

Morgan Lewis

GLOBAL SPONSOR FORUM

Digital Assets in Private Funds: Primary
Considerations and Current Trends

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Speakers



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Overview

- Introductions
- Recent overview of the digital assets funds sector
- Important considerations for sponsors
- Important considerations for investors
- Questions

Venture and Growth Funds – Summary

1. Unprecedented growth in 2021, looks set to continue in 2022
2. Growth and later stage investing
3. Asset class becoming more institutionalized
4. Will greater regulatory certainty lead to more stability?

1. Unprecedented Growth

THE BLOCK | Research

Venture & Private Investment (YoY)

Crypto & Blockchain Sub Verticals (Includes some Data Management/SaaS/Business Intelligence Platforms)

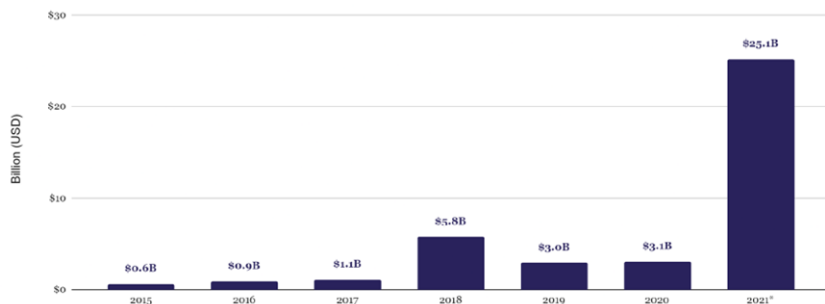


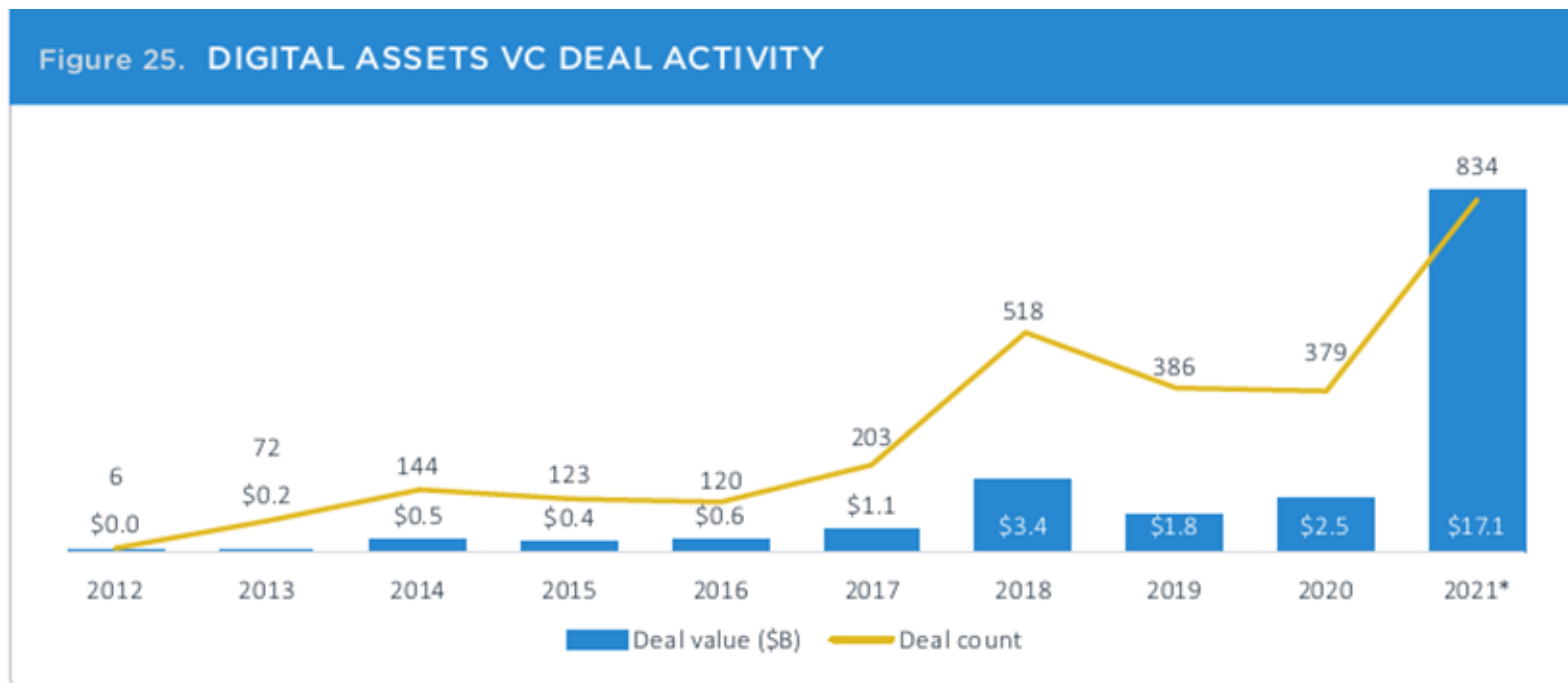
Figure 27: Yearly Venture & private investment 2015-2021
Source: Crunchbase, Dove Metrics, Pitchbook, The Block Research

