

Fad or Frontier

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Who's Mark?



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DE Shaw & Co



BALENTINE™
THE ART & SCIENCE OF INVESTING

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Our mission is to remain an independent firm

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100% of our revenue comes from fees for advice

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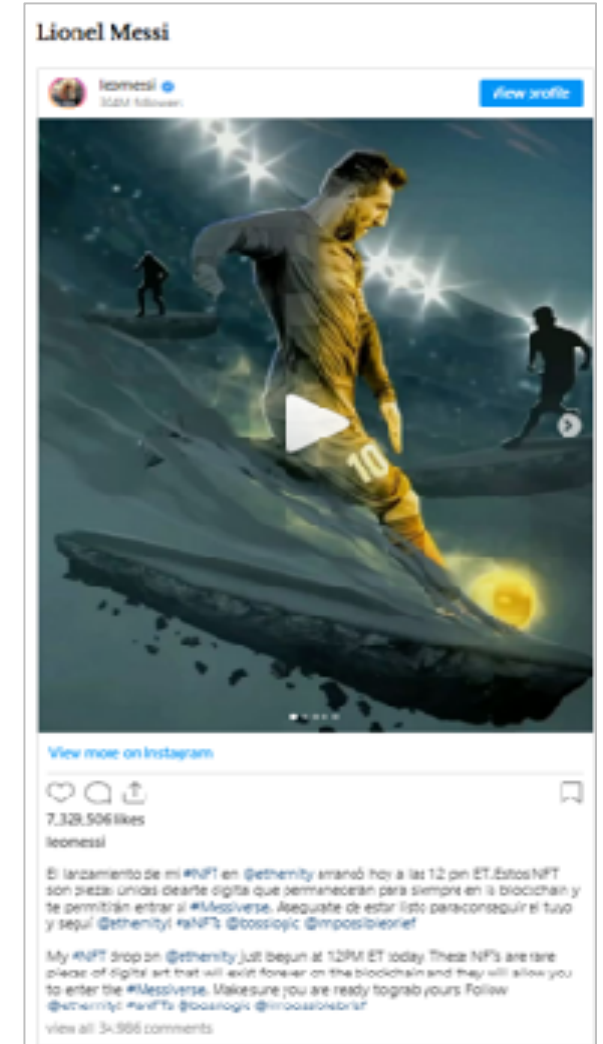
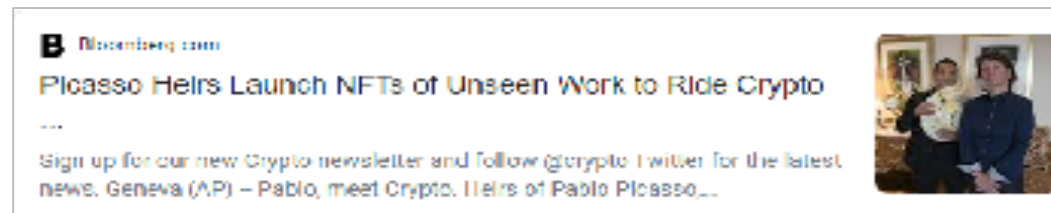
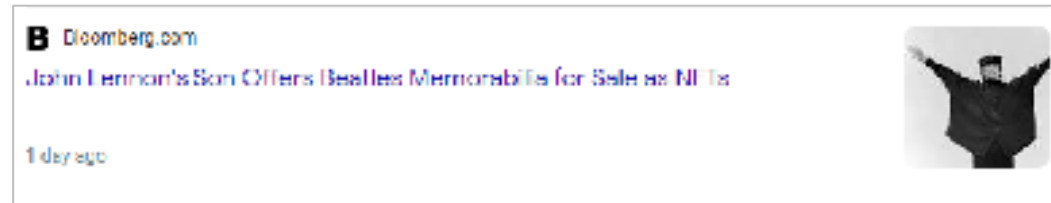
Accolades

Perennial winners of *Pensions & Investments'* "Best Places to Work" and recognized by *Barron's*, *Financial Times*, and *Atlanta Business Chronicle*

Today's Dispatch from Metaverse: NFTs

THE MOST INTERESTING AREA OF COLLECTABLE AND POTENTIALLY INVESTMENTS

- Most view this as an extension of crypto
- Let's view it today as part of other important phenomena beyond crypto



Lionel Messi released his own NFT collection, the most expensive of which is now worth more than \$9MM in the secondary market #messiverse

NFTs...What's That?

- In essence, NFTs are collectible digital assets, which hold value as a form of cryptocurrency
- Unlike standard coins (Bitcoin, Ethereum), they are one of one and can't be exchanged like-for-like
- The most expensive NFTs ever sold were made by Beeple; but there are some emerging "types"



Everydays: The First 5000 Days by Beeple - \$69MM



Crossroads by Beeple (Feb. 2021) - \$6.6MM



Ocean Front by Beeple (March 2021) - \$6MM

Types of NFTs



PFP

Proof of Picture, or Profile Picture: Virtual Profiles and limited sets. Original and core NFTs

Art Blocks

Blocks is a **platform focused on genuinely programmable on demand generative content** that is stored immutably on the Ethereum Blockchain. A randomly generated version of the content is created by an algorithm and sent to your Ethereum account.

