 of the 5 Tudor monarchs, Sir Thomas Gresham (around 1559).

One common thing with these stories is that the power of one person with an idea is not sufficient. There also needs to be enabling technology or events which helps the idea take hold. In the case of Martin Luther, the invention of the printing press and publication of the Gutenberg bible was enabling technology. For William Wilberforce, he not only changed the minds of the economic and political leaders of the day (who fully supported slavery) but he introduced to society for the first time ever the notion of a 'social conscience' for the merchant ruling class. The enabling event was religious and spiritual re-awakenings coupled with societal shift towards humanitarianism.

Most relevant for bitcoin however is Sir Thomas Gresham. Among other things Sir Thomas was Queen Elizabeth I'st banker. Without his financial engineering and restructuring of the Queen's finances England may have become a vassal state and history would be vastly different. Gresham had a deep understanding of money, particularly foreign exchange rates and international markets.

One of Gresham's many projects was the issuance of new coinage. However, he had some problems to solve. One was that as new coins were introduced, older 'chipped' coins became worth less than new coins with the same face value. With both in circulation, the chipped coins tended to be spent whereas the newer coins were saved, as they were more valuable (even though they had the same face value). The problem of this was of course the circulating currency became less and less valuable (inflationary) while the saved currency grew in value (deflationary). Having two or more currencies in circulation at the same time is not sustainable.

Gresham solved this issue by solving his second issue. How to mint coins at scale? He recruited a person from the French Royal Mint who had developed the skill of minting new coins by machines rather than by hand. With this new machine Gresham was able to recall all old coins (at discount rate of course) and introduce new coinage all at once. This added to Elizabeth's coffers considerably and allowed England to enter the wars raging in Europe at that time. It also strengthened the value of the currency on foreign exchange markets.

The monetary theory of 'bad money drives out good money' was not new but Gresham's technology and financial acumen enabled a solution to the problem and the theory became famous as 'Gresham's Law'.

Of course the reverse of this law can also be true. A situation where 'good money drives out bad money whenever the bad money becomes nearly worthless'. This theory was named after French Statesman and Historian Adolphe Thiers (1797-1877) it is known as Thiers' Law and it applies in economies where there is hyperinflation and the public refuse to use the bad money at all and instead adopt whatever they find acceptable to trade.

<u>Bitcoin is not a new idea. Bitcoin, is the enabling technology for a very old idea.</u> The idea of a supranational currency not controlled by any one nation was put forward at the Bretton Woods conference in 1944, it is being considered now by the BRICS nations. The Euro is an example of an operational supranational currency.

Bitcoin is an idea whose time has come. It is the ultimate good money. The value of all fiat currencies are falling in value. Some fiat currencies are worse than others. For some countries experiencing hyperinflation, like Argentina (over 200% inflation), we are witnessing Thiers' Law playout. People will accept anything in payment ahead of the Peso ('good money driving out bad money'). Literally anything is 'good' money relative to the Peso.

In the G8 economies where inflation is still largely under control, we are experiencing Gresham's Law. The money is acceptable but it's not a long term store of value, not something people want to hold onto for too long. The most obvious place to watch this play out is in the biggest capital market in the world. The US dollars flowing into bitcoin ETFs has only just started. After just 60 working days there is the equivalent of USD 30 billion in bad money that has been swapped for good money.

Satoshi Nakamoto released the enabling technology for a supranational currency not controlled by any nation on 31 October 2008. Since then it has grown at an extraordinary rate. But still we are early. The laggards in adoption will of course be the incumbents, they always are, but adopt they will. It is as inevitable as the adoption of anything and everything else that has come before. The only question is how fast.

Changing mindsets about slavery and the separation of church and state took 15-20 years. How and when will Australia's biggest investors, like the Future Fund and superannuation funds, make an allocation to bitcoin remains a mystery. My educated guess is that within the next five years we will see a change. It will start with indirect exposure via a company or fund that holds bitcoin and then direct exposure via ETFs.

In the meantime, at least our fund is not sitting around waiting for someone to give us the wisdom and permission to save our hard earned capital in the future of money.

Centralised On-line Gaming vs Decentralised On-chain Gaming

Blockchain technology brings to the internet two superpowers. One is the ability to create digital property and second, it has the ability to make micro payments (less than USD 1) to millions of people at the same time automatically without the need for invoices.

These two superpowers are driving the evolution of computer gaming. We are moving from centralised on-line gaming to decentralised on-chain gaming.

I could not resist asking ChatGPT for a graphic of these superheros 😄

In order to participate in on-line gaming players often need to subscribe to a gaming service. Once inside the game players are often able to enhance their experience by buying 'in-game assets'. In this model profits are centralised, players are essentially renting the game and the assets they buy. If they stop paying rent they leave the game and the assets they have purchased. This economic system has a name. It is called feudalism. The game studios are the landlords and the game players are the serfs who pay owners of the game for the pleasure of playing the game.

On-chain gaming introduces capitalism to the system. It offers players significant benefits.

