



Blockchain Assets

CRYPTOASSET MANAGERS • EST 2017

EigenLayer



SHARED SECURITY
TO HYPERSCALE ETHEREUM

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Dear Investors,

In this newsletter I cover an important Ethereum related project called EigenLayer.

I have for many years been talking about the emergence of Ethereum as the world's new operating system. It's a base layer software/protocol which provides decentralised trust and smart contract functionality on which any type of decentralised application can be built.

One thesis of our Fund is that Ethereum will become one of the most utilised pieces of software in history and that increased utilisation will lead to increased value in the native currency of Ethereum, Ether. Ethereum is just nine years old and already has impressive statistics : it secures USD 560 billion of economic value; it has an annual income of USD 1.4 billion; and its total market cap is USD 300 billion. Yet as impressive as these numbers are, it is only the beginning. Over the next decade we will see these numbers increase significantly as the ecosystem develops.

We consider Ethereum to be 'the land' or, if you like, the 'pick and shovel' of the broader blockchain ecosystem. We are now starting to see long term high value projects emerging. Projects such as Chainlink, ImmutableX and Render are some examples. We will start to allocate more to these types of projects as they emerge.

EigenLayer, is a series of smart contracts that complement Ethereum and will help application developers build on Ethereum. It will turbocharge the utilisation rate of Ethereum in the same way that cloud computing and SAAS gave computer power to every small to medium sized business.

But first the cryptomarkets and other news...

The unit price finished the quarter at AUD 4.0585 down 13% for the quarter. In cryptoasset markets this level of movement over a quarter is considered to be almost flat.

US Presidential Election

The cryptomarkets are to a certain extent in a holding pattern pending the outcome of the US Presidential in November. Crypto generally, and Bitcoin in particular, have become a bit of an election issue. Donald Trump came out in July 2024 at The Bitcoin Conference in Nashville, Tennessee (see full video [here](#)) in full support of Bitcoin, stating that '... there's never been anything like it and I don't think you've ever seen anything like it and most people have no idea what the hell it is you know that right so what happens when they figure it out that's going to really be something Bitcoin is not just a Marvel of Technology as you know it's a miracle of cooperation and human achievement ...'.

At one point it was rumoured that Kamala Harris was also going to speak at Bitcoin Nashville. That did not happen but it is clear from statements made that the Democratic Party policy on the topic has softened considerably. It is fair to say that both sides see that there is no political merit in attacking this industry and that there may even be some political up-side in providing support.

Cantor Fitzgerald

Howard Lutnick, Founder and CEO of [Cantor Fitzgerald](#), also spoke at Bitcoin Nashville.

Cantor Fitzgerald became widely known after losing 658 out of 960 employees in the September 11, 2001 attacks. Despite this, they rebuilt the firm into a global financial services firm and are now the largest bond dealer in the world, specialising in US Treasury securities. As a primary dealer authorised by the Federal Reserve, Cantor Fitzgerald plays a key role in maintaining liquidity and stability in the U.S. Treasury market by buying and selling these securities and facilitating government financing.

It is remarkable to think that a firm, whose business is grounded in dealing in U.S. treasury securities, has become a huge fan of Bitcoin and Cryptoassets generally. In [this video](#) Howard sets out the fascinating history and rebuild of Cantor Fitzgerald and how he sees the future of Bitcoin and Crypto.

BlackRock

I have written elsewhere about Larry Fink and BlackRock's significant shift from Bitcoin naysayer to 'Proud Crypto Convert'. They have a lot going on in this space now. They have one of the biggest and most successful Bitcoin and Ether ETF's. They are joint investors with Citadel in the Texas Stock

Exchange, which will be a tokenized securities exchange and they have a tokenized Bond fund (on Ethereum). This is just the start for BlackRock.

In [this](#) 6 min Bloomberg interview with the Head of Digital Assets at BlackRock, Robbie Mitchnick sets out how institutional investors are looking at Bitcoin and the correlation with traditional markets. For a more in depth interview, [this 60 min interview](#) is well worth your time.

