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

October 2025

October's volatile markets, particularly during the historic liquidations on the 10th, presented exceptional opportunities. The investment strategy captured significant price dislocations across venues, generating over 2.6% returns. This demonstrates our ability to thrive amid market stress and extract value from volatility while maintaining prudent risk management.


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Digital Asset Funding Rates as a Distinct Risk Factor: Evidence from a Systematic Harvesting Approach

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Abstract

This paper identifies and validates digital asset funding rates as a novel, harvestable risk premium. We implement a fully collateralized, delta-neutral cash-and-carry methodology on the two most liquid digital assets (BTC and ETH), isolating implied yield from cryptocurrency term structures while eliminating directional market exposure. The systematic approach generates an 10.56% annualized return with 1.50% volatility over the full sample period. This premium exhibits statistical independence from conventional investment classes, with correlations consistently within a tight ±0.10 band. Principal Component Analysis confirms it represents a distinct return-generating dimension. The strategy offers returns exceeding benchmark high-yield credit while maintaining hour-duration exposure and negligible credit risk, providir robust solution for modern portfolio diversification.

Keywords: Digital Assets, Implied Yield, Risk Premia, Orthogonal, Diversification

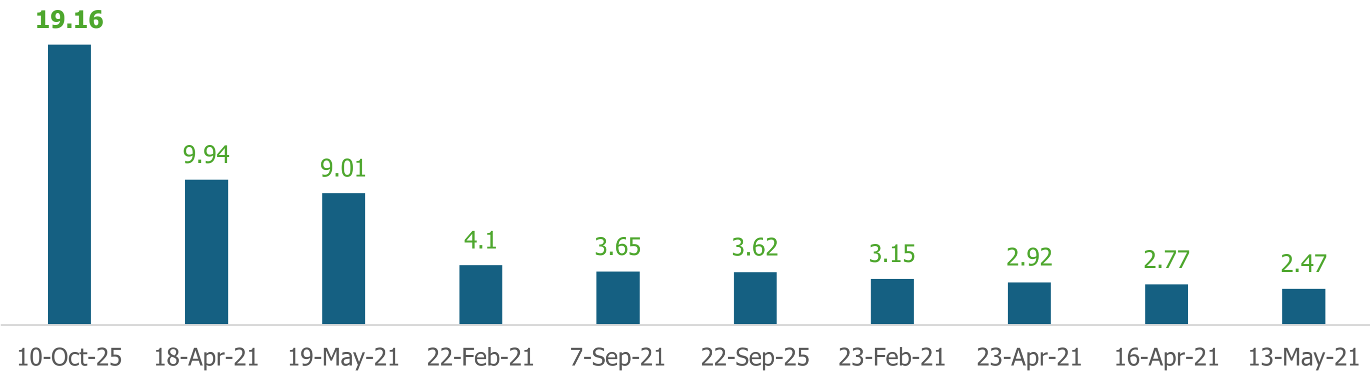
518am debuts in academia!

We are proud to announce that 518am has published its inaugural research paper on SSRN, titled "Digital Asset Funding Rates as a Distinct Risk Factor: Evidence from a Systematic Harvesting Approach." This achievement marks a significant milestone in establishing our footprint and thought leadership in the digital asset space.

The paper has already garnered significant attention, being listed as a Recent Top Paper in SSRN's Fixed Income Investing eJournal with 114 downloads to date. Our research identifies and validates digital asset funding rates as a novel, harvestable risk premium. Crucially, it validates our research-driven investment philosophy and demonstrates the scientific foundation underpinning our systematic approach to capturing returns uncorrelated to traditional markets, reinforcing our commitment to delivering consistent alpha through rigorous quantitative methods. We welcome your feedback!

