



# PERSPECTIVES

---

## ISSUE 2 ▪ Digital Assets Research Framework

MAY 2024

### Executive Summary

- The digital asset market is rapidly expanding, with new assets emerging daily. This rapid growth, fueled by permissionless infrastructure, allows investors to tap into innovative projects early. Digital asset investors can co-own and support projects from inception, creating powerful network effects that drive project sustainability and growth. DCAP's strategic approach considers this and ensures that the most promising projects are identified.
- However, the market faces challenges like project failures and scams, so thorough research is essential for informed decision-making. For its Web3 Multi-Strategy Fund, DCAP has developed a comprehensive digital asset research framework to overcome such complexities. This framework ensures that only the most promising projects are identified and pursued, maximizing the potential for successful investments.
- DCAP employs a well-defined multi-stage digital asset research process, starting with a review of the investment universe and narrowing down through high-level screening, detailed analysis, and rigorous evaluation by the Investment Committee. Each potential investment undergoes thorough scrutiny, including an Internal Research Report covering various aspects such as asset fundamentals, asset valuation, tokenomics, team credibility, technology, and other areas. This comprehensive approach culminates in an investment proposal to the Investment Committee, which will review the proposal and make the final decision.
- This article explores DCAP's Web3 Multi-Strategy Fund's digital asset research approach and how it helps overcome the challenges faced in the digital asset landscape.

# 1. Introduction

The world of digital assets is expanding rapidly, and new assets are being created daily. As depicted in the figure below, which shows the number of digital assets newly listed on Coinmarketcap from 2013 to 2024, it can be challenging to keep up with this dynamic and innovative market, particularly for those who lack specialization and time. In this fast-paced environment, it becomes crucial to thoroughly research digital assets to separate the signal from the noise and make informed investment decisions.

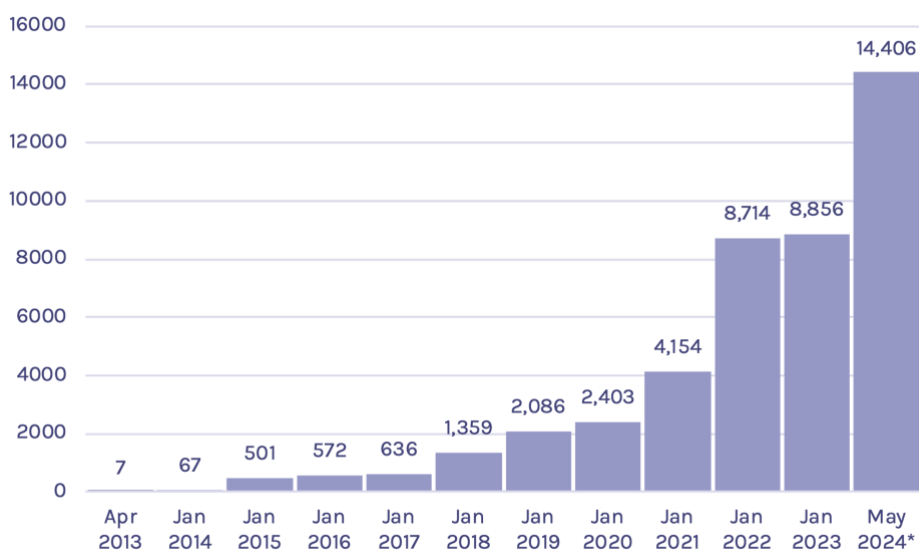


Figure 1 - Number of Digital Assets Listed

Source: The number of digital assets listed is based on an analysis from Exploding Topics, with the most recent data point sourced from CoinGecko showing the total number of digital assets tracked. - Accessed 23 May 2024

One reason behind digital assets' rapid growth is the permissionless infrastructure on which they are built. Unlike traditional financial instruments, anyone can create a digital asset within minutes without the need for approval processes. This open market is similar to the venture capital (VC) space, as digital asset projects raise funds and rally supporters around their tokens, often before the project is fully developed. However, digital asset tokens are more liquid than traditional VC investments, offering a significant advantage when managing a portfolio.

The network effects of Web3 projects are a significant aspect of their growth and performance. Users can invest in digital assets of Web3 projects early on and at low valuations to have a stake in a project from the very beginning, resulting in a strong network effect as the user base grows. This effect is essential for the sustainability and growth of Web3 projects. This is unlike traditional companies that cannot be traded or co-owned by the general public during the venture capital phase and only become investable or co-ownable after an IPO with valuations already in the billions. Therefore, network effects are critical for Web3 projects and digital assets.

