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

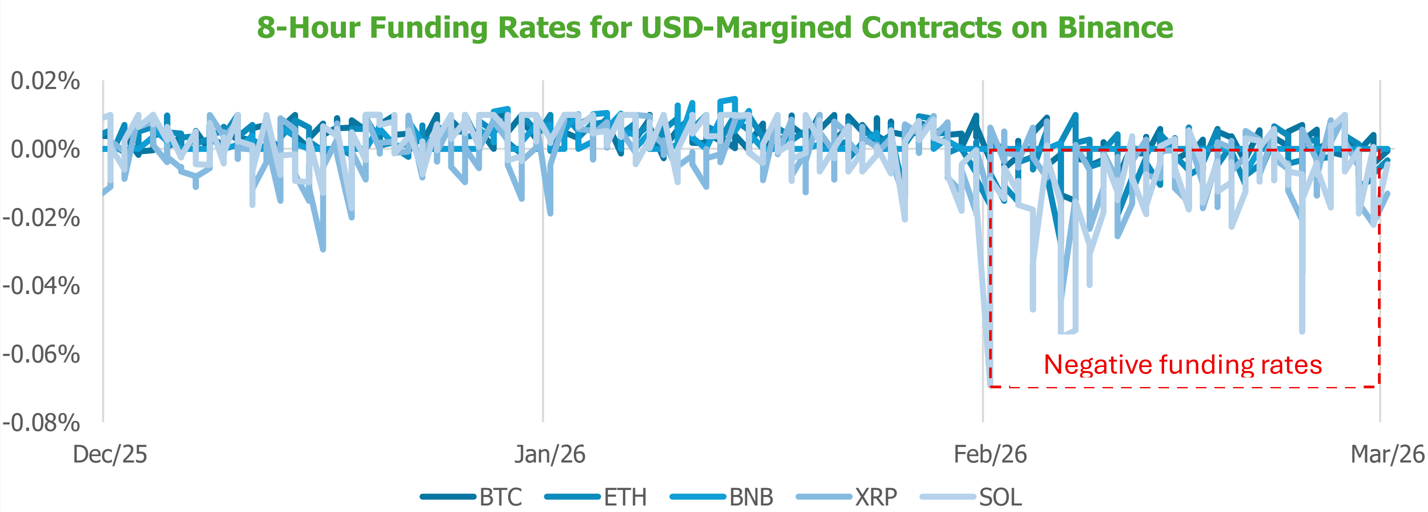
FEBRUARY 2026

February's crypto markets offered little refuge for any strategy. Unlike prior drawdowns where our delta-neutral approach thrived amid chaos, this month's conditions produced a −1.2% decline. With 92% of our months positive since inception, negative months are rare — but not impossible. We believe in addressing them with full transparency.

The Warsh Factor

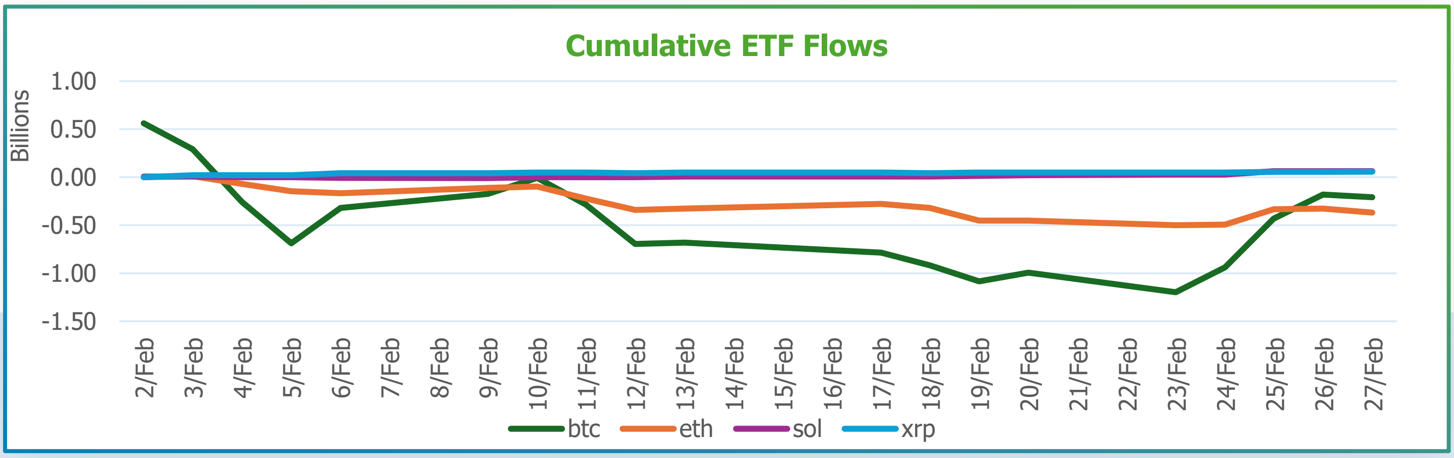
While the market fixated on price, February's most consequential development was regulatory. On February 25th, the OCC issued proposed rulemaking to implement the GENIUS Act, establishing a federal framework for payment stablecoins — covering reserve requirements, redemption at par, and capital minimums — effectively transforming stablecoins from regulatory gray area into federally supervised instruments. The FOMC minutes, released February 18, reinforced a "higher for longer" stance, though two dissenting governors advocated for an immediate cut, exposing internal tension about the policy path.