Moments

Often athletic moments or performance art. Top Shot rules the roost with licensed digital moments, but other performances can be captured. These are **not** copyrights, but they are the first time that can be captured, collected, and traded.

Virtual Worlds

Perhaps the most revolutionary and the beginnings of the metaverse, the ability to have and transfer digital assets in games/worlds. The cheapest Infinity monster today is \$200, the most expensive is \$130,000. This genie likely won't go back in the bottle.

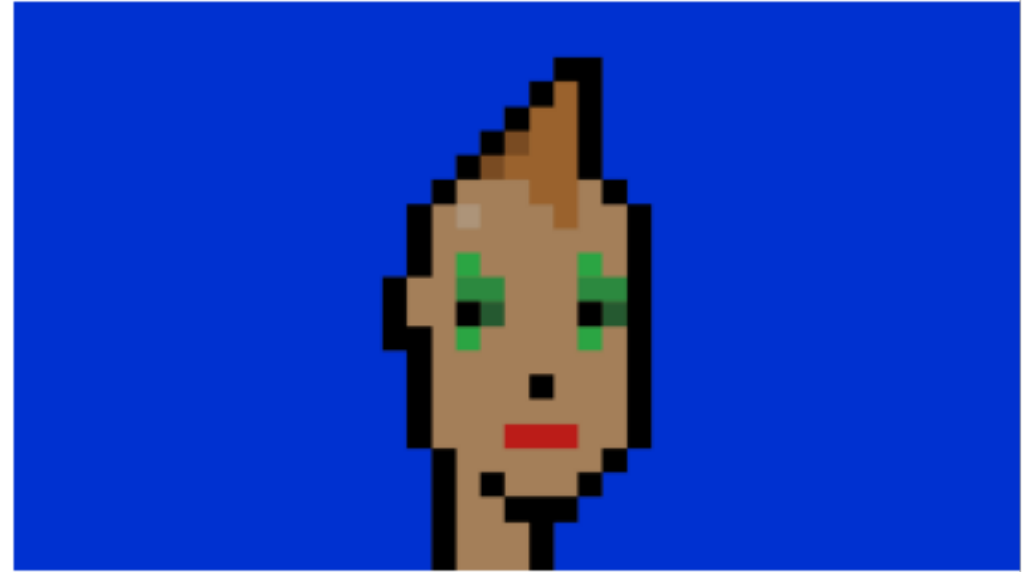
Memes/Moments

Side eyed girl, Doge dog, cat with a rainbow fart propulsion, popular memes that make up an important part of the headlines on NFTs.

The Punk that Changed the World

CRYPTOPUNKS:

- On Monday, August 23 Visa purchased Cryptopunk #7610 for \$150,000
- Cryptopunks are 10,000 uniquely generated characters stored on the Ethereum blockchain
- Over the last four weeks, there have been \$568MM “punks” bought and sold
- The lowest “punk” price is currently \$380,000 as of October 19, 2021 (or about 10% higher than last month
- NB: Punks (denominated in ETH did not really correct in this recent bought of volatility)



Larva Labs, CryptoPunk #7610 (2017). Courtesy of Visa, via Twitter.

FRESH

Visa jumps into the NFT craze, buying a 'CryptoPunk' for \$150,000

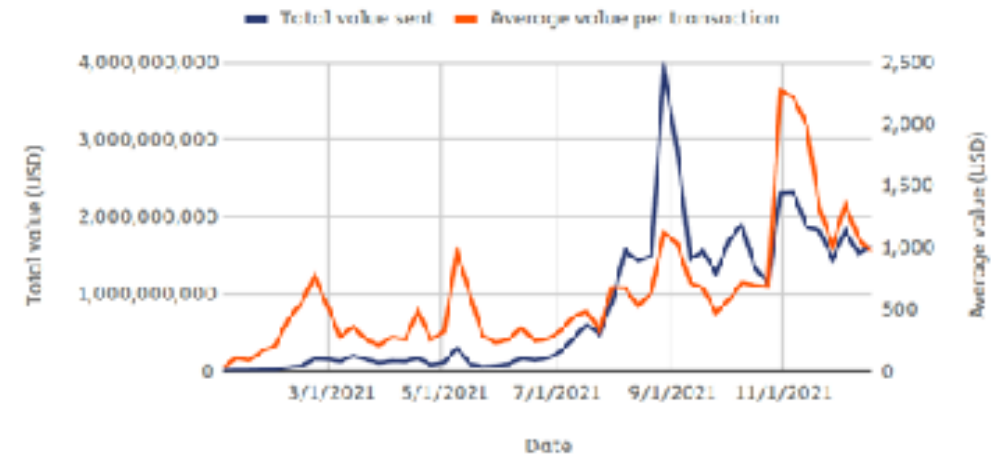
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Market Size