Firstly, the ability to create digital property, which can be sold in secondary markets is a significant improvement from simply being able to rent the in-game equipment. In the real world people typically purchase their own tools of the trade. It's far more economical as they can be resold and people tend to like the feel of their own tools. Tools and equipment used in games are the same. They can be purchased new from the game creator or they can be purchased second hand at an on-chain marketplace. Some tools will become collectibles in the same way that real world sports equipment like a pair of Michael Jordan basketball shoes. All this type of rare and collectible type of asset is now possible within on-chain games.

Secondly, to be successful game studios need to build huge networks of players. It is possible to 'bootstrap' a network by paying gamers to play their game. This is the so-called 'Play-To-Earn' model. It's not as unusual as it sounds. We have a 'Play-To-Earn' model in the real world…it is called professional sport! The difference here is that thousands or millions of people can be paid micro amounts to play the game and they can be paid in the native currency of the game. Again while this sounds weird we have a simile in the real world, it's called Monopoly, with Monopoly money being the native currency of the game. The difference here is that the native currencies of these games can, if sufficient people play the game, become valuable and able to be exchanged for bitcoin, or ether or a USD stable coin.

A third benefit is that the community of gamers can also have a say over changes in rules and features of the game as they are in fact part owners of the game.

The game studios who initially create the game are still largely centralised. Their monetisation model changes from leasing access to the game and rental of in-house assets to outright sale of assets with a trailing revenue from taking a small fee on each transaction involving the assets. They also enjoy capital growth in the value of the currency of the game as the network builds. In this way the incentive structure of the tokens is similar to employee stock options.

A capitalist system where everyone can build wealth and own property is far superior to a feudal system. Even the feudal landlords are better off in a capitalist system as the pie grows and opportunities multiply. This is true in the real world and it is true in the digital world. Blockchain technology facilitates capitalist economics in the digital world and the gaming ecosystem is just one place where we will see this play out.

The Immutable Ecosystem and Vision

Computer gaming is a USD 150 billion (revenue/year) business. Building a AAA quality game takes about 5 years to develop. It is very expensive and difficult to build and bring a new game to market. However, for those lucky game studios that land on the secret recipe, it is a highly lucrative business.

Early stage investing in a single game or gaming studio is extremely high risk as most projects fail.

Immutable is not a single game or a gaming studio. It is a platform and tool shop that gaming studios will use to build their games. It could be thought of as the 'pick and shovel' of the on-chain gaming world. It is also a venture capital firm that will invest in the best on-chain gaming studios.

The thesis is that gaming will be one of the first blockchain applications that will bring billions of users 'on-chain' for the first time in the same way that gaming brought billions of players 'on-line' for the first time in the 90's. Immutable aims to be the on-boarding platform for both gamers and game developers.

Immutable seeks to achieve this by building base layer infrastructure upon which blockchain based games will be built. It plans to fasttrack the adoption of the platform by funding projects that will build on the platform.

Immutable has two financing structures: a traditional Company; and a Distributed Autonomous Organization (DAO).

The Company

Immutable Pty Ltd (Immutable) is an Australian private company founded by James Ferguson, Robbie Ferguson and Alex Connolly in 2018. This Company runs a crypto venture capital investment fund. It has raised over USD 500m and its last round valued the Company at USD 2.5 billion. It has an impressive list of investors, including Singapore sovereign wealth fund Temasek, who led the last funding round.

The capital will be used to fund projects building games and NFT-focused companies on its layer-2 Ethereum-focused platform, Immutable X (see below).

The DAO

ImmutableX (IMX) is an Ethereum layer-2 protocol which offers scalable solutions for non-fungible tokens. The native token of the protocol is a ERC-20 token running on the Ethereum platform.

The token supply is 2 billion of which 67% is in circulation. The current undiluted market cap of the tokens is USD 4.5 billion.

The token accrues value in four ways.

1. Transaction Fees - 20% of the protocol fee on every transaction on the Immutable Protocol must be paid in the IMX token. This drives demand for the token.

2. Staking - The 20% of protocol fees paid in above are reserved for rewards for active ecosystem participants. Staked IMX tokens are eligible for staking rewards.

3. Governance - IMX tokens can be used to vote on the future of the ecosystem.

4. Native Token - The IMX token will be used as the core gas currency for Immutable platform, becoming the native network token and closely aligning platform success to the IMX holder.

A token driven ecosystem where token holders use the platform can create a growth flywheel which can rapidly build a network and value.

Best of Both Worlds

We are seeing more often now the use of a combination of traditional finance structures blending with token driven ecosystems.

In this case we have a traditional venture capital firm investing in projects which will build on the platform that has been built by the company managing the venture capital firm. The benefits to investors of this structure is that it is familiar to them as they simply own equity in a company. Value will accrue to the shareholders in the Company in the same way any typical venture capital company derives value for investors.

The DAO structure is crypto native, the token is the currency of the platform and will increase in value as the platform is utilised. A token structure is attractive to investors as it can provide yield (through staking) and there is a liquid market for the token.

While investors in the company will typically also invest in the token. The reverse is not the general case.

Our Fund owns 151,168 units of IMX purchased for AUD 3.63/unit. Current value AUD 722,952 (AUD 4.78/unit).

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

Best Regards

Ian Love

Founder and CEO

Blockchain Assets Pty Ltd

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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