While the digital asset market provides exciting opportunities, it has its fair share of challenges. The sheer number of emerging projects, high failure rates, and scams make navigating and identifying promising projects difficult. This is illustrated by the figure below,

showing the number of deactivated digital assets on CoinGecko from 2014 to 2023, which can be viewed as a proxy measure for the number of failed digital asset projects.<sup>1</sup>

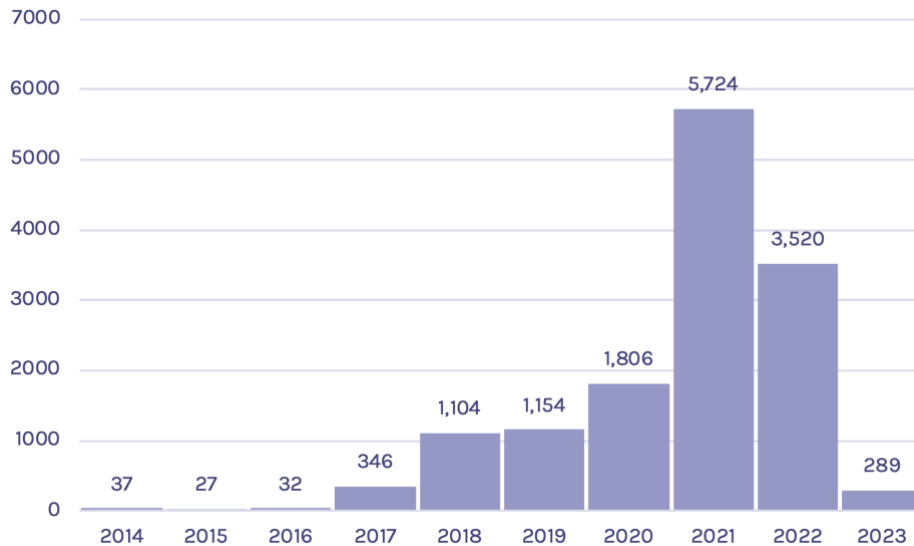


Figure 2 – Number of Deactivated Digital Asset Projects on CoinGecko, Grouped by the Year Initially Listed  
 Source: CoinGecko Research – Accessed 23 May 2024

Thorough research becomes indispensable in this context, and the open-source nature of digital asset technology proves to be a valuable aspect. By delving into the code behind a project and evaluating it from a technological perspective, researchers can gain valuable insights and make more informed assessments. This opens up new possibilities previously unavailable when researching traditional financial instruments.

DCAP has established a thorough framework for its Web3 Multi-Strategy Fund to navigate and research the digital asset landscape by leveraging the open, permissionless technology that underpins digital assets. As a result, DCAP has developed robust processes to address these challenges. This article will delve into the details of the digital asset research framework established for the Web3 Multi-Strategy Fund, exploring the steps and methodologies employed to identify digital assets with high potential in this innovative and volatile market.

<sup>1</sup> For further details on the methodology and data utilized, please refer to: <https://www.coingecko.com/research/publications/how-many-cryptocurrencies-failed>. Additional information can be found at <https://www.coinopsy.com/dead-coins>. This topic has also been covered in academia; see, for example, MA, Donglian; Jun TU; and ZHU, Zhaobo. In search of cryptocurrency failure. (2023). 1-82. Available at: [https://ink.library.smu.edu.sg/lkcsb\\_research/7442](https://ink.library.smu.edu.sg/lkcsb_research/7442).

## 2. DCAP Digital Assets Research Framework

In this section, we will delve into the digital asset research framework employed by DCAP for its Web3 Multi-Strategy Fund, outlining the processes and methodologies utilized to structure our digital asset research. Our research process comprises four key steps that narrow the available investment universe into proposals for investment. The figure below summarises the research process on a high level.