Ethereum - Devcon 7 - Bangkok

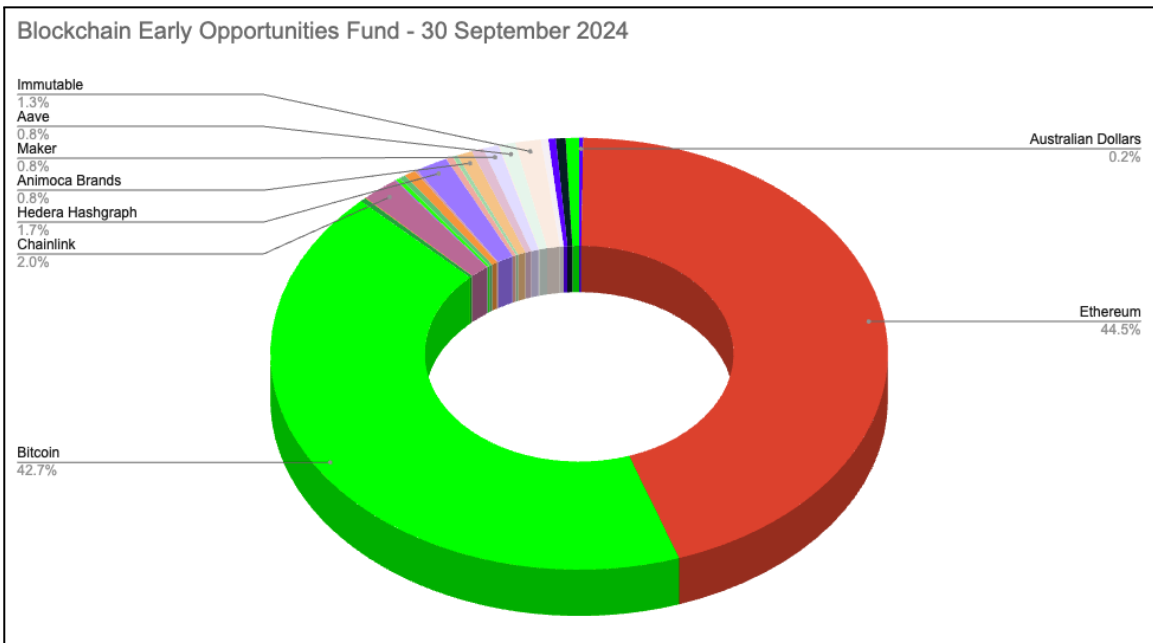
The focus over the past 12 months has been on Bitcoin, the price has increased 120% since October 2023. Ether has been lagging both in terms of the narrative and the sentiment in the market. Ether is up 48% over the same period.

The sentiment for Bitcoin will continue to be positive and grow in strength over the next few years as the clients of institutional fund management companies (like Fidelity and BlackRock) change their mandates to allow for an allocation to Bitcoin and digital assets.

In the meantime the build out of Ethereum continues. We will be attending [Devcon 7](#) in Bangkok in November. I look forward to sending some up-dates from the conference and preparing a few detailed write-ups upon my return.

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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	\$4.6722
Return Since Inception	159.63%	261.39%	444.64%	367.22%
Metric	30 September 2024	31 December 2024	31 March 2025	30 June 2025
Unit Price	\$4.0585			
Return for the Quarter	-13.14%			
Return for the past 12 months	56.32%			
Return Since Inception	305.85%			
Assets Under Management	\$28,134,385.91			



The Truth Machine

In 2018, Michael Casey—who I’m proud to say is a Perth native and a personal friend, now based in New York—co-authored a book titled *The Truth Machine*. The book explores how blockchain technology can establish trust and authenticity on the internet.

As far-fetched as the idea of 'The Truth Machine' is, I have come to understand the concept. For example, I can, with a very high degree of confidence, accept as true the balance of my Bitcoin and Ether accounts. I can prove these are true even though there is no centralised trust model to rely on to validate the truth of the balances. So what we have here with Bitcoin and Ether is a decentralised trust model that we rely on to prove the truth of the ledger balances.

Solving the problem of how to identify truth on the internet is one of the most challenging problems we face. Bitcoin and Ethereum have solved this problem, but only to a very limited extent. They have solved the problem of: did the transaction take place; and what is the current state of ownership of the asset concerned. These are objective truths. They are significant but they are limited.