2021 CRYPTO/BLOCKCHAIN INSIGHTS	
FINANCING	M&A
<p>APPROXIMATELY</p> <p>\$25.1 Billion</p> <p>IN FINANCING VOLUME</p> <hr/> <p>1,703</p> <p>TRANSACTIONS</p>	<p>APPROXIMATELY</p> <p>\$6.1 Billion</p> <p>IN M&A VOLUME</p> <hr/> <p>201</p> <p>TRANSACTIONS</p>
<p>Venture funding in 2021 went parabolic for the crypto sector with a 709% YoY increase in total funding and a 120% YoY increase in the number of deals</p>	<p>M&A dollar volume increased roughly 730% YoY and the \$6.1 billion this year equates to roughly double the amount than the sector's previous eight years combined.</p>

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Figure 26: Financing and M&A summary 2021
Source: Crunchbase, Dove Metrics, Pitchbook, The Block Research

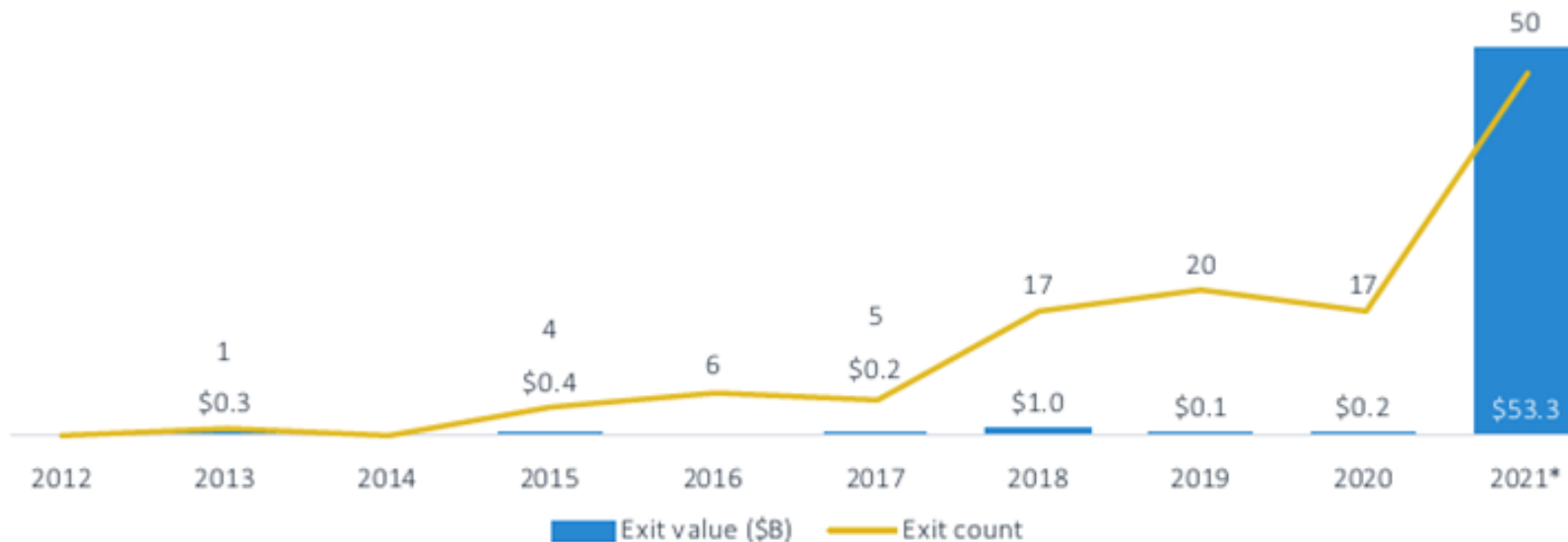
1. Unprecedented Growth



Source: PitchBook Geography: Global *as of December 31, 2021

1. Unprecedented Growth

Figure 26. DIGITAL ASSETS VC EXIT ACTIVITY

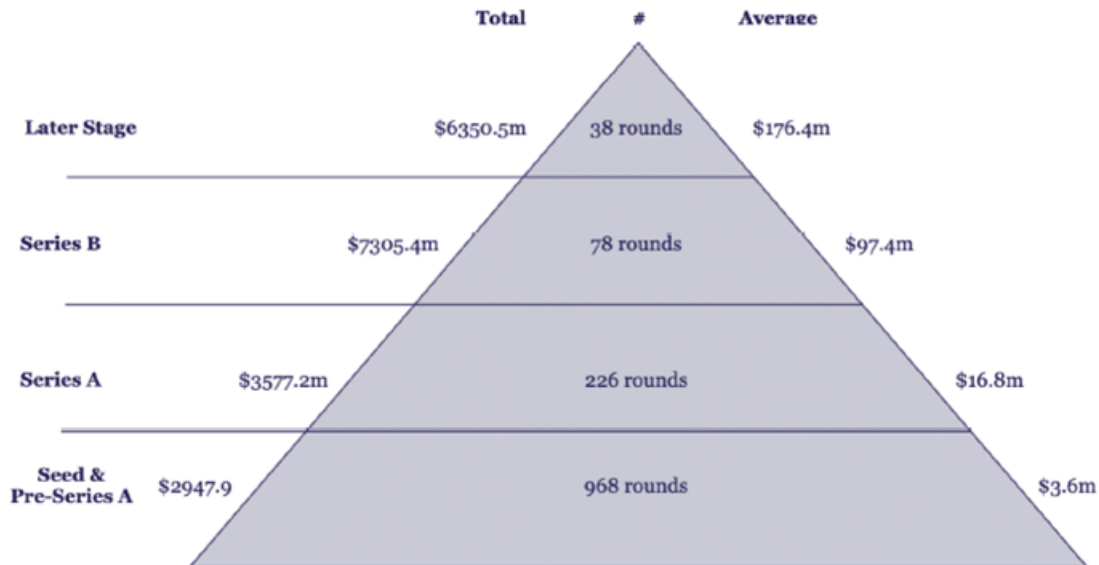


Source: PitchBook Geography: Global *as of December 31, 2021

2. Growth and Later Stage Investing

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Blockchain/Crypto Fundraises in 2021 (YTD)



Pre Seed: \$27.7m across 62 rounds (\$0.6m average)

