

Ready Player One: Mapping the Metaverse

"This is the Oasis. It's a place where the limits of reality are your own imagination. You can do anything, go anywhere." - Wade Watts, *Ready Player One*

Set in a dystopian world 40 years in the future, Ernst Cline's magnum opus, *Ready Player One*, captivated readers when it was first released as a novel in 2011 and then again eight years later when Steven Spielberg brought it to the big screen.

The story starts in the year 2045 and follows the protagonist Wade Watts as he searches for an Easter Egg^[1] hidden in a virtual reality game world called The Oasis.

In many ways, Mark Zuckerberg's vision of the metaverse closely resembles Ernest Cline's of the Oasis. If you're familiar with Spielberg or Cline's take on the Oasis, you won't be chastised for thinking that Facebook's business plan looks like a copy-paste job from the plotline of *Ready Player One* – the similarities are stark. And, once you've reached that realization, you may yet reach the far gloomier conclusion that the corporate strategy of one of the world's largest companies is bound in science fiction.

Indeed, the world is becoming a stranger place. Within the context of the metaverse, that strangeness starts with the definition.

The formal definition of the metaverse is a "virtual-reality space in which users can interact with a computer-generated environment and other users". However, that probably doesn't come close to what Zuckerberg, Cline or even Spielberg had in mind when considering the concept.

While the idea may seem too abstract to take seriously, consider the following.

Most people can agree that when the iPhone was first released in the 2007, not many fully appreciated the extent to which it would change daily life. In the space of 15 years, diaries, torches, calculators, iPods, standalone cameras and compasses were all made redundant by a device that fits into the palm of your hand.

Against that backdrop, it is important not to discount the metaverse as a passing fad no matter how abstract it sounds.

Maybe then, to take the concept seriously, consider the fact that your children have probably already been in the metaverse.

An example of the metaverse

One of the world's most popular games is Fortnite, which is an online multi-player video game developed by Epic Games. The game had over 350 million monthly active players and generated revenue of \$ 5.1bn in 2020.

Fortnite is an incredibly popular video game. In fact, in April 2020, Epic Games announced that players spent 3.3bn hours in-game during that month alone. To put that in perspective, that's one person spending about 30 minutes a day, every day, playing Fortnite for a month!

But if people are spending so much time playing this game, what are they actually doing and why is Fortnite one example of the metaverse?

For starters, players log in to Fortnite from a PC, PlayStation or Xbox. They can then choose between two game modes – *Save the World*, which is a single-player game or *Battle Royale*, which is the more popular multi-player game.

In Battle Royale, up to 100 players are dropped onto a game map and must compete to be the last one standing by killing all the other players. While the game is running, players can collect weapons and build structures to keep safe from a storm that damages all players outside a safe zone. Players in the game can also talk to each other live through headsets.

In addition to this, you can also use the in-game currency called v-bucks to create your own skins (outfits/costumes) which has become hugely popular.

However, a big part of the reason why the game is so successful is because it allows people to interact socially with other users while gaming. In fact, the game has been such a hit that pop singers like Ariana Grande and Travis Scott have performed live concerts inside of Fortnite.

It is no wonder people are spending billions of hours in front of a screen. Fortnite offers you the ability to log in to a game, with all your friends, wearing a virtual costume you have made while listening to your favourite artist perform in the background.

With that in mind, if you can envisage your child playing Fortnite after school or on weekends, then you probably have a decent backdrop to comprehend what the metaverse looks like.

But if the idea is so popular, why is it only becoming popular now? Well, as it turns out the metaverse has been around for a lot longer than you may think.

Giving the metaverse a Second Life

For starters, the metaverse isn't the first attempt at developing a fully immersive virtual world.

In 1999, Phillip Rosedale formed Linden Labs that eventually went on to develop a user-centered digital world called *Second Life*. The name is quite appropriate because Second Life is an online multimedia platform that allows people to create an avatar^[2] and have a second life in an online virtual world.

