

The metaverse: is it real?

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We think standard definitions of the metaverse underplay its disruptive and transformative potential. By seamlessly integrating “real” life and digital worlds, it creates a new level of interconnectivity – and major new opportunities for investors.

We don't think of disruption in the traditional way – as a phenomenon limited to the tech sector. Granted, it may have begun with innovations in ride-hailing and rentals, but the true disruptors today reach into every aspect of our lives, from healthcare to smart homes. Disruptive trends will transform the competitive landscape – redefining the “winners” and “losers” – and the emergence of the metaverse underscores the shift that is taking place. We don't think of the “metaverse” as something limited to virtual reality. Rather, we believe the metaverse is the culmination of the last 30 years of digital acceleration in nearly every facet of daily life. That brings exciting implications for investors.



Jeffrey Parker
Senior Managing
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The metaverse is the product of decades of digitalisation

“Metaverse” is such a new term that there's no agreed-upon definition. Mostly it is used to describe digital worlds or virtual spaces enabled by virtual or augmented reality. But we believe this definition is too limited. Rather, the metaverse should be thought of as a seamless integration of the physical and digital worlds. It's an existence in which our digital identity is as valuable as our physical identity, rather than simply some separate digital place that we visit in virtual reality or augmented reality – as in the Steven Spielberg movie *Ready Player One*. In our definition, the metaverse and Web 3.0 – a version of the internet based



John Coyle
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Key takeaways

- Our take on “disruption” is that changes facilitated by new technologies will reverberate far beyond the tech sector into every corner of our lives – and the metaverse is a prime example of this trend
- As we increasingly embrace digital worlds – from online gaming to video calls – the metaverse represents a new frontier of seamless interconnectivity between digital and physical spheres
- With people growing increasingly comfortable with “real life” going digital, the total aggregate revenues of companies in the metaverse could reach USD 25-30 trillion by 2040
- As the metaverse offers increasing interoperability of “real life” and digital worlds, it will also encompass traditionally non-digital industries, creating multiple opportunities for investors

on blockchain that supports a new level of interconnectivity – are two sides of the same coin. Accordingly, we think that the metaverse is a megatrend that will drive profound changes in the evolution of society.



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Digital natives are a growing demographic cohort

The data show that internet adoption globally continues to grow, and each age cohort is larger in size than the previous generation. This is creating more “digital natives” – people for whom working and living in the digital space is second nature. As the number of digital natives grows, the world is spending more time on the internet per day. Accordingly, we believe that the total aggregate revenues of companies in the metaverse could reach USD 25-30 trillion by 2040 – a quadrupling in size compared to the equivalent revenues of today’s internet.

The world is increasingly comfortable with “real” life going digital

Prior to the digital evolution, our attention was solely focused on the physical world, but with the advent of television, followed by computers and mobile phones, we divert more and more attention to digital worlds, and we expect this trend to continue. With this shift in attention to digital worlds, we have seen many physical-world concepts manifesting themselves in digital worlds. To give a few examples:

- Remote work was embraced during the Covid-19 pandemic. One video conferencing service now hosts 3.3 trillion minutes of video calls on an annual basis.
- In-real-life (IRL) friends became online communities on established and new social networks, some of which enjoyed exponential growth in the preceding decade.
- The cameraderie once found in five-a-side soccer or little league baseball is now found in online multiplayer games, with platforms that host tens of millions of users daily.
- Augmented reality (AR) filters are the new makeup. Is it important to conform to conventional definitions of “beautiful” in real life when you can use a new filter on social media?
- Money and property have migrated to the digital worlds via cryptocurrencies and non-fungible tokens (NFTs)

Move over, Web 2.0 – the metaverse and Web 3.0 are next

Just as Web 2.0 represented a giant leap forward for the internet with the advent of social networking and cloud computing, Web 3.0 looks to offer a new level of interconnectivity based on blockchain technology – and it is one of the foundation stones of the metaverse. The

combination of Web 3.0 and the metaverse is expected to deliver on several key themes:

- Interoperability between digital and physical worlds as a common public ledger in the blockchain enables physical-world interaction with digital assets like non-fungible tokens (NFTs) and cryptocurrencies, and digital interaction with physical assets like real estate
- Massive user scale capable of thousands of users interacting simultaneously
- A sense of presence as opposed to the limited means of interaction today
- New business models in which the creators/users are the owners rather than the product

The precursors to many of these changes are already underway, with significant investments committed by well-known tech behemoths into construction of a metaverse, cryptocurrencies and NFTs seeing rapid growth in use, videoconferencing becoming an everyday part of life, and AR filters making us all look better online. These represent just the beginning of the investment opportunities arising from this next wave of digital transformation.

What it means for investors: prepare for the metaverse “IRL”

How should investors capitalise on this theme? Initially we see potential opportunities to invest in companies creating Web 3.0 infrastructure, the application ecosystem built to utilise this infrastructure, and the digital worlds that emerge through these interoperable applications.

Taking a longer-term view, we believe that the metaverse will grow to encompass many non-digital industries. For example, it could help enable more efficient and transparent maintenance of property records in real estate, streamline complex financial transactions via blockchain, and optimise supply chains in manufacturing and agriculture. That is why investors should draw on multiple, cross-industry perspectives to identify the winners in this environment.

Is the metaverse real? Yes, we think it is. As the divide between our “real” and digital lives diminishes, the metaverse is not some distant, faraway land. It is quite literally closer than you think – and so are the investment opportunities it offers.

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Data as at 30 June 2022*

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