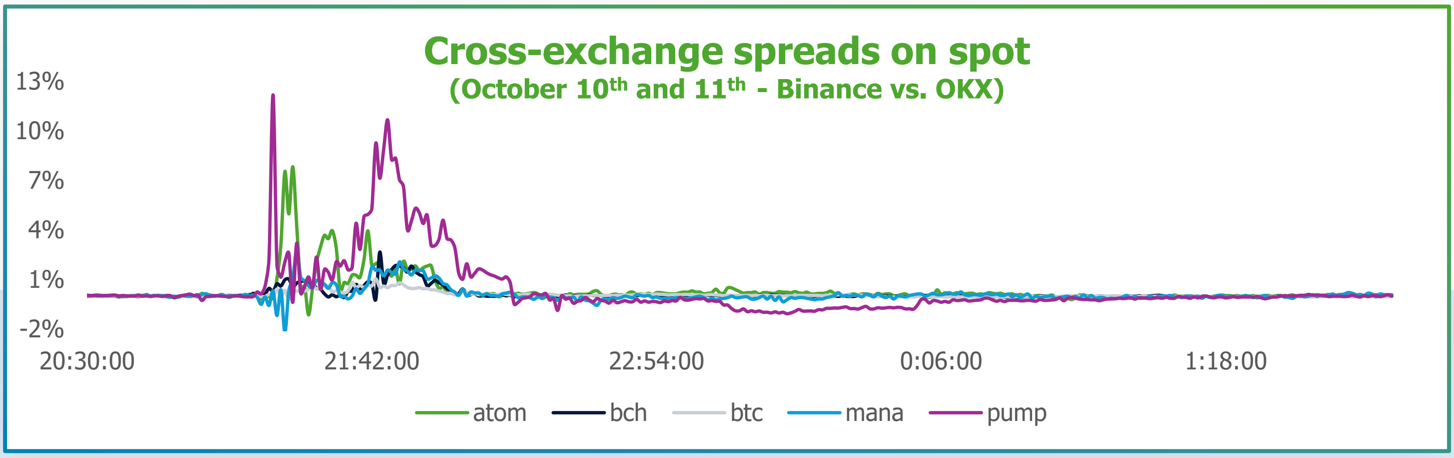
Biggest Liquidations Ever

(U$ billions)



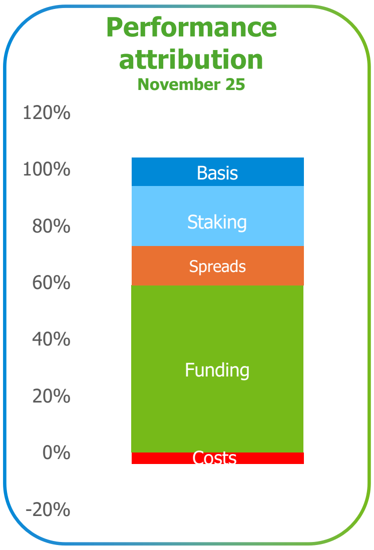
Throughout cryptocurrency's history, significant liquidation events have occurred with varying catalysts. Among the ten largest depicted in the chart above, triggers have ranged from AML crackdown rumors, mining halts, US capital gains tax hike plans, Turkey's crypto-payment bank restrictions, and Tesla's BTC payment halt. However, the most significant liquidation event in crypto history—nearly double the magnitude of the second-largest—was triggered by US tariff hike threats on China.

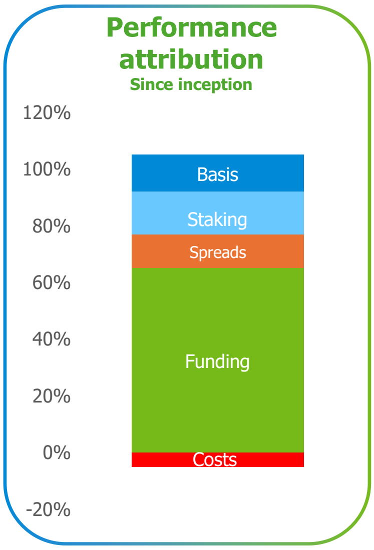
This extraordinary event created unprecedented market dislocation across trading venues, presenting exceptional opportunities for our delta-neutral strategy. The disorderly nature of this largest-ever liquidation cascade, as expected, generated substantial price inefficiencies that our systematic approach was specifically designed to capture.



As liquidations surged and markets descended into disorder, exceptional opportunities emerged across trading venues. Our systems were primed to capitalize immediately on these inefficiencies. The chart above illustrates the extraordinary spreads that materialized and their transient nature. Typically, the average price difference for digital assets across exchanges is merely 0.02%. However, during the height of volatility on October 10th, these disparities widened dramatically. Between 20:30 and 22:00, we captured unprecedented arbitrage opportunities. At approximately 21:30, we identified a 12.2% instant gain potential on PUMP through cross-exchange execution. Minutes later, ATOM exhibited spreads reaching 7.5%, while even BTC—renowned for its liquidity—traded with a 1.05% differential between venues.

By 23:00, spreads had largely normalized, though select opportunities persisted with marginal advantages shifting between exchanges. What remains paramount is our ability to execute decisively during these fleeting windows, capturing substantial value through our systematic approach and robust infrastructure.





Over the past eight years of trading crypto, half a dozen major events have profoundly shaped how we view risk, have designed our systems and modelled our strategies. From the BitMEX Crisis (2018) and the OKX Whale (2019) to the Covid Crash (2021) and FTX (2023) each period of volatility has been our most profitable too.

On October 10th (now known as "Ten Ten"), we experienced another such event. It marked the largest wave of liquidations in crypto history. While official figures state around USD 20 billion in forced unwinds, we estimate the true figure runs well into the hundreds of billions. Despite years of market maturity, the same structural inefficiencies and dislocations reappeared. Clear, visible and highly exploitable, even without complex infrastructure.

Following a long night of extreme volatility, and despite our infrastructure performing very well we emerged with invaluable data and fresh insights into our systems and strategies. Within days, we developed several new tools to add to our operation.

We have also since observed a positive structural change at one of the exchanges we trade on, and an emerging concern about another's conduct during the event.

Currently, our book is running with minimal leverage. Liquidity and market structure has slowly started to normalize and we will selectively build positions into November.

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Schedule a meeting with your manager