

# MORGAN CREEK

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# D I G I T A L

ALTERNATIVE THINKING ABOUT INVESTMENTS

*Welcome to Morgan Creek Digital's weekly digital asset update. It is comprised of a thought piece from our team followed by a summary of what we consider the most compelling digital asset news during the last week. We hope you find this content interesting. Please let us know if you have any comments or questions or if you would like to speak to a member of the [Morgan Creek Digital team](#).*



## **The Metaverse: A Successor to The Internet?**

Earlier this week Facebook CEO, Mark Zuckerberg announced that the Facebook brand as we know it will experience an overhaul to capture the transition from a social media company to a metaverse company.<sup>1</sup> The rebranding may come as a surprise to some. Still, Zuckerberg has been quite adamant in his vision to build the “metaverse” with the support of 10,000 European Union-based employees developing consumer hardware like augmented reality (AR) and virtual reality (VR) headsets, as well as other wearable devices.<sup>2</sup> One could argue that Facebook’s core value offering is connecting people online, whether it’s through virtual and augmented reality or social networking groups and the Facebook marketplace. Therefore, the metaverse is simply an extension of its core business to connect people more meaningfully, thereby a natural progression.

Facebook’s interest in the virtual realm has a long history dating back to 2014 when it bought Oculus, a virtual reality gaming startup, for \$2 billion.<sup>3</sup> The intention behind the acquisition was to create a more social and interactive platform that would change the way users perform tasks, play, and communicate. Furthermore, Facebook’s continued investment in the larger VR/AR universe could offer a more advanced virtual digital economy that does not rely on permissions from competitors such as

## **What is the Metaverse, and How Does It Work?**

At this point, you likely have more questions than answers so let's back up and attempt to describe the elusive term "metaverse."

To many, the metaverse sounds like science-fiction or an imaginative world where people immerse themselves in dazzling virtual reality fantasies. Others firmly believe that the metaverse is only in its infancy, and the current VR and AR technologies offer merely a glimpse of a new age internet. Today's hardware could be analogous to the first iteration of the cellphone in the 1980s, the bulky handheld but hardly "mobile" cellular devices. In other words, the metaverse is much larger than the current clunky headsets that offer siloed experiences of an altered reality. In the future, users may partake in cross-interactive experiences with people and objects through a shared collection of technologies including backend software and experiential frontend hardware such as VR headwear, wristbands, and other motion-sensing devices that serve as the gateway into artificial and communal cyberspaces.<sup>4</sup> Within this community, avatars would act as the 3D physical manifestation of users, allowing for various interactions, like social networking, organizing and attending events, competing in games, and exchanging goods and services.

## **The Current Ecosystem**

Social media companies would seem to benefit from a digital ecosystem that incentivizes users to forgo in-person interactions with virtual and life-like digital experiences. Users would also likely be attracted to new digital affirmations and rewards more robust than the "likes" and "shares" found in today's social media platforms. In addition, avatars might enable users to customize their digital appearance rather than relying on less sophisticated editing tools to create their outward-facing social profile.

Perhaps the leading visionaries and adopters of the metaverse are gaming platforms and their growing ecosystem of players. Gaming platforms, such as Epic Games' Fortnite, might reach critical mass by relying on its large existing and loyal community. For example, Fortnite regularly hosts virtual concerts with musicians in which millions of gamers join a digital concert ecosystem, like Ariana Grande's virtual performance back in September.<sup>5</sup> The digital concerts and events could be viewed as proof of concept, as Fortnite has released simulation software and VR services for its metaverse and raised a \$1 billion funding round to support its ambitions.<sup>6</sup> Furthermore, Epic Games is working closely with console manufacturers and developers to integrate the next-gen "unreal engine 4," a real-time 3D creation tool for achieving photorealism.<sup>7</sup> We believe the advanced visuals will elevate the virtual world as the graphics become even better. Similar to Fortnite, Roblox, the wildly popular children's gaming platform that hosts 43 million daily active users, plans to host the world's largest dance music festival within its virtual community.<sup>8</sup> With its massive fan base fully immersed within its virtual ecosystem, it is not hard to imagine why it also has ambitions to build out the metaverse.