Bitcoin ETFs recorded $3.8 billion in outflows over five consecutive weeks, yet an $875 million reversal in the final week hinted at repricing rather than retreat. Beneath the noise, the structural signal was unmistakable: Crypto.com secured conditional OCC banking approval, Tether invested $100 million in Anchorage Digital, and BlackRock began accumulating DeFi tokens.

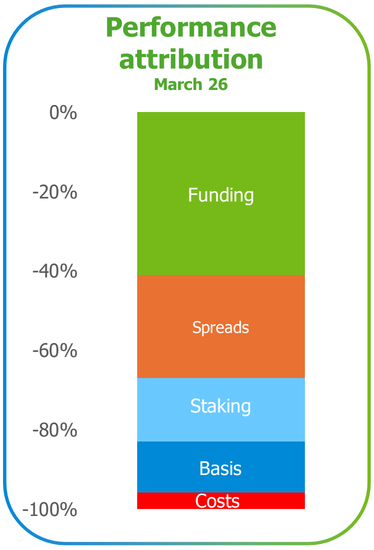


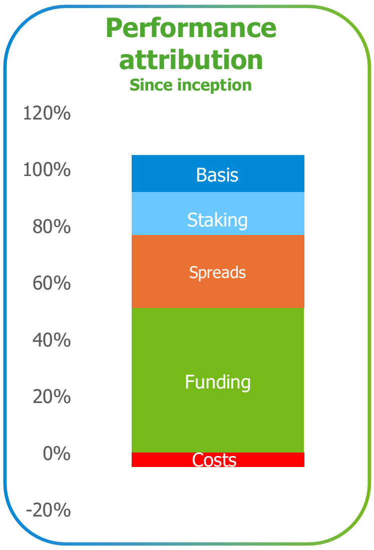
The chart above shows funding rates — the recurring payments exchanged between buyers and sellers in crypto perpetual futures markets. When rates are positive, our strategy earns income; when negative, it pays a cost. Throughout February, funding rates across all five major assets turned decisively negative, meaning the market was paying a premium to be short — and our hedged positions bore that cost directly. To put it in perspective: BTC funding annualized at −0.83%, ETH at −4.01%, XRP at −7.09%, and SOL at a punishing −13.40%. This is the direct mechanism behind our −1.2% monthly drawdown.

The chart tells the story clearly: December and early January saw rates fluctuate around zero with periodic spikes into positive territory — normal, productive conditions for our strategy. February was a stark departure, with rates across every major asset spending the vast majority of the month in negative territory. Persistently negative funding of this magnitude is rare in the broader historical record, and has always been followed by a normalization that restored the strategy's earning power. February was the cost of staying positioned for that recovery.



The chart above tracks cumulative net ETF flows for February, and the picture it paints is more encouraging than headlines suggest. Bitcoin ETFs absorbed the worst of the sell-off early in the month, with cumulative outflows deepening sharply through mid-February as institutions de-risked alongside the broader market. But the recovery was equally decisive: by month-end, the vast majority of those outflows had reversed, with nearly $900 million returning in the final trading week alone. This late-month reversal suggests that institutional investors increasingly view these drawdowns as opportunities to add exposure at more attractive valuations. Ethereum followed a similar but shallower path — lighter outflows, steadier recovery, and less panic-driven positioning overall. Meanwhile, Solana and XRP ETFs lived an entirely different reality. Still early in their accumulation phase, both products attracted consistent inflows throughout the month, largely indifferent to the turbulence afflicting the majors. This divergence carries a meaningful signal: institutional appetite for digital assets is not retreating — it is broadening. Capital is rotating, not exiting. And when the macro fog lifts, the infrastructure to absorb the next wave of inflows will be deeper and more diversified than ever before.





February was a challenging month with the crypto market declining by approximately 40% and as mentioned above the portfolio experienced a drawdown driven by several inter-related factors.

The strategy came under pressure early in the correction as basis levels compressed creating an unrealised drawdown on our basis positions. These remain fundamentally sound and we expect the spreads to normalise over the coming months with the yield we earn by owning these spreads to add to recouping the drawdown.

The market decline itself created a widespread liquidation of leveraged long positions which materially reduced funding rates across the market. This caused yields on our typical funding strategies to fall sharply and become significantly more unstable, as illustrated earlier in this newsletter.

In response to these changing conditions, we actively repositioned the portfolio throughout the month, rotating capital into alternative yield opportunities. This level of portfolio turnover was significantly higher than normal and, while necessary from a risk and opportunity management perspective, carries transactional costs that created drag on performance.

Importantly, these costs represent an upfront adjustment as we reposition the portfolio for improved yield capture in the months ahead.

The portfolio is now more heavily weighted towards cross-exchange opportunities. The portfolio continues to maintain dollar neutrality across these exchanges and delta neutrality across the overall book, both in combination significantly limiting directional market exposure. Position sizes remain deliberately small and diversified, ensuring that no single position can materially impact portfolio stability.

With the portfolio now repositioned, we expect March to be a quieter period in terms of trading activity, allowing existing positions to generate yield and contribute to the recovery of the recent drawdown.

E-mail : dns@518am.io

Schedule a meeting with your manager