

Crypto Spring: Financial Products Take Center Stage; Ethereum Upgrade Improves Economics; Builders Come To Denver

Monthly Insights

March 26, 2024

- **Steady march of Institutional adoption of digital assets and blockchain tech continues. Forward thinking regulators in Japan are embracing the opportunity after demonstrated product success.**
- **Technological innovation accelerates: the Ethereum Dencun upgrade and Coinbase's Smart Wallet remove key barriers to entry and usability of crypto for a broader audience.**
- **Events like ETH Denver 2024 and NFT Week Paris demonstrate continued accelerated pace of development in the digital asset community and early innings of a capital deployment cycle by investors.**
- **Read our highlights from recent conferences - important takeaways that will shape the narratives for the next 18 months.**
- **The 10SQ Team will be in New York, Paris, London, and Miami over the next few months - connect with us live.**

KEY THEMES

The Government Pension Investment Fund Of Japan Is Exploring Bitcoin For Portfolio Diversification

- The Government Pension Investment Fund (GPIF) of Japan, the world's largest pension fund with \$1.5T of AUM, is seeking information about Bitcoin and how it can be incorporated into its portfolio.
- This news comes together with positive advancements in Japan's crypto policy. Namely, a proposal to allow investment limited partnerships to acquire and hold cryptoassets, which includes crypto assets in the legal framework and legitimizes their use in institutional investment strategies.
- **10SQ VIEW:** GPIF's interest in crypto is a signal to other pension funds and endowments to start exploring this new asset class. Even a small exposure to digital assets significantly enhances the performance of a 60/40 portfolio.

[Link](#)

Fidelity Amended Its Spot Ethereum ETF To Include Staking

- The company wrote in an amendment to its ETF application that "The Sponsor may, from time to time, stake a portion of the Fund's assets through one or more trusted staking providers."

[Link](#)

Figment And Apex Group Plan To Launch Ethereum And Solana Staking ETPs

- Figment and Apex Group are launching Ethereum and Solana staking ETPs on the SIX Swiss Exchange. The ETPs offer institutions convenient access to staking rewards through traditional brokers or banks.
- **10SQ VIEW:** This news highlights the rising demand for institutional crypto staking. Staking provides a predictable yield and behaves like a fixed-income asset, attracting institutional investors seeking stability and potential token price appreciation. Figment and Blockdaemon, two of the largest staking infrastructure providers and 10SQ portfolio companies, are seeing increased institutional demand for their services.

[Link](#)

TenSquared (10SQ) is an emerging growth equity firm focused on mid-stage **Inflection Point Investing** where blockchain and Web3 companies transform into future technology leaders.

KEY THEMES

Hong Kong Launches A New Round Of e-HKD Pilot

- The Hong Kong Monetary Authority launched the second phase of its e-HKD pilot to study the programmability and tokenization of CBDCs. This phase is expected to last until mid-2025.
- Many major financial institutions and payment firms participated in the first phase of the e-HKD pilot, which was concluded in 2023. This initiative is on the back of the success of e-Yuan which has reached broad adoption in China.
- Earlier in January, the Hong Kong Securities and Futures Commission accepted the first application for a spot Bitcoin ETF.
- **10SQ VIEW:** Hong Kong's advanced crypto regulatory framework and thoughtful approach of financial authorities create perfect conditions for it to become a leading Web3 hub in Asia. CBDCs have the potential to contribute to addressing critical challenges in payments and fostering financial inclusion.

[Link](#)

BlackRock Launches First Tokenized Investment Fund

- BlackRock, the world's largest asset manager with \$9T of AUM, has notified regulators that it will offer a tokenized pooled investment fund, USD Institutional Digital Liquidity Fund. According to the filing, outside investors will be required to invest a minimum of \$100,000.
- **10SQ VIEW:** BlackRock's move highlights a broader trend of the rise of Real-World Asset tokenization. This innovation promises enhanced liquidity, evidence of ownership, and transparency aimed at democratizing traditionally inaccessible investment avenues.

