

Aaro Capital

Opening up the Cryptoasset and DLT Growth Story

Roundtable Forum

Peter Habermacher | CEO & Co-founder

Tuesday 6th December

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Aaro Capital: Overview

Aaro Capital was established in 2018 as one of the first institutional quality fund of funds specialists of its type. Aaro brings the Cryptoassets and DLT growth story to investors in a professional and risk controlled manner.



- The Aaro DLT Multifund, a diversified fund of funds covering a wide range of investment strategies, launched in May 2020. It was shortlisted for 'Best 12-Month Risk-Adjusted Performance - Fund of Funds (any AUM)' at Hedgeweek's European Digital Assets Awards 2022.
- The Aaro Market Neutral MultiFund, a diversified fund of funds covering a wide range of investment strategies, launched in August 2022.
- Aaro Capital is well funded, with a top quality team combining younger crypto native talent with heavyweight veteran expertise. It has developed robust processes and a strong infrastructure.
- Aaro has launched the “ACFI” fund performance indices. These non-investable indices are based on its extensive and well researched database of 1,000+ funds. These non-investable indices are intended to provide a useable set of industry benchmarks.

¹ DLT; an umbrella term which also includes Blockchain

Senior Team



Peter Habermacher
CEO | Co-founder

- Previously competition economist advising on M&A deals at RBB Economics
- Experience applying economic frameworks and analysis to Cryptoassets and DLT
- MSc Economics, University of Southampton



Ankush Jain, CFA
CIO | Co-founder

- Previously on Multifund investment team at \$24 billion Nedgroup Investments
- Broad experience across all asset classes and different roles within a traditional Fund of Funds
- MSc in Investment and Wealth Management, Imperial College Business School



Sébastien Jardon
Partner | Co-founder

- Entrepreneur and investor
- 10 years' experience in business development roles and sourced the fund's founding investors
- Successfully launched, restructured and exited multiple companies across several industries



Peter Rigg, CFA
Head of Investment Research

- Previously Global Head and CEO of HSBC Alternative Investment Group, responsible for \$30 billion of institutional and high net worth capital
- Over 25 years' experience in Fund of Hedge Funds
- BA (Hons) and MA degrees from the University of Oxford



Olga Romanova, CFA, CPA
Head of Operational Due Diligence

- Over 25 years' experience in due diligence and audit, specialising in hedge funds
- Previously Head of ODD at International Asset Management
- Previous ODD experience at AXA IM and GAM
- Graduated from Moscow Finance Academy



David D'Alterio
Senior Investment Analyst

- Previously on the investment research and fund selection team at Pioneer Investments (latterly Amundi)
- Extensive fund of funds experience across hedge funds and liquid alternatives (UCITS)
- Joint honours degree in Economics and Chinese / Mandarin, University of Leeds

Chairman & Advisory Board



Stuart MacDonald
Chairman

- Over 30 years' experience working with alternative investment managers and bankable technologies
- Previously Director of Hedge Funds at Henderson Global Investors and Managing Director at Aquila Capital
- Chairs leading Alternative Investment Conferences such as GAIM and the Quant Conference



Dr. Mattia Rattaggi
Advisory Board

- Former Head of Regulatory Affairs and Governance Reporting at UBS
- Co-founder of SEBA Bank AG, Board member of the Crypto Valley Association, Advisory Board member of Thaler Real Estate Consulting and Chairman of FiCAS AG
- 25 years' experience in the financial industry
- Ph.D. in Economics from the University of Fribourg



Eric Bissonnier, CFA
Advisory Board

- Head of Multi Asset Solutions at LumRisk and CEO & Founder at BISFICO
- Over 20 years' experience in portfolio and risk management
- Experience ranges from regulatory oversight to alternative data, portfolio construction and risk management
- MSc in Economics from the University of Geneva



Tushar Patel
Advisory Board

- CIO and Managing Director of Hedge Funds Investment Management
- 25 years' experience at Fund of Hedge Funds and single-strategy Hedge Funds
- Previous served Hedge Fund Research Club Steering Committee at the CFA UK Institute, and former member of the Hedge Fund Committee at AIMA in London

Strategy Aims and Objectives

An institutional quality Fund of Funds in a tightly risk managed and regulated structure, giving diversified access to Cryptoassets and Distributed Ledger Technology¹



Investment aims:

- Target double digit annualised returns in a diversified, risk controlled manner
- Gain exposure to the long term economic value creation of Cryptoassets and DLT
- Capitalise on short term market inefficiencies through arbitrage and tactical trading strategies
- Capture strategic opportunities as different industries develop and implement DLT applications
- Protect against the high volatility of the asset class using established risk management frameworks

¹ DLT; an umbrella term which also includes Blockchain

Why Should Cryptoassets and DLT Even Exist

Why Invest in Cryptoassets and DLT

How to Gain Exposure to Cryptoassets and DLT

The Importance of an Economic Investment Approach

Technological Evolution



Industry 1.0

Mechanisation using water and steam power

Industrial Revolution

1784



Industry 2.0

Mass production via assembly lines and electricity

Technological Revolution

1870



Industry 3.0

Automation, computers, communication and electronics

Digital Revolution

1969



Industry 4.0

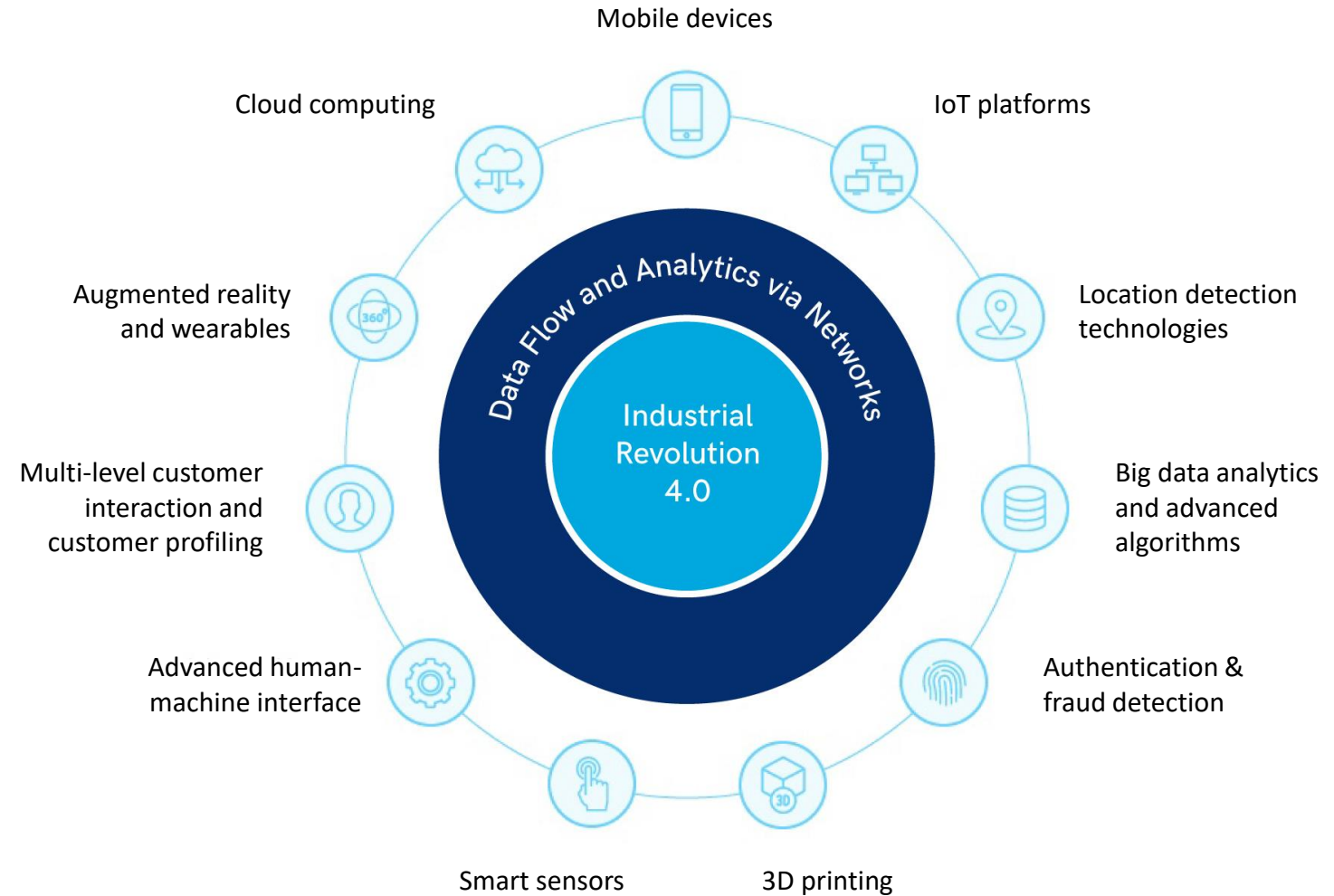
Cyber physical systems, digital scarcity, automated decision making and networks

Data Revolution

Today

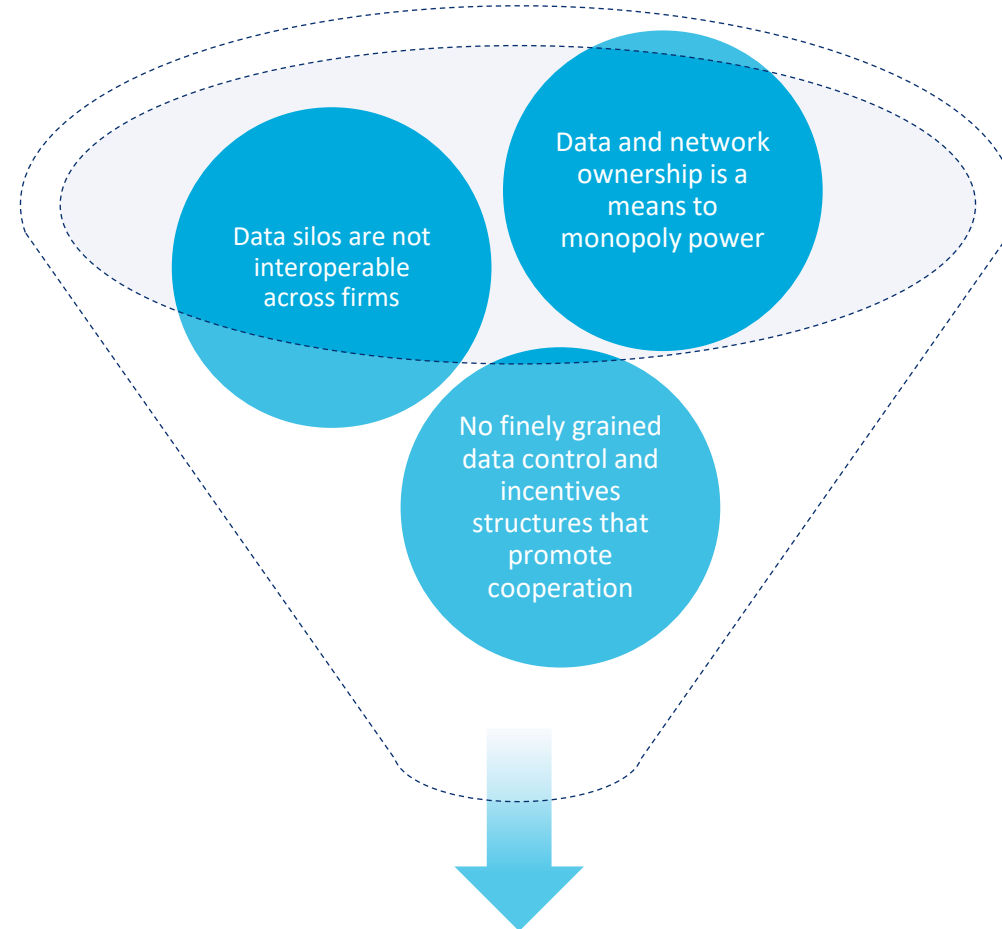
Industrial Revolution 4.0

The use and integration of data is at the heart of Industrial Revolution 4.0 technologies