LARGE AND RAPIDLY GROWING

- There were \$44.2BN in cryptocurrency sent to ERC-721 and ERC-1155 contracts, the two smart contracts associated with NFT marketplaces
- The number of active NFT collections on OpenSea went from 193 (at the beginning of March 2021) to 3,264 at the end of 2021 – a 16.9x increase
- Large spike in total volume the last week in August was driven by the release of a new Bored Ape Yacht Club collection (also the time that Visa bought its Punk)

Weekly total cryptocurrency value and average value per transaction sent to NFT platforms | 2021



Weekly number of active NFT collections on OpenSea | 2021

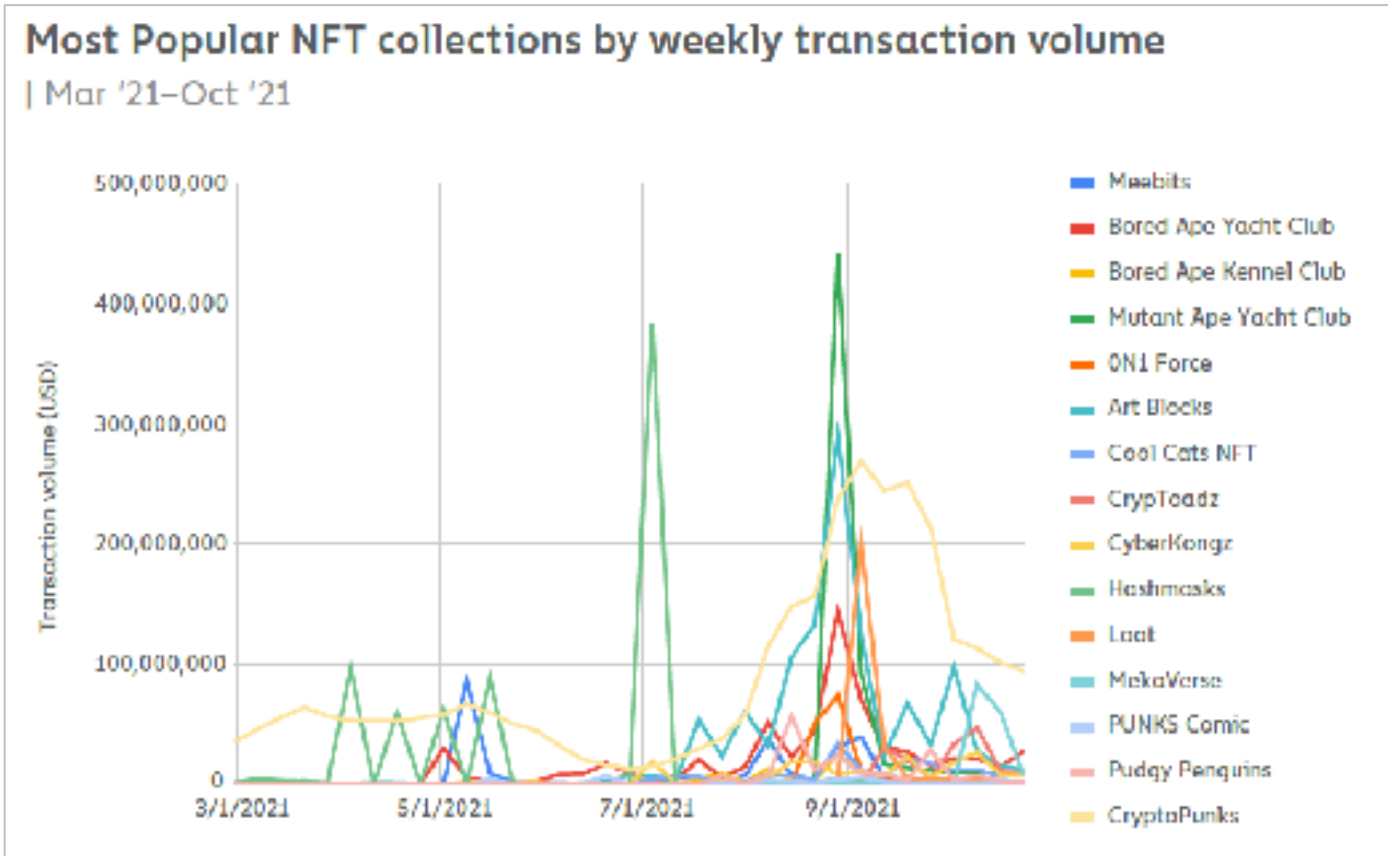


Major NFT Collections

⚡ NFT Collection Rankings by Sales Volume (All-time) 📊

Collection	Sales	Buyers	Items	Owners
1 Meebits	\$4,040,502,246	6,252	19,020	5,726
2 Axie Infinity	\$3,915,007,196	1,516,254	13,315,335	2,979,128
3 Terraforms	\$2,487,108,608	2,401	8,587	2,306
4 CryptoPunks	\$1,950,091,366	5,100	19,889	3,466
