



BLOCKCHAIN CAPITAL

~ INVESTOR UPDATE ~

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Performance Update

Both funds, CCP I and II, are performing well.

CCP I portfolio companies Chain, ChangeTip, and Gem have executed financings at higher valuations than the fund's cost. These three financings, along with three others, move CCP I's NAV to 1.4x. CCP I has 30 companies in the portfolio with no write offs or write-downs. The fund has had two exits. Authy was acquired for stock by Twilio, which expects to file for an IPO by the end of the year. Bex.io was acquired by FinTech Enterprises in an acqui-hire transaction.

CCP II is in the sweet spot of the Blockchain ecosystem. Several of the companies in the fund have products and services that enable financial institutions to leverage Blockchain technology. We continue to believe that CCP II's focus on the Blockchain's use by financial institutions is timely and on target. We are also increasingly researching applications of Blockchain technology in industries outside of financial services. Three of CCP II's portfolio companies will be fundraising in the next few months, which could lead to valuations significantly above the fund's cost. We are actively continuing to fundraise for CCP II, but will close the fund to investors either in December or if there is a material increase to the NAV of the fund. Since the last investor update, the fund has made investments into itBit, Chain, Ripple, Gem, Stem and Abra.

Wall Street Discovers Blockchain Technology

In 2008, the global financial system imploded. Governments around the world, led by the US Federal Reserve, coordinated massive and historic interventions. Numerous financial firms were bailed out while others went bankrupt. The resulting chaos caused ripple effects on a global scale that are still being felt to this day. Market participants, financial institutions, and academics will be debating the causes and lessons learned from the financial crisis for many years to come.

However, to a select group of libertarian minded computer scientists and cryptographers, the lessons were clear enough. The global financial system was too big, too leveraged, and too interconnected to fail. The incumbent financial institutions emerged from the crisis even larger, more centralized, and less transparent than before. They could no longer function as the trusted intermediaries and central authorities to safeguard wealth, exchange assets, and move money around the world.

Out of the ashes of the global financial meltdown, Bitcoin was born.

The Satoshi Nakamoto (Bitcoin) white paper, published in 2008, describes a digital decentralized, transparent, peer-to-peer payment system. Bitcoin payments are secured by complex cryptography, not trust in counterparty's solvency or a central guaranteeing authority. With Bitcoin, the Blockchain is the counterparty, and payment participants don't necessarily have to know or trust each other. They also do not have to be in the same place to exchange value via physical currency.



This is a novel invention in the history of financial technology and it led to diverse and often emotional reactions.

Libertarians rejoiced, technologists marveled, and anti-authority minded individuals applauded the rise of Bitcoin. Banks and large financial incumbents predictably dismissed Bitcoin as a scam and potentially dangerous. Jamie Dimon, CEO of JP Morgan, issued a string of negative comments and dire predictions about Bitcoin's future over the course of 2013-14. US Treasury Secretary Jack Lew warned of Bitcoin's use by criminals.

Sovereign governments and regulators scratched their heads, wondering if Bitcoin was a digital currency, a virtual commodity, a payments system, or something new altogether. Was Bitcoin a threat to the sovereign power's ability to issue fiat currency and enforce the law? Or was Bitcoin an innovative, though disruptive, financial technology that would create jobs and lower the costs of financial services to consumers? Could Bitcoin actually protect consumer privacy in an era of constant cyber identity theft?

As the furor and confusion over Bitcoin died down, and the price of Bitcoin stabilized in 2015, something unexpected happened: Both Silicon Valley and Wall Street saw opportunity in Bitcoin's foundational technology, the Blockchain.

Thought leadership by Blockchain Capital and others increasingly focused on Blockchain technology and its most salient characteristics: a robust security architecture, its transparency, and its ability to transfer value and assets of all types beyond the Blockchain's native token and first application: Bitcoin.

We like to say that Bitcoin and the Blockchain are inextricably linked but not limited. The Blockchain holds the promise to facilitate the secure exchange of assets of all types: stocks, bonds, currencies, commodities and even the title to your car or house.

