



518am
Reliable yield

**LETTER TO THE SHAREHOLDERS OF
518AM DELTA-NEUTRAL
STRATEGIES SP**

July 4, 2024



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518am Delta-Neutral Strategies has achieved important milestones in its first four months of existence:

- cumulative gross returns since inception are approximately 10%
- accompanying volatility has consistently remained below 5%
- obtained an ISIN and starts publishing NAV on Bloomberg soon



Open dialogue

We hold the view that clear and effective communication is key to fostering and sustaining successful relationships with investors. To honor this commitment, we have created this monthly letter as a vital channel of communication. It is designed to keep you updated on market trends and the performance of our strategy, while also offering insight into our investment process.

If a subject has not been addressed to your satisfaction or there is a topic you would like to see discussed in an upcoming edition, please reach out to dns@518am.io. We welcome your feedback on both format and content of this correspondence. Enjoy!

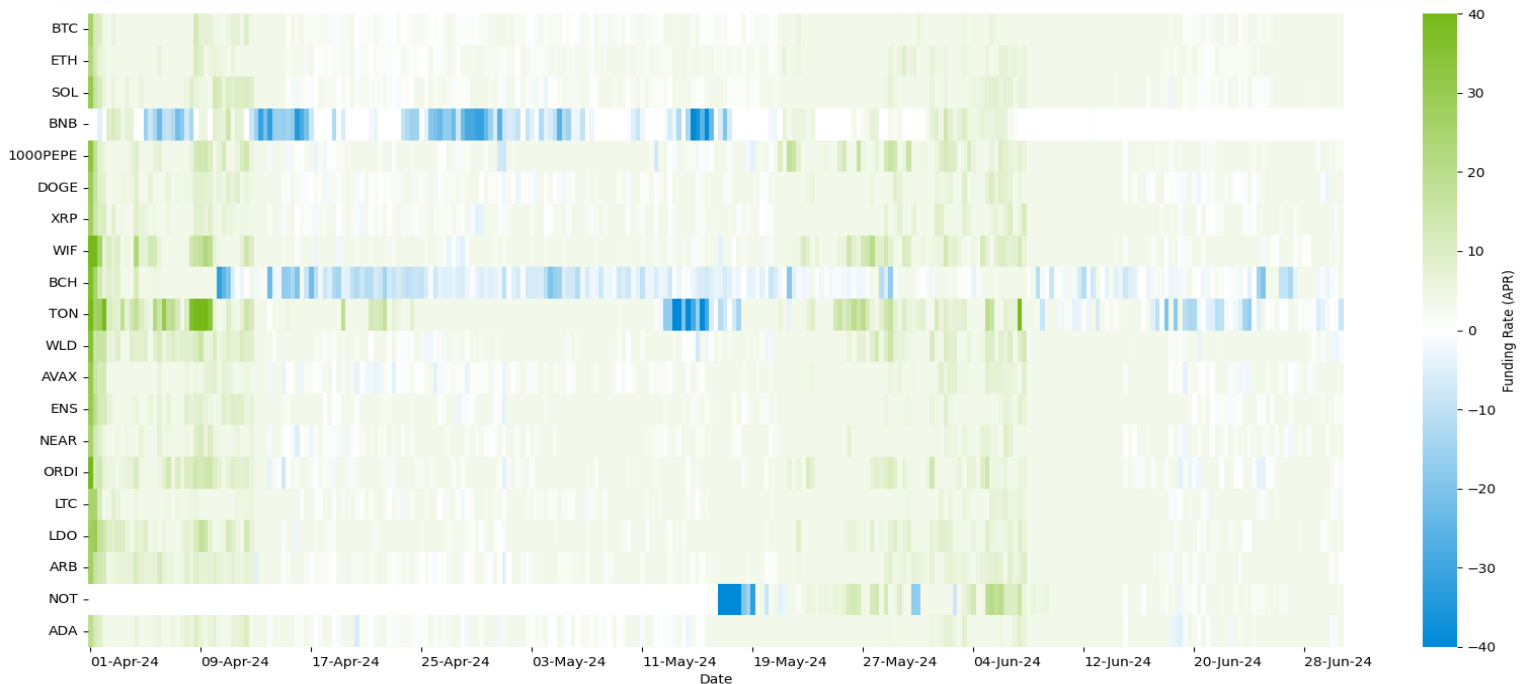


Figure 1 - Top 20 coins by open interest and their respective funding rates over time. (Source: Binance and 518am calculations)

As illustrated in Figure 1 above, early June saw the continuation of a modest but pervasive widening of funding rates that started in late May after a ~45-day period of flattish to slightly positive accruals. Standout performers in this recent rates rally include KAS, 1000PEPE, and ETC. The fund was positioned to capitalize on wider rates with a substantial portion of the book allocated to a diversified portfolio of funding arbitrage trades.