Data Management Issues

Existing data business models are key bottlenecks for Industrial Revolution 4.0

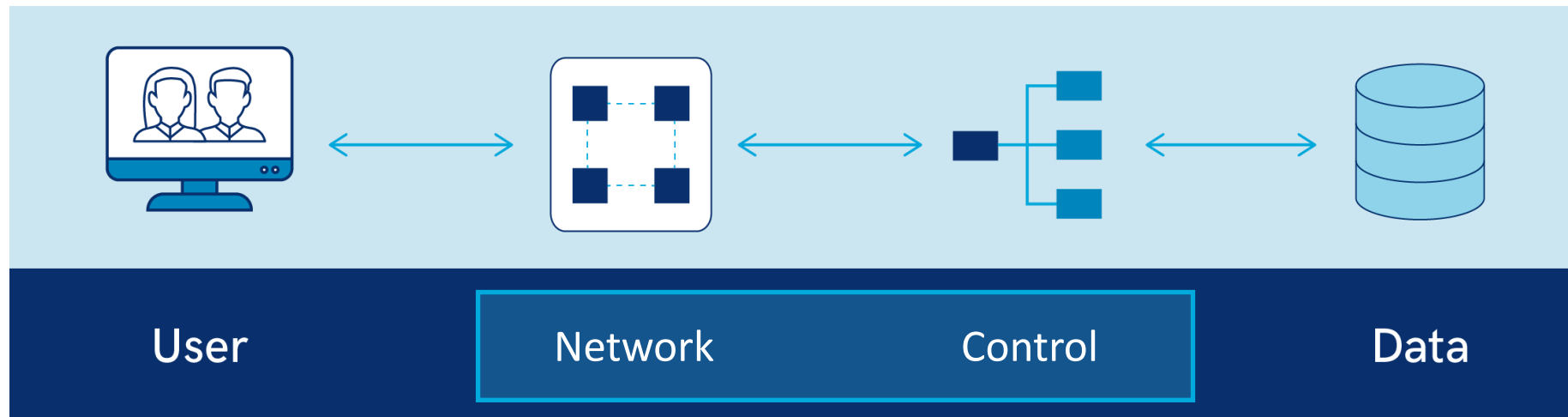


Value, identity and ownership have to be verified by a central and trusted intermediary

What is DLT?

DLT is first and foremost a new database structure, a database control and database ownership technology

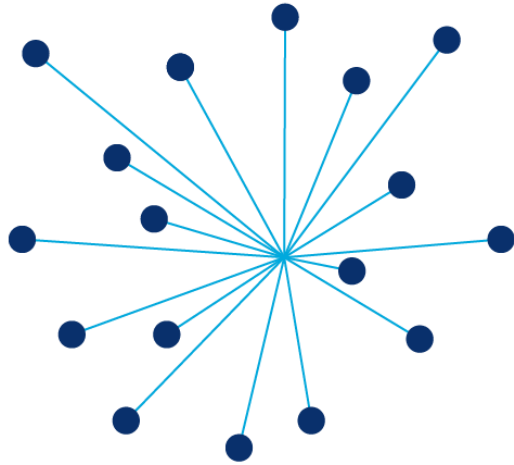
Layers (Components) of Databases



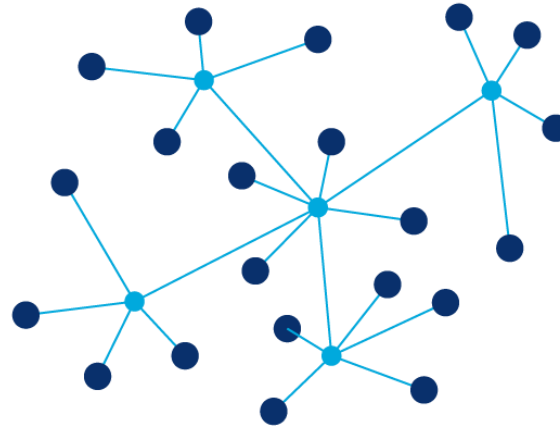
How is DLT different?

Distributed architecture is the defining feature of DLT

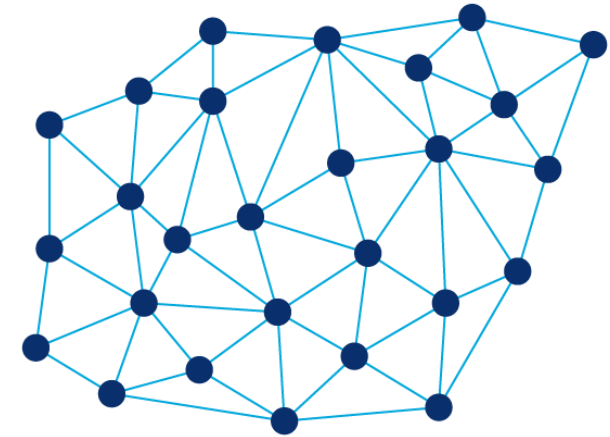
Database Architectures (Structures)



Centralised



Decentralised

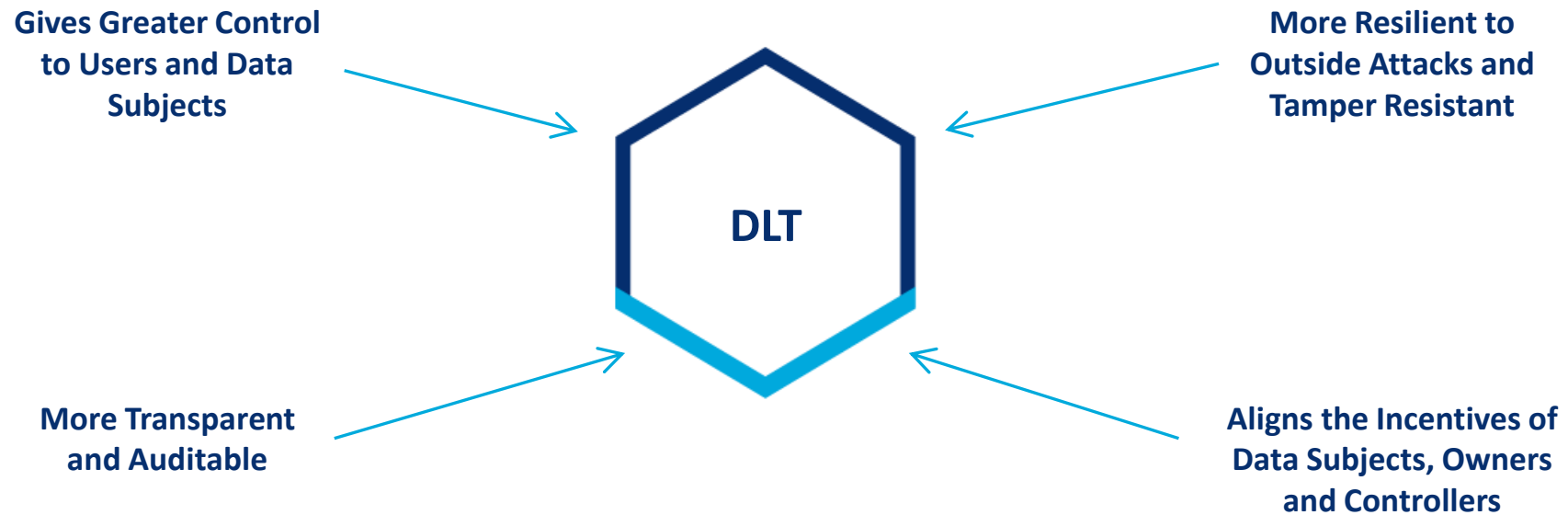


Distributed



Advantages of DLT

This innovation makes DLT ideal for data sharing in low trust environments



DLT Enterprise Use Cases

Well known names are embracing this new technology



Exploring Clearing & Settlement with DLT



Leading Blockchain Innovation



AWS Blockchain



Exploring Clearing & Settlement with DLT



Smart Insurance Policy



Hewlett Packard Enterprise

Blockchain Cloud Service



Digitising Records for Private Placements



Blockchain Integration for Enterprise



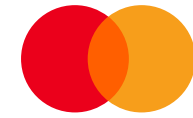
Letters of Credit/ USC/ HQLA Securities Lending



Developing Next Gen Media Rights

J.P.Morgan

Blockchain Based Banking



mastercard

Applied for Payment Patents



Decentralised Identity System

ORACLE

Cloud Based Blockchain Solutions



Security Token Platform



Testing Various Blockchain Tools



Trade Settlement Platform

Walmart

Blockchain for Food Supply Chain

Issues with Enterprise DLT

The economic issues preventing data sharing are inherent to centralised database control and ownership

Companies create DLTs with an old mindset

Profit personally via control and ownership of the network, instead of promoting co-operation and data sharing

Centralised DLT does not lead to a trustless system

Consortium members are required to place high degree of trust in the centralised entity managing the network

