



Blockchain Assets

CRYPTOASSET MANAGERS



JP Morgan launches My On-Chain Net Yield (MONY) fund on Ethereum - 15 December 2025 (Image from Sven Luiv)

Dear Investors,

In this newsletter I look at Distributed Autonomous Organisations (DAOs) and Decentralised Finance (DeFi). I use two of our smaller investments (Aave and NexusMutual) as examples to flesh out answers to questions such as: Who controls or owns DAOs? How does DeFi work, what are the risks, who is using it and where is this all heading?

But first the cryptomarkets and other news...

The quarter started off with unit price jumping 10% in the first 7 days of October. But then, on 10 October 2025 the cryptomarkets experienced their largest liquidation event in crypto history wiping off nearly USD 19 B in leveraged positions. This was at the time the US announced increased tariffs on China so many adopted this as the narrative to explain the reason for the sudden drop.

However, it has emerged that there may be another, more convincing reason, and it has to do with JP Morgan and index fund data provider MCSI.

Market Volatility, Index Construction, Credit Ratings and the Integration of Digital Asset Treasury Companies

We are currently in a period where Bitcoin and Cryptoassets generally are being integrated into TradFi systems and markets. This integration is not always welcomed and it is not a smooth ride by any measure.

One example of the integration - which is causing tension - is the evolving treatment of Digital Asset Treasury (DAT) companies by index providers, rating agencies and institutional allocators.

Index Providers and Digital Asset Treasury Companies

In my September 2025 newsletter, I addressed some of the challenges index providers face when considering DAT companies for inclusion in major equity indices. Referring specifically to Strategy Inc. and the S&P 500, I wrote:

"...It was not a surprise to me that Strategy Inc. was excluded [from the S&P 500 index] as there are several questions to consider. The most obvious question is how the index would be impacted if Bitcoin continues to grow in value at the rate it has for the past decade. Add to that the possibility of other companies (already part of the S&P 500 Index) adopting the Bitcoin Standard and then overlay the rise of Ether treasury companies and it becomes a very complicated 'what if' analysis.

I don't expect Strategy to be included even at the next quarterly meeting because the 'what if' scenarios are likely to produce outcomes that could make the index no longer fit for purpose. This will raise a whole series of new questions. The value of the companies that make up the S&P 500 Index represents over 50% of global equity market capitalisation. It is an incredibly important index and a critical reference point for asset allocation, benchmarking and capital flows. Given the commercial and systemic importance of index construction, it is understandable that index providers will proceed with extreme caution and only after thoroughly scenario-testing the implications of Bitcoin and Ether treasury companies."

This issue moved from theory to policy discussion on 10 October 2025, when MSCI, the world's second-largest index provider, released a consultation note addressing the classification of companies whose balance sheets are primarily composed of digital assets.

MSCI noted that market participants had raised concerns that companies whose digital asset holdings represent 50% or more of total assets, or whose capital raising activities are primarily used to accumulate digital assets, may exhibit characteristics closer to investment funds than operating companies. As a result, MSCI proposed that such firms may be excluded from equity indices, pending feedback from market participants.

These consultations are not academic. They involve major banks, ETF issuers and index-tracking fund managers whose products depend on predictable and rules-based index construction. Any decision

to exclude DAT companies from major indices would have mechanical consequences over time, including forced selling by index-tracking vehicles and reduced eligibility for passive capital.

Market Positioning and Investor Behaviour

At the same time as these discussions commenced, market commentary circulated suggesting that some large financial institutions (including JP Morgan) may have taken short positions around DAT companies, including Strategy Inc. These discussions have appeared primarily in online forums. There is no independently verified evidence that any specific institutions have engaged in targeted short-selling of DAT companies.

Nevertheless, the episode highlights how anticipation of potential index exclusion, rating reclassification, or structural re-categorisation can influence investor behaviour even before any formal decisions are implemented. In this context, reduced equity prices across DAT companies and correlated movements in Bitcoin and Ether may reflect broader uncertainty around how traditional financial infrastructure will ultimately integrate these new balance-sheet models.

Credit Ratings : Another Layer of Integration

Alongside index providers, credit rating agencies are also considering how DAT companies should be assessed.

In October 2025, S&P Global Ratings assigned Strategy Inc. a 'B-' issuer credit rating with a stable outlook, placing it firmly in speculative-grade territory. Strategy welcomed the rating, describing it as an important step toward integrating Bitcoin-backed balance sheets into mainstream fixed-income analysis and providing a clearer framework for institutional investors evaluating its debt and preferred securities.