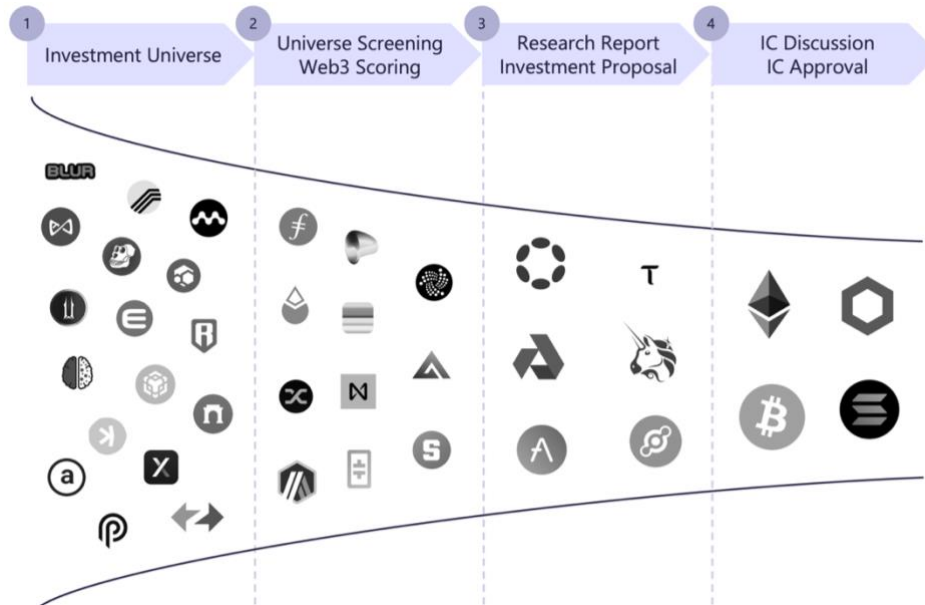


Figure 3 - DCAP Digital Asset Research Process Overview

In short, DCAP's digital asset research process begins by reviewing the investment universe, i.e., the digital assets available for trading and custody. We conduct a high-level screening to identify promising digital assets, followed by a Web3 scoring to assess their potential. Suitable assets move to a more detailed research phase, where a thorough analysis is conducted across various dimensions. If still deemed suitable for the Web3 Multi-Strategy Fund, an investment case is developed, and assets are proposed to the Investment Committee (IC), which reviews the research material. The IC then decides whether to whitelist the asset for investment, actively shaping the research process and demanding further research when necessary.

We will now cover these four steps in detail.

### Step 1: Available Investment Universe

Reliable venues and service providers are essential to facilitate the trading and custody of digital assets. DCAP has taken the necessary steps to onboard the Web3 Multi-Strategy Fund with multiple service providers, enabling the Fund to access a wide range of assets. As a result, the Fund can trade and custody 300+ digital assets. This defines our investment universe and builds the baseline for our research process.

### Step 2a: Investment Universe Screening

Utilizing various tools and resources, we continuously scan the investment universe for new trends and promising digital assets. Our process includes:

- Leveraging our in-house digital asset expertise, our activities in the digital asset space, and our connections to identify, evaluate, and prioritize trends and emerging projects, paired with regular screening of the relevant news sites and external research material
- Leveraging services like Messari Enterprise to access data, analysis, and external research insights
- Regular internal market reviews and trends meetings, as well as discussions with external advisors and subject matter experts to gain other insights and challenge our perspectives
- Connecting with other research teams and other digital asset managers to gain their insights, for example, the ones our fund is invested into through our third-party strategy allocation
- Participating in local events, meetups, and conferences to leverage our network to connect directly with blockchain projects and their creators, as well as participating in external research and market calls from other service providers
- Being a member of relevant communities and associations such as the Multichain Asset Managers Association (MAMA) and the Blockchain Game Alliance (BGA)

### Step 2b: Web3 Scoring

Upon identifying a promising digital asset, our proprietary **Web3 Scoring Model** is employed to determine its suitability for our portfolio. This involves a predefined questionnaire that assesses the asset across multiple dimensions and is designed to be completed in a reasonable timeframe. The questionnaire provides an initial evaluation of whether the asset warrants further in-depth research.

**Web3 Relevance & Orientation Assessment**

Asset: dYdX

Category Breakdown	Score
Strategy	4.33
Web3 Metrics	4.00
Web3 Values	4.50
Leadership	4.33
Technology and Operations	3.75

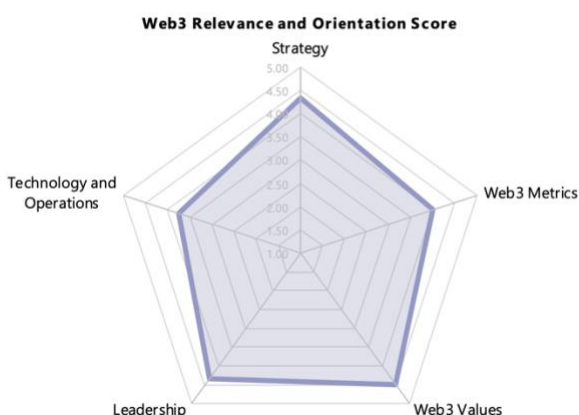


Figure 4 - Output of DCAP's Proprietary Web3 Scoring Model

### Step 3: Internal Research Report

This is the most in-depth research phase of our research process. Our analysts will research a digital asset over several days, documenting the findings in a detailed **Internal Research Report**. This process is designed to provide a comprehensive understanding of the asset, evaluate its potential benefits and associated risks, and ultimately determine its suitability for our portfolio.