Outsiders are reluctant to join

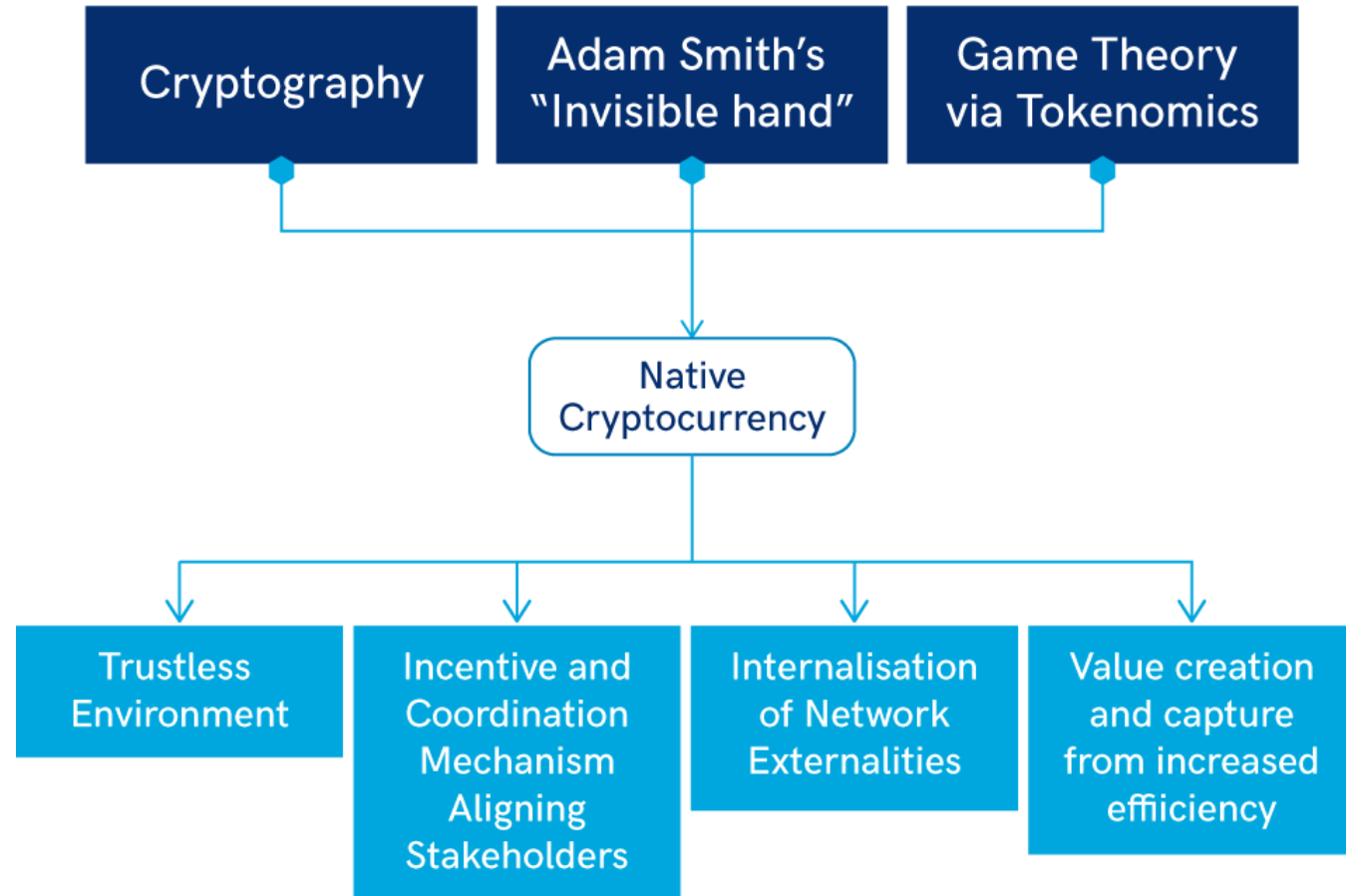
Lack of benefit to new members means many prefer to create their own networks

Failure of Business Relationships

Many consortiums are formed by groups of competitors, limiting benefits of shared databases

