MARCH 2021

The Fort Stable Fund generated returns of 0.85%. With digital asset prices trading broadly sideways through the month, DEX volumes were down month-on-month for the first time in 5 months. Total Value Locked (TVL) sits at $46.3bn as at the end of the month (~$10bn growth m-o-m). One of the key features that is becoming more obvious impeding the growth of the digital asset ecosystem is the scalability of the platform upon which most of the significant DeFi protocols are built, Ethereum. The more users of Ethereum there are, the slower and more expensive transactions become. The deteriorating user experience has invited competition from contenders such as Binance Smart Chain, Polkadot and Solana.

Ethereum supports an incredible amount of economic activity every day. It settles billions of dollars in transactions and runs a vast array of DeFi applications. The Ethereum blockspace is however limited and these applications compete for the same resources, meaning that transactions become more expensive and delayed when the network is congested. Since the start of 2021, the average gas price per transaction on the Ethereum network has been 140 Gwei (approx USD$7), this is a 14x increase since the same period only 1yr earlier.

The cost of transactions has been regularly highlighted as a chokepoint to the growth of the network and efforts remain ongoing to solve the issue. In the last several months we have seen announcements from traditional payments processing companies, Visa and Mastercard, that their networks are looking to support digital asset payments. While this is an interesting and an extremely positive development long term, it feels more like a press release at this point in time. Visa moves billions of dollars each day in 200+ markets using their current infrastructure and are a profitable and well-run company, why would they move to a process that cost more? The pilot project is realistically a test case for the inevitability of processing Central Bank Digital Currencies (CDBC's).

Fortunately, there are several scaling solutions under development to increase transaction volume and improve the user experience, each with their own optimisations and trade-offs. There are two main categories of solutions to the scalability and throughout issues currently experienced by users:

Layer 2 – Scaling that is off-chain (transactions and computation that is done off the Ethereum base chain). There are a number of approaches being worked on with various projects implementing potential solutions. Side chains, child chains and roll ups are the scaling solutions that offer the greatest chance of success at this point. Realistically there is not one single solution, but a hybrid of different technology to optimise throughput and scalability.

Layer 1 – Scaling that is on-chain, or scaling solutions that keep all transactions on Ethereum. The first of these will be the roll out of Ethereum Improvement Proposal (EIP) 1559 set to be released in July. This proposal will increase the blocksize by decreasing the fees paid to miners, lowering cost to the end user.

The pace that the system is evolving is at times eye wateringly fast, however the fact that the community is working hard to address multiple issues that are restricting growth is reassuring for the long term growth of the space.

WE THANK YOU FOR THE OPPORTUNITY TO STEWARD YOUR CAPITAL INTO THE FUTURE OF FINANCE