Figure 5 - Example of a DCAP Internal Research Report

This phase relies on a predefined Internal Research Report template with predefined categories and questions to ensure uniform coverage and documentation for each asset. The template has been reviewed and approved by the IC and is structured into the following seven sections:

#### Section 1 – Asset Profile and Fundamentals

This section provides a first overview and introduction to the project covered in the report. It outlines how the digital asset fits into the Web3 ecosystem and how it could become an integral part of the ecosystem in the future.

#### Section 2 – Asset Valuation

To assess the asset's valuation, we look for various metrics that indicate whether it has the potential to continue to grow or if it could be overvalued. This is achieved by looking at relative valuations and metrics that can proxy the value of the protocol underpinning the asset. The asset is also compared to its peers and competitors. The data sources and methodologies vary depending on the underlying asset and use case.

#### Section 3 – Tokenomics

The interaction between demand and supply for an asset, the implemented token economics, and potential network effects are crucial for determining whether it has a potential for price appreciation. We particularly examine inflationary token mechanisms, token lock-ups (vesting periods), community token airdrops, and token burn mechanisms. These aspects are important for ensuring an expanding supply does not dilute the token value. This section also considers network effects, which can significantly contribute to a project's long-term growth. In simple terms, early investors can buy digital assets of Web3 projects at low valuations and have a stake in a project from its inception. This typically results in strong network effects as the user base grows. However, it's essential to carefully examine the underlying token and incentive mechanisms to ensure their long-term sustainability and effectiveness.

#### Section 4 – Team and Governance

The team behind a protocol is fundamental to its success. We research the background of team members and whether they seem credible. We also review protocol governance structures and the extent to which the community plays a role in shaping the protocol's future. For example, we analyze protocol governance structures that can vary from on-chain DAOs to off-chain forums, each with advantages and drawbacks.

#### Section 5 – Technology and Operational Risk

The technology underpinning the asset and protocol is often one of the most critical factors in deciding a protocol's success or failure. If a protocol has been poorly implemented, it can lead to its collapse. Therefore, we ensure the team has built a robust technology stack, is adequately organized, and has taken the appropriate measures, for example, by regularly conducting code audits and administering bug bounties. We research various technology aspects and ensure that teams follow best practices when building smart-contract-based applications.

#### Section 6 – Publicly Known Legal Issues

Several Web3 protocols and applications have been subject to legal enforcement and litigation. Most notably, the uncertainty over the regulatory treatment of several digital assets poses a long-term threat to the industry. We examine the public domain for rumors or reports regarding regulatory scrutiny and legal disputes that could affect a project's stability and reputation.

#### Section 7 – Third-Party Sources Review

Although we've conducted a thorough analysis in the preceding sections of our report, we recognize that the digital asset space is developing rapidly. To mitigate the risk of overlooking potential developments, we screen third-party sources for news, research reports, and incident coverage. Internally, we maintain a list of valuable external resources curated by our research team that have proven reliable information outlets.

These seven categories define the basic structure of our Internal Research Reports. Based on this structure and the predefined questions, our analysts will research a digital asset over several days, documenting the findings in a detailed Internal Research Report. Subsequently, such a report forms the basis of the IC discussion when considering an asset for investment.

#### Research Resources

We leverage various tools and information sources to manage and complement our research process. AirTable helps us track our asset universe and automate review notifications, ensuring transparency and timely updates.

Messari provides market and on-chain data, market insights, and alerts, which we integrate into our analyses and decision-making processes. In addition to external tools and services, we have also developed our own in-house proprietary tools, such as the Market Data Report Tool and Bridge Screener. These allow us to assess asset performance and bridge risks. Additionally, our Data Science Environment facilitates quantitative analyses, backtesting, and risk assessments.