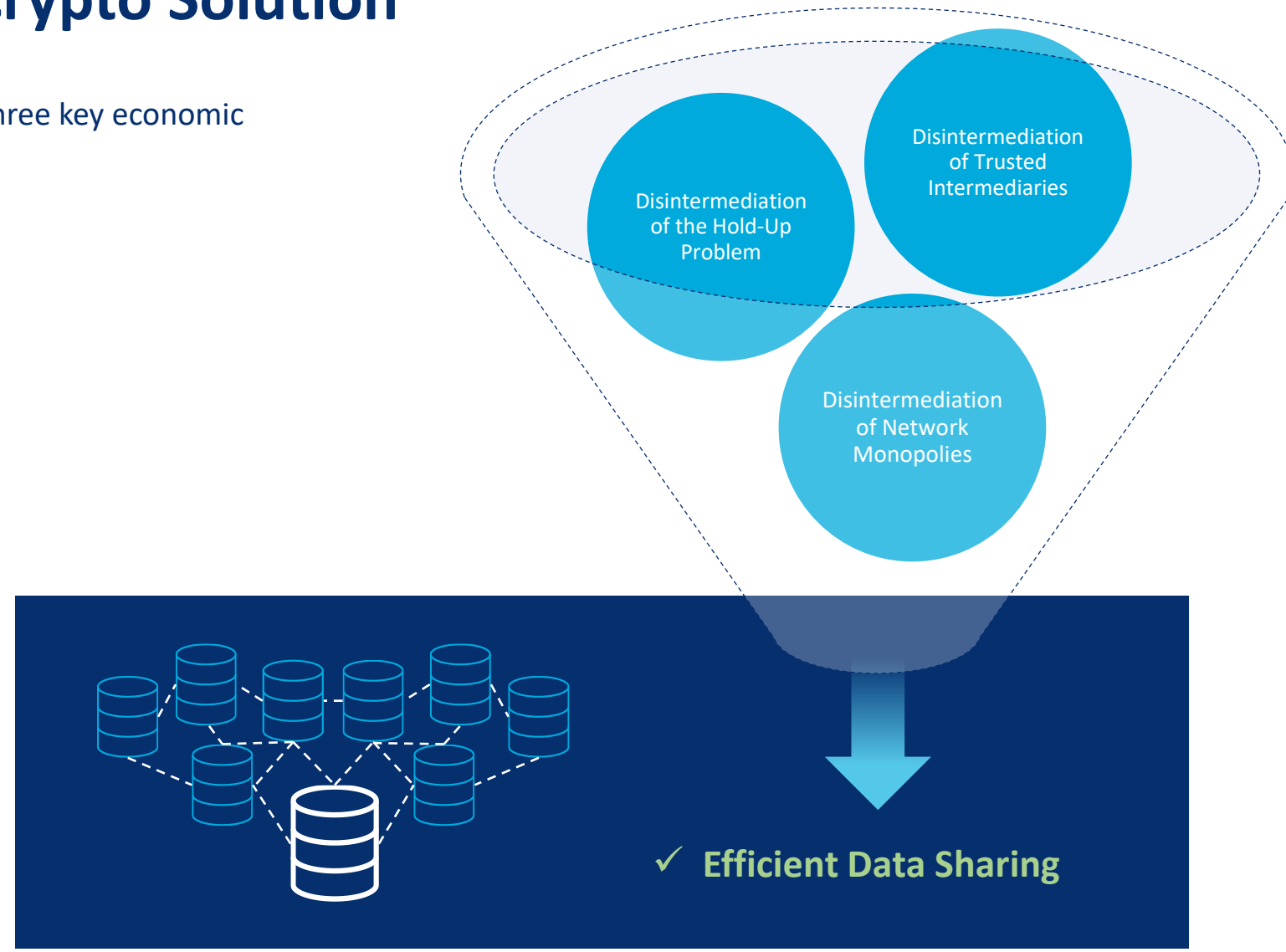
Solution: Decentralisation

Capitalism solves the decentralised coordination problem using money



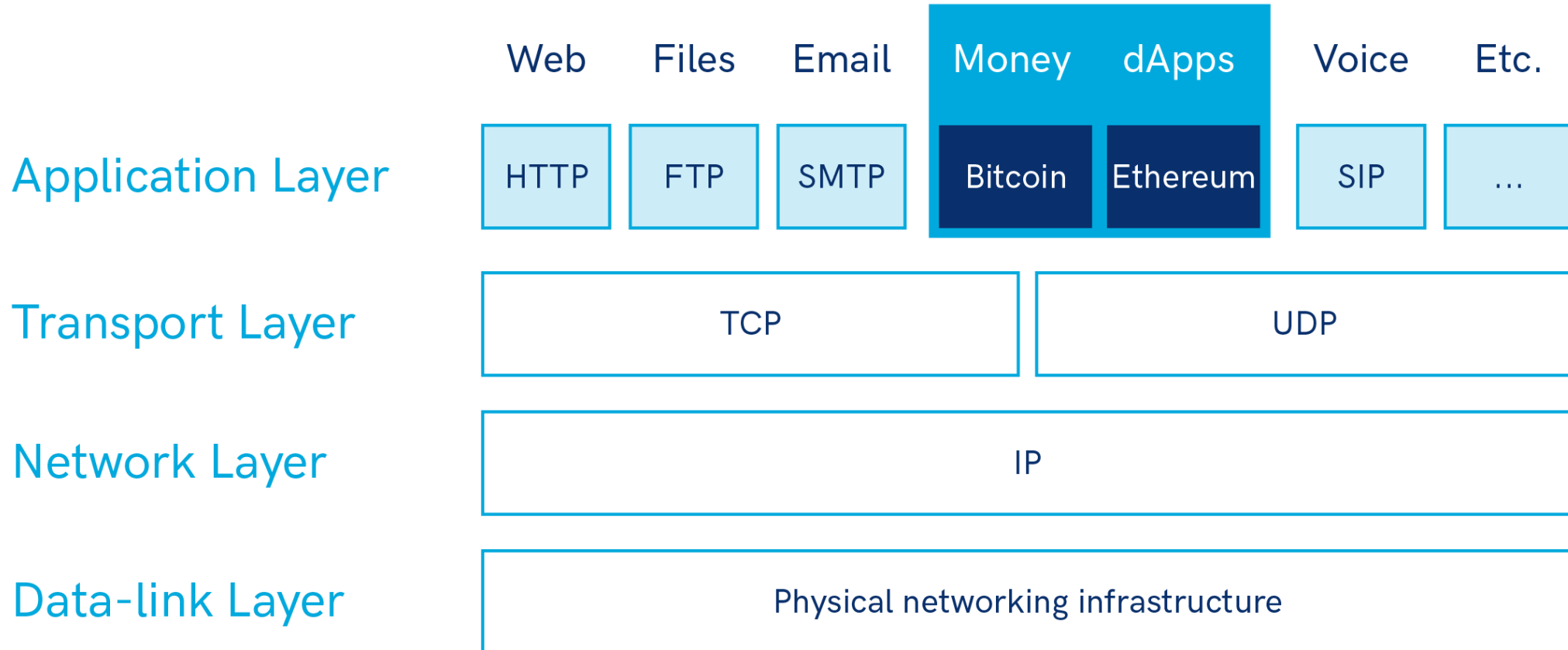
The DLT and Crypto Solution

Decentralisation can solve three key economic issues with databases

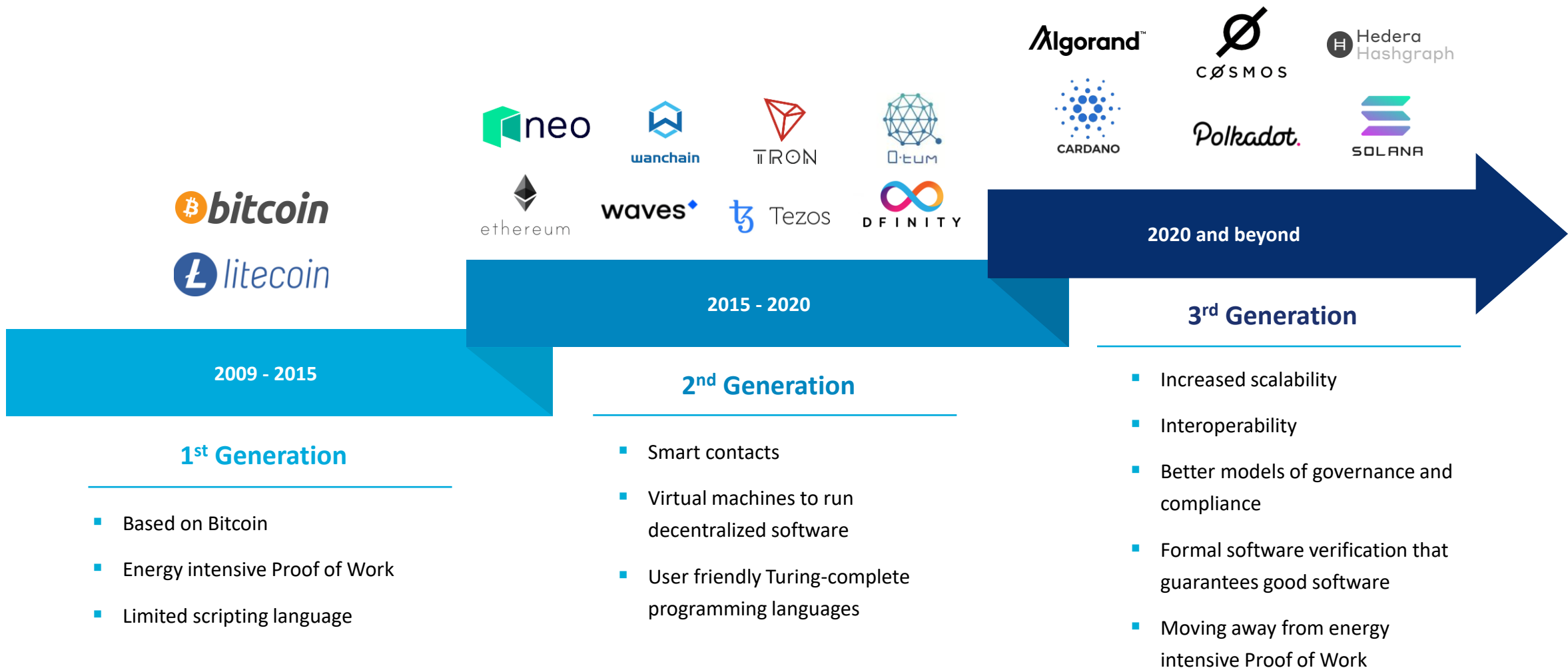


Web 3.0 via DLT

Crypto is a next generation value-based internet



Evolution of Crypto



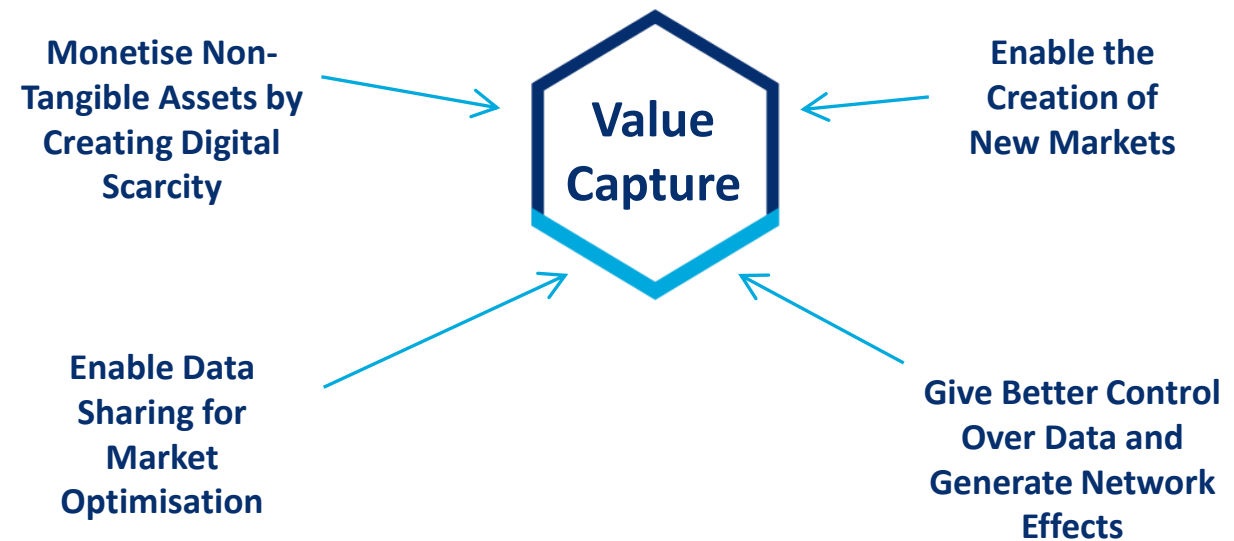
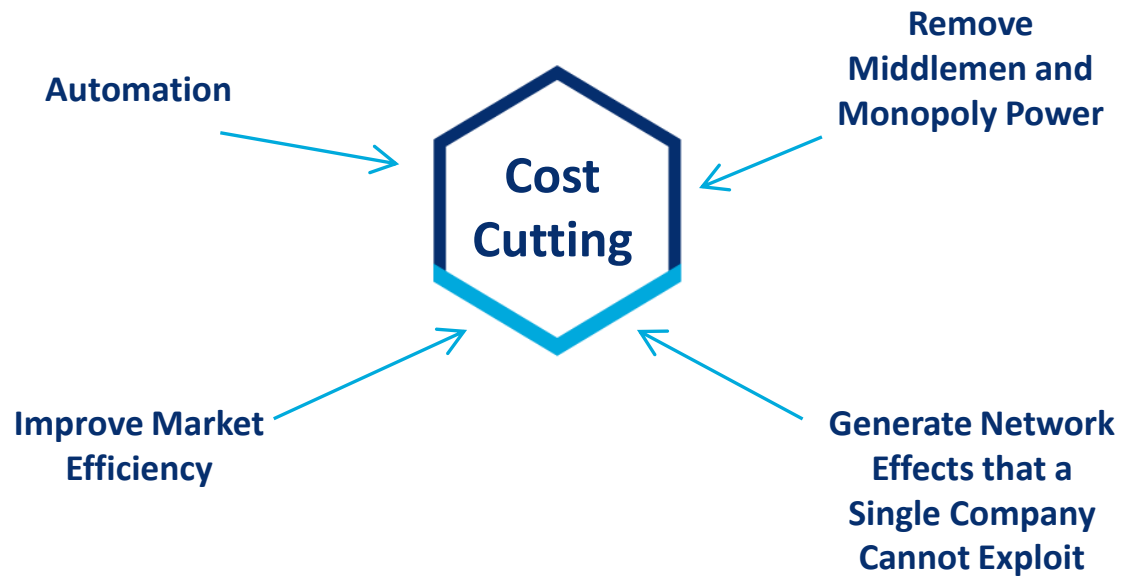
- ### 1st Generation
- Based on Bitcoin
 - Energy intensive Proof of Work
 - Limited scripting language

- ### 2nd Generation
- Smart contracts
 - Virtual machines to run decentralized software
 - User friendly Turing-complete programming languages

- ### 3rd Generation
- Increased scalability
 - Interoperability
 - Better models of governance and compliance
 - Formal software verification that guarantees good software
 - Moving away from energy intensive Proof of Work

Problems Solved by Web 3.0

Web 3.0 creates value by tackling the same old problems



Web 3.0 Use Cases

Many possible use cases already live

Web 3.0: The Internet of Distributed Ledgers

Technical		Financial		Organisational		Personal		Retail & Entertainment	
Protocols	DDOS	Assets Management Tools	DeFi Infrastructure & Dev Tooling	Identity / Access	Internet of Things	Authenticity	Advertising	Marketplaces	Gambling
Layers	Platforms	Marketplaces	Ethereum-based DAO Platforms	Governance / Legal	Supply Chain / Logistics	Social Networks	Reputation	Ticketing	Gaming / Esports
VPN	File Storage	Analytics	Decentralised Lending	Web Search	Publishing & Attribution	Messaging	Healthcare	Home Rental	Virtual Reality
Computation		KYC & Identity	Stablecoins	Content Monetisation & Distribution	Freelancing	Content Monetisation		Micro Tasks	Music
		Dec. Insurance Platforms	Decentralised Exchanges					Video & Live Streaming	
		Asset Tokenisation	Payments						
		Margin Trading & Derivatives	Prediction Markets						

Why Should Cryptoassets and DLT Even Exist

Why Invest in Cryptoassets and DLT

How to Gain Exposure to Cryptoassets and DLT

The Importance of an Economic Investment Approach

Why Invest in Cryptoassets and DLT: the Aaro View



Attractive long term growth opportunity, at a time of increased uncertainty amongst other asset classes



Cryptoassets and DLT have disruptive applications in almost every industry



Fastest growing, highest returning asset class on absolute and risk-adjusted basis¹



Uncorrelated to other asset classes in the medium to long-term – a unique source of diversification²



Governments, banks and other large corporations are engaging with Cryptoassets and DLT³



Established investment and operational risk management practices can be applied successfully to this asset class