A related example occurred in November 2025, when S&P Global downgraded Tether's USDT stablecoin to '5 – Weak' on its stablecoin stability scale. S&P cited a growing allocation to higher-risk reserve assets, including Bitcoin and gold, as well as limited transparency and uncertainty around redemption mechanics under stress conditions.

Tether's CEO, Paolo Ardoino, publicly rejected the assessment, arguing that traditional rating methodologies are poorly suited to crypto-native balance sheets and that Tether remains fully backed and over-capitalised. The episode underscores the ongoing tension between legacy risk frameworks designed for banks and money-market funds and the evolving reserve structures of large stablecoin issuers.

As an aside, Tether has also issued a gold-backed token, XAU₣ (Tether Gold), which represents a claim on physical bullion held in secure vaults. By late 2025, reporting indicated that Tether had accumulated approximately 116 tonnes of gold, making it one of the largest non-sovereign gold holders globally, although only a portion of this gold is associated with backing XAU₣ itself.

Convergence, Not Conflict

We are witnessing the integration of indexes, credit ratings, accounting standards and tax frameworks with Bitcoin, Ether and other cryptoassets.

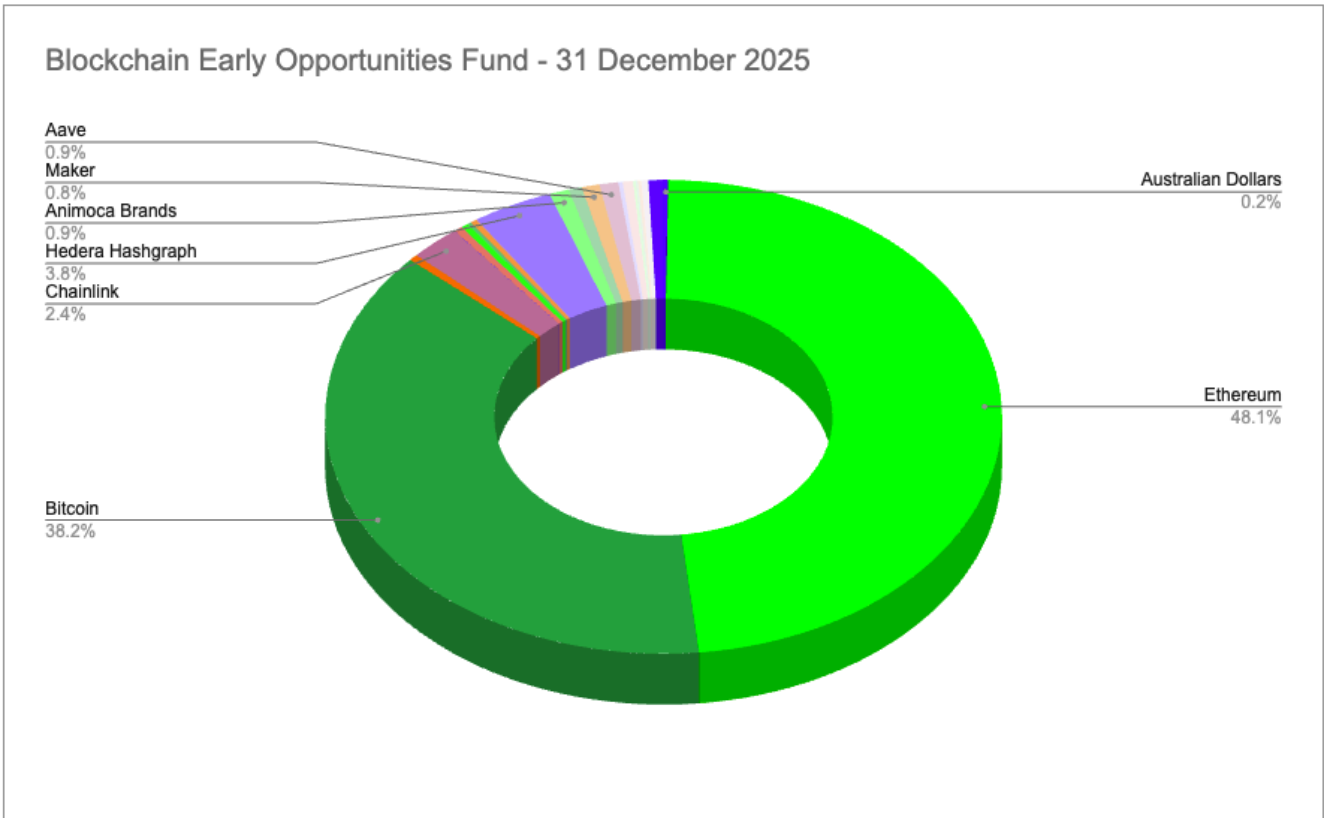
The 'JP Morgan versus Strategy' narrative is best understood as a case study in this transition. Even though there is resistance and sometimes outright hostility (as traditional institutions grapple with how to categorise DAT companies etc), these same companies are adopting Bitcoin and Cryptoassets. Even JP Morgan itself has adopted blockchain infrastructure, including the use of Ethereum for the launch of its [My OnChain Net Yield](#) (MONY) fund, its first tokenised money-market fund issued on a public blockchain.