5 Bored Ape Yacht Club	\$1,174,707,514	9,146	24,033	6,207
6 Art Blocks	\$1,165,799,669	25,046	136,503	29,142
7 LOOT	\$1,006,356,890	3,935	11,473	2,579
8 NBA Top Shot	\$676,604,267	403,750	15,213,275	640,894
9 Mutant Ape Yacht Club	\$757,307,041	14,067	24,385	11,622
10 The Sandbox	\$350,107,567	20,032	45,071	18,880
11 Clonex	\$264,615,453	5,160	9,191	
12 Cool Cats	\$249,530,103	8,820	24,689	5,153
13 Doodles	\$245,813,179	9,501	18,124	5,878
14 Parallel Alpha	\$206,328,849	15,922	83,170	
15 Cryptoadz	\$199,568,283	7,271	17,110	3,806
16 Sorare	\$197,279,362	59,119	1,131,327	83,552

Source: Cryptoslam

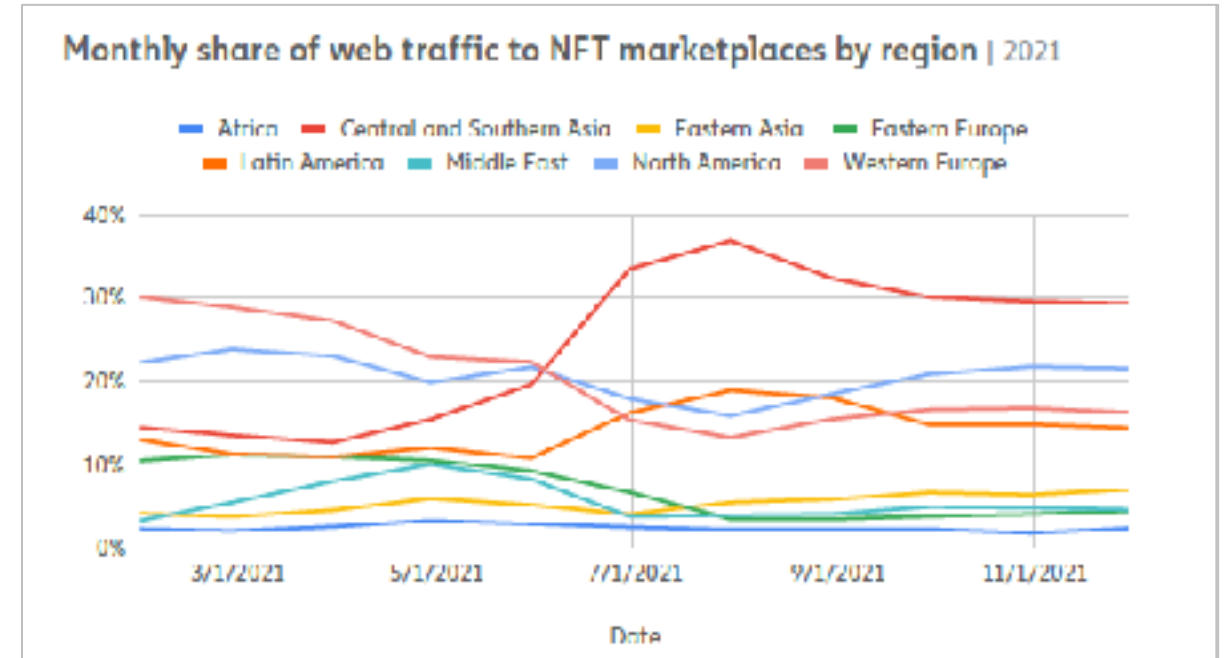


Source: Chainalysis, OpenSea

Where are they?

THE NFT MARKET IS GLOBAL

- No region made up more than 40% of total monthly web visits
- Central and Southeast Asia are currently the most active region with ~30% of global NFT web traffic
- Like traditional cryptocurrencies, NFT activity is diversified across the globe