For 'The Truth Machine' to live up to its name it has to solve truth for a much larger set of events, in fact the widest possible set. Did it rain today, what was the result of the game and who won the election? Many such truths

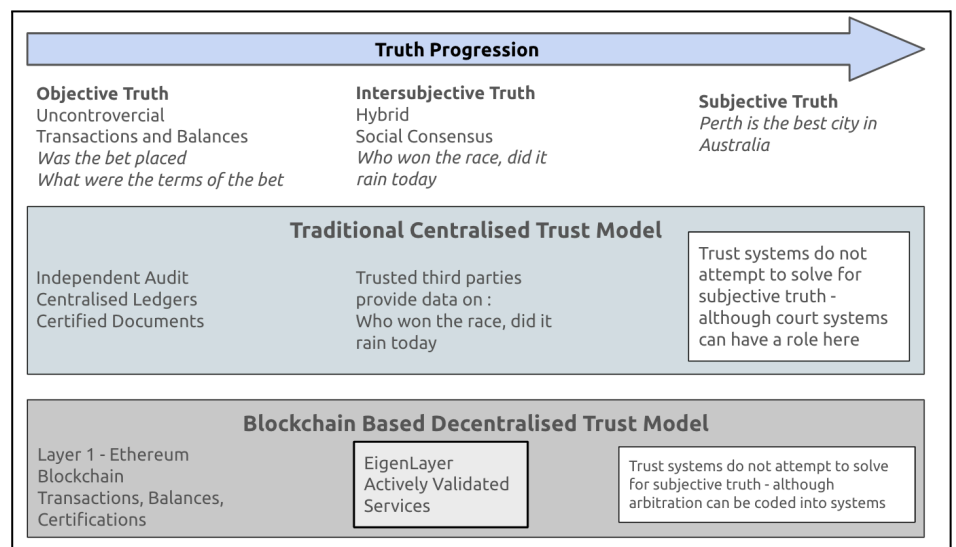
are at least partially subjective in nature. Is it possible to code truths of this nature into blockchain technology? This is the question the EigenLayer project seeks to answer.

Truth Progression and Trust Models

It is important to appreciate what we mean by truth - in this context - if we are to understand the EigenLayer project and the problem it seeks to solve.

The below diagram sets out three things.

1. It sets out a concept for progressive forms of truth. From those we consider uncontroversial, such as the balance in a bank account, to irreconcilably controversial ones... statements like 'Perth is the best city in Australia'.
2. The middle box sets out how we have built trust in traditional centralised systems.
3. The bottom box set out how trust is being built in decentralised cryptographically based systems.

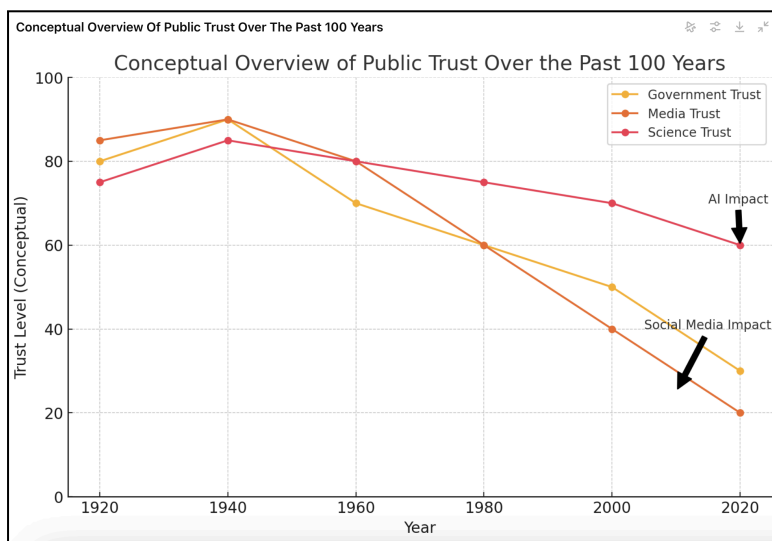


This mental model helps us appreciate where the EigenLayer project sits within the blockchain ecosystem and the service it provides.

Paying for Truth

Today, if we want truth we pay for a third party to act as the truth teller. This could be in the form of an independent audit, a validated bank statement, a certified document or a trusted news subscription service.

Trust in truth tellers is declining. As illustrated in the graph below, the internet and now AI has done a lot to undermine trust over the past few decades.



One of the great hopes for blockchain technology is to bring back trust in the systems of humanity. The Ethereum Foundation's mission is to create a blockchain ecosystem that is '...trustworthy, transparent, and secure. This will help restore and maintain public trust in digital and decentralised technologies...'

