

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](#).

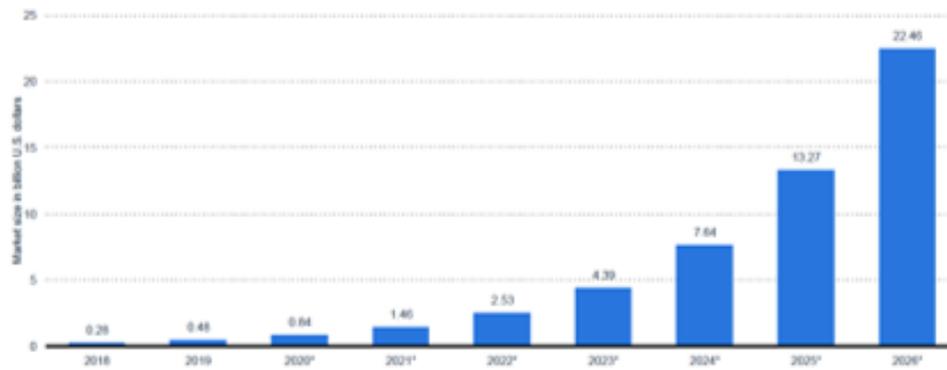
Blockchain: “DeFi-ing” Industry Legacy Systems

We believe that continued adoption of blockchain is inevitable and imminent, disrupting a wide array of industry sectors while introducing greater transparency and efficiency. What began as the foundation of digital currencies is now a widely accepted ledger used for recording and verifying a high volume of transactions across diverse use cases. As of 2020, banking and financial services were estimated to make up nearly a third of the entire blockchain market value.¹ Other industries lagged, such as manufacturing, healthcare, agriculture, retail. We believe many more industries are poised for blockchain-related growth.

Financial Services

Global blockchain banking and financial services are projected to reach nearly \$23 billion by 2026, comprised of banks, insurance companies, securities companies, payment systems, and fintech service providers.² We believe that blockchain has the momentum needed to disrupt the banking industry further and potentially revolutionize critical services, from payments to clearance and settlement systems. In September 2020, the IDC projected that blockchain technology market use cases will primarily be comprised of cross-border payments and settlements, transactions and post-transaction settlements, and assets and goods management.³ Digitized, secure, and immutable ledgers could improve accuracy and information sharing within the financial services realm. Industry application examples include Visa partnering with Crypto.com to pilot USDC settlements and transactions earlier this year. Moreover, JPMorgan Chase is leveraging blockchain technology with the roll-out of the JPM Coin, which may facilitate institutional transactions, many of which are cross-border. The synergies between blockchain and financial services and global institutional investments in blockchain solutions are expected to grow.

Blockchain use in banking and financial services market size 2019



We believe that the security and efficiency of blockchain technology eliminates the need for third-party verification and outperforms the processing times for traditional bank transfers. Other applications may include overhauling legacy systems used by conventional lenders, which underwrite loans using centralized credit agencies - Experian, TransUnion, and Equifax. Alternative lending using blockchain rails may offer a cheaper, more efficient, and verifiable way of making personal loans to a broader pool of clients. Additionally, the insurance industry is exploring blockchain integration for transactions.

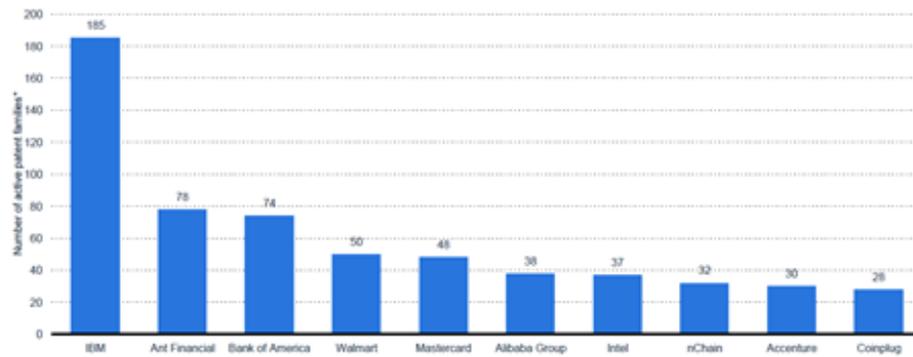
Other Industry Applications

Blockchain can also solve inefficiencies in industries outside the financial ecosystem. Healthcare institutions, for example, tend to suffer from an inability to share data across platforms securely. Government administrations seek better alternatives to validate elections, authenticate voters' identities, record votes, and legitimize their regimes. Retail conglomerates, such as Walmart, Amazon, and Alibaba, have been exploring blockchain technology to connect buyers and sellers better as well as to validate exchanges through their respective marketplaces, evident by leading investments in blockchain invention patents⁴ (See *Figure 2*). At the same time, new entrants are looking to eliminate the need for centralized or middleman marketplaces to facilitate transactions. In addition, the Food & Agriculture industry can potentially use blockchain to remove a critical pain point of managing complex supply chains and increase their line of sight in tracing and identifying root causes of food-borne illnesses or contaminants. Energy consortiums are working together to trace carbon emissions transparently and accurately and explore the digitization of carbon credits.

