

Woodstock Monthly Newsletter

Key insights from this month in Crypto
NFTs | Institutions | Blockchain Indexing



Hello,

For the past two years, we demystified investing and investments in Distributed ledger technology (DLT) (or generically called Blockchain space) for our limited partners. We are expanding our Woodstock family to include you in our journey. Through our monthly newsletters, we hope to help you navigate this exploding space and be an active companion as you observe, understand, and participate in blockchain technology's revolutionary potential.

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Post Covid, there is no doubt that this decade belongs to [digitization and digital assets](#). Emerging technologies will shape our world through futuristic applications - solving problems that were considered unsolvable.

Though we formally became a Venture Capital Fund in 2019, the founding team at Woodstock had been investing in the DLT ecosystem since late 2016 and other asset classes for the past two decades. We saw a paradigm shift happening across economic, social, ecological and technological dimensions. We have experienced cycles across markets in the past two decades. Within DLT space, we have seen the ICO boom and bust in 2018, the building phase of 2019, the Covid crash, and the historic rise of deFi in 2020.

We spotted the potential of **Decentralized finance (DeFi)** much before Total value locked (TVL) became a barometer. We had evaluated DeFi applications, aggregators and protocol layers in the DeFi space in early days. We have seen this segment take off from practically no TVL to [US\\$ 43 bn](#).

We spotted the potential of exclusive collectible **Non-Fungible tokens (NFTs)** almost 9 months prior to the market's March'21 mania and followed that up with investment in [Terra Virtua](#), [Ethernity](#), [Mintbase](#) and [SuperFarm](#). We also shared an abridged version of our [investment thesis](#) for the NFT powerhouse project - Terra Virtua, before the sprint of high-valued NFT sales began.

Another breakout category that we saw emerging in the ecosystem was that of **blockchain data indexers and analytics**. The Graph currently sits at a fully diluted valuation (FDV) of [US\\$ 18 billion](#), [Unmarshal](#), another one of our portfolio companies, had a successful public sale with an FDV of [US\\$ 600 million](#), at the time of writing this newsletter. We had been conversing with [Covalent](#) since 2019 and will soon be releasing our investment thesis for this project, which was originally written back in 2020.

Long story short, we are driven by a macro-thesis that drives our focus into emerging technologies and further propels us to take active positions into broad categories of Public DLT, DeFi, Tokenization and Web 3.0 protocols, and further drills down to sub-categories that will drive the ecosystem like NFTs, data indexing, etc.

We have consistently spotted these emerging trends ahead of the market.

How do we do this?

We seek out passionate builders, solving the right problems while

having a clear and long term vision to shape the future. Most of the times we spend months doing due-diligence on the founders observing the patterns they demonstrate in their interactions and product. We enthusiastically seek out such builders from our network or even attend demo-days to hear entrepreneurs explain their solution that can make the DLT ecosystem change orbits.

The Dawn of NFTs

Are we aligned with the valuation some of these art pieces are commanding? No.

Is the value of art subjective? Yes.

Are NFTs over-hyped? Strong No!

When the explosion of a sector or segment happens, it is easy to label it as a 'fad or bubble' and discount the long-term potential. It then becomes crucial that one tunes out of the current market noise and looks at the larger utility for the innovation in question.

At the grassroots level, there is a lot of exciting innovation happening, like the formation of NFT DAOs that allow like-minded people to pool capital together and collect items. A sense of community is central to the human experience and NFT DAOs appeal to this innate desire of people. They do so by providing an infrastructure wherein enthusiasts who have similar taste in art, sports, music, movies, games, e-sports, books or even Cryptokitties can gather together to enjoy and appreciate their favorite collectible.

More business-minded DAOs can own, collect and flip collectibles for a profit, case-in-point being an art gallery as a DAO. Entire media companies can be run as NFT DAOs where members decide on what content to create, which channels to use for distribution, and how to

split the revenue between different stakeholders. [Rarible](#), [Yield Guild Games](#), [Mintable](#), and [Flamingo](#) are popular NFT DAOs.

Another exciting development that we noticed was the growth of NFT DEXs. This pattern is in-line with the true spirit of blockchain technology and decentralization. Currently, NFT holders have to often route their transactions through centralized platforms in order to make a sale or an exchange. Projects are now building to create infrastructure for true peer-to-peer exchange of ERC-721s.

Blockchain projects are also synergizing between DeFi and NFTs, with NFT pools being created to fractionalize the asset, interest-bearing tokens being embedded inside NFTs, loans being issued against NFTs, and indexes being maintained so that one token can represent ownership in many NFTs.

Great, now that we have established the long-term narrative, let's look at the current market numbers. Our friends at [Alpha Alarm](#) (a captivating deFi visuals channel run by [Covalent](#)) have published some data-driven insights that can help us understand the market objectively:

- 80% of all sales on Opensea, the largest NFT marketplace, comes from 11% of the sellers
- More than 50% of NFT purchases on Rarible are made by just 330 users
- NFTs totally account for close to 3% of the daily gas fees on the Ethereum network and gas fees make up an average of 8% of the total purchase value

It is important to distinguish between volume and value flowing through NFTs. The current attention to the sector was heralded by high-profile NFTs being picked-up by die-hard fans, this brings both monetary and

intangible value to the space. The network effects of [Elon Musk](#) making a song about NFTs as an NFT or [Mark Cuban](#) dancing in an NFT are massive and triumphs like these will eventually drive up both value and volumes in the NFT market.

