ICO ALERT REPORT

An analysis of the Digital Developers Fund, compiled by our team of industry researchers, traders, and professionals. For a comprehensive list of active and upcoming Initial Coin Offerings and for more ICO Alert Reports, visit **www.icoalert.com**.

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THE DOMAIN DEVELOPERS FUND

Because the Digital Developers Fund is an existing fund, we felt it necessary to analyze the history of the fund starting with their incorporation. This allowed us to determine the legitimacy of the overall fund as well as the potential the team has to run a successful Initial Coin Offering (ICO) and expand the business with an additional investment from said ICO.

Incorporation

The DDF was officially incorporated under the name “The Domain Developers Fund” on March 3, 2010 in the Cayman Islands. We were able to verify the incorporation by obtaining a copy of the original Memorandum of Association and searching for the company in the official Cayman Islands Business Registry.

In addition to The Domain Developers Fund, a second entity was created in November of 2014 called “DDF Asset Limited”. Upon further investigation, we discovered that DDF Asset Limited stands for “Digital Developers Fund” which is the actual company issuing an Initial Coin Offering and the new company under which the previous Domain Developers Fund has been operating since 2014. The rebrand to “Digital Developers Fund” did not take place until 2017, along with the plan to launch an ICO; however, the company was operating under DDF Asset Limited to allow for more operative investments.

Fund History

The Domain Developers Fund has operated since 2010 as a domain investment fund. Its primary business operation revolves around the buying and selling of domain names. The company has identified, purchased, and resold thousands of domains over the course of its history. It currently owns 1,540 domain names ranging in value from $450,000 to $50.

When visiting a domain that The Domain Developers Fund owns, a user is presented with a screen that notifies the user the domain is for sale with an estimated value of that domain, generally set at several times higher than their internal target sale price. If a user is interested in the domain name, they are able to submit an offer along with their contact information.

All of our research indicates that The Domain Developers Fund has been running a successful, profitable business for the last 7 years.

THE DIGITAL DEVELOPERS FUND

As noted in the previous section, we discovered that The Domain Developers Fund is not the company that will be offering the Initial Coin Offering. Upon further investigation, we realized that The Domain Developers Fund is simply rebranding into the Digital Developers Fund (a rebrand which occurred recently in 2017) to expand their reach to include cryptocurrencies and other digital assets in addition to their core business of domain names. While this is not clear when looking at the incorporation documents of both entities, it is clear in the DDF presentation.

All references to DDF from this point onward refer to the new entity known as "The Digital Developers Fund".

BUSINESS MODEL

The business model of DDF incorporates their history of buying and selling traditional internet domains, as well as the expansion of their business model to include digital assets, such as cryptocurrencies and ENS (Ethereum Name Service) names.

Vision

The vision of DDF is much broader than their previous vision which was focused exclusively on the buying and selling of premium internet domain names. The new vision expands to include additional digital assets, which are detailed below along with their respective fund allocations.

Domain Names — 27.5%

The core business model of DDF has always revolved around the buying and selling of premium internet domain names. However, DDF plans to allocate just 27.5% of their portfolio into this area. This is an interesting change which is expanded upon in the next section of this report.

Because DDF has successfully bought and sold domain names for the past 7 years, it is likely that this trend will continue and allow them to be successful in this aspect of their business. The combination of the experience of Michael Marcovici (Managing Director of DDF) and Davies Guttman (Asset Manager of DDF) in this industry should bring two unique perspectives to the fund which will allow them to operate efficiently and successfully.

Included in this 27.5% are the purchase of ENS (Ethereum Name Service) names. While a platform that enables users to buy and sell ENS names does not yet exist, there are several with plans to launch in the near future; the main one being ENS Bazaar built on top of the district0x platform. By utilizing decentralized platforms like ENS Bazaar rather than a traditional escrow system, it is likely that DDF will be able to save on the cost of transferring a domain by operating entirely through a decentralized platform.

Another difference with ENS names from traditional domain names is that an ENS name cannot be “visited” like a traditional website domain name can. Right now, DDF is able to earn ad revenue and also generate leads for potential buyers of interested domain names when users visit their traditional website domains. This is completely different with ENS names since they are not domain names where a user hosts websites but rather names which resolve to a specific Ethereum address (or other resolver) to allow users to receive payments in a much more efficient, user-friendly manner. Because of this, DDF will rely heavily on platforms like ENS Bazaar and their own marketing to sell the ENS names they buy rather than direct user interaction and discovery.

