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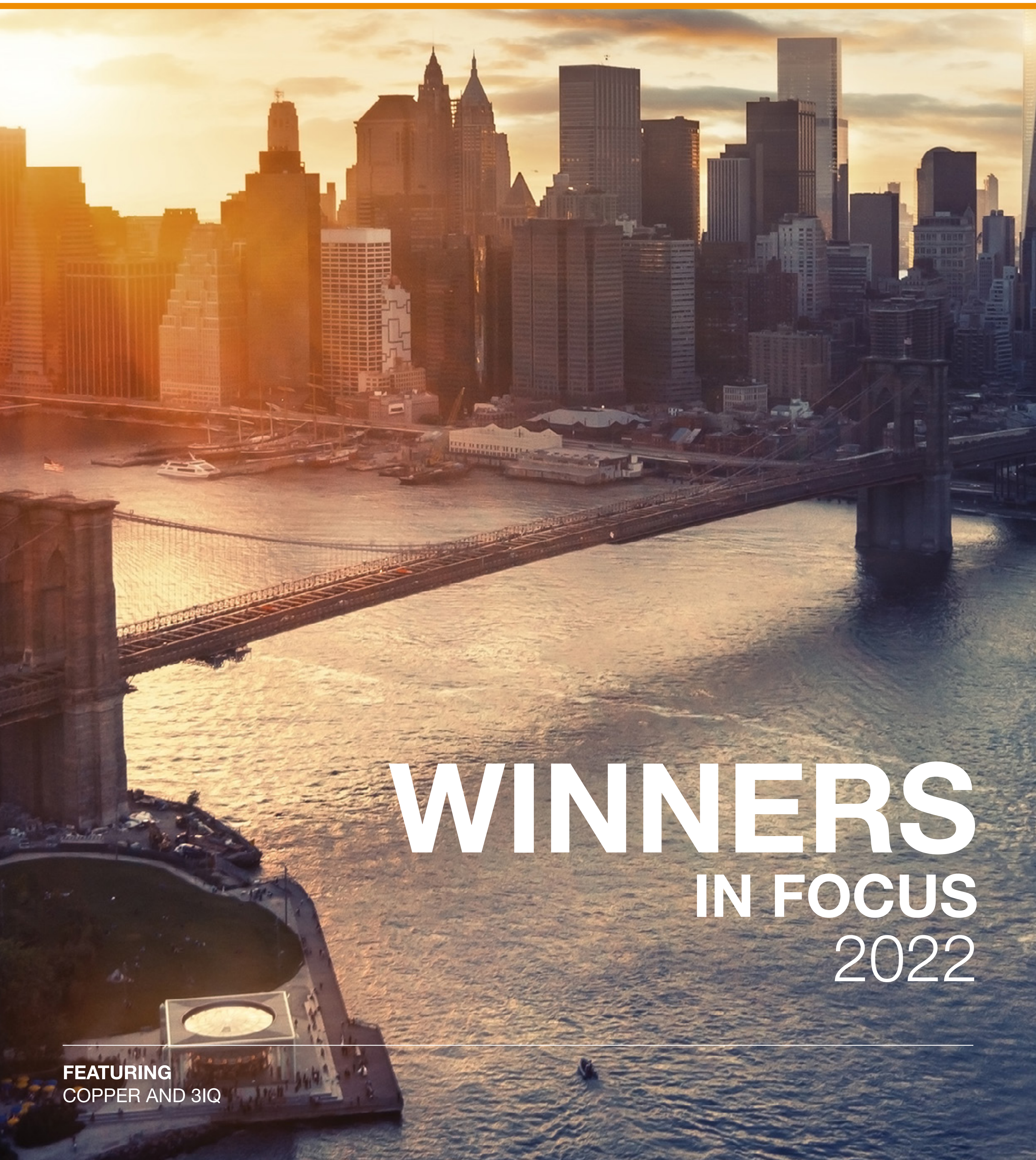

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The industry frameworks to support the growing demand for investment in digital assets is developing fast. Experienced service providers and managers in this arena are giving investors the reassurance and guidance they require.

Investors looking to get exposure to this nascent asset class often look for support regarding a number of potential concerns including security, vehicles and the potential size of their allocation. This report details some of the key developments in the industry as well as considerations investors exploring the space should keep in mind.