[Link](#)

Revolut Launches Direct Crypto Purchase Into MetaMask Wallets To Simplify Web3

- The digital bank will enable users to make crypto purchases directly into MetaMask wallets in the U.K. and European Economic Area, an attempt to make adding crypto to self-custody wallets easier. Revolut currently offers basic crypto services to many of its 40M customers.
- **10SQ VIEW:** Fintech giants like Revolut could significantly simplify user onboarding and experience with crypto in a safe and compliant way, thus facilitating broader crypto adoption.

[Link](#)

Deutsche Börse Launched Regulated Spot Platform For Crypto Assets

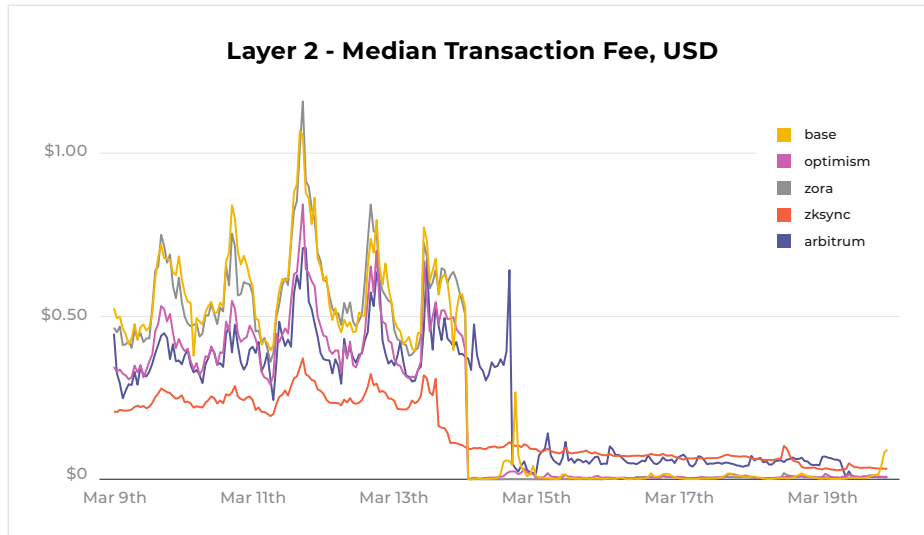
- Deutsche Börse Group has released a platform for the spot trading, settlement, and custody of crypto assets for institutional clients called Deutsche Börse Digital Exchange (DBDX).
- Another regulated exchange in Europe (Netherlands), D2X launched with an announcement of a funding round by leading digital asset investors.
- **10SQ VIEW:** Deutsche Börse is one of the first traditional exchanges to offer crypto spot trading services to its clients. Crypto trading is a sizeable market and a lucrative revenue opportunity for traditional exchanges to ignore. Compliant and regulated crypto trading infrastructure is also increasingly attractive to institutional investors who want appropriate exposure to digital assets but with assurance of compliance. 10SQ portfolio company Talos is one of the leading critical trading infrastructure providers that enable institutional crypto adoption.

[Link](#)

THE IMPACT OF THE DENCUN UPGRADE AND THE ADOPTION OF SMART WALLETS

Dencun Upgrade — A Major Milestone: Cheaper And Faster Transactions

- Beyond the positive news on the institutional adoption of crypto, March was an important month for the Ethereum ecosystem. The long-anticipated Dencun upgrade on Ethereum, which happened on March 14, reduced transaction costs on Layer2s.
- Ethereum Layer 2 rollups can now use blobs instead of the “calldata” method for posting transactions — offering a direct path to fee reduction and passing these savings to end users.