## **Conclusion**

We believe the development of the metaverse is a vision that would require adoption, standardization, and collaboration among major technology firms. Other challenges include the affordability of VR and AR hardware and overall access to said technology.

However, the infrastructure layer of the metaverse is expected to increase drastically with the implementation of 5G networks. The high-speed internet and succeeding advanced networks will support greater computational performance and functionality. We believe this macro trend will enable the miniaturization of technology necessary to advance futuristic smart glasses, 3D wearables, and biosensors that bring consumers closer to the virtual world.<sup>9</sup> The excitement surrounding the metaverse is currently high, but it seems that the promises of a virtual world enter a new hype cycle every few years. We believe the digital transformation of the metaverse is linked to the acceleration of the virtual economy, in which the COVID 19 pandemic served as a catalyst. Throughout the pandemic, technology companies and users have been forced to respond to exacting realities and adopt new virtual ways of connecting and transacting value. Regardless of how long the metaverse takes to come to fruition, companies are racing to claim their stake in the new and exciting realm.

## **THE RUNDOWN:**

### **US Treasury Department Says Cryptocurrencies Could Undermine Sanctions:**

The U.S. Treasury Department said on Monday in a report that cryptocurrencies could undermine the effectiveness of U.S. sanctions. The report, which followed a six-month review of U.S. sanctions against countries with whom it is at odds or suspects of being behind the illegal activity, noted that "digital currencies, alternative payment platforms, and new ways of hiding cross-border transactions all potentially reduce the efficacy of American sanctions." [Read more.](#)

**Australia Has Third Highest Rate of Crypto Adoption in the World:** Australia is more bullish on cryptocurrencies than most other countries around the world, according to a survey published by comparison site Finder on Sunday. Based on the site's Cryptocurrency Adoption Index, the survey measures the growth of crypto globally through a regular survey of over 41,600 individuals across 22 countries. Finder's survey found Australia has the third-highest rate of crypto ownership at 17.8%, beating out countries such as Indonesia (16.7%) and the city of Hong Kong, a special administrative region of China (15.8%). [Read more.](#)

### **DraftKings Steps Further Into Crypto With Plans to Become Polygon Validator:**

DraftKings tapped Polygon for its marquee non-fungible token release with Tom Brady's Autograph back in August. Now the sports betting giant is going all-in on the Ethereum layer-2 solution with a partnership that could make it one of the blockchain's largest governors. [Read more.](#)

**Invesco Drops Efforts to Launch Bitcoin Futures ETF:** Would-be bitcoin exchange-traded fund (ETF) issuer Invesco is pulling out of the race to issue a bitcoin futures product. The company said Monday that it would no longer attempt to launch an ETF linked to bitcoin futures, a day before a competing product by fellow issuer ProShares begins trading. [Read more.](#)

**Former SEC Official Expects More Bitcoin ETF Approvals:** Lisa Bragança, a former U.S. Securities and Exchange Commission branch chief, said in an interview that she expects the SEC will approve more exchange-traded funds. "I'm expecting that the [SEC] will allow additional ETFs to get registered because they don't want just one; they want customers to have lots of choices," Bragança said. [Read more.](#)

<sup>1</sup> <https://www.theverge.com/2021/10/19/22735612/facebook-change-company-name-metaverse>

<sup>2</sup> <https://www.forbes.com/sites/jackkelly/2021/10/18/to-build-the-metaverse-facebook-plans-to-hire-10000-tech-workers-in-europe-and-bypass-american-talent/>

<sup>3</sup> <https://about.fb.com/news/2014/03/facebook-to-acquire-oculus/>

<sup>4</sup> <https://www.reuters.com/technology/what-is-metaverse-2021-10-18/>

<sup>5</sup> <https://www.washingtonpost.com/video-games/2021/09/28/epic-fortnite-metaverse-facebook/>

<sup>6</sup> <https://www.epicgames.com/site/en-US/news/announcing-a-1-billion-funding-round-to-support-epics-long-term-vision-for-the-metaverse>

<sup>7</sup> <https://www.unrealengine.com/en-US/>

<sup>8</sup> <https://venturebeat.com/2021/10/20/roblox-unveils-electronic-music-festival-in-the-metaverse/>

<sup>9</sup> <https://medium.com/building-the-metaverse/the-metaverse-value-chain-afcf9e09e3a7>

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