

# 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](#).

### Morgan Creek Digital Thought-Leadership

We are pleased to announce that the Morgan Creek Digital team has launched *Digital Currents*, a podcast series that brings listeners engaging content from the venture capital industry, emphasizing blockchain, artificial intelligence, and big data. In each episode, Morgan Creek Digital General Partners and co-hosts Mark Yusko, Xavier Segura, and Sachin Jaitly explore areas of the digital ecosystem accompanied by guests from Morgan Creek's global network. You can expect engaging interviews and insight regarding thought-provoking topics.

Going forward, we intend for our newsletters to be bi-weekly, and we will review key takeaways from the podcast episodes to further expand the discussion. In the inaugural *Digital Currents* episode, Mark, Xavier and Sachin welcome listeners and discuss their backgrounds and the launch of Morgan Creek Digital Fund III, LP. Additionally, Sachin and Xavier share their thoughts on blockchain technology. In this week's edition, join us for a unique, inside viewpoint from the chief investment officers of two pension funds as we learn the steps they took to invest in blockchain and "get off zero" with digital assets at the institutional level.

### **Digital Currents. Episode 2: How to Talk to Your Board About Crypto with Andrew Spellar & Katherine Molnar**

[Click Here to listen to the latest episode of Digital Currents](#)



# DIGITAL CURRENTS

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ALTERNATIVE THINKING ABOUT INVESTMENTS

In this episode, we are joined by CIO's Andrew Spellar and Katherine Molnar of the Fairfax County Retirement System. We discuss how to talk to your investment committee about investing in the digital asset space and the case for "getting off zero" with digital assets. Andrew Spellar is the CIO of the \$5.5 billion Fairfax County Employees' Retirement System, and Katherine Molnar is the CIO of the \$2.0 billion Fairfax Police Officers Retirement System. The Police Officers Retirement System was the top performing public pension fund for the year ending September 30th, and the Employees' Retirement System also finished in the top five. By building long-term relationships with their trustees, Andrew and Katherine have been able to refine their process and pursue unique strategies, resulting in their outperformance. We believe another key ingredient to their success: investing in innovation. Fairfax is an anchor investor in Morgan Creek Digital Fund III.

[Download the MP3 audio file:](#)

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## Show Notes:

**The Pillars to Outperformance: diversification, innovation, board governance, and education.**

**Diversification:** Fairfax runs a risk-parity-based strategy, as opposed to an asset-allocation approach. They use derivatives to gain exposure to Treasuries and commodities while also investing in private assets, hedge funds, and public securities. Fairfax's diversification reduces variance drag – they have lower downside risk, resulting in a higher cumulative return than funds with the same average annual return but higher volatility (which typically comes from equity markets). Furthermore, the focus on broad diversification has led them to invest in uncorrelated asset classes,

including exposure to real assets, such as real estate, commodities, and intellectual property.

**Innovation:** Fairfax's innovation investments are comprised of blockchain technology, artificial intelligence, life sciences, electric vehicles, and national security/cybersecurity. The team believes these sectors are on the cusp of growth, and capable of delivering returns that will not be available in public markets in the coming years, given recent valuation levels.

**Board Governance:** Fairfax has eight trustees for the Police Officers System. Of these, four are active-duty or retired police officers, one is the County Treasurer, and three are civilians appointed by the county. Most trustees are not investment professionals, so they rely on the staff to understand the managers' recommendations. They attribute their success to lower trustee turnover, which allows them to refine their process instead of constantly defending it.

**Education:** It has been about three and a half years since the Fairfax team started their journey towards investing in blockchain. At the time, people had little familiarity with the technology, and most of that familiarity was negative (hacked exchanges, etc.). As a result, they worked to educate themselves and their trustees. While the team recognizes that the space is speculative, as with any venture capital investment, they believe it is a high-growth area with sound fundamental reasons for investment. Katherine stated that Morgan Creek had been a good resource for building their understanding of the need to "get off zero". Other resources for education include reading or listening to podcasts.

## **Enjoy the Show, and Remember to Stay Current!**

## **THE RUNDOWN**

**The IRS Will Ask Every Taxpayer About Crypto Transactions This Tax Season :** The 2021 version of IRS Form 1040 asks if at any time during the year you received, sold, exchanged, or otherwise disposed of any financial interest in any virtual currency. [Read More.](#)

**Powell Says Fed Report on Crypto and Central Bank Digital Currency Is 'Ready to Go':** The Fed will soon release its insights on CBDCs and the crypto market, and will ask the public for input. The remarks came during Powell's re-nomination testimony on Tuesday in front of the Senate Banking Committee, in response to a question about the status of the report from Idaho Senator Mike Crapo. [Read More.](#)

**Payments Giant Block to Build Open-Source Bitcoin Mining System:** Block, formerly known as payments company Square, is going ahead with its plan to build an open-source bitcoin mining system, according to a Tweet from Thomas Templeton, Block's general manager for hardware. [Read More.](#)

**Swiss Central Bank Trials Wholesale CBDC with BIS and Commercial Lenders:** According to an announcement by the Bank for International Settlements (BIS) on Thursday, the successful trial was a major part of the second phase of Project Helvetia that aims to integrate tokenized financial assets with mainstream markets. [Read More.](#)

**USDF Consortium™ Launches to Enable Banks to Mint USDF Stablecoins :** The USDF Consortium™ (the Consortium), an association of FDIC-insured financial

institutions, launched today with a mission to build a network of banks to further the adoption and interoperability of a bank-minted stablecoin (USDF™), which will facilitate the compliant transfer of value on the blockchain, removing friction in the financial system and unlocking the financial opportunities that blockchain and digital transactions can provide to a greater network of users. [Read More.](#)

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