



## SPECIAL REPORT CRYPTOCURRENCY AND DIGITAL ASSETS

# Investors inching closer to joining the fray

Market infrastructure improvements drive cryptocurrency growth

By **BRIAN CROCE**

If digital assets were a dance floor, institutional investors have been mainly sipping punch on the gym bleachers for the last decade.

But now more institutional investors are putting on their dancing shoes and getting off the bleachers, or at least thinking about tying their laces, sources said.

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"We continue to see more demand, we continue to see diversification of demand across institutional client segments, which is also a healthy indicator of where the industry is going," said Tom Jessop, New York-based president of

Fidelity Digital Assets, which was launched in late 2018 by Fidelity Investments as the first major firm in institutional asset servicing to offer cryptocurrency custody and trade execution operations.

Mr. Jessop said his company noticed an uptick in interest around the start of the COVID-19 lockdowns in March 2020. The previous fall, Fidelity Digital Assets was granted a charter from the New York State Department of Financial Services to operate as a limited liability trust company.

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## CRYPTOCURRENCY AND DIGITAL ASSETS

# More investors join cryptocurrency fray

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A spokeswoman declined to provide Fidelity's assets under custody but said its client base quadrupled to more than 100 in December 2020 from the year prior. Fidelity's institutional clients include hedge funds, family offices, registered investment advisers, pension funds, endowments, foundations and corporate treasury departments, the spokeswoman added.

"It went from something that people may have tiptoed (around) or been fearful of, to something that people felt that there was no more career risk associated with being involved in digital assets," said Michael Sonnenshein, New York-based CEO at Grayscale Investments LLC, which touts itself as the world's largest digital asset manager with \$50.6 billion in assets under management as of April 14 and 14 cryptocurrency investment products for institutional and accredited investors, six of which trade publicly and are available to all investors.

In 2020, Grayscale brought in more than four times the assets it had cumulatively raised in the prior six years, according to Mr. Sonnenshein. The additional inflows and huge price gains in bitcoin have led to a surge in Grayscale's AUM. In February 2020, Grayscale had \$2.6 billion in AUM.

Interest from institutional investors, paced still by hedge funds and family offices, is on the rise among all institutional segments, Mr. Sonnenshein added.

### Overcoming hurdles

Historically institutions have kept their distance from digital assets for a variety of reasons, including a lack of custody capabilities, and liquidity and volatility concerns.

"Institutional investors have an understanding that this is a more speculative investment," said Chris-

topher Levell, partner at consultant NEPC LLC in Boston. "It's relatively easy to make the case that bitcoin could be \$1 million or it could be zero. It's got a ton of convexity."

TOBAM, a Paris-based asset manager with \$10.2 billion in AUM, launched a bitcoin fund in 2017. Yves Chouelaty, TOBAM's president and chief investment officer, said bitcoin, the biggest digital currency, can be a precarious investment on its own, but the risk of an asset should determine the size of the investment, not the investment case itself. He compared bitcoin to chlorine: As a "combat gas, it's very dangerous, but if you put a drop of chlorine in water, it's drinkable." If an investor puts 1% of bitcoin in a 60%/40% portfolio, its volatility won't be felt, he said.

Akbar Thobhani, CEO and co-founder of San Francisco-based cryptocurrency prime broker-dealer SFOX Inc., which offers clients cryptocurrency trading and custody options, said the learning curve for institutional investors has been steep. "When you're investing in the traditional markets, the infrastructure is there, the rules and regulations are in place, and when you come to crypto, it's like a whole new world," he said.

Whereas in years past institutions were merely asking questions trying to figure out what digital assets were, more are now interested in learning the best ways to incorporate these assets in their portfolios, sources said. "If you're a fiduciary, you cannot ignore the reality that the highest-performing asset of the last decade has been bitcoin," said Matthew Le Merle, San Francisco-based managing partner of Blockchain Coinvestors, a blockchain fund of funds. "You could argue that it's not sustainable or intrinsically not appropriate, but at the end of the day your goal is to try and in a disciplined way both pro-



GROWTH: Michael Sonnenshein believes digital assets have evolved enough to eliminate the career risk associated with them.

tect and manage the assets you have under management and make them grow."

As the digital-asset market continues to mature, the hurdles preventing institutions from getting involved have dissipated, Mr. Jessop said, including prior liquidity concerns. "I think it's a self-fulfilling prophecy, more investors coming

into the space attracts more liquidity, which increases the size of the liquidity pool, which attracts more traditional investors, and that's all been very healthy," he said.

Earlier this month, the cryptocurrency market capitalization topped \$2 trillion for the first time, according to market tracker CoinGecko.

The perception of digital assets

improved in 2020, with 58% of U.S. investors expressing a neutral or positive perception, up from 43% in 2019, according to a Fidelity Digital Assets survey released in June.

And sources expect that perception to continue to warm after recent developments in the space.

The price of bitcoin has surged over \$63,000, up from about \$8,000