In that virtual world users can explore, socialize, shop, build, create and trade virtual property with other users. In addition, Second Life has its own virtual currency called the Linden Dollar, which is tradeable for real world currency.

The idea was successful and by the end of 2017, Second Life had over 800 000 active users. And, interestingly, in 2015, users cashed out around \$60m and, according to the company, Second Life had an estimated GDP of \$500m.

The hype didn't stop there. In May of 2006, Second Life appeared on the cover of BusinessWeek and companies including Reebok and Dell invested in virtual stores as they braced for a new era of commerce. The platform even got a mention on the US hit comedy series 'The Office'.

But then, things started to go downhill for Second Life. Growth started to grind to a halt as users struggled to on-board into the virtual world. And, when they eventually were able to get in, they would drift around abandoned cities with empty stores. One by one, companies started to pull out and the plan to build a thriving virtual economy became another weird anecdotal piece of millennium pop culture.

However, Second Life wasn't abandoned entirely – today the platform still has thousands of active users and there is talk that the founder, Rosedale, is planning to restore the platform to its former glory following the hype that Zuckerberg has created with the metaverse.

Nonetheless, it does make one wonder whether users of the metaverse are one day destined to meander aimlessly around abandoned cities with virtual pockets full of cryptocurrency that isn't worth anything.

The Investment Case – An evolution to a revolution

Before getting too excited, we need to bring the concept of an all-encompassing, harmonious virtual world back to reality.

What most of us imagine the fully-fledged metaverse will look like is based on fictional renderings built by Facebook, Linden Labs, Ernest Cline or even Steven Spielberg. In fact, the fully-fledged metaverse today is about as real as Middle Earth.

A large part of the success of the metaverse hinges on the ability of different platforms to integrate with one another so that users can move seamlessly in and out of different virtual environments.

For instance, it doesn't help if Facebook/Meta, Google and Tencent all create their own versions of the metaverse. The concept only really works if the metaverse becomes one space for users to move between different environments.

This is a large part of the reason why the metaverse as Meta currently envisages it doesn't exist yet. Previous iterations like Second Life and even Fortnite fall short at this hurdle.

Back in October 2021 when Facebook announced that it was changing its name to Meta Platforms and Mark Zuckerberg debuted an avatar of himself that looked more like Zuckerberg than Zuckerberg looks like Zuckerberg, he also noted that the metaverse should take around 5 to 10 years to build out into a workable format. However, he also noted that it would probably be a lot longer before the company started to turn a profit from the metaverse.

To this day, we haven't seen a fully integrated version, and according to Meta, only expect profits from the virtual world in the 2030s.

It is also important to note that 'metaverse' has become a buzzword freely thrown around by would-be technologists and meme-stock investors. Naturally then, it has been confused with other hot topics in the world of big tech. For instance, you may have heard that terms 'metaverse' and 'Web3' used in the same sentence before. However, the two concepts don't actually speak to the same thing. While the metaverse refers broadly to a virtual reality world as we've described it; Web3 is a more specific topic that deals with the next generation of the internet that follows Web2.

It is easy to see why the two topics have been confused with one another given their relation to the internet but they aren't the same thing. Misconceptions like this are commonplace when it comes to talking about the metaverse, and it is important to bare that in mind when trying to understand the investment case.

Towards the end of 2021, a piece of real estate was sold in Ethereum's metaverse for \$2.4m worth of cryptocurrency. The plot of land is located in a place in the metaverse called 'Decentraland' where users can buy land, visit buildings and interact with others. It is also important to understand that Decentraland doesn't exist yet and neither does the virtual land it is being built on. This raises an important point that we mentioned earlier, the metaverse is in fact a vision and not yet a reality.

The concept of the metaverse is being embraced by some of the world's largest companies, but it is going to take time to build. Don't expect to wake up tomorrow in a virtual reality game world. The metaverse is an evolution, not a revolution.

