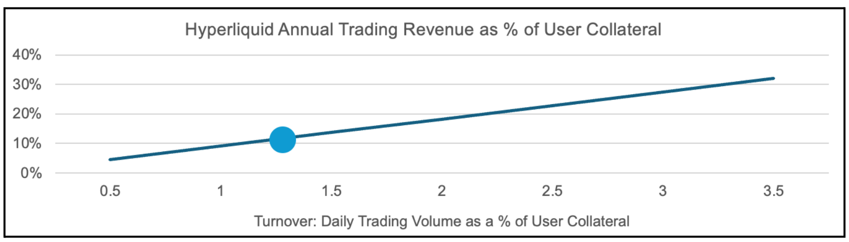
*** Thesis #1: Liquidity Basins ***

Capital - like water, or electricity - flows from lower to higher risk-adjusted returns over time, at a rate determined by the magnitude of friction (resistance) inflicted in *motion*. Tokenization drives the costs and friction of money *movement* asymptotically toward zero. As it does, capital flows become increasingly dynamic and volatile, as portfolios shift faster-than-ever to chase the allure of higher risk-adjusted returns across a broader-than-ever universe of assets. At a macro level, this drives a structural and persistent rise in natural interest rates, particularly long rates. We believe a new class of $100B+ businesses will emerge that are uniquely positioned to win in a world of **10x+ faster capital velocity**.

We call this our ***liquidity basins*** thesis. The consensus view is that 1) incumbent financial institutions will capture the majority of the value created by tokenization, and 2) tail risks inherent in tokenization (smart contract hacks, private key compromises, chain failures) make it prohibitively expensive to bootstrap liquidity for tokenized "non-native" or "real-world" assets. We don't disagree, but think the most interesting cases are the exceptions: businesses **reflexively levered to capital velocity**. The canonical *liquidity basin* is Hyperliquid: the protocol holds $6.5B+ of user deposits and, on average, each dollar on the platform trades 1-1.5x per day (with leverage), each time paying one-fortieth of a penny in fees. As users trade more and more often, Hyperliquid's revenue, margins, and capital efficiency increase in tandem.



Hyperliquid's annual revenue (as % of user deposits) increases beyond 10% as users trade more often, and with higher leverage.

One type of *liquidity basin* we are particularly interested in is **asset-backed credit**. Tokenization gives millions of issuers access to financial liquidity they previously lacked. These "issuers" will not necessarily look like the issuers of today—they'll have collateral that incumbent banks and lenders either overlook or misunderstand. Our portfolio company CreatorFi underwrites platform earnings on Youtube and Roblox; Daylight and Dawn finance and operate residential energy and wireless infrastructure, respectively; and we've written about dozens of other asset-backed credit products. With millions of new issuers emerging, only a handful will be able to offer truly differentiated and attractive risk-adjusted yields. The issuers that emerge as *liquidity basins* will be those that build proprietary distribution, underwriting, and operating capabilities for a specific asset class and use it to scale a $10B+ asset base with double-digit yields. The best originators will be effectively capital-unconstrained (fintechs, protocols, and funds will shift capital on behalf of users towards higher-risk adjusted returns at increasingly faster speeds) and long-term, they have a shot at becoming backbone financial infrastructure for their respective industries. Alongside the growth in issuers, we expect an emergence and resurgence of DeFi protocols tailored to real-world credit, including onchain derivatives to manage duration (Cork, InfiniFi) and interest rates (Pendle). Offchain, the tailwinds in tokenized real-world credit could present the once-in-a-decade opportunity to build the next trillion-dollar asset manager (Birch Hill). In a world of 10x capital velocity, we believe asset-backed credit products will become one of the primary escape valves for capital flows seeking both returns and liquidity. Interested readers can learn more about our asset-backed credit thesis in our two-part research letter.

The second type of *liquidity basin* EV3 invests in are companies that drive net-new financial activity by **structurally reducing the cost-of-trust**. In a world of 10x capital velocity, trust becomes the binding constraint on trade; and companies that collapse established trust assumptions are often able to create self-reinforcing liquidity flywheels around their ecosystems faster than anyone expects. Our portfolio company Opacity democratizes Americans' access to tokenized securities by leveraging zero-knowledge cryptography to **reduce compliance burdens** on financial intermediaries and trading venues. Unlink enables users to anonymize their onchain activity, unlocking use cases where **information leakage** prevents legitimate users from transacting onchain. Axal uses agents to continuously and autonomously **optimize risk-adjusted yields** for savers. Trade only functions with information, trust, and intelligence: our portfolio companies apply breakthrough technologies from cryptography and machine learning to build proprietary, compounding ways of reducing their users' barriers to trade. When this type of *liquidity basin* reaches escape velocity, we believe the network effects can be exceedingly durable—and valuable.

The third type of *liquidity basin* EV3 invests in are businesses that enable **novel forms of leverage**. From junk bonds in the '90s, to solar loans in the '00s, companies that enable new forms of leverage accelerate the growth of their underlying markets in reflexive ways. We are most interested in startups that find creative ways to drive leverage to levels *far above* what's otherwise available today. HitOne pushes perps to the limit, offering retail users up to 1000x leverage on short-term options. FunctionSpace pushes prediction markets to the limit, enabling custom bets with 100x+ payoffs. CrediFi pushes unsecured lending to the limit, disbursing onchain loans with no collateral at all. Users' revealed preference is an insatiable demand for leverage—products that give users access to much higher (real or perceived) leverage tend to benefit from higher organic growth and lower CACs than almost any other. This can lead to owning a high-attention user relationship (see: HitOne), aggregating liquidity for a certain class of risks (see: FunctionSpace), or building a proprietary graph of valuable user data (see: CrediFi)—durable moats in large, growing markets. When we underwrite this type of *liquidity basin*, we primarily focus on capital efficiency, at two levels: 1) is the product or protocol structured in a way that allows for hyper-fast growth while retaining the ability to offer higher-than-usual leverage to users, and 2) are the founders capable of de-risking the core bets at hand with an unusually-small amount of capital? When we meet entrepreneurs with unique insights into one or both of those questions, we almost always look to invest.

Liquidity basins address one of society's most salient coordination constraints: how do we move money to the place where it can be used most productively, anywhere in the world, at any point in time? We are most interested in companies that unlock access to highly-productive assets (CreatorFi, Daylight), those that lower the implicit and explicit costs of participating in financial markets (Opacity, Unlink), those that help users manage assets in a world with 1000x+ more financial products (Axal, Birch Hill), and those that give users the ability to bet 100x+ bigger than they otherwise could by offering novel forms of leverage.

Years ago, I listened to Josh Wolfe of Lux Capital talk about investing behind directional arrows of progress. Tokenization is certainly one: the velocity with which dollars (and pesos, and satoshis…) move around the world will continue to increase for longer, and to higher levels, than almost anyone imagines. *Liquidity basins* is our term for companies that ride this specific arrow, benefiting from structural increases in the speed and volatility of capital flows driven by the tokenization and globalization of capital markets. Throughout our careers, we've had the opportunity to study almost every corner of the financial services industry from a front row seat. While there are easy reasons for venture investors to dismiss *liquidity basins* - "capital intensity", "regulatory barriers", "tail risk" - we believe, and the data shows, that the moats built by the best financial services businesses are both extremely deep, and extremely durable. Our door is always open to entrepreneurs, credentialed or not, looking to bootstrap the next $100B+ *liquidity basin*.