### Step 4: Investment Committee Memorandum & Proposal

Upon concluding that a digital asset is suitable for inclusion in the portfolio, it is proposed to the Investment Committee (IC). As part of this process, an **Investment Memorandum** is written articulating the investment rationale for the asset and other relevant aspects, such as potential strategic market timing opportunities, upcoming token unlocks, or inflationary tokenomics.

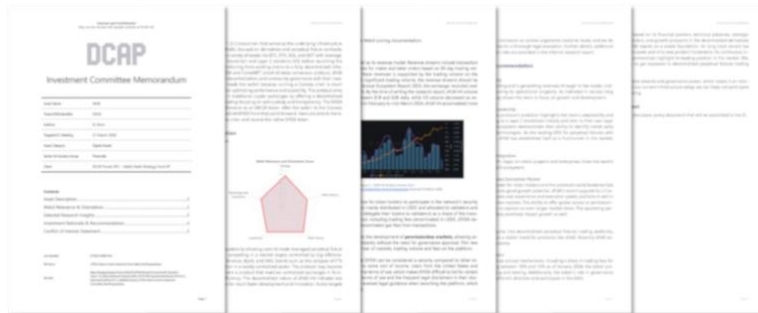


Figure 6 - Example of a DCAP Investment Memorandum

In addition, a **Market Data Report** for the asset under consideration is submitted to the IC. DCAP has developed a proprietary tool to generate such reports for selected assets. This tool automatically creates a PDF report that contains a quantitative overview of an asset's performance and provides a comparison with some of its peers – covering aspects such as the growth of the asset market capitalization, correlation, and volatility analysis, CAPM analysis and on-chain data such as the growth of fees generated by the protocol.



Figure 7 - Example of a DCAP Market Data Report





While all research documents are submitted to the IC, the Investment Memorandum and the Internal Research Report are the basis for discussion during the meeting. The research analyst presents the digital asset during the IC meeting, followed by an interactive discussion. Feedback from this discussion is minuted and documented for future reference and will be incorporated into the Internal Research Report during the next periodic update. The IC subsequently votes on whether to whitelist the asset for portfolio inclusion, request additional research, or reject it. All documents submitted to the IC are stored and archived.

### **Monitoring & Updates**

Monitoring of our whitelisted digital assets and periodic updates of our research material are crucial to our research framework at DCAP because the digital asset sector is rapidly evolving, with prices sensitive to shifts in trends, technical issues, team setbacks, and adverse news.

To manage this, our Research Team monitors projects on our whitelist and the broader digital asset sector. We hold weekly Market Review Meetings to discuss developments, use Messari AI Summaries and Alerts for critical news and events, and track token unlock schedules to anticipate potential market impacts.

Additionally, our Research Team conducts regular news screenings and periodic updates of our Internal Research Reports to ensure our research documentation is current and comprehensive. This multi-faceted approach enables us to stay informed about the projects we invest in and be responsive to market changes.

### 3. Research Team



#### Raphael Knechtli

##### Lead Research & Technology

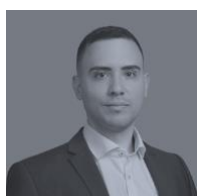
- Previously: Senior Consultant at Ernst & Young (EY) Technology Consulting focusing on blockchain & Web3 projects, consulted various international clients on Web3 strategy, business, and technology, including IT project management and implementation. Research Assistant for Prof. Dr. Fabian Schär, Center for Innovative Finance, University of Basel, contributing to Web3-related academic papers, including preparation, analysis, and visualization of blockchain data, and supporting various research projects.
- Lecturer at the Lucerne University of Applied Sciences and Arts (HSLU) for the Certificate of Advanced Studies (CAS) "Crypto Finance & Cryptocurrencies."
- Holds a Master of Science (M.Sc.) in Business and Economics from the University of Basel.



#### Thomas Leach, PhD

##### Research & Technology

- PhD in Financial Technology from the University of Pavia, research covered various themes, including the economic impacts of cyber risk, central bank digital currencies, and stablecoins. Academic papers have been published in the Journal of Financial Stability and the International Journal of Central Banking.
- Previously: Technical Advisor at the Bank of International Settlements, contributing to three BIS Working Papers on the economic impacts of cyber risk. Policy Analyst at the OECD, contributing to policy papers on Big Tech in Finance and Central Bank Digital Currencies. Cash and Payments Analyst at R3 working on facilitating the settlement of cash transactions on distributed ledgers. DLT Specialist at European Central Bank focusing on interbank settlement systems.
- Holds a Master's in Macroeconomic Policy and Financial Markets from the Barcelona School of Economics.