- For example, the median gas fees on Arbitrum One, the most widely used L2, have fallen from around \$0.50 on March 13 (right before Dencun went live) to about \$0.008 on March 19, according to the latest on-chain data aggregated by Marcov on Dune.
- The reduction of transaction costs on L2s directly addresses the high usage costs associated with smart contract wallets (or smart wallets), which can now be deployed on L2s and used at a fraction of the previous cost.

Dune Analytics, @Marcov, theBlock

10SQ VIEW:

Beneficiaries: Layer 2 Solutions: Companies offering Layer 2 scaling solutions for Ethereum will likely benefit the most, as reduced costs and increased transaction capacity make their platforms more attractive.

DApps and DeFi Platforms: Decentralized Applications and DeFi Platforms can operate more efficiently with lower transaction costs, potentially attracting more users.

Potential negative impact: Competing Blockchains: Blockchains that compete with Ethereum on transaction costs and speed might lose their edge.

Data Storage Services: Services relying on permanent on-chain data storage might face challenges adapting to the new, temporary storage model.

The Adoption Of Smart Wallets — A Path To Accessibility

- In February, Coinbase announced the release of a new product, Smart Wallet.
- Smart contract wallets (often called account abstraction) are considered some of the most secure and advanced technical solutions for customer-friendly crypto applications. They provide a means of self-custodying crypto assets, enable bundled transactions, customizable recovery options, the ability to pay gas fees in a different token, greater privacy in identity management and more.
- The Coinbase's Smart Wallet has several innovative features, including Magic Spend, which enables users to pull funds from their standard Coinbase accounts to pay for their on-chain transactions, thus removing the friction point of initial wallet funding and top-ups.
- **10SQ VIEW:** Simplified onboarding experiences and customer-friendly consumer applications are necessary for mass crypto adoption and growth of on-chain consumer activity. Both recent innovations, Dencun upgrade and Coinbase's Smart Wallet, significantly facilitate the development of smart contract wallet infrastructure and build the next generation of on-chain experiences, which will be critical to bringing a billion users on-chain.

10SQ TAKEAWAYS FROM ETH DENVER

- The 10-day ETH Denver 2024 conference was the most prominent crypto event for crypto natives, with over 20k attendees from around the world. There was genuine excitement from both the builder and investor communities. The number of events before and after the main conference was overwhelming.

Key narratives discussed:

<i>AI everywhere</i>	<ul style="list-style-type: none"> ■ Web3+AI was one of the focus areas at the conference with a variety of insightful side events, like Data Summit. Bittensor was one of the most discussed Web3+AI companies. GPU networks for machine learning were a big topic. Multiple projects, including Gensyn, indicated successfully securing GPU capacity from a variety of data centers, which implies a promising availability for other networks seeking similar GPUs.
<i>Rollups for privacy and scalability</i>	<ul style="list-style-type: none"> ■ ZK technology and performance have improved tremendously over the past year, and this was a major theme covered by many ZK-focused teams. In particular, ZK rollup teams like Polygon, zkSync, =nil;, and Starkware discussed this at the Scale Summit. ZK-rollups protect data privacy on blockchain and improve transaction throughput, leading to increased scalability. ZK-rollups unlock new use cases where data privacy is essential for the users.
<i>Decentralized physical infrastructure (DePINs)</i>	<ul style="list-style-type: none"> ■ DePINs can bootstrap real-world infrastructure by incentivizing the supply side through tokens to outpace demand. DePINs allow a maximally cost-effective solutions through open market price competition of idle supply. There have been encouraging signs of adoption for decentralized physical infrastructure: Helium, Filecoin, Akash, DIMO, io.net, and others.
<i>Liquid staking and restaking</i>	<ul style="list-style-type: none"> ■ Innovations in liquid staking and re-staking protocols attracted considerable attention, as they unlock new possibilities for decentralized ecosystems. EigenLayer was one of the most discussed companies in this sector. Liquid staking technology allows users to stake token while maintaining the liquidity (in a derivative form). Restaking protocols emerged to allow users to stake the same tokens on the main blockchain and other protocols, securing multiple networks at once (and earning several layer of yield, and introducing more leverage into the overall system).
<i>Bitcoin Layer2s</i>	<ul style="list-style-type: none"> ■ Bitcoin is more than "digital gold". BitVM, taproot, and the potential upcoming Bitcoin softfork allow for creating programmable applications (smart contracts, rollups, L2 chains) on top of Bitcoin, using its security infrastructure. Stacks ecosystem continues to be a leader in this category. Yes, Bitcoin was discussed at an ETH conference.
<i>Tokenization of RWAs</i>	<ul style="list-style-type: none"> ■ Tokenization of real-world assets is believed to be one of the main growth drivers of Web3 and attract a lot of interest from tradFi people. Ondo Finance and Securitize, some of the leading players in this field, made important announcements during the ETH Denver week.
<i>Simplified user interface & developer tools</i>	<ul style="list-style-type: none"> ■ Lowering the barrier to entry for developers can spark a wave of innovation in Web3. Wallet technology and UX have increasingly improved, and numerous teams have been building at each layer of the wallet stack. One of the major announcements came from Coinbase with the launch of their Smart Wallet.



