



518am
Reliable yield

MONTLY LETTER

July 2024



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A delta-neutral strategy is capable of generating appealing risk-adjusted returns regardless of the price action of the underlying assets. Whereas July saw a volatile month for digital assets, 518am's delta-neutral portfolio weathered the storm and produced interesting results with little volatility.



ETH ETFs launched!

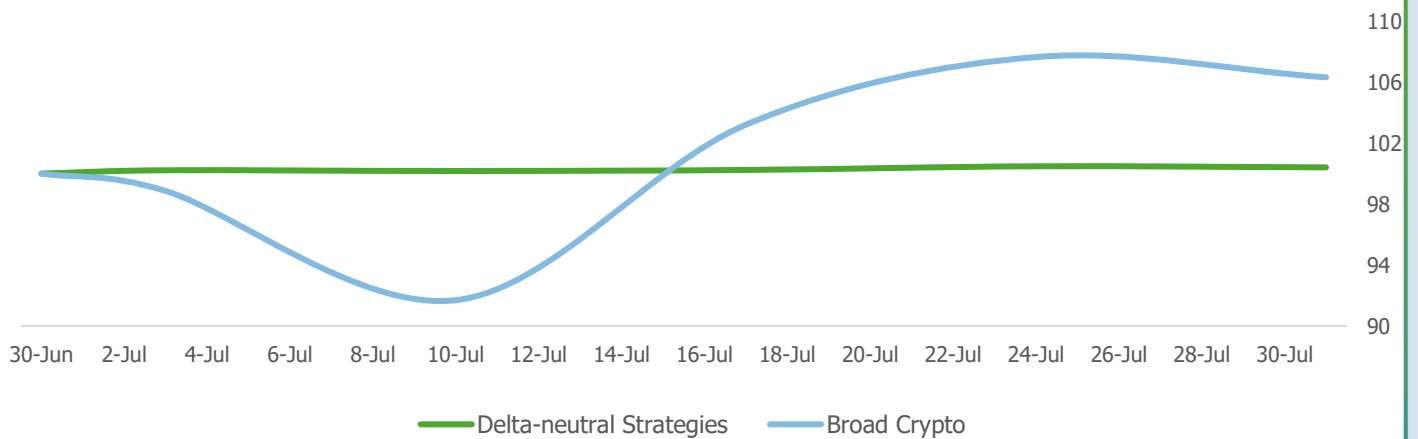
Flow of funds played a significant role in determining July's digital asset price action. A total of **nine ETH ETFs were launched** in the US on July 23, generating, in a single day, over \$1.1b in aggregate turnover and in excess of \$107m in net inflows.

This equates to roughly half of the notional traded in BTC ETFs on the same day, which is in line with the average difference in volumes seen across different instrument types and venues.

In the first days of trading, comments given by the largest ETF sponsors indicated the pace of product launches will subside, as institutional demand for the asset class has been met by the current product offering (BTC + ETH).

We remain interested in future developments especially regarding listed options on these ETFs and the haircuts brokers will apply to basis traders who fund their CME margins with these new products.

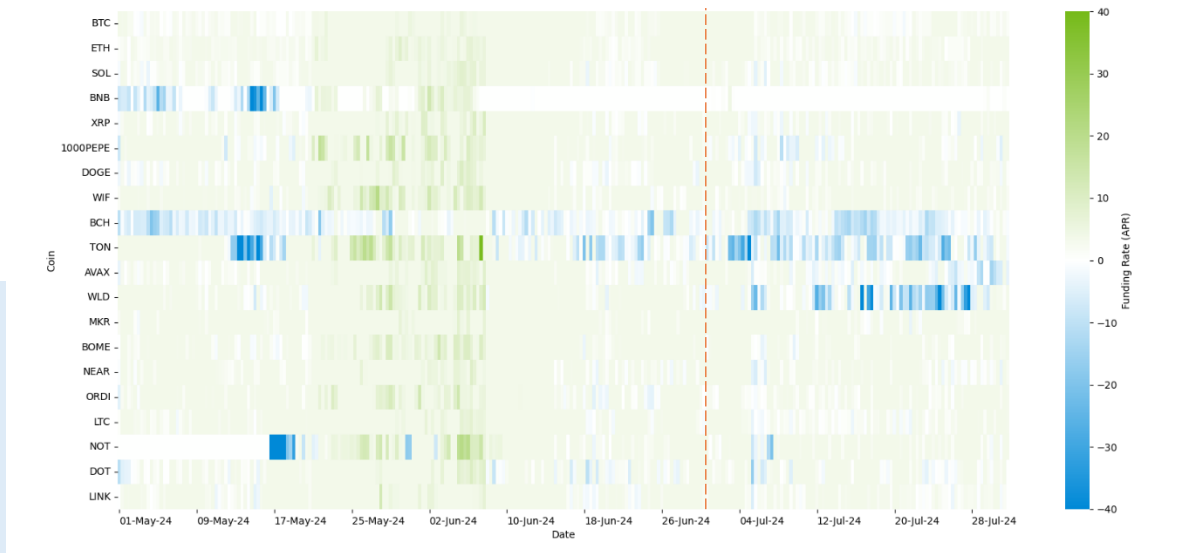
Relative performance of 518am Delta-neutral strategies vs. the broad crypto market



