

CIO Monthly Review

April ended with high oil prices, positive crypto returns and an American stock index all-time high. With +6.0% our fund beats the CCI30 benchmark by +3.4%. Momentum is turning positive for crypto tokens, with two fund positions up more than +25%. Crypto regulation in the US continues to advance sensibly, but not all is roses: DeFi protocol Aave had to handle a large inflow of hacked tokens.



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Market Assessment

The Middle Eastern conflict smoulders on. Donald Trump see-saws between ceasefire talks and escalation threats, letting financial markets, especially oil, swing in tandem. The two-week ceasefire from Apr 8th pushed oil futures below the psychological level of 100 USD, while equities and bonds rallied. A few days later, the ceasefire appeared to be breaking down; but on Apr 15th, Trump said the Iran war was 'close to over,' leading to an all-time high in the S&P 500.

The American stock index set more ATHs on April 16th and 17th, marking a string of three consecutive trading days, and once again on the final day of the month. Insofar as nominally well-performing capital markets are among the US administration's goals, its manoeuvring so far has been a success. Interestingly, Brent traded above 100 USD again by the 22nd, as Iran seized passing ships, and reached a high of 126 USD on the 30th, as traffic in the Strait of Hormuz remained low.

Meanwhile, gold is trying to find its price, seemingly unaware of geopolitics. It reached its all-time high on Jan 28th and closely tested it end of February, at the beginning of the conflict.

Bitcoin, on the other hand, is bandwagoning equities, up +11.8% vs. the S&P's +10.4%. With the CCI30 index at +2.6% and the fund at a stronger +6.0%, the momentum shift to an uptrend is becoming noticeable.

Reports suggested that Iran had been accepting toll payments in Yuan and crypto. As a country under US sanctions, they are cut off from the dollar banking system. OFAC, the US sanctions administration, stated that all payments to Iran, whether

in crypto or through charitable donations, may constitute sanctions violations. It remains unconfirmed that any ship has paid the toll of around one dollar per barrel to Iran in stablecoins or Bitcoin.

Industry Overview

The US executive continued to spearhead sensible crypto regulation with two major developments in April.

First, the CLARITY Act, classifying and setting rules for each class of crypto tokens, has been held up by a disagreement over interest payments for stablecoin holders. Broadly speaking, the banking lobby wants holders of blockchain dollars to be barred from receiving interest, arguing it could 'destabilise banking.' The crypto industry, by contrast, wants token issuers to be free to offer holders interest and other incentives. While the banking lobby's power had seemed difficult to overcome, the White House has now published a research piece on the effects of prohibiting stablecoin yields, challenging the bankers' narrative and siding with crypto.

Second, the SEC has published guidance clarifying broker-dealer registration requirements for DeFi. Sensibly, the distinction turns on control over assets and control over the trading venue. Decentralised front-ends that merely give users access to DeFi protocols, for example Uniswap for swapping ETH against USDC, are not broker-dealers. Services that hold user funds or select a trading venue for users, for example to earn referral fees, may need to register as broker-dealers and comply with the relevant requirements.

Both developments underline the current US administration's long-term build-out of sensible crypto regulation, laying the foundation for a thriving regulated onchain economy.

DeFi behemoth and fund position Aave has to contend with a large DeFi hack. Likely a North Korean nation-state attacker was able to deposit forged rsETH tokens into Aave and use them as collateral for loans worth several hundred million Euro. The unbacked loans created a chaotic situation, triggering capital flight from the protocol. In the aftermath, most if not all of the hacker's proceeds could be recovered, thanks to both the Arbitrum Security Council freezing assets and to major DeFi protocols coming together as 'DeFi United,' in what can best be described as a spontaneous bailout by the industry.

Fund Activities

Our largest fund position at 21 % weight is Sky, up +5.6 %. This month's top performers are Pendle and Jito, up +26.0 % and +25.4 %. Pendle and Jito started the month at fund weights of 9 % and 6 %, ending higher due to their excellent performance.

Aave, at 9 % weight, closed at -7.0 %. Given the major rsETH incident, this is a satisfactory result. We retain strong conviction in Aave and believe the rollout of version four can further strengthen its leading position among lending protocols.

Our trading activity was focused on shifting out of Solana directly into smaller tokens in the Solana ecosystem. We sold liquid-staking token mSOL to increase our positions in Marinade, the protocol behind mSOL, and Jupiter. We view both as bargains at current price-to-earnings ratios.

Assuming the uptrend holds, we will continue moving further along the risk curve. We have already fully exited Bitcoin and Ether and have reached 5 % weight for Solana. Following this trend, we will reduce positions in larger protocols, such as Uniswap, in favour of smaller tokens with greater upside potential. We do, however, always limit our exposure to protocol tokens with sound fundamentals.

Our portfolio consists of tokens that participate in the revenues of their respective protocols. The token valuations, measured by revenue-to-market-cap, are attractive, with some being extremely attractive. This gives us confidence that high expected returns lie ahead.

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