#### Nico Born

##### Working Student Research & Technology

- Currently pursuing an M.Sc. in Finance and Money at the University of Basel (ongoing).
- Previously: Software Developer at Veolia Industry Building, Switzerland, responsible for the development of web applications, user interfaces, and the creation of REST and SOAP web services, including project management, requirements engineering, preparing specifications and training courses, and business intelligence. Independent Web3 Developer during Bachelor Studies, developing blockchain arbitrage and trading bots using quantitative strategies, analytical tools for liquidity provision, and on-chain data.
- Holds a B.Sc. Business Information Technology from the University of Applied Sciences Northwestern Switzerland (FHNW). Winner Blockchain Challenge 2021 at the University of Basel.



**Prof. Dr. Aleksander Berentsen**

External Contractor Research & Technology

- Professor of Economics at the University of Basel and Research Fellow at the Federal Reserve Bank of St. Louis. Current research focuses on DLT, blockchain, and cryptoassets, as well as monetary policy instruments such as negative interest rates and balance sheet extensions.
- Previously consulted for the Swiss National Bank, the Board of Governors of the Federal Reserve System, the European Central Bank and the Bank for International Settlements.
- Published in leading academic journals such as the American Economic Review, the Review of Economic Studies, and the Journal of Monetary Economics and is co-author of the book “Bitcoin, Blockchain and Cryptoassets.”



**John Orthwein**

External Contractor Research & Technology

- Head of Blockchain and Decentralized Finance at i.AM Lab, an innovation studio creating digital products based on blockchain technology.
- Previously Head Risk Engineering at Melonport/Enzyme Finance, a blockchain-based on-chain asset management protocol. Analyst and Product Specialist for Structured Products and Leveraged Finance at Man Investments and LGT Capital Partners. Software Engineer with a focus on High-Availability Distributed Systems at PIMCO, Allianz, State Street, Lufthansa.

## About DCAP:

DCAP Ltd is a Zurich-based FINMA-regulated portfolio manager providing a one-stop-shop solution for professional investors to seize the broad range of Web3 opportunities. Our Web3 Multi-Strategy Fund SPC is an evergreen thematic long-biased fund, structured under Cayman Islands law. The fund offers two USD share classes and quarterly liquidity after an initial lock-up period of 12 months.

The fund utilizes a research-driven top-down and bottom-up approach to invest in a broad spectrum of private and public companies, digital assets as well as strategies across the value chain offered by the Web3 revolution.

The DCAP team consists of a group of professionals who bring a diverse set of backgrounds, skills, and experiences to the table: seasoned investment specialists, native Web3 experts, engineers, and economists, all united by a shared passion for Web3. We count well-established asset management companies to our strategic partners that provide strong networks.

Further details about our fund can be found here: <https://www.dcap.ch/funds>

## Contact:

DCAP Ltd

Löwenstrasse 29, 8001 Zürich

Phone: +41 44 212 13 23

E-Mail: [info@dcap.ch](mailto:info@dcap.ch)

Web: <https://dcap.ch>

Follow us on   

## Disclaimer

This document has been prepared by DCAP Ltd. ("DCAP") in Switzerland. DCAP is a Portfolio manager pursuant to art. 24 para. 2 letter a in conjunction with art. 17 para. 1 FinIA. It is authorized and regulated by the Swiss Financial Market Supervisory Authority (FINMA). This document is published solely for informational and educational purposes and should not be relied upon for any other use; it is not an advertisement, nor is it a solicitation or an offer to buy or sell any financial investment or to participate in any particular investment strategy. Generally, this document is not intended to form investment, legal or tax advice. Before investing in any financial products, you should inform yourself by carefully reading the available current documents and obtaining professional advice. Please note that historical performance does not indicate current or future performance. The document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to law or regulation or would subject DCAP to any registration or licensing requirement within such jurisdiction.

Anything expressed in this report was prepared based on information available to DCAP when such views were written and may not be complete. The collected information may quickly become unreliable for various reasons, including technological changes, market conditions, or economic circumstances. Changes and additional information could cause the content or conclusions to change, and all information contained in this document is subject to possible correction at any time. However, DCAP undertakes no obligation to update this report if circumstances should change. The research framework and process are simplified and described for illustrative purposes only and may change over time.

All information is made without warranty to its currency, accuracy, or completeness. DCAP rejects any and all liability for incorrect or incomplete information. No responsibility is assumed in case of unsolicited delivery. Complete or partial reproduction without the express consent of DCAP is not permitted.