Cryptocurrencies — 45%

The majority of the DDF portfolio will revolve around investments in cryptocurrencies rather than their strong suit of investing in internet domain names. This marks a unique change for DDF from a fund focused exclusively on domain names to a fund with a majority focus on cryptocurrencies.

While cryptocurrencies and domain names are both digital assets that can be bought and sold, the two markets are vastly different. Upon contacting DDF, they verified that both Michael Marcovici and Davies Guttman have been personally investing in cryptocurrencies since 2010. However, the fund only held a small portfolio of crypto, worth about $100k USD

In addition to the personal cryptocurrency investments of Mr. Marcovici and Mr. Guttman, it is clear that Davies Guttman, the Asset Manager for DDF, has done so through his current company, Financial Fairplay AG. It is likely that both Mr. Marcovici and Mr. Guttman are bringing their cryptocurrency experience to the DDF to allow DDF to become a fund with a majority focus on cryptocurrencies.

Cryptocurrency Mining — 7.5%

In addition to investing directly in cryptocurrencies, DDF will also allocate 7.5% of their portfolio toward cryptocurrency mining investments. Rather than setting up their own cryptocurrency mining operations, it appears that DDF will be investing directly in mining companies. This will enable DDF to offload the difficult task of maintaining and operating a mining farm to another company while still realizing a profit.

It is important to note that this additional portfolio allocation to cryptocurrency mining makes DDF a majority cryptocurrency fund, both by relative allocation percentages and traditional majority (51%+) percentages. The fund will focus 52.5% of their portfolio on cryptocurrencies, which appears to be a relatively significant change from their past successful business history of operating a fund which engaged exclusively in the buying and selling of internet domain names.

TEAM

We were able to verify the claims by DDF that their team has “a combined 15 years experience in cryptocurrencies, 20 years in domain names, and 35 years in finance” through a variety of research methods. Below are more detailed looks at the individual members of the team.

Please note that while this list is comprehensive as of the time of this writing, the DDF team plans to add additional advisors before the launch of their Initial Coin Offering. We were unable to analyze those advisors for inclusion in our report since they are not yet public.

Michael Marcovici

Role: Managing Director

Mr. Marcovici has extensive experience with internet domains, starting with his role as CEO of Domainindex, a relatively well known domain appraisal service that also includes a suite of tools for “domainers”, people who are in the business of making money with domain names. These tools include reverse Whois lookups, keyword lists, the ability to mass appraise domain names, and more. He still maintains this position at Domainindex.

In addition to his position at Domainindex, Mr. Marcovici is the Managing Director of the Digital Developers Fund. His LinkedIn profile states he has been the director of the fund since January 2009; however, the memorandum of incorporation shows that the company was not incorporated until March of 2010. After contacting Mr. Marcovici, he verified that this delay in incorporation was due to the long registration process one must undergo before becoming a Mutual Fund. He noted that “before the incorporation, the fund was what could be called an investment club.”

Davies Guttman

Role: Asset Manager

Mr. Guttman has extensive experience in the investment world, with roughly 10 years of verifiable experience. The DDF presentation claims Mr. Guttman has 20 years of experience; we were able to verify this claim via Mr. Guttmans LinkedIn Profile, and then verifying the past work history present in the Summary section of said profile.

Mr. Guttman was the Director of International Business Development at FTC Capital in Austria from 2008 to 2013 and also holds a current role as CEO of Financial Fairplay AG, a role he has held since 2013.

INITIAL COIN OFFERING

In order to raise additional capital for the fund, DDF is holding an Initial Coin Offering (ICO) to distribute DDF tokens in exchange for capital contributions. A total of 247.5 million DDF tokens will be available for sale in exchange for 247,500 ETH at an exchange rate of 1 ETH : 1,000 DDF. The ICO will run until all the tokens are sold, or for a maximum of 30 days. DDF will retain 2.5 million tokens for internal use, and all unsold tokens will be burned (destroyed) after the ICO.