The integration of blockchain reaches far and wide, and we have barely scratched the surface. To date, the most significant barriers to institutional blockchain investments are implementation and replacing of legacy systems, concerns over sensitivity of competitive information, potential security threats, lack of regulatory clarity, and challenges in forming consortiums.⁵ Nevertheless, we believe adoption is growing at a sustainable pace.

Figure 2: Blockchain Active Patent Owners in the United States as of 2019, sourced by Statista

Companies with the most blockchain patents in the United States 2019



What this means for Investors

Private Equity and Venture Capital funding in blockchain startup companies is expected to exceed \$14.5 billion globally by the year-end of 2021.⁶ At Morgan Creek Digital, we invest in blockchain companies capitalizing on the significant technical advancements that, we believe, will ultimately make value transfers faster and cheaper, such as our existing portfolio investment in Figure Technologies (Figure). Figure is a financial technology company with a mission to leverage blockchain, artificial intelligence, and advanced analytics to unlock new access points for consumer and institutional clients. It has developed numerous related products, including payment rails, as well as a primary and secondary marketplace. Figure's blockchain protocol for DeFi and smart contracts provide innovative rails for origination, custody, trading, and securitization of whole loans and other assets. Figure Pay, for example, is a blockchain-backed, mobile-first banking, lending, and payment platform. Merchants can digitally transact with counterparties directly with a "Bank in a box API" while potentially reducing fraud and capital expenditure. It effectively replaces the interchange, wire, or ACH rails with blockchain rails. In addition, Figure offers a decentralized marketplace platform with bilateral blockchain infrastructure, allowing accredited retail investors to access SPVs, funds, and alternative investment strategies while experiencing real-time and secondary market liquidity. We are closely monitoring the blockchain financial markets and new and exciting blockchain applications.

THE RUNDOWN:

Blockchain IoT Market to Be Worth \$5.8B by 2026: The global blockchain internet-of-things (IoT) market will be worth \$5.8 billion by 2026, according to a new study. The study by Research Dive projects a compound annual growth rate of 91.5% from 2018, when the market was valued at \$32 million. The ability of smart devices that communicate over the internet to improve supply-chain efficiencies by using blockchains and removing intermediaries will allow transactions to be completed quicker and for a lower price, Research Dive concluded. [Read more.](#)

US Regulators Looking to Get a Handle on Stablecoins, NY Times Says: Saying the rush to bring stablecoins under regulatory control might be "the most important conversation in Washington financial circles this year," the New York Times published an explainer article on the type of cryptocurrency and laid out what the author (and perhaps her sources) sees as the top options at regulators' disposal. [Read more.](#)

Biden Administration Plans Cryptocurrency Sanctions to Combat Ransomware:

The U.S. government plans to issue guidance and impose sanctions in an ongoing effort to tamp down on ransomware attacks. The Wall Street Journal reported Friday that the Joe Biden administration is planning an array of actions to mitigate ransomware attacks, with a focus on payments. The Treasury Department will announce these actions next week, CoinDesk confirmed. [Read more.](#)

Bakkt to Go Public Next Month After SEC Okays SPAC Plans: Bakkt Holdings and VPC Impact Acquisition Holdings have received approval from the Securities and Exchange Commission to complete their merger and push forward with plans to operate as a single publicly traded entity, the companies said in an announcement Friday. VIH shareholders will meet on Oct. 14 to approve the merger, the companies said. Cryptocurrency exchange Bakkt, which is majority-owned by Intercontinental Exchange, has been planning to go public via the merger with VIH, a special purpose acquisition company. [Read more.](#)

Christie's to Sell Some of the Earliest NFTs – And Only for ETH: Christie's is listing a set of 31 Curio Cards and several other prominent non-fungible token (NFT) projects in a live auction on Oct. 1, furthering its foray into digital art sales. The 254-year-old auction house made history in March when it auctioned a Beeple NFT for \$69 million. Christie's Asia branch is now taking bids for several rare CryptoPunks and Bored Ape NFTs as recent buyer appetite for NFTs approaches manic levels. [Read more.](#)

¹ <https://www.idc.com/getdoc.jsp?containerId=prUS46850820>

² <https://mindsmith.io/en/blockchain-finance/>

³ <https://www.idc.com/getdoc.jsp?containerId=prUS46850820>

⁴ <https://www.patentsight.com/en/>

⁵ https://www2.deloitte.com/content/dam/insights/us/articles/6608_2020-global-blockchain-survey/DI_CIR%202020%20global%20blockchain%20survey.pdf

⁶ <https://www.bloomberg.com/news/articles/2021-04-01/crypto-firms-got-more-funding-last-quarter-than-in-all-of-2020>

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