Asset Management for ICOs

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Background

Firms who run successful ICOs typically spend months strategizing how to raise funds and executing sophisticated campaigns to encourage investor interest. Surprisingly, however, little of the same thought is directed at managing these funds after they're raised. Since most teams raise assets in ETH, they often simply leave their funds undiversified from it. Unfortunately, as many 2018 ICOs can attest, the consequences of leaving a company treasury in Ethereum can be disastrous.

Teams whose ICOs ended in early May have lost over 37% of these assets. Teams with mid-January ICOs lost over 64% of their ETH-allocated assets. as of 15 June 2018

The idea of spending 3+ months fundraising, only to have a third or half of your assets disappear makes no sense. Even if Ethereum recovers, having a significant portion of a company's war chest unavailable for a time can critically impair company strategy—eliminating certain go-to-market plans, removing the possibility for acquisition of other firms, holding back major initiatives, and so on.

SURVEY OF ICO TEAMS

There are 140 ICO teams for which we have known and verified company wallets.

$7.9b
raised during ICOs

10.5
avg. months since ICO

$2.7b
total held in ETH

36%
avg. ETH asset loss, last 30d

$1.5b
total lost, 15 May - 15 June

We also reached out to 10 ICO teams who avoid ETH as an asset allocation strategy.

10%
manage own portfolio

10%
use a fund to manage assets

20%
went fully to fiat

90%
of teams using funds say they have outperformed ETH

Recommendations

Create a fiat cushion

Keeping ***at least*** 12-24 months worth of a firm's predicted burn rate in fiat is a no-brainer. In the event of flash-crashes to crypto markets or unforeseen expenses, it's crucial to be prepared.

Stay partially in crypto

It's bad for the space and bad for your treasury to go 100% fiat. In a survey of 140 ICO teams, the average team doubled their ICO assets in USD terms by staying invested in crypto long-term.

Don't be a hedge fund

It's foolish to run your company while playing fund manager on the side. Your attention is best spent on your own project—plus, most ICO teams we surveyed have not outperformed ETH by trading.

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How to evaluate funds

Investing in a fund is often the most sensible approach for a treasury—many of the space's largest projects like EOS have done so—but fund selection is not always straightforward.

Fund manager performance has been studied extensively in the traditional stock market, and the lessons apply similarly to digital assets.

1. **Strategy alignment is key.** Funds who cater to VCs or risk-seeking investors are not a fit for a company treasury, and many strategies that were effective in 2017 may not be suitable going forward.
2. **High conviction equals high returns.** Most assets are poor long-term investments; funds with smaller portfolios tend to do better.
3. **Consistency means repeatability.** A highly variable strategy set means a firm may underperform their history.
4. **Don't overpay for a passive strategy.** If you prefer an index vs an active fund, that's okay—just don't pay 2/20 for a mostly passive strategy.
5. **Defense beats offense.** Not only are the best returns often found with defensive strategies, but avoiding downside is critical for a treasury.

KEY CONSIDERATIONS

• Don't invest more than you might need in the fund's lockup period. Prefer funds with shorter lockup periods.

• Find out about redemption fees. If you need to pull funds out for an unexpected event (e.g. an acquisition), this could be a lot of money.

• Prefer funds which denominate in ETH, or only charge performance fees for excess return vs ETH. Don't pay for beta.

• Be especially attentive to a fund's performance in poor market conditions, and ask about the largest month or quarter loss in the fund's history.

• Any fund that charges more than 3% as a management fee is crazy. 2% is fair, less is ideal. 2.5% or 3% is viable only if the perfromance and strategy back it up.

• Make sure you get at least quarterly reports on fund performance. Ensure the strategy doesn't change in a way that becomes riskier over time.

Shop around

Don't invest $10m+ while doing less research than you'd do on a pair of wireless headphones. Get data on performance, strategy, and fee structures from several teams before making a decision.

Listen to your gut

While your fund manager doesn't have to be your best friend, any red flags about honesty or professionalism should be taken very seriously. This is not a decision you can afford to regret.

Make assets a priority

Asset management can have an order-of-magnitude difference on your project's future. Don't put off this decision because it's hard. Make the time to get your funds invested in an intelligent way.

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