**Visual excludes token treasury sales, corporate deals, equity crowdfunding, angel investments, & unknown deal types*

Figure 28: Blockchain/Crypto Fundraises in 2021

Source: Crunchbase, Dove Metrics, Pitchbook, The Block Research

3. Institutionalization

Aug 12, 2021, 04:10pm EDT | 30,496 views

Institutional Money Is Pouring Into The Crypto Market And Its Only Going To Grow



Lawrence Wintermeyer Contributor

Fintech

I cover fintech, crypto and digital assets, and sustainable finance.

Follow

- A recent study conducted by an institutional digital assets fund manager found that 7 out of 10 institutional investors expect to buy or invest in cryptoassets in the near future.
- More than half of the 1,100 respondents surveyed between December and April 2021 revealed that they already own such investments.

4. Greater Regulatory Certainty

- Will greater regulatory certainty lead to more stability?
- US Executive Order
- UK update



LAWFLASH

BIDEN-HARRIS ADMINISTRATION TAKES ON DIGITAL ASSET REGULATION

March 29, 2022

US President Joseph Biden's recent executive order outlines the administration's first take on regulating the digital asset industry, which includes cryptocurrency and non-fungible tokens. The order lays out six policy objectives and calls on federal agencies to produce reports on how these objectives interact with the industry.