In blockchain technology, also, there is no free lunch. We have to pay for trust. But the payment methods and charges are different.

At the Ethereum level we have to pay Gas fees in the form of Ether to have our transactions processed. For this fee we have the truth about the transactions and balances on the ledger.

Ethereum does not provide a service for intersubjective trust. We do not, at the Ethereum layer, have truth about : who won the race, did it rain in Sydney today, what was the closing price of Iron Ore on Friday? These things can be recorded on Ethereum but we have no way of ensuring - on Ethereum - that what is recorded is the truth.

Ether Staking - Objective Truth and Economic Security (a re-cap)

As we know, the security system of Ethereum is based on a carrot and stick approach. The carrot is yield that can be earned by locking up 32 Ether and running a node in the network. The stick is the threat of having part of your stake slashed (forfeited) if you are not a good operator.

This type of service is new and the incentive structure is interesting. Essentially what we have here is 'Validation Yield'. As a staker you are providing a computer service which validates transactions. For this service you are paid a fee. You are putting your own money at risk. This economic security model is a bit like a deferred remuneration plan where there are

potential forfeitures or clawbacks for badly behaved executives.

With staking there is no counterparty risk as there is no counterparty. The smart contract risk is effectively zero as a standard staking contract is used. Of course there is a risk that the Ethereum network itself could be compromised and there is always market price risk. Also, there is endogenous risk, that is to say, stakers can undo themselves by trying to hack the system or otherwise operate in a malicious manner.

I have written elsewhere why Ether gets referred to as the 'internet bond' and that the staking yield plays the same role in the metaverse as the 'risk free' rate in the real world economy because it is the base layer rate of the whole Ethereum ecosystem.

So in short. Ether can be staked and in return for providing a service, a fee is paid to the staker. Ethereum provides the baseline objective truth that : 1 the transaction happened; and 2 that the balance in the account is 'x'.

EigenLayer Re-staking - Intersubjective Truth and Social Consensus

As the name suggests, re-staking is allocating already staked Ether (or other stackable asset) to be re-staked.

To help us understand re-staking I am going to use the example of Bonds in traditional finance. It's not a perfect analogy so I won't take it too far, but it works to the extent needed. With the Bond market we start with

the lowest risk/return bond - government bonds. From this we move to agency bonds to municipal bonds to investment grade bonds to junk bonds. As we go up the risk curve the return increases.

Staked Ether is the lowest risk/return 'bond'. As we re-stake Ether we also increase the risk and reward. But here the analogy ends because unlike bonds we are not lending money. When we re-stake our assets, we are providing a 'truth telling' service which is secured by the assets we re-stake, this is a form of economic security for the service provided. As I set out above the service provided is decentralised trust. We pay for trust.

EigenLayer is a complementary service to Ethereum. If we just stake Ether we secure the objective truth at the base layer. Low risk/low reward. EigenLayer is software which allows for additional validation service to be developed and for a risk/reward rate to be set at a market rate for the service. In this way intersubjective trust can be brought onto the blockchain.

The services built using EigenLayer are referred to as 'Actively Validated Services' (AVS). Again we have a comparable in the traditional world. Bloomberg provides actively validated oracle services for financial market data.

Thousands of specialist projects are going to be developed to provide AVSs. The EigenLayer software is creating a marketplace for decentralised trust. This is a new type of marketplace, a marketplace where anyone can buy trust.

We can track the development of the EigenLayer marketplace at [this dashboard](#). We can see the Operators who provide the re-staking services, we can see the AVS providers and we can see the total amount of assets re-staked.

The market size for decentralised intersubjective trust is difficult to measure, but the problem it solves (bringing intersubjective trust to the internet) is significant and the technology itself is infinitely scalable.

Investment Exposure to the EigenLayer Project

The questions we always ask at this point is will value accrue to the project and if so where? Will it accrue to a centralised company via equity or through a native token, or both?

Eigen Labs, Inc., is a company incorporated in the State of Delaware (USA). This company is focused on building decentralised infrastructure solutions (mainly EigenLayer), which enhance the security and scalability of decentralised services on Ethereum.

The Eigen Token (ERC-20) is in the process of being distributed. Full details of the token have not yet been released.