¹ Source: <https://cointelegraph.com/news/bitcoin-beats-stocks-commodities-to-best-performing-asset-of-2021>

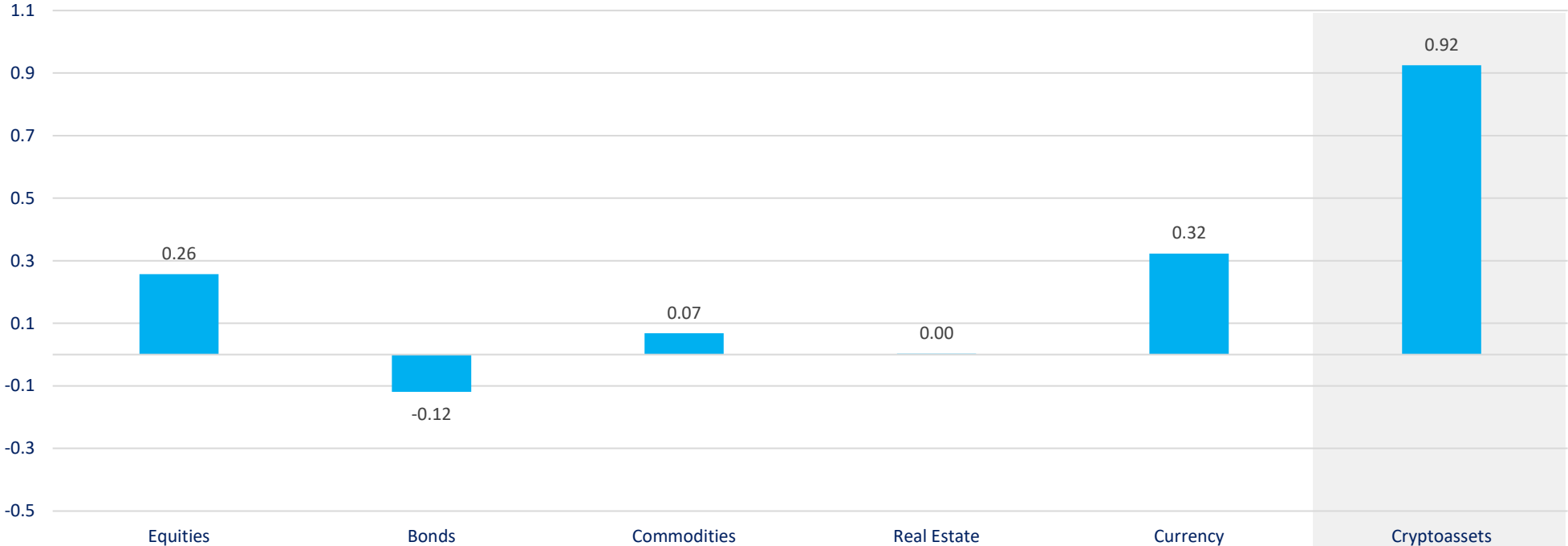
² Source: <https://www.institutionalinvestor.com/article/b1t2btxrvnxyq7/Even-in-Crisis-Most-Cryptocurrencies-Offer-Diversification-Benefits>

³ Source: <https://www.gov.uk/government/news/government-sets-out-plan-to-make-uk-a-global-cryptoasset-technology-hub>

Cryptoassets: The Opportunity

Higher risk-adjusted returns compared to other asset classes

Sharpe Ratios Since Jan-15



Data as of: 31st August 2022
Net Returns, calculated in USD

Equities: [iShares MSCI ACWI ETF](#)
Corporate Bonds: [iShares Global Corporate Bond UCITS](#)
Commodities: [S&P GSCI Commodity](#)

Real Estate: [iShares Global REIT ETF](#)
USD: [US Nominal Dollar Broad Index](#)
Crypto: [MVIS CryptoCompare Digital Assets 100](#)

Correlations

Independent from movement of other asset classes

Correlations Since Jan-15

	Equity	Bonds	Commodity	Real Estate	Currency	Crypto
Equity	1.00	0.36	0.52	0.75	-0.44	0.12
Bonds		1.00	0.30	0.49	-0.34	0.04
Commodity			1.00	0.48	-0.42	0.03
Real Estate				1.00	-0.40	0.06
Currency					1.00	-0.04

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USD: [US Nominal Dollar Broad Index](#)
Crypto: [MVIS CryptoCompare Digital Assets 100](#)

Widespread Adoption

Well known names are embracing this new technology



Leading Blockchain Innovation



AWS Blockchain



Minehub



Fidelity Digital Assets (Mining, Custody, Development)



Blockchain Cloud Service



Digitising Records for Private Placements



Blockchain Integration for Enterprise



Zero Knowledge Range Proofs



Developing Next Gen Media Rights



Blockchain Based Banking



Applied for Payment Patents



Blockchain Trade Finance Transaction



Samsung Blockchain Wallet



Decentralised Identity System



Cloud Based Blockchain Solutions



Testing Various Blockchain Tools



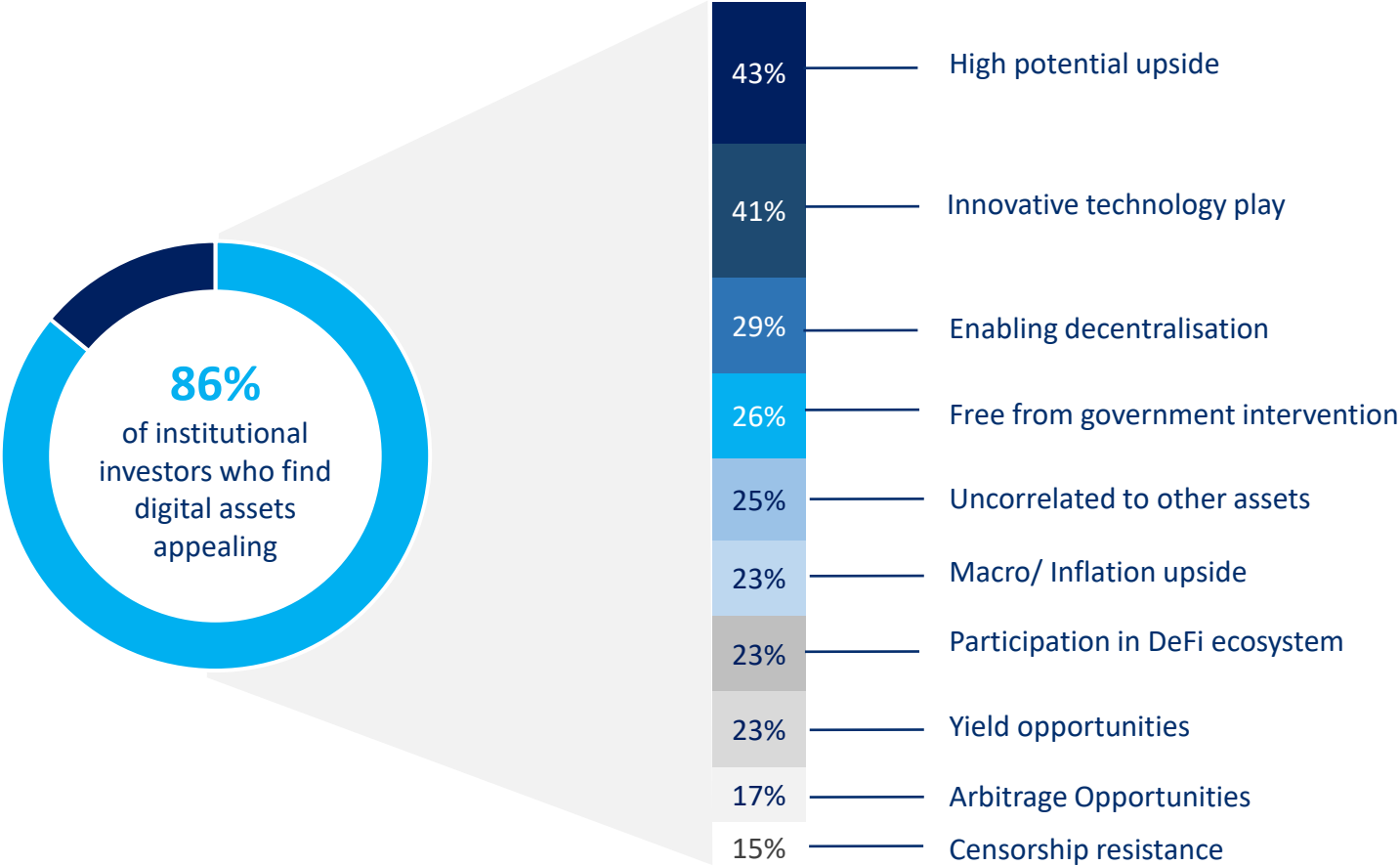
Trade Settlement Platform



Using Blockchain for Supply Chain

The Appeal of Digital Assets

Almost 90% of Institutional Investors find something appealing about digital assets



Data as of: October 2022 | Source: [Fidelity Digital Assets](#)

Evolving Investor Landscape



BLACKROCK



J.P.Morgan



ANDREESSEN
HOROWITZ



Why Invest in Cryptoassets and DLT: the Aaro View



Attractive long term growth opportunity, at a time of increased uncertainty amongst other asset classes



Cryptoassets and DLT have disruptive applications in almost every industry



Fastest growing, highest returning asset class on absolute and risk-adjusted basis¹



Uncorrelated to other asset classes in the medium to long-term – a unique source of diversification²



Governments, banks and other large corporations are engaging with Cryptoassets and DLT³



Established investment and operational risk management practices can be applied successfully to this asset class