But don't lose hope in the investment case – it's definitely there. Think of the Second Life example. Essentially, the concepts of supply and demand are recreated within the metaverse – this allows companies to sell the same products in two different places.

Earlier we noted that companies like Reebok were considering opening stores in the Second Life virtual world. Essentially, if Second Life turned out to be a success you would want to wear Reebok sneakers in the real world and the metaverse, right?

The possibilities really are endless and the idea of developing a fully functioning virtual economy isn't too farfetched. But it is important to recognize that there is still a lot of development that needs to take place.

More World Building

The metaverse and the success thereof is closely linked to the convergence of two things – social media and gaming. But it's not the first time that these two things have converged. Companies like Nintendo and Epic Games successfully combined these two concepts together before the metaverse became a thing. According to Grayscale, the virtual gaming industry generates around \$180bn in revenue a year and this could surpass \$400bn by 2025.

But, what if the metaverse could appeal to more than just virtual gamers. If it truly does become an all-encompassing place then it doesn't matter what background anyone comes from in the real world they can live an entirely different life in the metaverse. What

the metaverse is really selling is the ability to escape the current world and live in an entirely different one, where you choose to be whoever or whatever you want. That is the real investment case.

Bearing that in mind, is there any real interest from companies apart from Facebook to built out the metaverse?

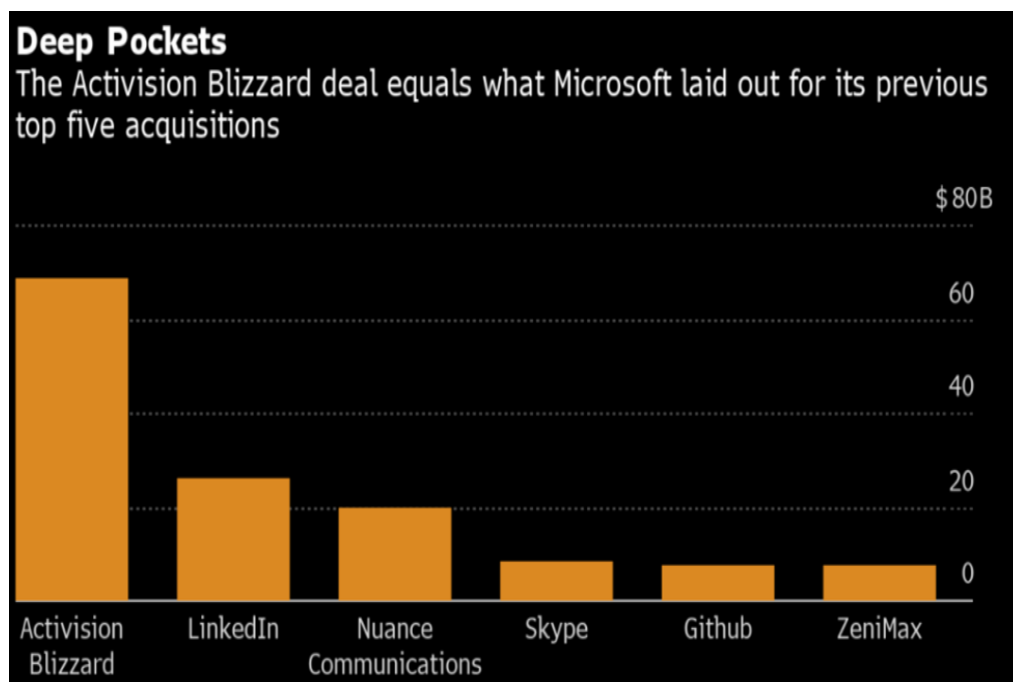
The short answer is yes.

Corporate Interest

Earlier this year, Microsoft bought Activision Blizzard for \$70bn. The company owns some of the most iconic video games ever created like Call of Duty, World of Warcraft and Candy Crush. When chatting through the acquisition, Microsoft's CEO Satya Nadella was quick to mention the metaverse, and analysts generally agree this is Microsoft's first formal move geared towards establishing a profile in the metaverse.