10SQ TAKEAWAYS FROM NFT WEEK PARIS

- NFT Week Paris was a unique conference, and unlike the traditional crypto gatherings, half the attendees and speakers were the end users/brand/non-crypto natives. There were a lot more end-user applications vs. infrastructure or middleware companies at the conference and there was more focus on the usage of the technology and customer perspectives on practical aspects of blockchain application utility.
- **Multiple founders mentioned that various technology improvements (faster and cheaper blockchains, account abstraction, custody solutions) have allowed consumer applications to be built, which weren't possible a few years ago.**

Key narratives discussed:

<i>Digital luxury goods</i>	<ul style="list-style-type: none"> ■ According to LVMH, digital luxury makes as much sense as traditional luxury products; customers don't care just about functionality. Luxury brands think about NFTs as the new entry-level good in their brand. ■ Brands emphasized that digital twins are an equally important part of RWAs (30% of watches above \$5k are expected to have a digital twin by the end of 2024).
<i>Digital product passports</i>	<ul style="list-style-type: none"> ■ Digital product passports are gaining popularity among brands. A digital product passport is a digital twin of a physical product on the blockchain. ■ Key benefits of launching a digital product passport for a brand include authentication of products, increased interactions with customers, connections with secondhand customers, and thus getting secondary revenues.
<i>Web3 gaming</i>	<ul style="list-style-type: none"> ■ The end of 2024 will be roughly three years since blockchain games became an idea in 2021. As for any serious game, the development cycle takes between 3-5 years, users should expect to see blockchain games that start to rival traditional games in terms of graphics and gameplay in the next 1-2 years. ■ Incumbents are also starting to enter the blockchain gaming space now, with Epic and Apple allowing Web3 games onto their platforms, while both companies were strongly against it in prior years. Ubisoft even had its own booth at the conference.



Upcoming Events

- **Mar 29** - March CME expiry
- **April 21** - Bitcoin block reward halving

Opportunities to connect with the 10SQ team - book a meeting here: [link to Calendly](#)

- **April 9-12** - [Stan Miroshnik](#) speaks at the [Paris Blockchain Week](#)
- **April 3-5** - [Chris Cheung](#) speaks at [NFT.NYC](#)
- **May 9** - [George Dawson](#) speaks at [LPGP Connect](#) in Miami
- **May 8-9** - [Stan Miroshnik](#) speaks at [FT Crypto and Digital Assets Summit](#) in London
- **May 20-21** - [Stan Miroshnik](#) and [Ruby Hsu](#) are at [SALT iConnections](#) in New York
- **May 29-31** - [Polina Bermisheva](#) speaks at [Consensus](#), joined by the entire 10SQ team, in Austin



IMPORTANT DISCLOSURES

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