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BEST CUSTODIAN – TECHNOLOGY

BEST TECHNOLOGY – OVERALL

As more institutional investors buy crypto currency and digital assets, the need to provide the highest level of custody and safekeeping remains essential, given their focus on counterparty risk. Their growing presence in the space also means it is becoming more important for this group to feel more comfortable with the prime service-like offerings available.

"The prime service-like elements we are putting together at Copper, and have delivered to the market so far, have changed considerably," explains Glenn Barber, Head of Sales & Business Development, Americas, Copper.co

"We know investors want to have the best tools possible, especially in an environment that can have significant periods of volatility."

"Against this background, investor offerings with respect to execution, clearing and settlement, even access to DeFi have become more important to make sure investors feel more comfortable that the prime services-like offerings at Copper will meet their demands and will have the required functionality."

These developments are the fruit of heightening awareness of risk that institutional investors now have. Digital assets are virtual, bearer and global in nature and these investors now want some reassurance when making transactions, that the necessary due diligence is done on who they are trading with.

"There are unique aspects of the asset class which we need to account for," Barber identifies, "This is the only asset class in the world where 100% of the value of a transaction is inherently at risk if what can be considered as a simple operational mistake is made. One with little to no recourse if that mistake is made"

Therefore, much of the work being done is geared towards improving transactions as institutions now require a more detailed analysis of who the participants and providers are within their own digital asset ecosystem.

Copper credits a large amount of its success to its focus in this area. "Our most basic value proposition to clients and prospective clients is that we believe we offer the absolute highest level of safekeeping for digital assets and crypto. Winning the Hedgeweek awards for Best Digital Asset Custodian and Best Technology – Custody confirms and recognises our work," Barber outlines.

However, despite the strides being made in strengthening the infrastructure to support institutional participation in the digital assets market, Barber recognised the persistent lack a defined regulatory framework. "There is less visibility on the way forward here than most dedicated market participants would like to see. Experienced digital asset institutions are best placed to articulate and anticipate some of the unfortunate unintended consequences of hastily created regulations. A proposed framework that then allowed a period of public commentary to align both regulators and participants would go a long way." Barber highlights.

He believes the same lack of regulatory guidance and clarity by governments to recognise this as a new asset class and create some form of sandbox environment or a temporary framework is the biggest challenge facing the digital assets market at present.

As institutional and retail adoption of crypto continues to grow globally, regulators know they will be forced to respond. However, Barber cautions against doing this too quickly: "With this being a nascent and new asset class, many results and outcomes will never actually be known until the framework is actually put into place. You don't want it to be about trial and error. Even if you do it for the right reasons, a hastily assembled set of rules and regulations is probably not going to be the best." ■

GLENN BARBER

HEAD OF SALES, AMERICAS, COPPER.CO

Glenn Barber is the Head of Sales & Business Development, Americas at Copper.co. – a pioneering digital assets custody and settlement provider. Prior to joining Copper, Glenn led sales as a consultant at FalconX, an institutional digital asset brokerage, and he was also the Chief Institutional Officer at Voyager Digital, a publicly-traded holding company whose subsidiaries operate a crypto-asset platform to trade crypto assets. Glenn also has over 25 years' experience in global capital markets and was a Managing Director in Equities at Deutsche Bank and Barclays

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Find out more:

1 (416) 639-2130
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1020 – 181 Bay Street, Box 760
Toronto, Ontario
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BEST AMERICAS DIGITAL ASSET FUND (AUM LESS THAN 25MM)

Sizing a digital assets allocation correctly is one of the most strategic and challenging decisions institutional investors need to make when considering an investment in this asset class. Being judicious in their manager selection process and understanding the risks and complexities of this maturing asset class will also provide a boon to institutional adoption of crypto and digital assets.

“The number one question we get is “how much do I allocate?” There are challenges and risks institutional investors need to consider when sizing their crypto allocation,” cautions Chris Matta, President of 3iQ Digital Assets (US), “this is a really volatile space, which can work for or against you, depending on whether your investment is sized correctly.”

