Key takeaways:
AIMA Digital Assets Conference 2022

AIMA hosted its inaugural Digital Assets Conference on 11 May. A sold-out New York venue hosted an audience of more than 300 delegates from across the legacy alternative investments and digital assets industries to focus on 'the how' of allocating to digital assets.

The one-day event was all the more timely given the heightened market volatility playing out across several major cryptocurrencies caught up in the de-pegging of stablecoin UST and collapse of Luna which wiped out US$40billion of value directly and had further ripples across the crypto assets market.

This episode underscored the importance of enhancing investor understanding of digital asset markets and their risks through educational events, research and other resources.

The day

The agenda spanned four plenary sessions, including 12 breakouts and over 60 speakers, featuring hedge fund and venture capital portfolio managers, pension investment professionals, an SEC commissioner, Web3 entrepreneurs, and a cameo from bestselling-author Ben Mezrich. Attendees came to the conference at different stages in their crypto educational journey. Concepts like 'staking' and 'digital asset yield' elicited plenty of follow-up questions. Others had already dedicated their careers to the space, ditching their suits for hoodies, and are focused on helping their former peers make the leap. Conversations at the conference will inform the agenda of AIMA's Digital Assets Working Group (DAWG) including the regular series of peer group calls, ongoing advocacy work, industry guidance on trading, a forthcoming research paper and a digital assets due diligence questionnaire.

The Markets

Morning sessions recapped the macro environment and investment case for digital assets. From a macro perspective, digital assets are being impacted by the Federal Reserve's programme of interest rate hikes and have been highly correlated with equities. Bitcoin's status as an inflation hedge has been rightfully questioned, however the thesis is more nuanced. Both BTC and ETH were projected to do well in an era of monetary debasement.

For investors, the appeal of digital assets is their ability to get access to a new technology paradigm at an early stage, building relationships with key GPs and entrepreneurs to gain future capacity. Position sizes are typically far smaller than in traditional markets in recognition of the high level of volatility, although the current price action was not causing institutions to pull out of the markets. Hedge fund investors also see opportunities to arbitrage inefficient markets reminiscent of hedge funds in the 1990s but specialisation is key given the complexities of digital assets.

Educating stakeholders remains a challenge and the most effective strategies continue to draw parallels with familiar paradigms rather than trying to explain the underlying technologies. For their part, asset raisers at investment funds are continuing to leverage technology to deliver content and educate potential investors at scale. At this stage of the industry's development, there's still more time spent on the question of "why digital assets" than focusing on the why of a particular sub-strategy or firm/fund, though directional strategies, macro, multi-strategy, and systematic/quant strategies seem to be popular.

During the day, venture capital (VC) investors and fundmanagers discussed the unique properties of digital asset markets and thus, the need for specialist teams – other panels tackled the challenges of sourcing and retaining these teams. Unlike in traditional VC where big-name fund managers could lead to access for later rounds and a future IPO, in digital assets, projects often tokenise after a series A round. Or are structured as DAOs and thus, not in need of traditional financial services gatekeepers. Given the record amount of capital deployed in 2021 and the first quarter of 2022, there will be sharp differences in VC vintages, with 2020 expected to be particularly strong.

Operations, legal & compliance

Given both the nascency and operational complexity of digital assets, investment professionals spend far more time on infrastructure, back and middle office topics when it comes to digital asset investing as compared to traditional markets (or 'TradFi' as it's known in Web3 shorthand). Investors who typically leave the operational due diligence (ODD) to specialised colleagues with accounting and audit backgrounds listened keenly to discussions about service provider research and ODD best practices.

A breakout on digital assets custody, the topic of a recent AIMA guide, saw an already packed house spilling into the hallway to hear how practitioners were managing the trade-offs of direct versus third-party custody. As digital assets investing becomes more complex and is no longer pure buy-and-hold, the demands on digital asset custodians will intensify and new solutions continue to launch. Active digital asset trading is introducing new counterparties that can make the experience more akin to TradFi investing but also introduces new providers to help with staking tokens and earning additional yield.

Of all the sessions, the afternoon's discussion of risk management and digital assets was a particularly timely topic given the market volatility raging outside the halls of the conference. The industry is still building the tools, models and metrics that drive modern portfolio theory, but in addition to measuring volatility, assessing liquidity and paring position sizing, the operational risk remains a key focus for investors and fund managers alike. Diligencing counterparties, particularly custodians, exchanges, and fund administrators, is a far greater focus in digital assets than in legacy alternative investments where most of the providers are known quantities.

Cyber security is also paramount, given the prevalence of hackers and the irreversibility of transactions. However, other core concepts hold in this new world – like a close reading of the documents. Regulation remains a core area of focus for both TradFi and digital assets firms – not to mention lawmakers in key onshore and offshore jurisdictions.

Elsewhere, a breakout session on 'what you need to know to start a crypto fund' featured two managers who have done just that. All the integral components of launching a crypto fund were covered including asset raising, the diligence process for selecting service providers, operational back-office setup, regulatory concerns, pitfalls to avoid, and finding the right talent. In the current environment, it is imperative to properly set up a crypto fund with qualified vendors who understand the digital assets space. A rocky fund launch may derail any opportunities to scale and add strategies in the future.

We look forward to welcoming you back to New York in 2023, and in the meantime, continue to follow AIMA DAWG for more programming throughout the year.

Contact us

If you would like to find out more about AIMA's digital assets work, please contact:

- Michelle Noyes, Managing Director, Head of Americas; or,
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Non-members that would like to know more about AIMA's global events, advocacy work and market research, please contact :

- Fiona Treble, Managing Director, Global Head of Membership

Listen to The Long-Short Podcast

Episode 27. All eyes on digital assets

The Long-Short caught up with the keynote speaker Eric Peters, Founder, CEO, and CIO of One River Asset Management, who offered an update on the latest trends in the market that dominated discussion on the day.

The Long-Short also spoke to conference attendee Alex Botte, head of client and portfolio solutions at Runa Digital Assets, who offered her analysis after a tumultuous week in the crypto space, driven by the collapse of the TerraUSD stablecoin, and discussed what it means for the digital asset space going forward.

About AIMA

The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than US$2.5 trillion in hedge fund and private credit assets.

AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry.

AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage US$600 billion of private credit assets globally.

AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

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