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merging with



## Arca and BlockTower have entered into a letter of intent (LOI) to merge in an all-equity deal

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### Transaction Overview

On November 13, 2024, Arca - a digital asset management firm - announced that it had entered into an LOI with BlockTower - an institutional investment management firm focused on cryptocurrency - in an all-equity deal for an undisclosed valuation.

### BlockTower Capital

BlockTower Capital is a digital asset-focused hedge fund with three primary strategies: 1) their flagship active trading fund focused on liquid crypto assets, 2) their private credit fund that invests in traditional asset-backed securities, leveraging blockchain technology, and 3) their venture capital fund that invests in early-stage Web3 initiatives.

According to filings, Blocktower Capital has \$1.7B in AUM across five different funds, including three venture funds, a credit fund, and a master hedge fund. Its venture portfolio has 56 active investments. Blocktower Capital employs fundamental, market-neutral, activist, and multi-strategy investment strategies with exposure to digital assets and derivatives.

BlockTower was founded in 2017 by CEO Matthew Goetz and CIO Ari Paul and is based in Miami, with approximately 32 employees. At launch, the firm raised \$140M in capital from Andreessen Horowitz (a16z), Union Square Ventures, and various family offices. Blocktower previously acquired Gamma Point Capital, a firm specializing in market-neutral strategies, in 2021 for \$35M.

BlockTower [publicly suffered a hack in May 2024](#).

### Arca

Arca is a digital asset manager with two core businesses, Arca Investments and Arca Labs. Arca Investments is their investment arm that offers various investment vehicles that run liquid token, early-stage venture, and NFT strategies, while also providing insights for investors. Arca Labs assists institutions with their blockchain strategy, product development, and blockchain fund servicing. In addition, they are responsible for ArCoin, which is a tokenized U.S. Treasury fund that currently has \$414K invested in the fund.

According to filings, Arca has \$194M in AUM across four funds and 67 active investments across early-stage Web3 gaming, infrastructure, and security. The last publicly disclosed AUM figure was \$500M with ~575 LPs in October 2022, and Bloomberg recently reported they are similarly sized today.

Founded in 2018 by Rayne Steinberg, Jeff Dorman, and Philip Liu, and based in Los Angeles, Arca has approximately 65 employees. The company has raised \$10M in capital to date through a Series A round led by RRE Ventures with participation from Littlebanc Advisors, Stelac Capital Partners, and Sonostar Ventures.

BlockTower and Arca's peers are crypto-focused, multi-strategy asset managers (venture & liquid tokens) including Pantera Capital, Blockchain Capital, CoinFund, CMT Digital, MultiCoin, Wave Financial, Polychain Capital, Galaxy Asset Management, among others.

### Transaction Parameters

The terms at this time are undisclosed, but it will be an all-equity deal. Bloomberg reports that BlockTower's VC arm will be spun out and Arca's leadership will be in charge of the new entity.

Previous comparable transactions include: Goldenchain | Republic, One River Digital | Coinbase, Metastable | Dragonfly Capital Partners, Gamma Point Capital | BlockTower Capital, Adamant Capital | Blockstream

### Strategic Rationale

The asset management business model is based on management fees from total AUM and performance fees generated from investment returns. This fee structure (historically 2% and 20%) has come under scrutiny for many investment strategies as the alignment of interests between the LP and the GP are called into question.

The challenge for the GPs managing and operating their investment funds is scale. As the fund's operating capital is directly calculated from its AUM, in any fund's early years, AUM is the most important metric.

Since the inception of crypto, almost all funds with a crypto-focused investment strategy have struggled with accessing and raising LP capital.

Additionally, there are a slew of investment and process considerations for crypto assets that don't exist with the same severity in traditional assets.

Security, and specifically security related to custody, is one of these critical considerations and the consequences of a breach are often severe.

BlockTower and Arca are two of the few U.S.-based, institutional-focused, crypto asset management companies that have deftly navigated an increasingly complex crypto asset market since 2018.



The merger of two top multi-strategy fund managers in our industry positions the combined entity to appropriately scale its AUM and improve the resiliency of its crypto market infrastructure, which is a successful outcome for both franchises.

#### **Architect Partners' Observations**

Asset management that is dedicated to generating investment alpha is hard. Really hard.

That objective is even harder when the Fund's strategy is focused on an emerging technology (blockchain) that is the basis for an entirely new asset class (crypto), especially when that global, digital asset class is validating its real-world utility and supporting infrastructure in real-time with a lack of regulatory framework and hostile regulators.

Foreign exchange has existed since the inception of "money" or currency used as a medium of exchange. Stocks and bonds were first issued in the 1600s. Futures, one of the first derivatives, started "trading" in the 1700s. Financial markets have not experienced a new asset like Bitcoin and crypto, arguably, for centuries.

Typically, a fund's team, strategy, and performance are what a team must educate LP investors on to win their investment allocations. For crypto investing, education includes what the asset class is. This is a monumental task, especially with the volatility in crypto asset prices and the corresponding volatility in Fund performance.

This, along with regulatory uncertainty (investment allocators are not even sure what category crypto assets fall into their investment strategies), has caused a lack of institutional investment participation in the crypto asset class.

Institutional crypto asset investing started in 2017 during the ICO boom and bust and there are not many highly reputable managers that have survived the journey through 2024.

Combining industry and LP relationships, investment and operational talent, and institutional-grade crypto asset investment infrastructure is a smart decision to position the newly integrated company to not just survive, but thrive through these next cycles.

The merger also strengthens their foundation and confidence to launch new digital asset products and services.

BlockTower and Arca succeeded through the early, turbulent years of crypto. We expect the merged entity to perform well versus their peers and the broader asset management industry as crypto and digital assets transition into its next phase of growth.

#### **Sources**

[PitchBook](#), [Arca Press Release](#), [PR Newswire](#), [Bloomberg](#)