

## CIO Monthly Review

Bitcoin and Ether diverged slightly in September, posting returns of +4.6% and -6.2%, respectively. Synchronous with Ether's slight pullback, many altcoins also traded lower, e.g., the old EOS project lost -19.7% and former fund position PYTH -20.5%. Large fund position Sky gained +5.1%, while small fund position AVAX shot up +27.3%. Our fund closed September at -4.0%.



Paul Otto

Chief Investment Officer

### Overview

September saw the launch of new crypto ETFs. The Bitcoin ETFs, first approved in the US in January 2024, became the fastest growing ETFs ever. Now ETF issuers are seeking to extend this trend for smaller tokens, such as XRP and DOGE. These ETFs, together with the trend to establish DATs (Digital Asset Treasury companies, like MicroStrategy for Bitcoin) give more investors crypto exposure without the need for a crypto-exchange account or a wallet. These trends primarily affect the top 20 tokens.

F5 Crypto Management GmbH, our fund's BaFin-registered asset manager, acquired a second fund named SwissRex. This move makes F5 Crypto one of Europe's largest crypto-fund managers.

In September, crypto prices fell sharply twice within a short period. On September 22<sup>nd</sup>, Bitcoin lost -2.2% in under 20 minutes, and Ether weakened -5.7%. On September 25<sup>th</sup>, similar drops of -3.8% and -6.9% occurred. These flash-crash-type events remain common, as many market participants are speculators using high-leverage products. This leverage tends to build up during positive markets. Once leveraged positions are plentiful, the risk of a forced liquidation cascade builds and can be triggered by a regular pullback. Typically, just as we observed at the end of the month, these flash-crashed prices are followed by a swift rebound. Long-term holders

remain unaffected. Traders working with liquidation thresholds or stop-loss targets must tread carefully, while setting limit orders can take advantage of these events.

### Fund Activities

We updated our investment conditions last month. The main change affected the risk management guidelines, ensuring diversification is achieved without requiring strict adherence to the top 12 index strategy. Following this change we exited previous index position [Ripple](#) in favour of increasing our position in the funding-rate trading protocol [Pendle](#).

We also exited [BNB](#) to increase our exposure to the Solana spot and futures exchange [Jupiter](#), as well as hidden native-token swap champion [RUNE](#).

Other index positions like [Avax](#) remain and have performed well recently, up +27.3% this month.

DeFi protocols benefit significantly from increased crypto prices. As users have more wealth, they are more likely to engage in trading, lending or in trying out other new blockchain services. Meanwhile, existing capital increases in purchasing power, pushing up fees when measured in fiat currency. We continue to select the best DeFi protocol tokens with proven use cases and high potential for future cash flows.

## Market Assessment

Hyperliquid's HYPE token saw tremendous growth with its trading platform for stablecoin-settled perpetual futures. It has surpassed 3tn USD in cumulative trading volume since inception and has generated 102 m USD in revenue in September alone. With the speed of innovation in crypto, imitators quickly followed.

Aster arose from the merger of two projects, deploying on Binance's BNB Smart Chain. Similar to Hype, Aster supports crypto-settled perpetuals. It connects to many popular blockchains. Importantly, the prominent head of Binance CZ tweeted positively about Aster, prompting many people to call Aster Binance's answer to Hype. The Aster project launched its ASTER token (BEP-20) mid-September and already entered into the top 40 tokens by market cap.

Around-the-clock trading without limits is one of open blockchains' killer use cases. The profitability of Hype, Aster, and many other perpetual-future products highlights this reality. Much of the trading volumes, however, is driven by speculation. How sustainable this source of revenue will turn out to be is difficult to assess. We at F5 Crypto are careful to not buy into any hype that may soon

give way to some other, newer and even shinier replacement.

## Industry Overview

In the US, the so-called GENIUS Act established the framework for regulated stablecoin issuance. It kicked off a race for onchain stablecoins, while pushing established issuers like Tether and Circle to new valuation highs. In our new blog post 'How Stablecoin Regulation enables the entire crypto market to grow' we provide background insights and highlight its significance.

Once the recent US government shutdown ends and lawmakers can agree on the second major legislation titled the CLARITY Act, we expect an even stronger boost to crypto businesses. CLARITY would define market structure, clearly outlining which entities have which responsibilities. It would also define terms such as digital commodity (likely decentralised assets like BTC and ETH) and investment-contract assets (likely all initial token sales) and establish rules for them. The fear that held back many a crypto project, namely that a token might be treated as a security, would disappear.

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