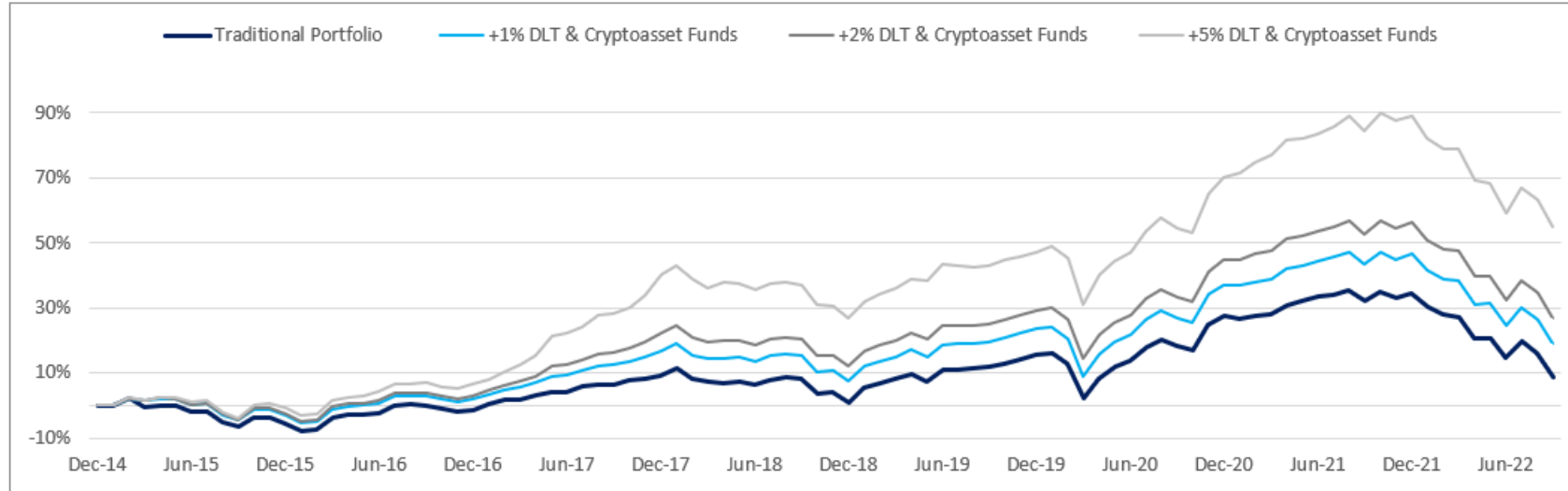
¹ Source: <https://cointelegraph.com/news/bitcoin-beats-stocks-commodities-to-best-performing-asset-of-2021>

² Source: <https://www.institutionalinvestor.com/article/b1t2btxrvnxyq7/Even-in-Crisis-Most-Cryptocurrencies-Offer-Diversification-Benefits>

³ Source: <https://www.gov.uk/government/news/government-sets-out-plan-to-make-uk-a-global-cryptoasset-technology-hub>

Impact on a Portfolio

Cumulative Performance of Different Portfolio Configurations



Notes: All data as at 30th September 2022. All returns are in USD and net of fees, calculated since 1st January 2015.

Cryptoasset and DLT Market is proxied by the [MVIS Digital Assets 100 Index](#).

Cryptoasset and DLT funds is proxied by using an equally weighted index of 274 funds since their inception dates.

Traditional Portfolio returns are based on:

40% = Equities: [iShares MSCI ACWI ETF](#)

40% = Corp. Bonds: [iShares Global Corporate Bond UCITS](#)

10% = Alternatives: [HFRI Fund Weighted Composite Index](#)

10% = Cash

Metric	Annualized Performance	Annualized Volatility	Downside Volatility	Sharpe Ratio (RFR=0%)	Sortino Ratio	Maximum Drawdown
DLT & Cryptoasset Market	69.85%	94.48%	82.05%	0.74	0.85	-83.25%
DLT & Cryptoasset Funds	99.62%	61.90%	58.68%	1.61	1.70	-46.86%
Traditional Portfolio	1.38%	8.48%	5.03%	0.16	0.27	-19.52%
+1% DLT & Cryptoasset Funds	2.27%	8.57%	5.06%	0.27	0.45	-19.21%
+2% DLT & Cryptoasset Funds	3.16%	8.69%	5.16%	0.36	0.61	-18.97%
+5% DLT & Cryptoasset Funds	5.88%	9.31%	5.71%	0.63	1.03	-18.39%

Why Should Cryptoassets and DLT Even Exist

Why Invest in Cryptoassets and DLT

How to Gain Exposure to Cryptoassets and DLT

The Importance of an Economic Investment Approach

Challenges in Gaining Exposure to Cryptoassets and DLT

None of the investible options are easy

Investable Option	Investment Challenges
Direct Venture Capital	Difficult to gain access to closed deals
Venture Capital Funds	Difficult to access top VCs, long lock-ups, limited exposure to tokens
Blockchain ETFs	Impure DLT exposure, heavily exposed to US technology stocks
Direct Investments	Requires time and expertise, operational challenges
Bitcoin Funds	Not diversified, high fees, tracking issues
Passive Indexes	Often heavily concentrated in bitcoin, no downside protection
Active Funds	Requires thorough due diligence due to dispersion in quality

Blockchain ETFs

Example of an **Impure DLT exposure**, heavily biased towards US technology stocks

Rolling 6m Correlations: BLOK* and Nasdaq 100 Index



Data as of: 14th November 2022 | Source: Amplify ETFs
*BLOK refers to Amplify Transformational Data Sharing ETF
Net Returns, calculated in USD

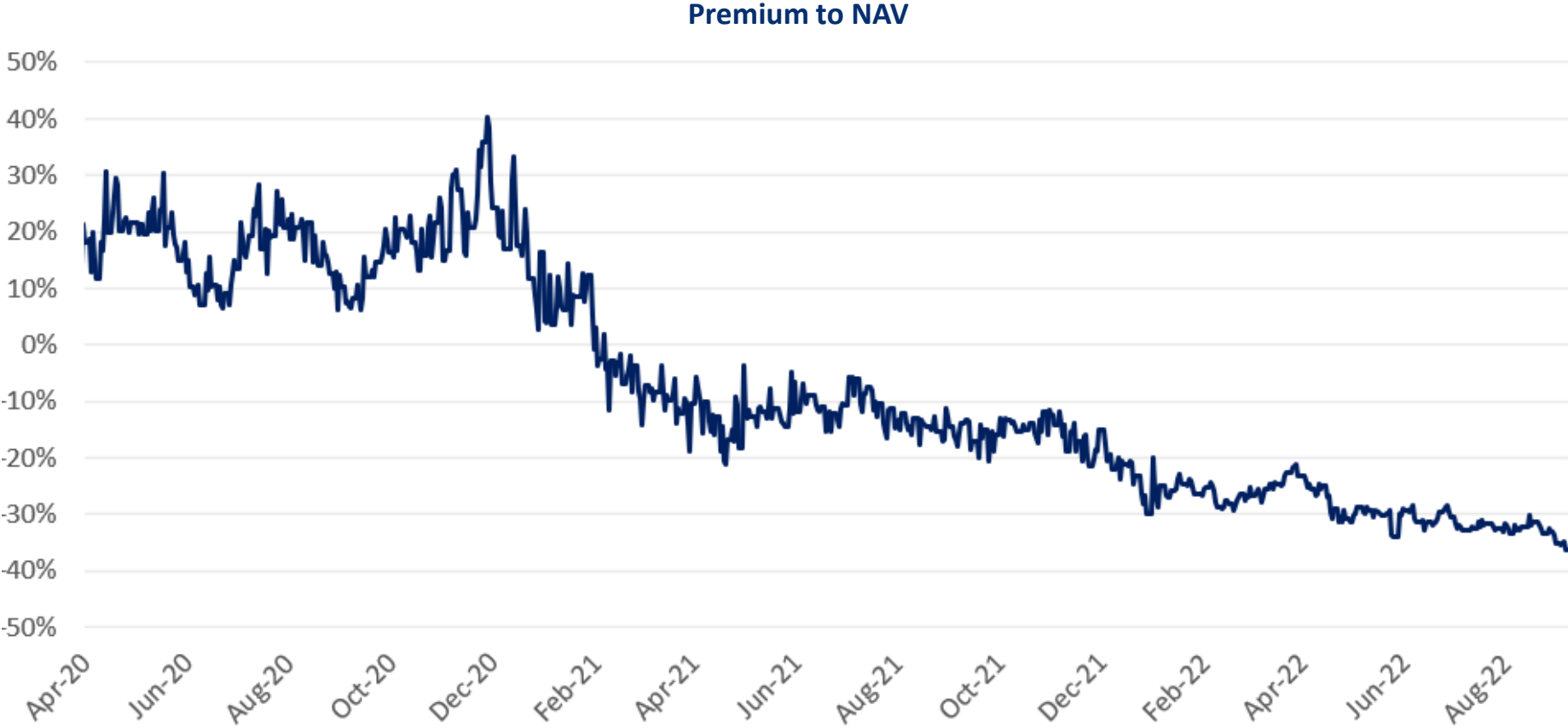
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Bitcoin Funds

Example of funds not tracking the underlying asset



Data as of: 30th September 2022 | Source: YCharts

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Example: Cryptoasset Passive Indexes

Rule-based indexes, which include tokens only after they have accrued value

Holdings: Bloomberg Galaxy Crypto Index

Asset	Weight (%)
Bitcoin	35.0%
Ethereum	35.0%
Cardano	6.7%
Solana	5.4%
Polygon	4.0%
Polkadot	3.6%
Uniswap	2.5%
Avalanche	2.5%
Litecoin	2.0%
Chainlink	1.7%
Cosmos	1.7%

Data as of: 31st October 2022 | Source: Bloomberg

Holdings: Bitwise 10 Index

Asset	Weight (%)
Bitcoin	61.9%
Ethereum	29.0%
Cardano	2.2%
Polygon	1.5%
Polkadot	1.3%
Solana	1.0%
Uniswap	0.9%
Litecoin	0.8%
Avalanche	0.8%
Cosmos	0.6%