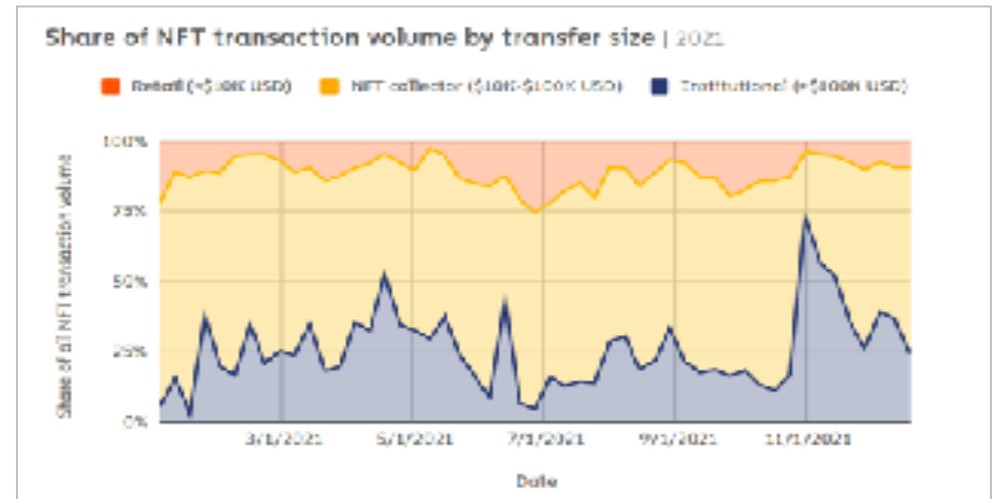
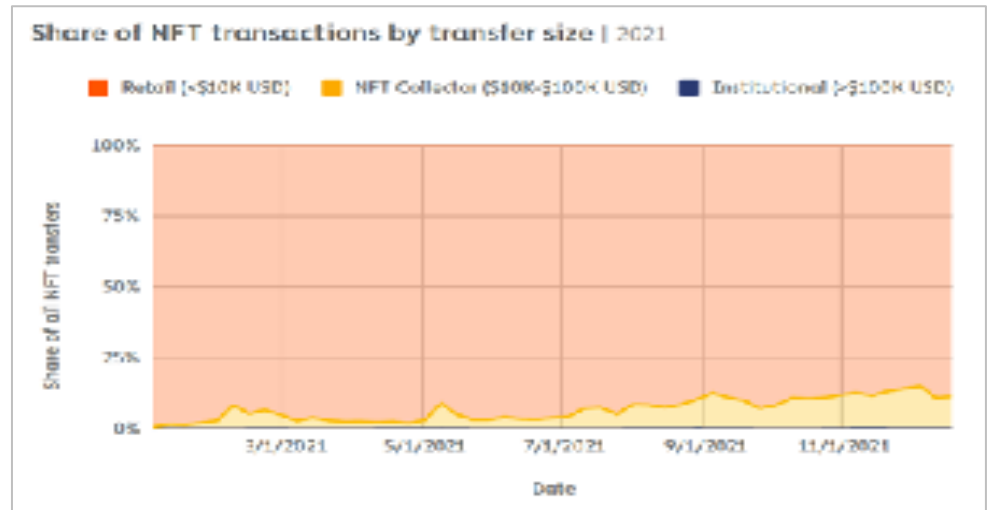


Source: Chainalysis 2021 NFT Market Report, OpenSea

Who Dominates the Market?

BELIEVE THE NEWS: SMALL OR WHALE PARTICIPANTS?

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Are NFTs Assets?

ARGUMENTS FOR:

- Viewed as a store of value
- Recognized across locations as a store of value
- Portability of NFTs across platforms increases their use case
- Subject to asset signals the same as any asset
- Can see traditional asset signals (i.e. announcement effect, news catalyst, market momentum, etc.)

ARGUMENTS AGAINST:

- No cash flow
- No intrinsic value/use (these are modern tulip bulbs!)
- No artistic merit (my kid could do that!)



Are NFTs Investible?

- **Still too speculative to be able to have real price forecasts; remain a speculative and hobby area of the market (for now)**
- **Some clear strategies for success appear to be emerging:**
 - Mintings/drops are not that good a time to buy (most up by at an NFTs IPO do poorly)
 - Whitelists have strong results (think pre-IPO)
 - Secondary trades do better than mintings and worse than whitelist (likely due to momentum)
 - Extraordinary gas fee (transaction costs) make this data very noisy and hard to parse currently

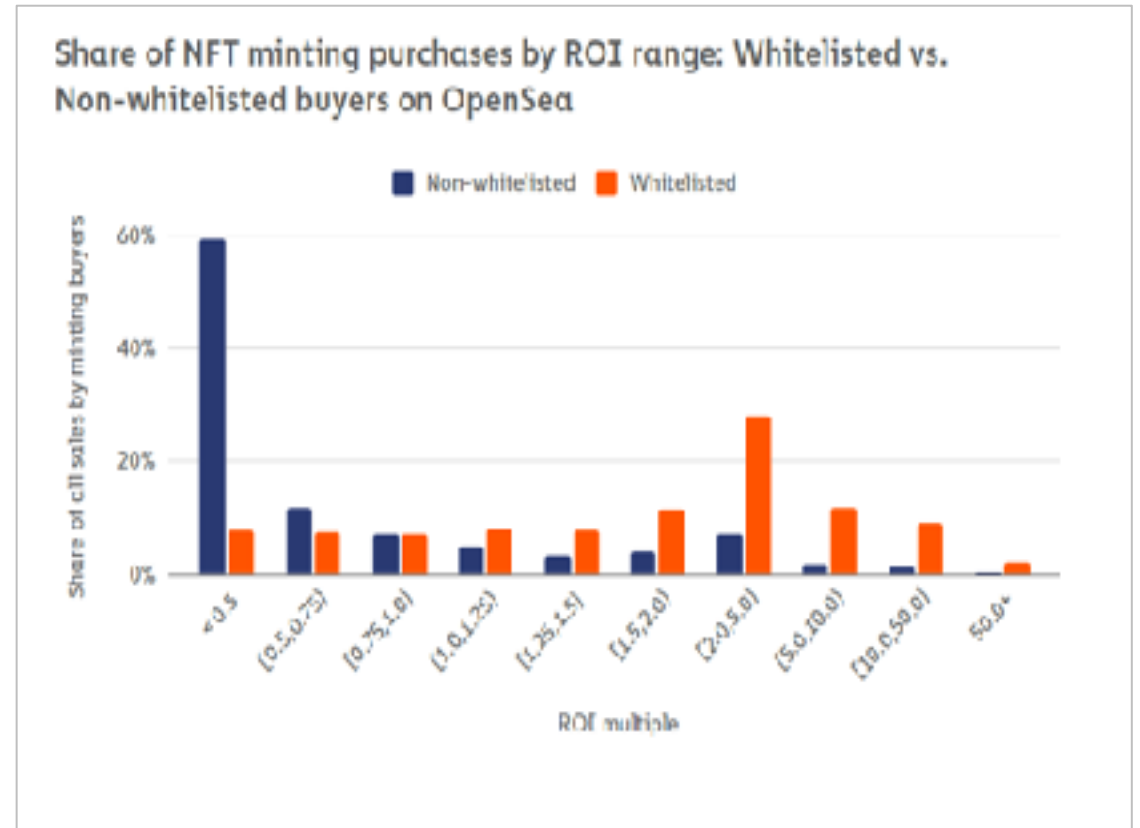
The most successful NFT flippers invest in diverse collections and generally more expensive NFTS