NFTs have not achieved mass adoption, yet.

We envision a future where tickets are released as NFTs, granting VIP area access to the ticket holder, allowing easy secondary sale of tickets, enabling fair revenue distribution between different stakeholders who created the event, and acting as a badge of attendance which can be used to avail a 'loyalty discount' at other gatherings. We are confident that NFTs will revolutionize the supply chains across industries ranging from aerospace to fashion, bringing in more efficiency in material handling, lower wastage of resources, and decreased turnaround time for product manufacturing.

Don't even get us started on tokenization of real-world assets and metaverses of virtual assets. These are multi-trillion dollar opportunities in themselves.

Welcome to the dawn of the NFT era, this is just the beginning. ([More about NFTs here](#))

The Institutions and Corporates have arrived

In the last 90 days:

- They analyzed
 - [Citibank's](#) crypto report
 - [IBM's](#) repository of blockchain articles
 - [JP Morgan](#) set a US\$ 146k for Bitcoin over long term
- They acquired
 - [Tesla](#) announced a US\$ 1.5 billion Bitcoin purchase
 - [Grayscale](#) disclosed holding 649,000+ Bitcoins

- [Microstrategy](#) holds over 91,000 Bitcoins
- They integrated
 - [Visa](#) settles payments directly on Ethereum
 - [BNY Mellon](#) announced crypto custody services
 - [Amazon Web Services](#) launched support for Ethereum
 - [Tesla](#) announced Bitcoin payment support
- Corporates like Tesla, Square, Mode Global Holdings and [many more](#) have taken exposure to Bitcoin through their balance sheets

Financial giants like JP Morgan, Morgan Stanley, Goldman Sachs, Fidelity, PayPal, Visa are racing to provide cryptocurrency instruments and support as a part of their offering.

ETFs are becoming a popular instrument for banks to enter the crypto market. [Grayscale](#) has posted nine new job openings for their “ETF business” which could indicate that the firm is considering launching crypto-ETFs. Canadian fund [Evolve](#), which won approval from regulators for its Bitcoin ETF in Feb-2021, has filed for an Ether ETF this month. If approved, it will become the second product of its kind to go live in Canada. [CI Financial](#), an asset manager with US\$ 230+ bn in AUM, has also filed for an ETH ETF.

Canada is an important proving ground for regulations and strong signals from its regulators can herald a new, more progressive era of regulation for the blockchain technology space.

However, traditional businesses are yet to realize that blockchain technology is more than Bitcoin. At Woodstock, we are excited about the times when your national identity becomes an NFT and you can confirm your eligibility to vote without revealing your entire biodata through zk-SNARKs. When being a philanthropist would be easier

because the data about the usage of your funds is available with high transparency on the blockchain. When everyone will have fair access to financial infrastructures regardless of their age, race, gender or social status.

As exciting as the big banks headlines are, we believe that the institutional involvement will be more than just big banks offering ETFs to their wealthy clients. It's going to be a long journey and we are excited to be a part of this space as it grows.

Woodstock in the news

It has been a busy month for us at Woodstock, with new investments and several go-to-market initiatives for us and our portfolio companies. Some key updates are as follows –

- We participated as a panelist in a Clubhouse session on smart money edition of institutional adoption on the topic “Institutional Adoption of Blockchain : Is the Hype Real?” organized by Tezos APAC Foundation with representation from other prominent funds in Asia
- We backed [Ethernity Chain](#), one of the most prominent projects in the authenticated celebrity-focused NFT space
- We spoke to [The Economic Times](#) about how a ban on cryptocurrencies could hurt India in several ways
- [Unmarshal](#) joined our portfolio as another exciting project in the blockchain indexing space
- Decentralized data cloud platform, [Cere network](#) got added to our portfolio
- We helped [Covalent](#) enter the Indian ecosystem through our partners [Lumos Labs](#)

Let's stay in touch

As we gear up for scaling up of Woodstock Capital Fund II, we will send out many more exciting updates. We are working closely on a few strategic initiatives which will be public in the coming weeks. Our team is growing rapidly across geographies.

We want you to be a part of this journey with us. As the DLT world unravels, we wish to share ahead-of-the-curve insights with you and celebrate the growth of this high-impact and massively disruptive space. We look forward to sharing our work, insights, models, thesis, and memes with you, once every month.

Catch us on [Twitter](#) and write to us at contact@woodstockfund.com.

It is a pleasure to have you as a part of the Woodstock family!

Warm Regards,
Woodstock Team

P.S. - We have an open position for an Accounts Associate, as a part of the CFOs team. [Applications are open!](#)



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