This is also a massive transaction for Microsoft. Not only is it the company's largest deal by total value, it is worth more than its previous five largest deals combined, which includes LinkedIn and Skype.

Microsoft Activision Blizzard – Deal Value – January 2022



Source: Bloomberg.com

Another company investing in the metaverse in a slightly different way is Nvidia, the US game chip manufacturer. In a statement in January the company announced that its virtual world-building software, Omniverse would become freely available to artists and creators looking to build out parts of the metaverse.

Quite clearly, a company like Nvidia stands to benefit greatly from a world that lives inside a video game. Another US tech company that also stands to benefit from a fully-fledged metaverse is Qualcomm, the semiconductor manufacturer, which has also committed

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to building out the digital world. A number of other listed US companies like Unity Software, Roblox and Autodesk all have something to do with the metaverse and are keen to take advantage of the growing trend.

Below, we show the metaverse broken down into different elements and all of the companies that are involved in building it – the list is extensive.

The Metaverse Ecosystem – November 2021 - Concept



Global equity funds that invest in companies like Microsoft or Meta have technically already bought an indirect stake in the metaverse.

As we know, Naspers/Prosus' largest investment is in the Chinese technology giant – Tencent. Tencent is also the owner of Epic Games which owns Fortnite. In addition to this, Tencent owns a host of companies that all fit into its version of the metaverse.

It is easy to see why companies view the metaverse as a massive growth opportunity. However, the first company to really take

advantage of the trend was Facebook, even going so far as to change its name to Meta Platforms. So, if we really want to understand why companies find the metaverse such an attractive growth opportunity we need to understand Meta's motive.

Towards the end of last year, Baillie Gifford's Long Term Global Growth team met with Mark Zuckerberg and Meta's Chief Product Officer, Charlie Cox, to discuss the metaverse and the rationale behind it.

Reading through their summary of that meeting, it is interesting to note that the company had been clearly designing and planning its concept of the metaverse for over a decade.

Another interesting point is that focusing on the metaverse and changing its name to Meta has given the company a break from dealing with the anti-trust regulation that has plagued it over the past few years, giving it a chance to re-invent itself to a certain extent.

Overall, Baillie Gifford believes that the shift to focusing on the metaverse is indicative of the company's adaptability, but clearly it also seems like an effort to reinvent its own narrative – moving away from the scrutiny it has faced in recent years.

Virtual food for thought

Ultimately, whether it exists or not, the concept of the metaverse is here to stay and already forms an explicit part of the corporate strategy of many companies.

It is also important to note that the concept is not new, it has been around for some time and attempts to build it out have been tried before.

It seems likely that over the next decade we will see versions of the metaverse being commercialised. The key to creating value will be getting foot traffic into the world you have created. Outside of another ad-based revenue model it is hard to see the other drivers. We may start to see this when Ariana starts charging for tickets.

But who knows, the idea of having future IC meetings or meeting with an asset manager in the metaverse seems a little less farfetched today than it did a few years back!

^[1] An Easter Egg is a message, image or feature hidden in software, usually a video game.

^[2] An icon or figure that represents a person in a video game or internet forum.