The main appeal of DDF tokens is the distribution of quarterly dividends to all token holders relative to their stake in the fund. These payments are sent in ETH to the Ethereum address the user used to buy into the ICO. It is not clear if the address will be updated when tokens are traded on exchanges in order to allow for the new token holder to receive the dividends; however, this is very likely. The fee structure of DDF is rather complex on first look, and contains multiple fees that will eat away at a user’s potential profits. To start, the fund takes a 2.5% management fee. This means that 2.5% of the value of the fund is extracted by the DDF team each year regardless of fund performance. Upon contacting the DDF team for a comment on their fee structure, we were informed that this fee “covers managers’ salaries, but also marketing and technology development.” After doing further research, we discovered that a management fee ranging from 2% to 4% is standard in the Mutual Fund space, and not an overstep by the DDF team.

In addition to the management fee, there is a hurdled performance fee that increases based on the performance of the fund. If the fund does not provide at least a 5% return on investment, the fund does not collect a performance fee, which is a great thing to see in terms of investor protections. The fee schedule is as follows:

0-5% net profit = 0% performance fee
5-10% net profit = 5% performance fee
10-15% net profit = 12% performance fee
> 15% net profit = 15% performance fee

It’s important to note that the DDF presentation mentions that “50% of net profit is distributed to investors and token holders.” It is not initially clear if investors and token holders are one in the same, resulting in a 50% distribution to token holders, or if part of that 50% distribution will be further distributed to a separate group of investors. However, after contacting DDF, we were given and example to illustrate the fund structure which makes this point clear.

Mr. Marcovici stated, “The investors will receive the pro rata net earnings from the fund, so if we raise 3.3 Mio USD to the existing 3.3 Mio then in this case 50% of the total earnings are allocated to the new investors from which 50% are being paid as dividend. The other 50% not paid as dividends are dividided into the performance fee (up to 15%) and the remainder, that is reinvested into the fund.”

In addition to the above dividend distribution, the DDF tokens will also be tradable. The DDF presentation mentions that the DDF token will be listed on exchanges between August 2017 and October 2017. We reached out the DDF team for clarification on which exchanges the token would be listed and whether or not these partnerships were finalized, and we received the following response: “The partnerships with exchanges are indeed not finalized. We have verbal commitments from a few smaller ones.” With this in mind, it is important to note that smaller, relatively low volume exchanges such as Bter and liqui.io frequently list tokens as soon as they become available, so it is likely they will be listed there relatively quickly.

RISKS

This section of the document will not focus on technical risks, because those apply to every company in this space. These risks include hacking, theft, mismanagement of private keys, and failure of the Ethereum platform. Instead, this section will focus on risks that pertain specifically to the fund and its structure based on the information available.

Large Fund Size

With a funding cap of 249,000 ETH, that positions the fund to potentially manage more than $75 million USD based on the ETH/USD exchange rate at the time of this writing. The current size of the fund is approximately $3.3 million USD, which is 22.7x smaller than the potential maximum size of the fund after the ICO. While the team may have successfully managed $3.3 million USD in the past, the same investment tactics and strategies generally cannot be applied to a sum that is many times larger. For example, while DDF may be able to invest in smaller cryptocurrencies that have lower volumes than cryptocurrencies like Bitcoin and Ethereum with a portion of their $3.3mm USD, they could run into liquidity issues when trying to do the same with a portion of a $75mm USD fund. This generally results in significant slippage that can impact the fund’s profits and the ability for the fund to easily liquidate their assets in the future.

While it may not be the intention of the fund to raise the full 249,000 ETH, it is definitely possible, especially in the current state of the ICO market where ICOs have received more than $120mm within a few hours. This is a consideration that DDF needs to take very seriously, and consider whether or not the cap should be reduced to account for this risk.

Difference in Digital Assets vs. Past Fund History

As mentioned in a previous section of this report, DDF has been very successful buying and selling premium internet domains for the last 7 years. However, DDF plans to make domains, including ENS names, the minority portion of their fund. The majority of the fund's holdings will be placed into cryptocurrencies and cryptocurrency mining efforts.

The main risk with this allocation lies in the fact that cryptocurrencies are much different, and much more volatile, than premium domain sales. While the two are both digital assets, they are drastically different in virtually every aspect, including storage, volatility, liquidity, and risk.

CONCLUSION

Overall, our research showed that DDF has a strong history of buying and selling premium internet domain names successfully. While DDF itself has only traded cryptocurrencies in small amounts, it is relieving to hear that the members of DDF have traded and invested in cryptocurrencies personally for several years.

Ultimately, we did not find any glaring errors or omissions in the documentation we reviewed and would give DDF a positive review.