These types of open and decentralised projects typically work as follows. The centralised company (Eigen Labs Inc. in this case) is the employer of the main developers and entrepreneurs who build and deploy the software. As part of the remuneration structure a certain percentage of the tokens are allocated to the company, investors and

developers. This is much like typical employee stock option arrangements. As holders of the token they are motivated to make sure the project is successful.

It is common for venture capital firms to invest in both the equity of the company and the native token of the project.

In our case we typically invest just in the token (but only if we can see value accruing to the token as the project builds) as the token is typically far more liquid than equity and often the growth potential in the token is higher. In addition, the yield from staking the tokens is often higher and more reliable than any dividends that may eventually flow from an equity holding.

The Eigen Token

The Eigen Foundation is a not-for-profit entity which is primarily responsible for the stewardship of the EigenLayer protocol. This includes managing the launch and distribution of the Eigen token, ensuring the security and decentralisation of the protocol, and guiding its future development.

Tokenomics

Supply, Demand and Product Market Fit

In order for the token to become valuable it has to generate both demand and supply for its product. The product is 'decentralised trust', which I hope I have been able to explain to readers earlier in this newsletter.

The supply is reflected by the level of demand for higher yields on (mainly) re-staked Ether. As at the date of this newsletter a total of USD 11.4 billion has been re-staked using

EigenLayer. That is USD 11.4 billion worth of supply.

The demand is measured by the number and quality of Actively Validated Services (AVS) being built on EigenLayer. To date there are only a dozen or so such services. We are yet to see if the demand for 'decentralised trust' is as big as anticipated.

One imperfect comparable we could look at in the traditional world is the total value of audit fees. After all, the independent audit is the mainstay of 'centralised trust', this is the product they sell. One estimate of global audit fees is USD 40 billion. Another comparable is Bloomberg (annual revenue circa USD 12 billion) who provide centralised actively validated oracle services for financial markets.

As with Ethereum itself the most significant 'known unknown' is the adoption rate in terms of depth, breadth and speed. How fast will markets adopt this new paradigm of decentralised trust?

Principles of Token Design

The design of tokens is evolving generally. In the early days (circa 2016) tokens were in the main simple 'tickets to ride'. If you want to use this protocol you have to pay using the protocol's token. Tokens also often had a governance aspect, one token one vote, much like shares in a company.

With the emergence of 'Proof-of-Stake' consensus models many tokens have become yield tokens whereby the token is put up as a form surety for a particular type of service in return for a fee paid for the service.

Another aspect of token design are the questions of how many tokens are to be issued, when they will be issued and to whom they will be issued.

The Eigen Token

The Eigen token's main value proposition is that it provides economic security for the provision of decentralised intersubjective trust. Or to put it more bluntly, services that want to claim they have provided intersubjective truth (who won the sports event, or did it rain in Perth) are able to 'put money where their mouth is' by backing their claims with money.

As I mentioned earlier, solving the problem of how to identify truth on the internet is one of the most challenging problems we face. If EigenLayer becomes an important part of solving this problem, the token will be in high demand.

The idea of a marketplace for decentralised intersubjective trust is not easy to digest, but like so many things that have come before, once it is understood and well adopted, it will seem obvious.

The Eigen token has a 'two-token model' which enables the token to be selectively forked. This feature is complicated but this mechanism is a bit like spinning off a particular division of a company into a new company.

It is proposed by the EigenLayer developers that the Eigen token will be at the forefront of the EigenLayer ecosystem. The token will have multiple purposes in the ecosystem, the protocol. The total supply will be 1.67 billion Eigen.

Of this total, staking airdrops will take 15%, community programs will assume 15%, and ecosystem development will take another 15% of the total supply. As a project that has seen some of the best Venture Capital backers thus far, EigenLayer has allocated 29.5% of its total token to investors.

Early contributors will receive 25.5% of the token's total supply. Investors and early adopters are required to undergo a total lockup period of three years for their token allocation.

The last thing I want to say on tokenomics is the involvement of [Olaf Carlsen-Wee](#). Olaf is one of the thought leaders and investors in this space that I admire the most. In [this video](#) he set out his thoughts on the EigenLayer project in general and the Eigen token in particular.

We like the EigenLayer project. It could be as important as Ethereum in terms of the

opportunities it opens for innovation. We propose to make an allocation of up to 5% of the Fund's assets to the Eigen token as soon as practically and safely possible.

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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