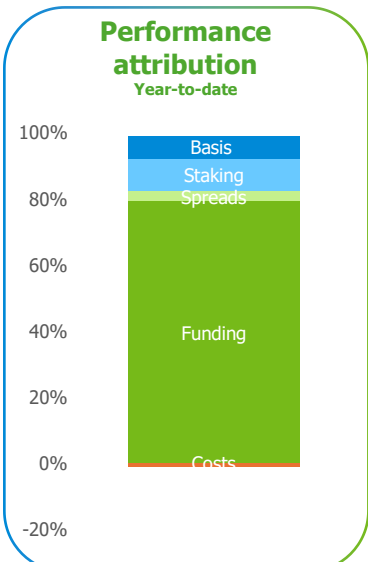
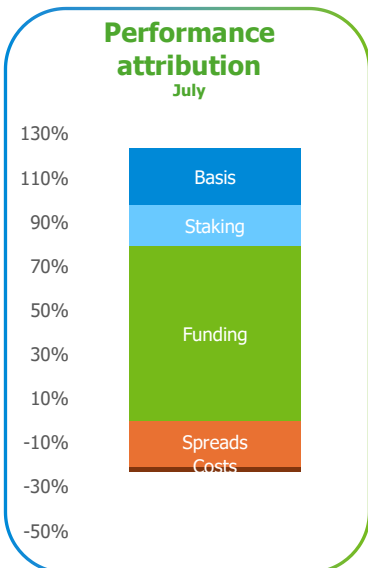
This chart employs HASH11 as being representative of the broader digital asset market, and demonstrates the high volatility experienced during the month of July. The initial drawdown was nearly 9%, and the percentage difference between the lowest and highest prices of July was close to a significant 20%! Despite these fluctuations, 518am's Delta-neutral Strategies managed to deliver a robust return of 41 basis points to its shareholders, net of fees, without experiencing a single drawdown throughout the month.

As we've discussed in our past communications, 518am is firmly convinced that this kind of performance is the major strength of this portfolio. It offers investors the opportunity to benefit from the implied yields associated with digital assets, which are highly attractive compared to traditional investments, all while avoiding the typical volatility associated with cryptocurrencies.





The chart above illustrates a continued contraction in yields for the top 20 cryptocurrencies by open interest throughout July (to the right of the dotted orange line). The price rebound which followed Trump’s assassination attempt and the launch of ETH ETFs did elevate rates but fell short of maintaining them consistently at or near the 20% APR mark. It is worth noting that while yields did tighten in comparison to the previous month, there were few coins trading with a negative yield and, most of those which did, have already gravitated towards a modestly positive rate.




This month, our overall positioning across the portfolio has remained relatively stable, with no significant shifts in strategy. However, we have increased the ratio of our allocation to the major large-cap coins. In contrast, our exposure to altcoins has been slightly reduced in proportion. The purpose, that while our core strategy remains intact, is intended to optimise our portfolio for the best risk-reward balance. This month’s heightened volatility presented some opportunities to open new positions in certain futures spreads we identified to be mispriced. Our strategy is based on the expectation that these spreads will eventually revert to their mean as market conditions stabilize.

As we move into August, we plan to incorporate a yield-bearing stablecoin into our strategy. This stablecoin will not only serve as collateral for our positions, but it will also generate a return for us. This approach is akin to using US Treasuries as margin to collateralise futures positions in traditional markets, allowing us to further optimize our collateral management by earning interest on assets that are otherwise held in reserve. This strategy will enhance our efficiency and return on collateral, aligning with our goal of maximizing the utility of our capital.

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Schedule a meeting with your investment manager



6. Disclaimer

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