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Vidrio Views

The Crypto Craze Still Lacks Legs of the Meaningful Institutional Investor Community

In our latest. **Vidrio Views** findings it is evident that while the craze of interest for crypto currencies and crypto related investment offerings persists to date, there are no meaningful examples of large institutional investors embracing this new asset class.

Following the **August survey** of Vidrio Views, which specifically looked at the rapid adoption of virtual due diligence meetings as allocators have begun to benefit from the cost and time efficiencies of reduced meetings and related travel expenses; we wanted to dig into the renewed interest we have seen in digital assets through this pandemic to better understand where investors might be allocating to this emerging asset class and better measure where they may need help to invest in a set of assets that up to this point have not seen meaningful adoption.

While Citigroup recently generated buzz amid reports that the bank was launching efforts to trade bitcoin futures and Business Insider broke the news in July that JPMorgan Chase — the bank whose CEO once threatened to fire employees for trading bitcoin — had greenlit plans to let wealth-management clients buy and sell a small set of crypto products, we found in our survey of clients with over $100 billion in combined alternative assets under management in both the US and Europe, 50% had zero exposure to any crypto currency or crypto related currency investments.

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About Vidrio Views

Vidrio Views is a series of monthly market surveys and corresponding reports that analyze the sentiment of leading institutional allocators and LPs in relation to the industry's most pressing topics of the day.

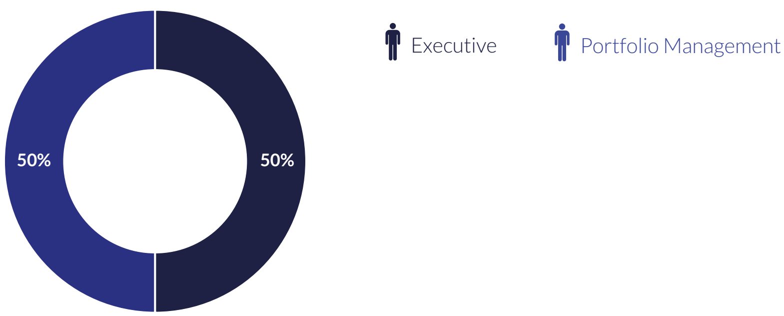
Hesitancy of a meaningful adoption of this asset class was not unexpected in our minds given some of the minimal adoption we had seen across other investors in the Vidrio infrastructure. Prior to issuing this survey to prospects and Vidrio clients that included OCIOs (17%), Asset Managers/Insurance (33%) and 50% Other (includes Family Office, Investment Consultant), we identified just 0.0000015% exposure to crypto coins, exchange traded funds, decentralized finance or tech/platform stocks across all Vidrio Financial clients, based on an analysis of Vidrio fund management data.

While some of the surveyed investors may have some exposure without knowing it due to a lack of transparency at the positions level, 50% of the respondents claimed to have zero exposure, while 17% had 6-10% exposure in their portfolios and 33% had no current exposure but were considering it as an investment option.

Do you currently have any exposure to crypto investments?

Of the investors surveyed, 50% held the role of C-Suite executive and 50% classified themselves as portfolio managers.

What is your current role?



Some of the reasons investors are considering crypto include the belief that there are opportunities in trading a volatile asset and its associated capital growth prospects.

As a Fund of Fund and now as a software and service provider to asset allocators globally we have spent significant portions of our time over 20-plus years dissecting and classifying new investment opportunities as they have come to fruition. With increasing interest around crypto related assets and the coins themselves we believe that much of the adoption of this evolving asset class will be dependent on investors becoming more confortable and educated about the risks and structure of these investment opportunities.

Currently we divide this asset opportunity between three distinct pillars:

- People who are or will be investing in crypto currency, as well as trading and market making and the creation of derivatives.
- A second grouping of investors will be looking at this investment opportunity from a digital assets perspective that basically transforms assets into a digital format, including tokens and NFTs.
- And the third leg of this investment opportunity takes into effect the technology and infrastructure of crypto and digital assets that has and will continue to displace existing businesses and may ultimately make traditional technologies obsolete.

As with all emerging investment opportunities a significant factor in limiting adoption early on is usually driven by levels of education and the ability of investors to become comfortable with the opportunity generally.

With regards to the question of "Do you plan to add crypto or any related assets into your portfolios in the coming 12 months?" 17% of the investors we surveyed planned to make allocations to crypto currencies directly and equally, 17%, feel currencies themselves are too volatile, but are looking to allocate to crypto-related companies. However, 33% mentioned that they are waiting to see how the market develops in the coming 12 months before making any allocations, while 33% feel crypto and crypto related assets are too volatile and not an appropriate fit for their current allocation models.