Banks have a central ledger that is opaque and private. The Blockchain is a distributed ledger that is transparent and open for all to use. Most banks have little interest in Bitcoin, but they are beginning to realize the power of the Blockchain and distributed ledger technology for the secure exchange of traditional assets.

Examples of Wall Street's increasing interest in Blockchain technology are abound. Blockchain Capital portfolio company, Chain, recently announced that it will be working with NASDAQ to implement Blockchain technology for dynamic capitalization tables and to facilitate trading of shares in late-stage private companies. Chain also announced a \$30M financing with participation from Blockchain Capital, Visa, Capital One, Orange, NASDAQ and Fiserv.

Another one of our portfolio companies, itBit, became the first Blockchain enabled technology company to get a Trust charter in New York, essentially becoming a bank. ItBit also announced the Bankchain- a private Blockchain-leveraging distributed ledger technology to trade traditional assets



like currencies and commodities. ItBit's Board of Directors includes Shelia Baer, the former Chairman of the FDIC, Senator Bill Bradley, and Robert Herz, the former Chairman of the Federal Accounting Standards Board.

LedgerX, another Blockchain Capital company, is an institutional trading and clearing platform that just received temporary regulatory approval from the U.S. Commodity Futures Trading Commission (CFTC) to trade and clear options. LedgerX has two former Chairmen of the CFTC on their Board of Directors.

Blythe Masters, the creator of the credit default swap, left a senior executive position at JP Morgan to become the CEO of Digital Assets Holdings. R3CEV, a Blockchain consultancy, recently announced that 22 banks and investment banks agreed to work together to study Blockchain technology and distributed ledgers.

Jamie Dimon in 2015 now says to his shareholders in alarm that "Silicon Valley is coming" and "Bitcoin is trying to eat our lunch!" JP Morgan is currently investigating Blockchain technology.

Our analysis shows that most of the innovation on Wall Street over the past 30 years has been on the front end, like trading desks. The back office of investment banks has barely changed over that same time period. Goldman Sachs, using algorithmic-based high frequency trading strategies, can trade tens of millions of stock in the time it takes for a human to blink their eye. But each and every one of those shares still take T+3 days to settle in the back office. Syndicated loans, other credit products, and derivatives can take 20+ days to settle. The Blockchain can lower costs, speed settlement, and free up collateral for the \$300 Trillion a year of trades in non-cash assets. Blockchain technology also holds the promise to bring transparency to the remaining opaque nooks and crannies of Wall Street like securities lending, which enables the naked shorting of securities.

There is, of course, a great irony that banks are embracing the foundational technology that powers Bitcoin. Bitcoin was created to enable peer-to-peer payments without traditional intermediaries like banks. Disruptive innovations like the Blockchain can create strange bedfellows. Satoshi might not like to see Wall Street embracing the Blockchain, but it is happening.

One thing is clear, Blockchain technology holds incredible promise to disrupt legacy industries and create whole new markets. Wall Street and Silicon Valley have both come to realize that this technology will not be un-invented and is here to stay. All of us at Blockchain Capital are entirely focused on discovering tomorrow's large Blockchain-enabled technology companies while they are small today.

Team Update

We have previously announced the appointment of Alison Davis to chair our Advisory Board. Alison is a current director of the Royal Bank of Scotland (RBS) and Firserv. She is a former board member of First Data, Xoom, and City National Bank. Davis was previously CFO of

Barclays Global Investors (now BlackRock), making her one of the most senior female executives on Wall Street.

With Alison leading the charge, Blockchain Capital has now added a handful of diverse and exciting new members to our Advisory Board:

Mary Cranston: Director of VISA, ex-CEO and Chairman of Pillsbury Withrop

Simon McNamara: CAO of RBS, ex-CIO of Standard Chartered, BNP and Deutsche Bank

Terry Schwakopf: Former EVP of the Federal Reserve Bank of SF, Banking Supervision

Michael McAdam: CFO of Union Bank (Mitsubishi UFJ Financial Group)

Chris Pallotta: Special Advisor to the MIT Media Lab and Partner at Raptor Capital

We remain incredibly excited about the Blockchain ecosystem, and thank you for investing with us.

As always, your comments and questions are appreciated.

Sincerely,



Bart, Brad and Brock

The General Partners of Blockchain Capital