data provided by Refinitiv

MARKET REPORT

28/Feb/22

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
FTSE/JSE All Share Index (ALSI)	ZAR	8.8%	3.8%	20.5%	14.8%	12.0%	11.8%	15.4%	13.1%
FTSE/JSE SA Listed Property	ZAR	1.4%	-6.0%	22.4%	-5.8%	-5.8%	4.7%	26.2%	21.2%
SA All Bond Index (ALBI)	ZAR	4.1%	1.4%	9.1%	8.7%	8.9%	8.1%	8.0%	7.9%
SA Cash Index (SteFI)	ZAR	1.0%	0.7%	3.9%	5.3%	6.1%	6.1%	0.4%	0.4%
Balanced Benchmark	ZAR	3.9%	0.2%	14.9%	12.4%	10.7%	11.5%	10.5%	8.8%
SA Inflation (1 month lag)	ZAR	1.2%	0.8%	5.7%	4.4%	4.3%	5.0%	1.3%	1.4%
GLOBAL MARKET INDICES BASED TO USD									
Global Equity (Datastream World)	USD	-3.7%	-7.6%	11.2%	15.0%	12.6%	11.3%	15.4%	13.3%
Emerging Markets Equity (Datastream EM)	USD	-3.0%	-4.8%	-10.4%	6.4%	7.4%	3.6%	16.6%	16.0%
Global Property	USD	-3.1%	-10.3%	14.6%	7.5%	7.5%	8.1%	15.2%	14.0%
Global Bonds (Barclays Global Bond Index)	USD	-3.7%	-3.1%	-6.5%	1.5%	2.0%	0.6%	4.7%	5.0%
Global Cash	USD	0.1%	0.1%	0.2%	0.9%	1.3%	0.9%	0.3%	0.2%
MAJOR INDICES BASED TO RANDS									
FTSE/JSE All Share Index (ALSI)	ZAR	8.8%	3.8%	20.5%	14.8%	12.0%	11.8%	15.4%	13.1%
Global Equity (Datastream World)	ZAR	-7.1%	-10.6%	13.5%	18.7%	16.5%	19.8%	16.1%	14.8%
Emerging Markets Equity (Datastream EM)	ZAR	-6.4%	-7.8%	-8.6%	9.8%	11.0%	11.5%	13.8%	12.9%
Global Property	ZAR	-6.6%	-13.1%	16.9%	11.0%	11.2%	16.3%	17.0%	14.9%
SA All Bond Index (ALBI)	ZAR	4.1%	1.4%	9.1%	8.7%	8.9%	8.1%	8.0%	7.9%
Global Bonds (Citigroup)	ZAR	-7.2%	-6.2%	-4.6%	4.7%	5.5%	8.2%	15.4%	14.1%
COMMODITIES									
Gold (US Dollars)	USD	7.0%	4.5%	10.2%	13.1%	8.7%	0.9%	12.6%	14.6%
Gold (Rands)	ZAR	3.1%	1.1%	12.5%	16.7%	12.3%	8.6%		
CURRENCIES									
Rand / Dollar	ZAR	3.6%	3.2%	-2.0%	-3.2%	-3.4%	-7.6%	15.4%	14.9%
Rand / GBP Pound	ZAR	2.2%	4.1%	2.1%	-3.5%	-5.0%	-5.7%	14.4%	14.5%
Rand / Euro	ZAR	3.8%	4.4%	5.6%	-2.7%	-4.5%	-5.7%	14.0%	13.5%

Spot Rates		28-Feb-22	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US\$	Rand	15.45	15.96	15.15	13.08	7.45	11.43
Rand/GBP	Rand	20.73	21.58	21.16	16.28	11.90	16.16
Rand/EUR	Rand	17.36	18.15	18.38	13.90	9.97	9.89
RATES							
Libor 6m \$	US\$	0.80	0.34	0.20	1.37	0.75	2.03
Repo Rate	Rand	4.00	3.75	3.50	7.00	5.50	10.50
Prime	Rand	7.50	7.25	7.00	10.50	9.00	13.00
All Bond Index Yield	Rand	10.02	9.96	11.64	9.32	7.98	9.74
COMMODITIES							
Gold (\$/oz)	US\$	1 903.75	1 822.39	1 727.44	1 256.64	1 734.74	296.80
Platinum	US\$	1 063.00	959.00	1 204.00	1 029.00	1 726.00	493.00
Oil (Brent Crude) \$	US\$	101.22	78.40	66.08	55.22	122.02	21.15
INFLATION							
SA Inflation	%	5.7	5.9	2.8	6.2	6.2	9.4

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