As the month progressed, US macroeconomic news adversely impacted digital assets, causing BTC to depreciate from 71k to 60k. This led to cascading liquidations and reduced leverage uptake by the market, compressing funding rates and pushing assets such as TON, BCH, and TRX into negative yield territory. Disorderly exits across venues created limited cross-exchange opportunities.



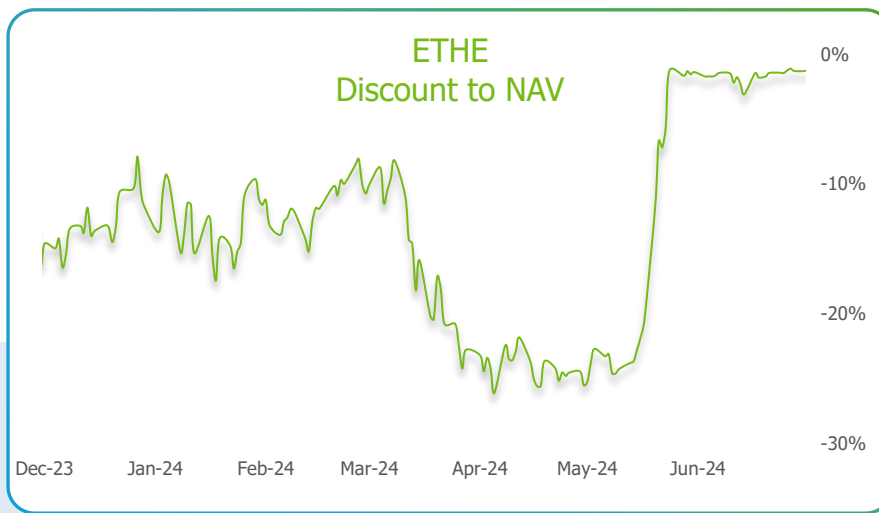
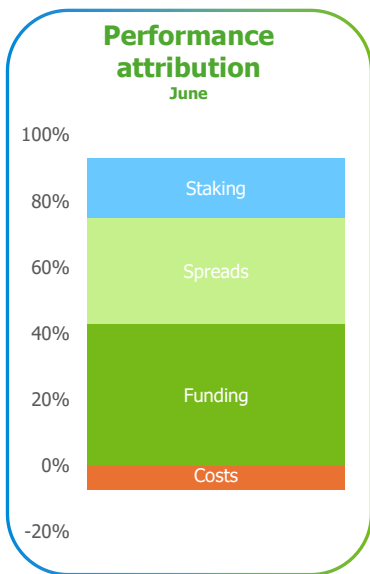


Figure 2 – ETHE’s discount to NAV (Source: Greyscale and 518am calculations)

Eleven spot Bitcoin ETFs were launched in the US in 2024. The SEC’s approval significantly reduced the discount between spot Bitcoin and Grayscale’s Bitcoin product. Similarly, as depicted in Figure 2, the current price difference between spot Ethereum and Grayscale’s Ethereum unit trusts (ETHE) suggests the market has fully priced-in the SEC’s approval of a spot Ethereum ETF. The once sizeable discount was wiped out in late May and the spread hovered near 1% for the entirety of June. If this in fact materializes, it bodes well for our industry, and we applaud any actions which contribute to enhanced regulatory clarity and simultaneously expand the array of instruments and venues available to digital asset investors.



During this volatile month, we strategically used funding arbitrage to generate a steady yield as the market declined.

The basis trade performed well due to the severe crypto sell-off, with Bitcoin and Ethereum yields tightening from ~10% to 6% p.a.

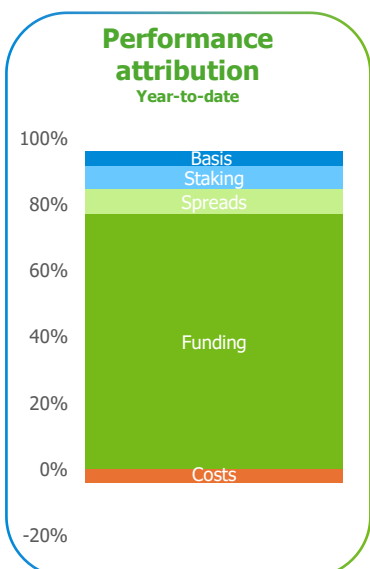
Our reluctance to implement this strategy was due to the S&P 500 hitting record highs. It’s rare to see a crypto sell-off in such conditions, and a swift crypto market recovery could have led to mark-to-market losses, which we aim to avoid in the fund’s initial months.

Heading into July, we anticipate our returns to be similar to June’s as the crypto market typically sees less activity in the summer.

Two factors could boost our performance: the potential start of Ethereum ETFs trading, which could positively impact our funding yields without a ‘sell the news’ event, and the addition of a fourth trading venue offering new opportunities.

Stay tuned for more insights!

E-mail: dns@518am.io
 Schedule a meeting with your investment manager



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