Data as of: 14th November 2022 | Source: Bitwise

Example: Cryptoasset Passive Indexes

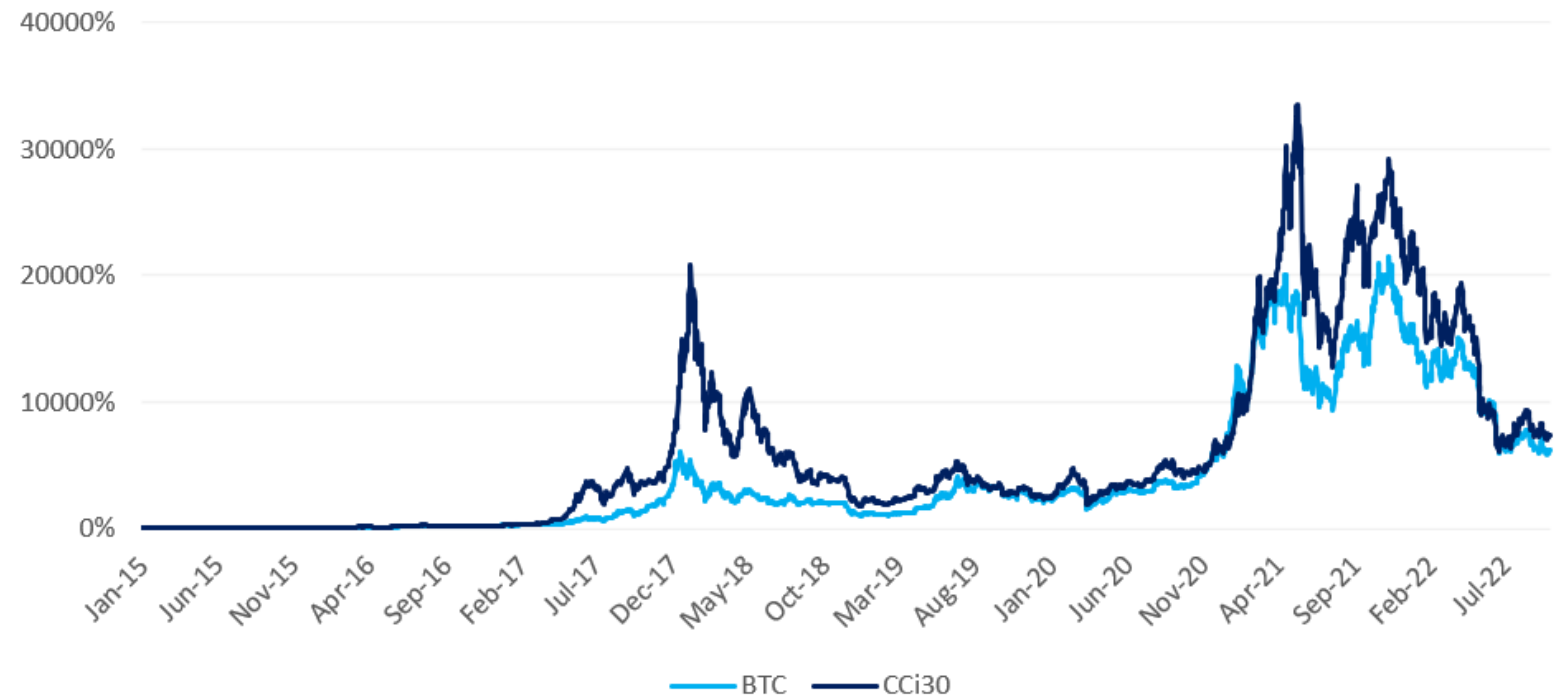
Indexes are often **more volatile than bitcoin**, and offer no downside protection

Top 10 Holdings: CCI30 Index

Asset
Bitcoin
Ethereum
Binance Coin
Ripple
Cardano
Dogecoin
Polygon
Polkadot
Solana
Shiba Inu Coin

Data as of: 14th November 2022 | Source: CCI30.com

Performance of CCI30 Index vs Bitcoin



Data as of: 30th September 2022 | Source: CCI30.com, CryptoCompare
Gross Returns, calculated in USD

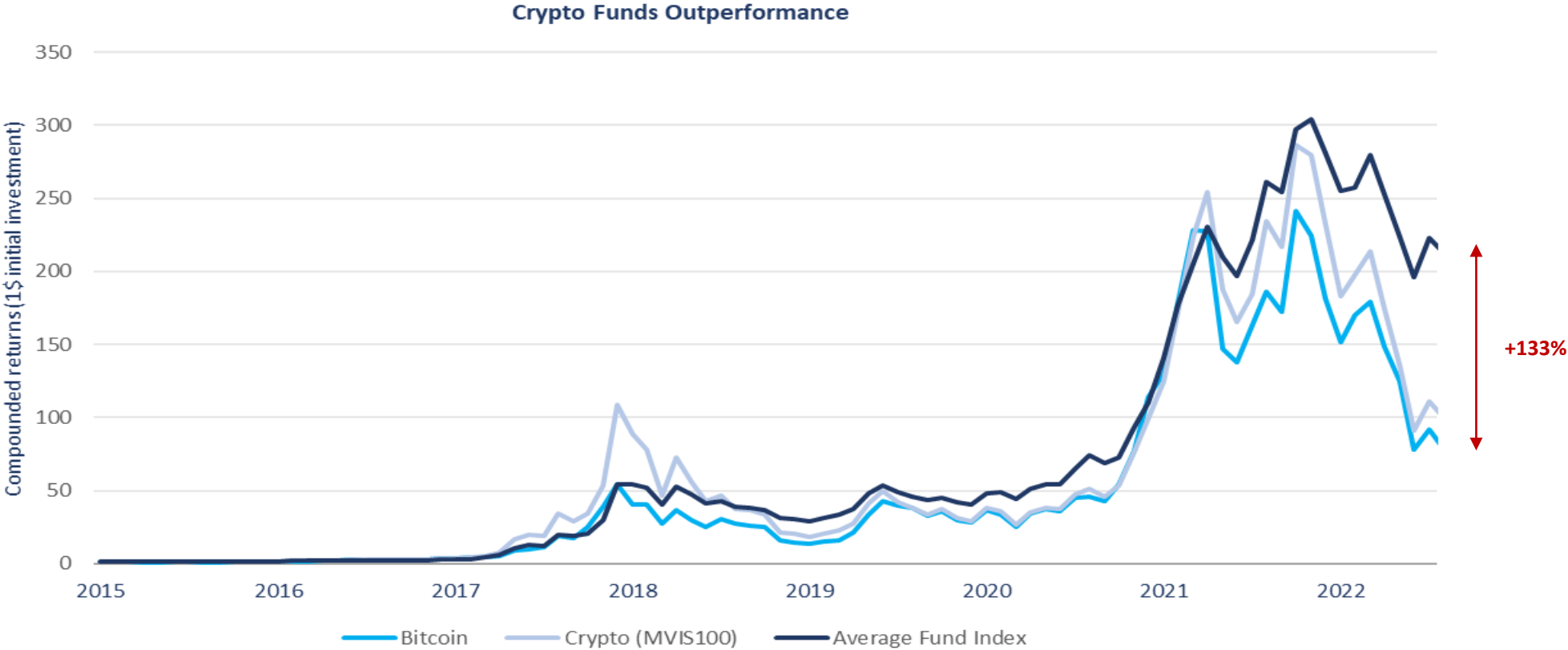
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Active Management Outperformance

Active funds have significantly outperformed bitcoin and passive crypto index



Data as of: 31st August 2022 | Source: Aaro Capital, 404 Cryptoasset and DLT Funds, CryptoCompare Net Returns, calculated in USD

Active Management Outperformance

Active funds have **lower volatility** and better **risk adjusted returns**

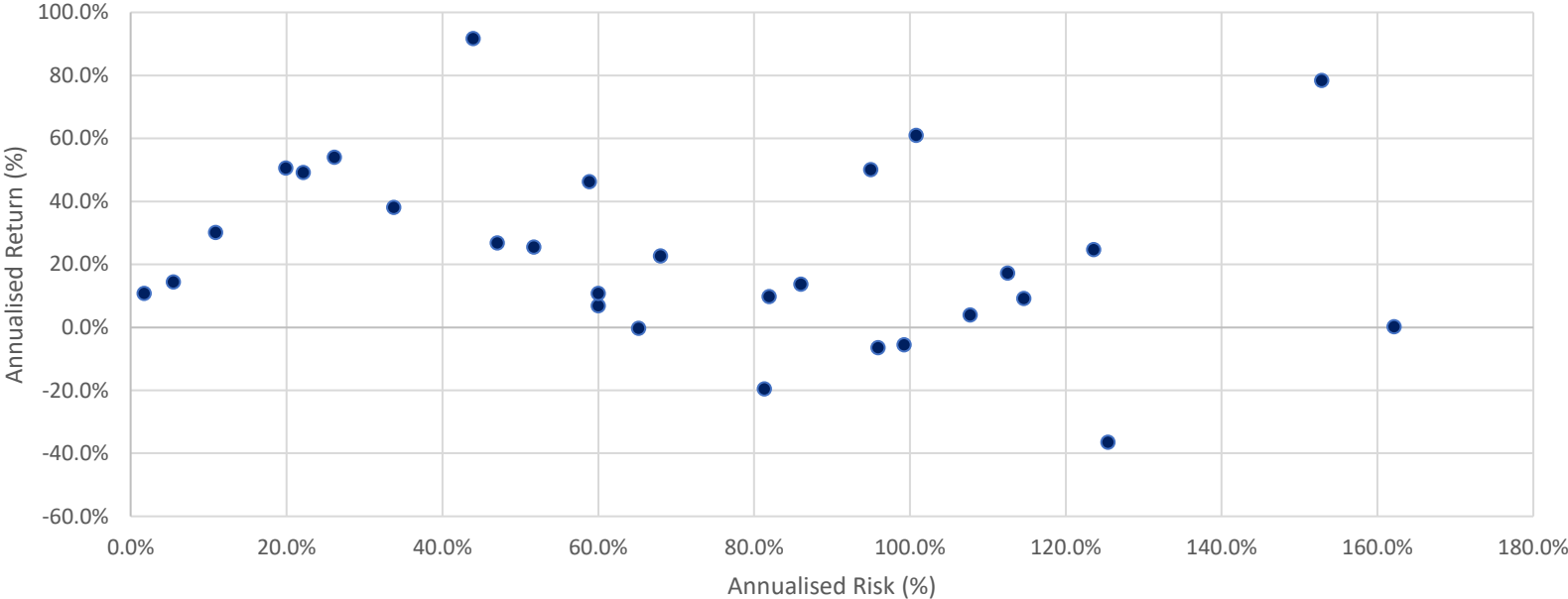
	Crypto Funds	MVIS100	Bitcoin
Cumulative Return S.I.	17521.0%	8492.0%	7491.4%
Ann. Return	104.0%	84.8%	81.7%
Ann. Volatility	63.7%	96.4%	81.0%
Ann. Sharpe	1.6	0.9	1.0
Ann. Sortino Ratio	6.6	2.5	2.4
Maximum Drawdown	-46.5%	-83.2%	-75.2%
% Positive Months	64.0%	57.0%	54.8%

Data as of: 31st August 2022 | Source: Aaro Capital, 404 Cryptoasset and DLT Funds, CryptoCompare
 Data: January 2015 – August 2022
 Net Returns, calculated in USD

Investment Dispersion

Dispersion in Cryptoasset and DLT fund performance

Cryptoasset and DLT Funds: Risk vs Rewards since 2018



Data as of: 31st August 2022 | Source: Aaro Capital
Based on reported and verified returns of 20 active fund managers since January 2018
Net Returns, calculated in USD

Operational Dispersion

Operational due diligence is equally as important as investment due diligence

Assets Under Management

Over 40% of funds have less than US\$20m in AuM, with fewer than 30% managing over US\$50m