Investing in “New” NFTs

FOR NEWLY MINTED NFTs:

- Since NFT project growth is driven by the strength of the community and word of mouth, successful projects will cultivate followers on Discord and Twitter before minting new projects
- NFT creators will reward loyal followers by whitelisting them or allowing them to purchase NFTs at discounted prices during minting
- Whitelisted investors have recorded a profit 75.7% of the time when they've sold vs. 20.8% for non-whitelisted users.
- 59% of non-whitelisted sales result in losses greater than 50% of initial investment.

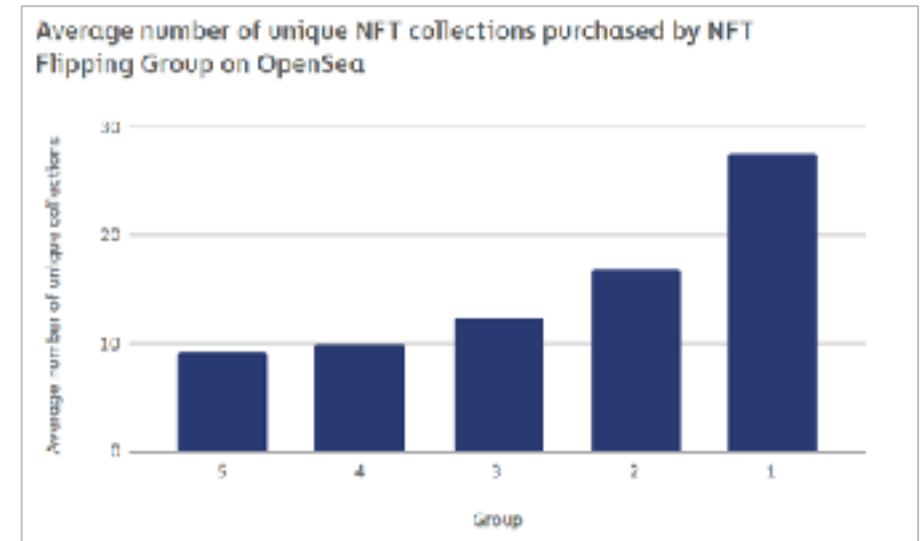
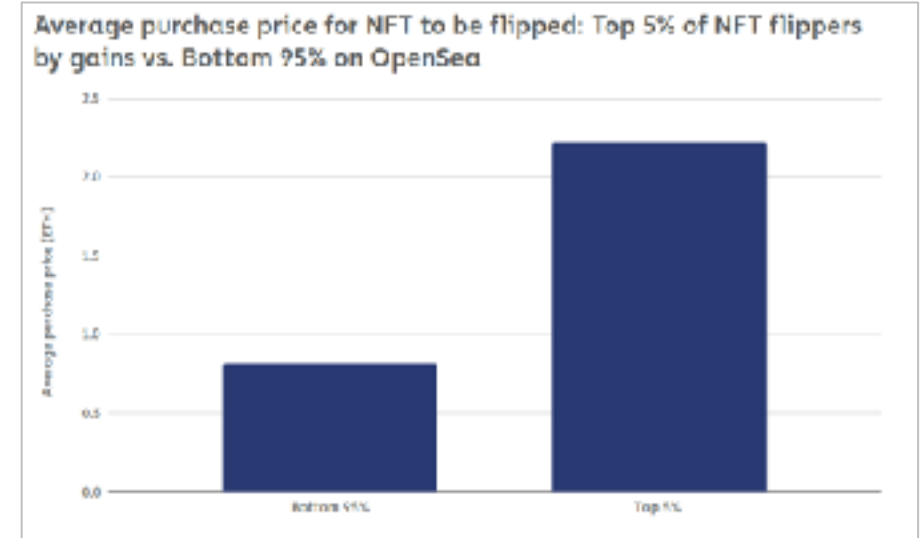


