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What determines the value of an asset?

Value of an asset comes from (or combination of):

- **Rights** attached to the asset (Equity/Debt)
- **Utility** the asset provides (Commodities)
- **Belief/Perception** that there is value (Gold, Currency, Art, Collectibles)

Crypto assets as a whole accrue value across all of these categories

- Rights → cash flows/code through smart contracts
- Utility → e.g. smart blockchains like Ethereum
- (Perceived) Belief in the story they are valuable → Bitcoin

How do crypto assets accrue value?

Breakdown of crypto assets

1. Digital Gold
2. Commodity-like crypto assets
3. Equity-like crypto assets (backed by cash flows)
4. Debt-like crypto assets
5. Currency-like crypto assets

I Assets with a (perceived) belief story

Currency

- Currency is a story that people believe in
- No intrinsic value
- Until 1971 a paper representation of gold
- Most fiat currencies will disappear over time/go to zero

Gold

- Gold has value because it always has
- Used as a medium of exchange throughout history
- Gold is a story we believe in for thousands of years

Bitcoin

No rights attached, no intrinsic value and limited utility value; Bitcoin can only be send, received and stored

Oldest crypto asset and blockchain (2009) allowing peer-to-peer transfer of value over the internet

From an (cyberpunks/libertarian) experiment to emerging store of value

Combination of digital scarcity, network effect and relative valuation and belief give Bitcoin value

Bitcoin has unique properties and is an immensely powerful story

Bitcoin and Gold

Property	BTC	Gold
Portability	Able to be sent through a decentralised blockchain to any recipient in a matter of minutes	Portable but in certain sizes. Cannot be easily transferred long distances.
Scarcity	Finite supply of 21 million tokens.	Finite supply, however exact amounts are unknown.
Durability	Theoretically durable but has only been around for 13 years	Highly durable
Fungibility	100% fungible as one Bitcoin is verifiably the same as any other unit	Generally considered fungible as 1g of gold is worth the same as every other 1g of gold
Divisibility	1 Bitcoin can be divided into 100 million parts.	Divisible with smelting and proper equipment

II Crypto assets deriving value from utility (ETH)

Ethereum with ETH as the native token is the most well known Commodity-like crypto asset

- Developed in part due to some inflexibilities (scalability) of bitcoin’s blockchain
- Largest decentralized blockchain using Smart Contracts, automated programs that execute transactions without the need for an intermediary
- Largest ecosystem of Dapps across DeFi/NFT/Gaming etc. with own native tokens
- Ever expanding utility range which continues to drive demand

III Crypto assets with rights attached

Equity-like crypto assets

- Derive value from (cash flow) rights attached to it
- Rights automatically flow according to the code (smart contract)
- Many DeFi applications are equity-like crypto assets

Debt-like crypto assets

- Attract value through interest payments from borrowers
- aTokens, representing a deposit into the lending market (e.g. CD)
- Interest rate is algorithmically calculated and applied autonomously via smart contracts

Currency-like Crypto assets

Stablecoins

- Designed to be pegged to a fiat currency
- Stablecoins do not accrue value

Cryptocurrencies designed to function as medium of exchange

- E.g. Litecoin (LTC) and Bitcoin Cash (BCH)
- Designed with enough throughput (#transactions per second)

Conclusions

- Crypto assets are complex as we cannot touch or feel them
- Some crypto assets are equity-like, some are debt/commodity or currency-like
- Crypto assets accrue value in much the same way as traditional assets
- Value comes from **rights** attached, the **utility** they provide and/or the **belief** in the crypto asset
- Apollo’s investment activities are focused on commodity and equity-like crypto assets as the utility they provide is ground breaking

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