Custody

c. 20% of funds do not use independent third-party or exchange custodians

Governance

c. 50% of funds have at least one independent director on their board

Valuations

Being able to accurately value a crypto fund remains challenging

Data as of: June 2022 | Source: PwC

Fund of Funds: Advantages



Access

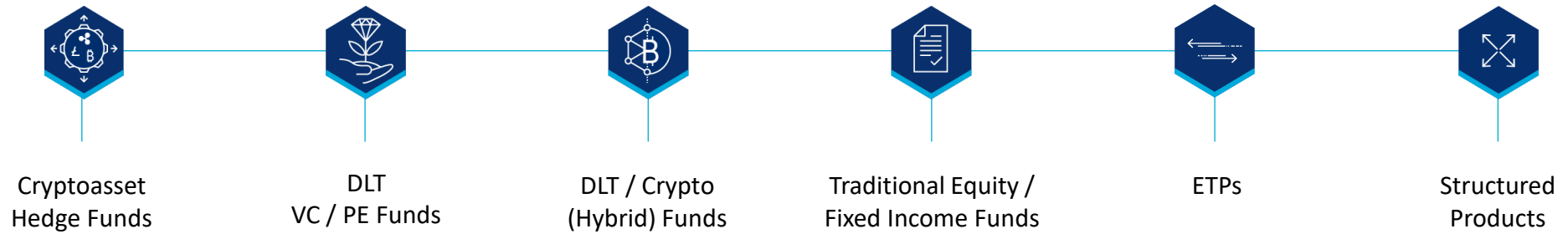


Diversification

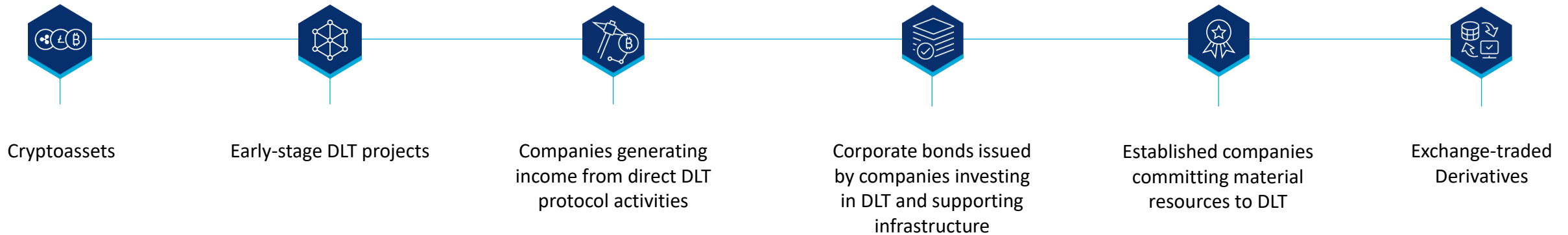


Expertise

Fund Types



Asset Exposures



Strategy Diversification

Aaro has developed its own Crypto strategy classifications, based on underlying managers' investment aims. Traditional classifications do not always work well in this space.



Non Directional

Arbitrage

- Cross Exchange
- Futures Basis
- Swaps
- Calendar Spread
- Volatility
- Market Making
- Structural

Yield

- Event Driven
- Lending
- Farming
- Staking
- Mining



Trading

Low Beta

- Mean Reversion
- Relative Value
- Other

Mid Beta

- Trend Following
- Other

High Beta

- Discretionary
- Other



Long Term

Active

- Token Investing
- Equity Investing
- Special Situations
- Yield Enhancing

Passive

- Cryptoassets
- DLT



Why Should Cryptoassets and DLT Even Exist

Why Invest in Cryptoassets and DLT

How to Gain Exposure to Cryptoassets and DLT

The Importance of an Economic Investment Approach

The Importance of Economic Analysis

In such a new and exciting space, it is easy to lose focus and get distracted by the shiny technology or to chase high past returns



Technology and Asset Class



Fundamental Economic Problem(s) Being Solved



Investment Theses: Sectors and Use Cases



Value Chain Analysis: Competitive Landscape

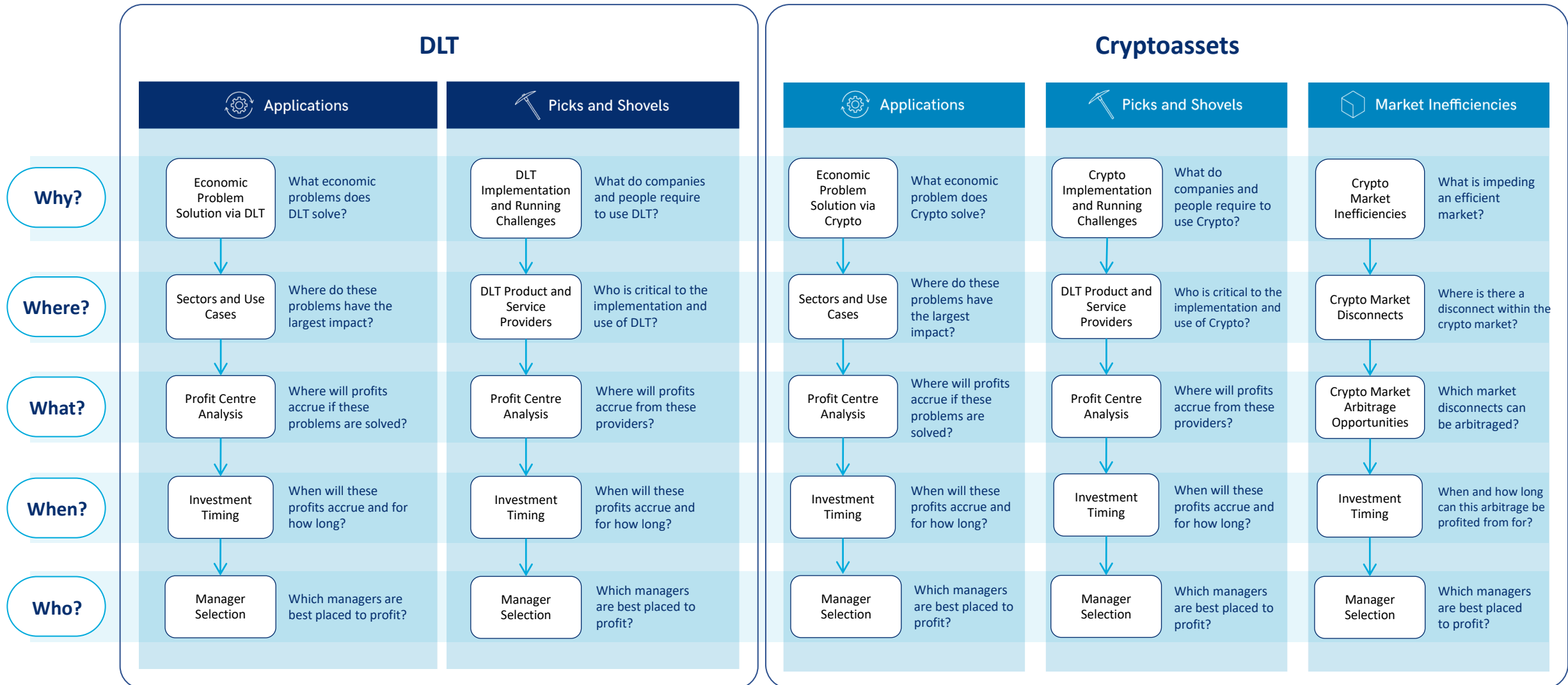


Profit Generation Centers



Timing of Profits



Economic Analysis: Dealing with Complexity



A Primer on the Economic Aspects of DLT and Cryptoassets

This paper provides a primer on DLT data architecture, decentralised DLT governance, forms of cryptoassets and how these innovations together provide unique economic benefits.



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An Introduction to Distributed Ledger Technology

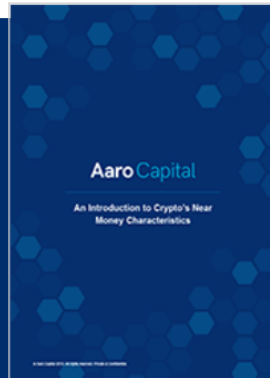
This paper outlines the core economic advantages of distributed ledgers, key enterprise DLT use cases, the economic design of permissionless ledgers and DLT's various stages of development.



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An Introduction to Crypto's Near Money Characteristics

This paper outlines the development of the modern monetary system, various forms of cryptoassets, the money-like characteristics of cryptocurrencies and possible routes to widespread cryptocurrency acceptance.





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An Introduction to Web 3.0

This paper provides an overview of the economics of decentralised applications, how different token types add value, the efficiency gains of true web-based payments and the economics of decentralised markets.



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Aaro Crypto Fund Indices

The Aaro Crypto Fund Indices are intended for investors seeking a broad representation of fund performance across different Cryptoasset and DLT investment strategies.

Composite (PG)

The Aaro Crypto Fund Index - Composite (PG) provides a broad measure of the performance of over 100 active fund managers that allocate to Distributed Ledger Technology (DLT) and cryptoassets. It acts as a composite index and includes all types of investment strategies.

[Go to Index →](#)

Long Term (PG)

The Aaro Crypto Fund Index - Long Term (PG) provides a broad measure of the performance of active fund managers that allocate at least 70% of their capital to Long Term strategies focused on Distributed Ledger Technology (DLT) and cryptoassets. This includes buy-and-hold, early-stage, liquid venture, special situations, and yield enhancing approaches.

[Go to Index →](#)

Multistrategy (PG)

The Aaro Crypto Fund Index - Multistrategy (PG) provides a broad measure of the performance of active fund managers that allocate at least 70% of their capital to multiple strategies focused on Distributed Ledger Technology (DLT) and cryptoassets, but not falling within the sole remit of Long Term, Trading or Non Directional.

[Go to Index →](#)

Trading (PG)

The Aaro Crypto Fund Index - Trading (PG) provides a broad measure of the performance of active fund managers that allocate at least 70% of their capital to Trading strategies focused on Distributed Ledger Technology (DLT) and cryptoassets. This includes both systematic and discretionary approaches.

[Go to Index →](#)

Non Directional (PG)

The Aaro Crypto Fund Index - Non Directional (PG) provides a broad measure of the performance of active fund managers that allocate at least 70% of their capital to Non Directional strategies focused on Distributed Ledger Technology (DLT) and cryptoassets. This includes various forms of arbitrage, as well as yield generation through lending, staking, farming, airdrops and forks.

[Go to Index →](#)

Summary

- Cryptoassets and DLT present a compelling investment opportunity, with high risk-adjusted returns and low correlations
- An actively managed approach is justified, given the challenges that come with direct or passive exposure
- Active funds are using a range of different strategies to gain exposure to the market
- Fund of Funds offer **access**, **diversification** and **expertise**, and are therefore well positioned to capture the growth of this asset class



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