These integration-related speed bumps are painful. But they are to be expected. They do not alter the long-term trajectory. Bitcoin continues to produce blocks roughly every ten minutes. Ethereum continues to settle transactions globally. Adoption continues to expand across individuals, institutions and sovereigns.

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Fund Details

| 31 December 2025 | Unit Price | Return for the Quarter | Return for the past 12 months | \$100,000 invested on 1 July 2017 now worth | Annualised Return |
|------------------|------------|------------------------|-------------------------------|---|-------------------|
| | \$4.7773 | -25.80% | -21.94% | \$477,730 | 21.21% |



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Decentralised Autonomous Organisations

The most useful way to understand a DAO is by analogy to a traditional company. Corporations have no physical form. They are legal constructs created by legislation and formation documents, animated by contracts and enforced through courts and regulators. Their existence depends on shared belief in the system that surrounds them.

DAOs are similar, but are brought to life in software rather than law. Their rules are enforced automatically by code. Where companies rely on boards, executives, and dispute resolution processes, DAOs rely on automatic execution written into the software. If a 'if-this-then-that' condition is met, an action occurs. There is no discretion and no ambiguity.

This makes DAOs narrower in scope than general-purpose corporations. They are designed to do specific things with minimal reliance on trust.

ConstitutionDAO (an example)

This DAO was formed for the purpose of buying one of the original engrossed copies of the US Constitution.

The auction was scheduled to be on 18 November 2021. Sotheby's estimated the document to be worth between USD 15 - USD 20 million.

The people behind the DAO felt that the '...by the people for the people...' constitution should indeed be owned by the people and with that as their motivation by the time the

date of the auction arrived they had raised USD 47 million from 17,000 people over 4 days. They then registered the DAO as a bidder for the auction.

Unfortunately, in the end they were outbid by hedge fund manager Ken Griffin (Citadel) who paid USD 43 million (+ buyers premium) for the document.

After the auction failure the funds were returned to the contributors on a one for one basis and the project was completed.

This DAO demonstrated the speed with which a community can be formed to fund a project.

It was successful in that the contracts executed exactly as designed. No committee deliberated. No disputes arose. The capital was returned cleanly and transparently to the participants. Interestingly a few museums expressed interest in joining the DAO with the promise that they would act as custodian.

There is a great interview [here](#) with the Co-Founder Graham Novak.

Decentralised Finance and DAO's

Decentralised Finance (DeFi), refers to the provision of financial services directly on blockchains without the use of banks, brokers, or custodians.

Lending, borrowing, saving, trading, hedging, insuring and investing can now be performed by interacting with open-source smart contracts. Participants engage directly with code rather than institutions. The rules are transparent, global and continuously enforced.

The result is a financial system that operates

without opening hours, jurisdictional boundaries or discretionary permission. Access is universal. Settlement is immediate. Risk management is programmatic.

The DeFiLama Dashboard ([see here](#)) has a great summary of all on-chain DeFi activity. Today, more than USD 116 billion is deployed across dozens of DeFi protocols. This is a tiny amount relative to global capital markets, but it is a start.

The Aave Protocol

Founded in 2017, Aave is one of the oldest DeFi protocols operating at scale. It secures approximately USD 32 billion in assets across multiple blockchains.

Aave is a decentralised, non-custodial liquidity protocol. Users supply assets to earn yield or borrow against collateral they post. All activity is over-collateralised, continuously monitored and automatically enforced.

In practical terms, Aave functions as a margin lending platform secured by cryptoassets such as Ether and Bitcoin. The mechanics are familiar to anyone with experience in traditional finance. The execution is not.

Consider an individual holding AUD 20,000 of Ether. The individual can contribute to the protocol by 'depositing' their Ether into Aave's smart contracts. Ownership of the Ether never changes hands but it is controlled by the protocol for as long as the individual leaves it on 'deposit' with the protocol. The individual earns interest for as long as they have their Ether 'deposited' with the protocol.

