

Smorgon clan tackles craving for cryptocurrencies with ZeroCap stake

EXCLUSIVE

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A branch of the billionaire Smorgon family is making its first move into cryptocurrencies after establishing a \$500m funds management division which has opened the family's best investment opportunities to public investors for the first time.

Victor Smorgon Group, the company formed by the late patriarch of the Smorgon family, Victor Smorgon, and run by his grandson, Peter Edwards, has taken a strategic shareholding in emerging crypto platform ZeroCap to make investments across the emerging asset class.

The Melbourne-based ZeroCap calls itself a full-service crypto investment platform for private clients and institutions.

"We talked to a number of individuals in crypto. But we found they were more traders and less system-focused. So we are really happy to be able to partner with ZeroCap in being able to pursue active investments across the asset class," Mr Edwards told The Australian.

VSG made its first foray into crypto funds management last October, investing in Australian firm Apollo Capital, which is backed by billionaire investor Alex Waislitz.

VSG also invested in the San Francisco-based Polychain Capital, a cryptocurrency hedge fund founded five years ago by 30-year-old entrepreneur Olaf Carlson-Wee, the former head of risk at Coinbase, the largest bitcoin company in the world.

VSG invested around \$10m across Apollo and Polychain before recently taking a shareholding in ZeroCap.

"We will have our fund managers like Apollo and Polychain. But we see our future with ZeroCap in terms of creating a business in the asset class," Mr Edwards said. "We can play a part in helping them expand and bring talented people into their business to build out their skill set," he added, describing Zero Cap as something akin to an "investment bank" for crypto trading.

ZeroCap chief executive Ryan McCall said his company offered different channels for investors to invest in crypto.

"We had a theory crypto would go the way of traditional assets. We built our business around that hypothesis," he said.

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"Custody of digital assets is a core part of our service offering, which is underpinned by very robust insurance. We have an insurance policy with Lloyds of London for crypto which we think isn't found anywhere else in this market. Importantly we are also an onshore custodian where our competitors are offshore.

"Obviously the impact of the capital injection from Victor Smorgon Group is significant and allows us to realise our growth plans sooner, but the real value is strategic and that's difficult to quantify.

"A blue-chip family office taking a position like this is a clear signal of support for not only the asset class, but our exceptional team of blockchain experts and institutional portfolio managers. We're really excited about the unique product suite we're bringing to market with their help."

After a year of gains and record highs, the top crypto currencies – bitcoin and ethereum – and platforms cardano, binance and the emerging Solana have been through a volatile period.

The price of bitcoin was recently hit hard by electric car-maker Tesla's shock reversal of its decision to accept the currency as payment for its products and a Chinese government crackdown on initial coin offerings, exchanges and speculative trading.

Magellan co-founder Hamish Douglass claimed earlier this year that cryptocurrency markets were one of the greatest mass delusions in history and said it was inevitable the value of crypto would crash to zero.

But Mr Edwards said VSG's investment in the sector and its partnership with ZeroCap followed a similar approach to its first move into the gold sector in 2017.

In 2015 VSG identified the commodities sector as a theme that it should investigate and found an opportunity to support mining veteran Hugh Morgan's private equity firm Arete Capital Partners with its purchase of Kirkland Lake Gold's mothballed Stawell gold mine in Victoria.

Arete Capital's focus was to look for undervalued mining companies, with the aim of investing in them or buying them out.

"We ended up enacting our gold strategy in three ways. With the support of Arete, we purchased and now operate a gold mine here in Victoria. We store a percentage of the mine output as a longer-term family asset, and we invest in gold mining equities through the VS Partners Gold Fund," Mr Edwards said.

After dipping its toe in crypto investments, VSG found there was a whole world of developers trying to build a secure system to enable a trusted transaction, in whatever field.

VSG was attracted to the vision of blockchain: that these technologies could allow trusted transactions between parties, without the need for a middle man, particularly across the finance industry.

"Bitcoin remains an important part of our portfolio, and as such, we have cornerstoned the ZeroCap Bitcoin Trust, with existing and new purchases, and our most recent allocation has been to ZeroCap's Defi Index product," Mr Edwards said.

VSG was the smaller conglomerate that emerged from the dismantling of the giant conglomerate Smorgon Consolidated Industries in 1995.

"The Victor Smorgon Group is a family business, and our long-term history has been in disruptive technologies and businesses. Smorgon Consolidated Industries was successful due to an ethos of identifying profitable sectors with monopolies or oligopolies, offering a disruptive, customer-facing service, and using technology to gain a competitive advantage," Mr Edwards said.

"Our group today continues to follow this ethos across a broad range of investments, following a thematic-based approach to asset allocation."

Two years ago VSG established Victor Smorgon Partners (VSP), a boutique investment manager that enables the Smorgon family to invest its own capital together with external investment partners in compelling opportunities.

One is a venture capital fund backed by American rapper Jay-Z that is investing in a new lingerie range created by international pop star Rihanna.

Known as the Marcy Venture Partners Fund, named after the public housing complex where Jay-Z grew up in New York, it is also backed by Atlassian co-founder Mike Cannon-Brookes and Silicon Valley venture capitalist Larry Marcus.

VSP, which has \$500m of external funds under management, is a joint venture with Glenn Poswell, the former chief executive of the Ashok Jacob-led Ellerston Capital.

"When we look at VSP, we are looking to offer anything we are doing as a group – for example gold, US property and other investments. VSG incubates these opportunities and if other people are interested in the space, we offer them externally. It is there to offer co-investment opportunities," Mr Edwards said.

VSP has a partnership with Mr Poswell for product and administration and operates under the licence of his boutique investment firm Gannet Capital. Mr Poswell is now a director of ZeroCap.

Gannet, which was seeded by VSG when it was established in 2010, was an investor in online retailer Catch before Wesfarmers bought it in June 2019 for \$230m.

The billionaire Liberman family has also backed Gannet deals.

One of VSG's longest operating businesses is Tony's Tuna, a joint venture with renowned tuna fisherman and horse personality Tony Santic.

It is currently conducting sales processes for its shareholdings in fashion retailer GeneralPants and fruit and vegetable grower Perfection Fresh as part of a re-evaluation of its asset allocation strategy.

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Damon Kitney has spent two decades in financial journalism, including 16 years at The Australian Financial Review in a variety of writing and editing roles in Sydney, Melbourne, Canberra and Perth, including 5 ... [Read more](#)