Sponsor Concerns

- Investment Thesis
- LPA permissions
- Equalisation and volatility
- Distributions in specie
- Contributions in specie
- Banking and custody
- AML/Sanctions

LP Concerns

- Is a digital asset a security, a commodity, or currency?
- Custody/storage concerns
- Sponsor capability – scope creep
- Valuations and volatility
- Direct vs. indirect exposure – Tesla?

LP Concerns

- Regulatory focus
- DeFi and fiduciary obligations
- AML concerns – esp. with in-kind transactions
- Governance – does fund have an independent custodian, independent directors?
- Lock ups/gates

Questions?

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Attorney Biographies

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The co-leader of the firm's FinTech Industry group, Rob Mailer focuses on private investment fund formation and fundraising, representing managers and investors across a wide range of strategies, including growth, venture capital, infrastructure, debt, and buy-out. He has a particular focus on clients investing in new technologies such as artificial intelligence and fintech, and has substantial experience advising teams on spin outs and the establishment of new fund management companies, as well as on defaulting investor and on other ongoing and end-of-life funds issues.

Among other cutting-edge funds, Rob led the team acting on the recent fund raises variously focused on web 3, digital assets and AI for Fabric Ventures and Air Street Capital.

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The co-leader of Morgan Lewis's global private funds practice, Courtney Nowell advises global institutional investor clients on the terms of their inbound and outbound investments, including into private equity and other co-mingled open-ended and closed-ended investment funds. She has over 20 years' experience drafting and negotiating the terms of investment agreements and side letters for clients investing into leveraged buyout, venture capital, distressed debt, special opportunity, real estate, hedge, energy, infrastructure, and credit funds. She also represents investors in opportunity and sidecar funds, co-investment funds and with the drafting and negotiating of funds of one and other bespoke strategic private investment partnerships.

Courtney's clients include sovereign wealth funds and major public and private pension funds, as well as foundations, endowments and family offices.

Before joining Morgan Lewis, Courtney was a partner at another global law firm and a member of its global board. She also worked at a national accounting and professional services firm where she advised on tax rulings and tax legislative developments.

Courtney is a former member of the board of directors of a foundation that supports a legal fellowship program that awards fellowships to law students who demonstrate a commitment to public service and public policy.

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Andrew Ray represents public and private companies, financial sponsors, investors, including venture capital and private equity firms, entrepreneurs and management teams in cross-border mergers and acquisitions (M&A), financings, and growth equity transactions. He has transactional experience in a broad range of industries, including technology, financial services, government contracts, life sciences, real estate, energy and the not-for-profit sector. Various industry publications and credentialing organizations recognize Andy as a leader in both M&A and in technology, media, and communications law, among other fields. Andy serves as a co-leader of the firm's financial technology (fintech) industry team, and he previously served as the leader of the firm's interdisciplinary corporate practice in Washington, DC.

Among other high profile transactions, Andy led the team representing Oculus VR from its initial formation through its \$2 billion sale to Facebook, which was named the *M&A Advisor* M&A Deal of the Year.

Andy writes and speaks frequently on topics that include corporate finance, private equity, technology, M&A, corporate governance, and cross-border deals.

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Stephen C. Tirrell's practice focuses on advising private investment funds (U.S. and non-US) and investment advisers in relation to all aspects of their businesses. Steve assists clients in the structure and organization of hedge funds, hybrid funds and private equity funds, including equity, arbitrage, distressed, global macro, funds of funds, first-loss funds, real estate funds, infrastructure funds and others. Steve counsels clients on seed capital arrangements, compensation arrangements among partners and employees, complex fund restructurings, co-investments and compliance with the Investment Advisers Act of 1940 and other relevant U.S. securities laws.

In addition to his private fund practice, Steve represents and advises a variety of entities, including banks, broker-dealers, CDOs, and hedge funds, with respect to issues involving joint venture arrangements, derivatives products and new product development.

At a previous firm, Steve was a member of both the investment management and structured products groups and split his time between structuring a variety of hedge funds and negotiating complex derivative transactions.

Before joining Morgan Lewis, Steve was at another international law firm, where he was a partner in their investment management practice.

THANK YOU

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