

CIO Monthly Review

Following all-time highs in early October we saw a sharp short-term drop. After stomaching the hiccups, markets saw Bitcoin and Ether decline only -2.4% and -5.7% on the month. Smaller tokens, however, experienced larger drops, with e.g., Optimism falling -39.5% , which luckily our fund had exited in May.

We continue to view DeFi as the place to be. DeFi applications are generating substantial revenues and will only grow as more RWA, in the form of tokenised dollars and stocks, migrate onchain. Fund position Jupiter performed well at -3.8% . The fund closed at -14.0% .

Overview

October started strong with a new all-time high on the 6th, with Bitcoin trading briefly above 126,000 USD resp. 107,000 €. The favourable price action was short-lived.

Last month we wrote presciently, ‘flash-crash type events remain common, as many market participants are speculators using high-leverage products’.

On Friday, October 10th, we witnessed the largest ever cascading liquidation event in crypto’s history. More than 19 bn USD of leveraged positions were liquidated, Bitcoin saw a sharp -15% intraday decline, and many altcoins temporarily traded extremely low, as order books got programmatically swept up faster than humans could place bids.

As usual in cascading liquidation events, prices quickly rebounded. We observed a marked difference between fund positions and the wider altcoin market, where projects dropped more and recovered less. For example, Solana’s competitor for fast execution Sui and Telegram’s Toncoin, which we had analysed but decided against investing in, briefly lost -73% and -75% , respectively. They then rebounded to a two-day return from October 9th to October 11th of -21% and -19% . In contrast, our core fund positions (lending protocol Aave and stablecoin protocol Sky) achieved two-day returns of -15% and -9% after briefly dropping -61% and -46% . This highlights how active management can already pay off in a few select days.



Paul Otto

Chief Investment Officer

During the sharp drop, many leveraged traders lost their proverbial shirt. Last month’s section ended, ‘Long-term holders remain unaffected.’ Despite this extreme event, our F5 Crypto fund investors, as a long term holders, remained unaffected, apart from a temporary price setback.

Fund Activities

We shifted from three more index positions into smaller, more promising projects: Cardano, Avalanche and Bitcoin-Cash were exchanged at the depressed prices following the flash-crash to Aave, Pendle and Jito. Aave and Pendle are strong, profitable DeFi protocols on Ethereum (Aave v3 is deployed on 17 blockchains, while the bulk of its fees are generated on ETH and leading ETH L2s like Arbitrum), Jito generates revenue from liquid staking and MEV on Solana.

Confidence in our JTO position was strengthened by the news that Jito raised a round from VC a16z. The 50 m USD strategic investment paid out existing JTO tokens from their treasury; no new tokens were created.

We opened a new position in the fifth-largest liquid-staking protocol on Solana, Marinade. Our fund uses the mSOL token to capture staking returns, as its staking yield is top notch. Comparing the ratio of fees to TVL for Solana LSTs, Marinade is punching above its weight.

Market Assessment

Following Hyperliquid's success of 1 bn USD in projected annual revenue in its second full year of operation, imitators keep showing up. The Hype team explicitly decided not to build on Ethereum but to launch their own L1 blockchain. Now, however, *Lighter* is an ETH L2 that also offers fast perps and already secures over 1 bn USD in TVL (*L2beat*). Limitless, around-the-clock trading, is one killer crypto use-case.

Ant Group, the company behind the Chinese payment giant Alipay, launched an Ethereum L2 called *Jovay*. The new chain boasts impressive stats and aims to tokenise traditional assets on-chain.

We have long held the view that much of traditional finance will gradually migrate onchain. Ethereum L2s offer an enticing deal: they provide the security of the second-largest network, tap into the largest DeFi liquidity pools, and offer the ability to build custom functionality within the L2 framework. Following Robinhood's move to allow tokenised stock trading on the ETH L2 Arbitrum, Alipay's move further confirms our view.

Industry Overview

US president Trump pardoned Binance founder Changpeng Zhao ('CZ'). CZ had pleaded guilty in

2023 to enabling money laundering on the exchange. He was sentenced and served four months in prison. Additionally, Binance settled with the DOJ for 4 bn USD, the largest such settlement at the time.

The Binance case remains highly political. Opponents of Binance and the broader crypto movement point out that there is strong evidence Binance allowed transactions linked to Hamas and failed to report them even after becoming aware. With Trump's family actively investing in crypto, Senator Warren blasted the pardon as blatant corruption.

Proponents of CZ and the larger crypto movement point out that no other bank executive has ever gone to jail over too loose anti-money-laundering implementations, most notably TD Bank in 2024. In this light, the current White House press secretary Karoline Leavitt expressed '[CZ] was prosecuted by the Biden Administration in their war on cryptocurrency.'

Meanwhile, the US Fed is planning to give crypto companies direct access to Fedwire, the real-time settlement system. Distributed ledgers and crypto are increasingly being 'woven into the fabric of the payment and financial systems', Federal Reserve Governor Christopher Waller said.

We remain extremely optimistic heading into the last months of 2025 and the year ahead.

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