If liquidity is later required, the individual can either withdraw their 'deposit' and sell their

Ether. Or they can borrow against it within the protocol. Collateral ratios are enforced automatically, and if they fall too low, the system liquidates only what is necessary to restore solvency.

There are no forms, no approvals and no human intervention.

Aave as a DAO

We can think of Aave DAO as a decentralised operating company.

The DAO governs the protocol's parameters, fee structures, risk controls, and development roadmap. It determines how capital is allocated, how revenues are retained or distributed and how the ecosystem evolves over time.

All financial data is available on-chain in real time ([see here](#)). The DAO's Treasury functions as its balance sheet, holding a diversified portfolio of assets generated by protocol activity and governance decisions (see the treasury [here](#)).

Importantly, the DAO has no debt and no liabilities. As a result, the value of the Treasury represents the intrinsic net asset value of the organisation.

Control rests with AAVE token holders, who can propose and vote on the use of the Treasury. Governance documents, proposal frameworks and on-chain voting replace prospectuses, annual general meetings and shareholder resolutions. Details can be found on the Aave Governance page set out [here](#).

Economics and Cashflows

Aave's economic model is straightforward.

User activity generates gross fees from borrowing and lending. A portion of those fees is retained by the protocol and directed to the Treasury. These retained fees represent the DAO's revenue.

Operating expenses are paid from this revenue. They include funding for development teams, security audits, risk management providers, governance infrastructure and ecosystem grants. All expenditures are approved through token-holder governance.

What remains is the protocol's economic surplus. Because the DAO has no debt, no taxes and no accounting adjustments, this figure is best thought of as operating earnings. It reflects the underlying productivity of the protocol itself.

The Aave Token

The Aave token grants governance rights over the protocol. Holders can propose and vote on changes to protocol parameters, capital allocation and strategic direction.

The token can also be staked to provide a safety backstop to the system. In return, stakers earn incentives funded by token emissions and where approved by governance, by protocol revenues. This creates a direct alignment between risk, responsibility and reward.

While AAVE is not equity in a legal sense, it represents economic and governance exposure to the performance of the Aave

protocol. In substance it functions as a control and participation instrument in a decentralised company.

Risk and Resilience

Aave does not face the same risks as traditional financial institutions, but it is not without risk.

Smart contract risk is not insignificant. Code can fail and exploits do occur. However, because the code is in the public domain it is constantly being reviewed and challenged by people seeking to find a weakness to exploit. If failures occur they are visible and responses (by good actors) are immediate.

Liquidity contagion is another structural risk. DeFi protocols often share liquidity, which increases efficiency but can amplify stress during periods of deleveraging. This is not unique to DeFi. It is inherent to any open financial system.

Institutional Convergence

Aave today primarily accepts cryptoassets as collateral. This constraint is already beginning to loosen.

As real-world assets are tokenised they can be integrated directly into decentralised liquidity protocols. This allows traditional balance sheets to interact with on-chain markets without abandoning regulatory frameworks.

BlackRock's BUIDL fund, a tokenised U.S. Treasury vehicle issued on Ethereum, is an early signal of this shift. Other institutions are moving in the same direction.

As institutional participation grows, Aave's

lending volumes, fee generation and Treasury inflows increase. Over time, this strengthens the DAO's balance sheet and deepens the economic foundation supporting the Aave token.

NexusMutual Insurance Protocol

Insurance is a prerequisite for financial systems to scale.

NexusMutual provides a decentralised insurance layer for DeFi, operating as a member-owned mutual.

Participants contribute capital to underwrite specific risks such as smart-contract exploits or protocol failures and earn premiums in return.

The mutual's capital pool backs claims when covered events occur. Its token represents a claim on that pool, priced algorithmically based on assets, liabilities and underwriting performance.

NexusMutual provides coverage for many major protocols, including Aave. The existence of a functioning, on-chain insurance layer is an important marker of DeFi's institutional readiness.

Closing Thoughts

We hold positions in both Aave and Nexus Mutual within the Fund. These protocols are relatively young, having been established between 2017 and 2019. They have each

rebuilt core financial primitives (credit and insurance) outside the existing financial services system. This is impressive. We are just at the very beginning of the integration of these and many other protocols into the existing system. I see these protocols not as a replacement but as the natural evolution of the existing system.

Ethereum is the main blockchain underpinning these protocols. As they grow so too does the use case for Ethereum. We are invested in the picks and shovels of Web 3.0 and have a lot to look forward to as adoption increases.

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



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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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