Source: Chainalysis 2021 NFT Market Report, OpenSea

Investing in Repeat Sales

REPEAT SALES / FLIPPING NFTs

- Flipping NFTs has a significant higher success rate than reselling NFTs purchased during minting – flippers on OpenSea made a profit on 65.1% of transactions
- The top 5% of NFT flippers on average buy more expensive NFTs than the bottom 95% of flippers
 - The top 5% average purchase is 2.2 ETH vs less than 1.0 ETH for bottom 95%
- The top quintile of NFT flippers have more diversified collections than the bottom quartiles

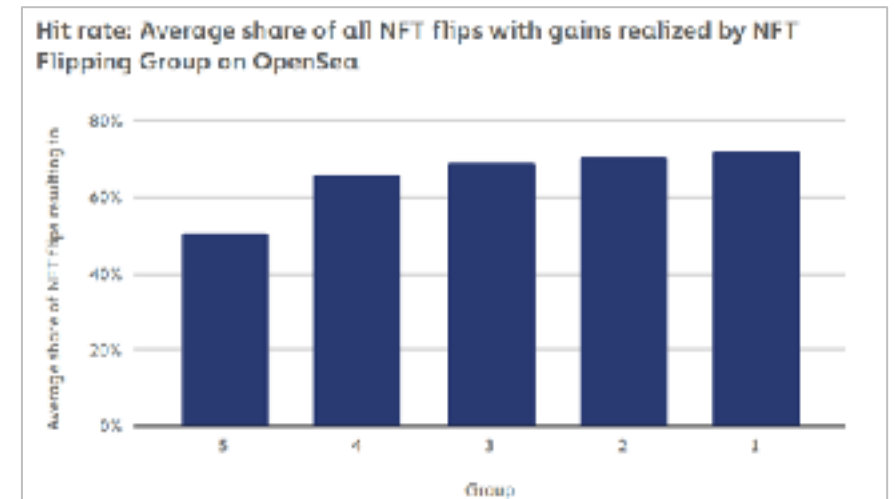
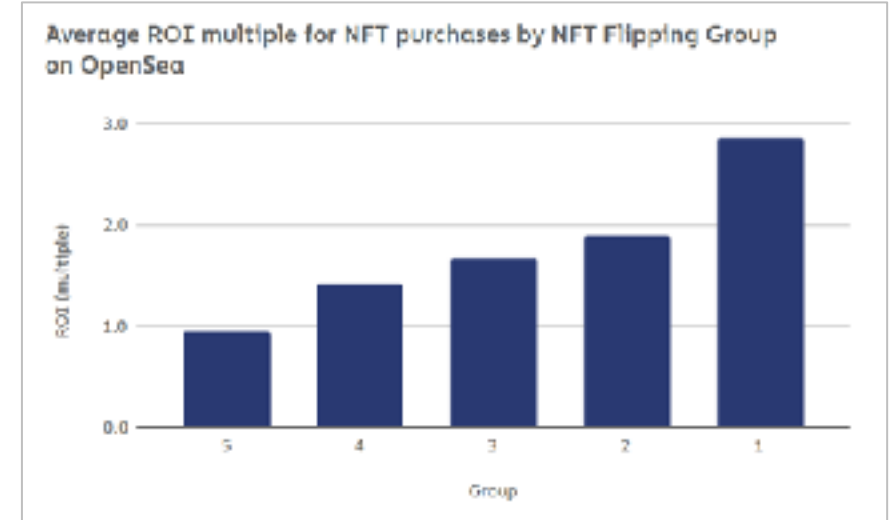


Source: Chainalysis 2021 NFT Market Report, OpenSea

Investing in Repeat Sales – Cont.

REPEAT SALES / FLIPPING NFTs

- The top quartile of NFT flippers on OpenSea have generated a 2.9x ROI on their trades
- This data excludes NFTs which were purchased, but not sold again
- Real returns by quartile are significantly weaker when factoring in NFTs which aren't resold
- While each quartile has a greater than 50% hit rate (profitable resells) these numbers do not include the significant number of NFTs which never see the market again.



Source: Chainalysis 2021 NFT Market Report, OpenSea

So What?



NFTs will be very volatile as a new form of trading and collecting emerges and the market searches for a true price



Like with fine art, humans want to collect, express prestige, and engage with art/images/moments. NFTs do this and should be seen as a part of the art market enabled by blockchains (rather than simply a new type of crypto)



There is wisdom in the price today; this is real. The market is changing fast: digital assets issued with physical assets (fashion brands); smart contracts; experiences (BAYC) and membership-think metaverse



Some NFTs will be very valuable over time

Appendix

Virtual land and spaceships: NFTs and the new crypto frontier

A new twist on the American dream is taking root in virtual worlds, where investors buy parcels of land and strong communities boost desirability.