The asymmetric nature of the asset class is one element which makes it a compelling investment. Correlation of digital assets to traditional risk assets like equities and fixed income has been low to even negative, historically. If an institution can allocate one per cent of their risk budget to digital assets, their downside is capped at one per cent, while the potential upside could meaningfully contribute overall. The asset class has generated multiples of returns, over the years improving risk adjusted returns for those willing to allocate.

“Even a one percent investment can dramatically help an overall institutional portfolio outperform, especially because that allocation is not highly correlated to the rest of the portfolio, which is a significant benefit,” notes Matta.

He suggests the attraction of the asset class is in fact its more volatile risk profile, behaving like a venture style investment but with better liquidity. “Investors are getting exposure to early-stage developments in this technology, and it is a considerable potential opportunity. This could represent the most significant revolution since the internet and players get to invest in that infrastructure. However, they also have to understand they are being compensated with those strong returns because of that high level of risk.”

Given the progress and development witnessed in the crypto and digital assets space over the last several years, institutions now have more options in how they can access the asset class.

“In addition to sizing, it is important to match the right vehicle with the right investor,” outlines Matta, “Today investors can participate in the digital asset ecosystem beyond owning physical crypto, like earning attractive yield through digital lending, mining or staking assets . There is no one-size-fits-all solution. One institution may have a different investment objective, risk tolerance or investment time horizon. So, it is really key to educate investors on what the appropriate vehicle for them is.”

He highlights how complementary to that choice is manager selection: “Institutions need to look for established managers which have long track records, and have a large, sizable amount of assets. A few years ago, such a group did not exist but now as the market has matured there are a few in the space – with 3iQ being one of them.

“Unlike any other asset class, doing the appropriate due diligence is critical because this is where institutions could expose themselves to certain risks they may not have considered.”

Matta points out that there are several institutional asset managers to choose from with a substantial track record of managing more than USD1 billion in AUM within the crypto space.3iQ is one of the largest asset managers globally and has been solely focused on this space for many years helping investors navigate the complexities of the asset class as the investment landscape rapidly evolves. ■

CHRIS MATTA

PRESIDENT, 3IQ DIGITAL ASSETS (US)

Chris is the President of 3iQ Digital Assets (US).
Chris also serves as the President and Founder of the Blockchain Association of New Jersey, which advocates for innovative regulatory leadership and enterprise collaboration for the cryptocurrency space. Prior to joining 3iQ, Chris was the Co-Founder of Crescent Crypto, an asset management firm focused on creating innovative investment solutions to bring the cryptocurrency asset class to institutional and mainstream investors. Previously, Chris was a Vice President at Goldman Sachs where he managed assets for the Goldman Sachs Philanthropy Fund and Trust Company.

3iQ Corp. (3iQ) is a Digital Asset Management firm founded in 2012 by investment industry veteran Fred Pye. 3iQ's mission—then and now-- is to provide investors access to the returns of digital assets inside traditional financial accounts. Since 2012, 3iQ has forged ahead with many "firsts" in digital asset investing. In 2017, 3iQ became the first regulated Digital Asset Investment Fund Manager in Canada. Shortly after, 3iQ launched the Global Crypto Asset Fund, one of the industry's first funds based on a diversified portfolio of multiple crypto assets. Additionally, 3iQ launched North America's first major-exchange listed Bitcoin and Ether Funds in 2020, fast-followed in 2021 by the Bitcoin and Ethereum ETFs in collaboration with CoinShares. Building off the momentum created by introducing innovative solutions to the marketplace since its founding, 3iQ is an industry thought leader that is committed to delivering new products and solutions that will continue to define digital asset investment management.

Fred Pye, Chairman & CEO
T: (416) 639 – 2130
E: fpye@3iQ.ca
3iq.ca

Copper is transforming how institutional investors engage with digital assets, providing market-leading infrastructure in addition to custody, trading and prime brokerage solutions. Our award-winning custody application leverages the genius of multi-party computation (MPC) encryption and can be configured to support cold, warm, and hot wallet solutions. Asset managers are further protected by our pioneering ClearLoop network, which enables off-exchange trading and settlement at tier-1 digital asset exchanges. An offering enhanced by the availability of uncollateralised lending. Copper's secure wallet architecture is available as a standalone application, a mobile app, and a browser extension for smart contract signing.

Sophie Arnold
T: +44 (0) 207 101 9455
E: hello@copper.co
www.copper.co

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