Do you plan to add crypto or any related assets into your portfolios in the coming 12 months?

We have already done so.

0%

Yes. We plan to make allocations to crypto currencies directly.

17%

Yes, though we are looking at crypto related companies as we feel the currencies themselves are too volatile.

17%

Not really. Though we are waiting to see how the market develops in the coming 12 months

33%

Not at all. We feel crypto and crypto related assets are too volatile and not an appropriate fit for our current asset allocation models.

33%

Headline risks, especially related to regulatory revisions associated with this investment opportunity are also leading to hesitancy at this relatively early stage of adoption of crypto and other digital related assets. Of those surveyed, 60% of the respondents said they are very concerned and are waiting for guidance from several regulatory bodies before adding any crypto related assets. Though, in contrast, 40% of investors are "not concerned" or "not really concerned" when asked whether they were concerned about current regulatory reviews and exchanges of these digital assets.

Are you concerned about current regulatory reviews and exchanges of these digital assets?

Not at all. We are actively allocating to crypto and crypto related assets.

20%

Not really. We have a general comfort level with allocating to certain digital and crypto related assets.

20%

We are very concerned and are waiting for guidance from several regulatory bodies before we add any crypto related assets.

60%

Though inline with some of the previously mentioned headlines including the softening of Citibank and other Wall Street banks to allowing investors to trade crypto, many institutional investors are leaning heavily on their risk teams before considering an allocation to crypto assets.

On the specific question of whether allocating to crypto assets is too risky relative to other asset classes, half (50%) of respondents think the risk is too high for their portfolios, while 33% are not really concerned but are working closely with their risk teams to make sure they have a sense of the potential risks they'd be taking on. However, 17% are not at all concerned and feel that crypto and crypto related assets are in line with the risk levels they have for other asset classes.

Relative to other asset classes do you think allocating to crypto assets is too risky?

Yes. We think this is too high risk for our portfolios.

50%

Not really. Though we are working very closely with our risk teams to make sure we have a true sense of the potential risks we are/will be taking on by making allocations to crypto and crypto related assets.

33%

Not at all. We currently are (or are planning to) allocate to crypto and crypto related assets and feel they are in line with the risk levels we have for other asset classes.

17%

In aggregate, for this asset class to gain meaningful traction with the institutional investing community significant inroads will need to be made as it relates to education and investors reaching a level of comfort beyond where current sentiment resides. At Vidrio, we strive to always dig deeper and gain a level of transparency on any new investment asset type to help our allocator clients and their external fund managers to better navigate the complexity of alternatives investments management.

Additional Insights

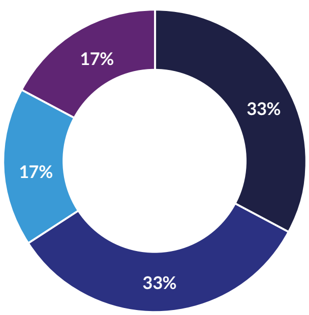
How do you currently (or plan to) measure/monitor your crypto exposure?

At the manager level
33%

At the asset class level
33%

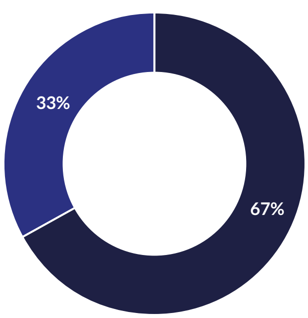
N/A
33%

AUM?



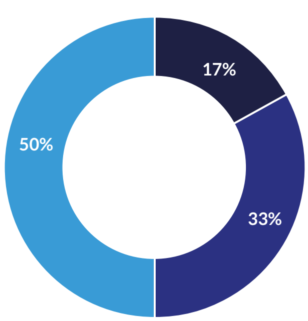
>$1B $101M - $500M $10M - $100M N/A

What is your geographic location?



North America (US and Canada) EMEA

Which of the following best describes your organization?



OCIO Asset Manager/Insurance Other

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About Vidrio Financial

Vidrio Financial is the first Technology Enabled Service for allocators — providing software and data services to institutional investors globally. Vidrio's data aggregation, analytics and applications help solve complex fund management problems, improve operational efficiency and reduce risk for multi-asset-class portfolio investors. Our clients are the world's premier allocators to external managers.

Contact info@vidrio.com to learn more.