APPENDIX ONE

Fractionalization

And the rise of Masterworks and Fractional.art

Masterworks changes 1.5% of assets annually plus 20% of profits, payable when the art is sold. Those changes come on top of the initial 10% premium payable to Masterworks.

The timing of any art sale is entirely at Masterworks' own discretion

By the numbers: average investor puts about \$30,000 into Masterworks. Out of 150,000, very few are art world people.



Market

Masterworks, a Company Offering Fractional Shares of Major Artworks, Is Now Valued at Over \$1 Billion

The company, which now counts top collector Glenn Furber among its investors, is officially the first art-startup unicorn.

Taylor Datto, October 6, 2021

MASTERWORKS



APPENDIX TWO

What I'm Buying



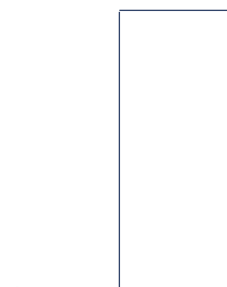
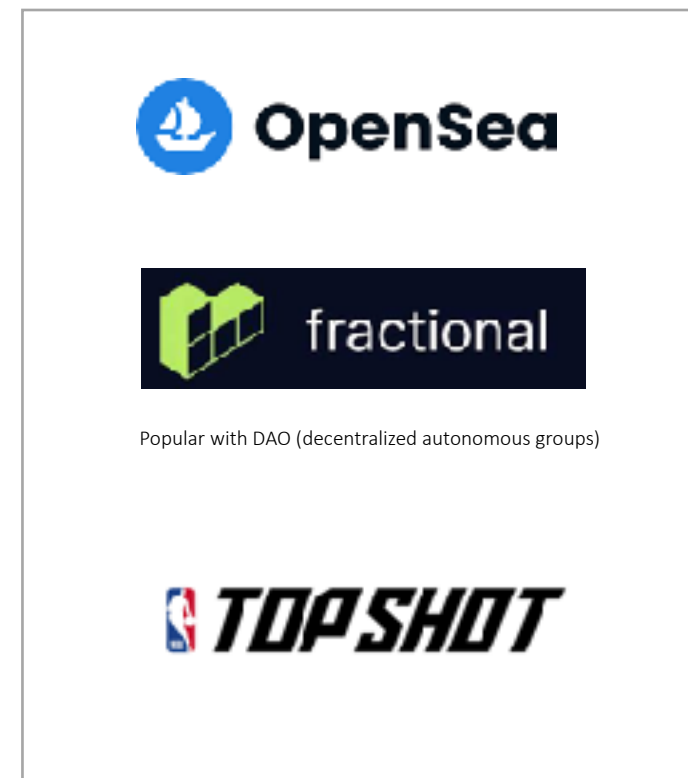
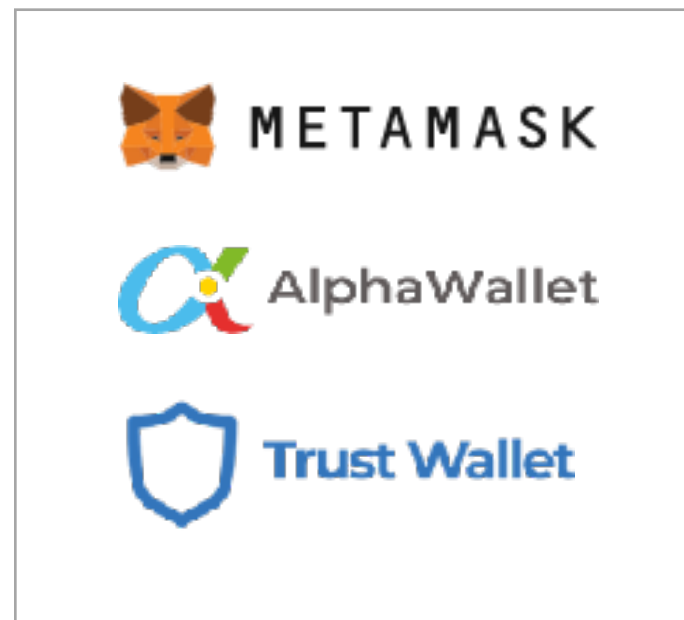
APPENDIX THREE

How the Market Works

Collector

Enthusiast

Speculator



APPENDIX FOUR

ConstitutionDAO Case Study

- In November 2021, a group called ConstitutionDAO raised \$47MM to attempt to purchase a copy of the Constitution being auctioned by Sothebys
- The group raised this money by issuing digital tokens called \$PEOPLE on blockchain
- Each token represented a vote for where the copy would be held if they won the auction
- While ConstitutionDAO was ultimately outbid by Ken Griffin, the effort showed the ability to successfully raise funds by issuing decentralized ownership units on the blockchain
- PleasrDAO, an earlier DAO, successfully acquired the \$4MM, one-of-a-kind Wu-Tang Clan Album Once Upon a Time in Shaolin



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