

CIO Monthly Review: August 2023

August was the weakest month so far this year. Bitcoin and Ethereum both dropped (-10%), less than the total altcoin market (-22%), with the most notable loser being Litecoin (-30%). The fund ended up closing 15% down for the month.

Inflows of institutional funds increased the fund's cash position to 10% as of September 1st, providing an opportunity for a cost-effective rebalancing. This included opening a position in Arbitrum (ARB), a leading layer-2 solution on Ethereum. The fund remains fully invested.



Paul Otto
Chief Investment Officer

Industry Overview

The regulatory environment is progressing. After losing its lawsuit against Ripple in July, the SEC encountered another setback in August when GBTC, a closed-end bitcoin fund pursuing conversion into an open-ended ETF, prevailed in its case against the SEC. The SEC's reason for rejecting the conversion was deemed "arbitrary and capricious." This compels the SEC to provide a new reason for rejection – or allow GBTC's conversion and consequently bitcoin ETFs.

Independently of this, the SEC has received new bitcoin ETF filings, including one from industry giant Blackrock. As [discussed in our Podcast](#), the approval of a spot ETF in the U.S. by spring 2024 is likely and could potentially trigger a bull market.

Meanwhile, crypto innovation continues to forge ahead. In August Coinbase introduced Base, its layer-2 blockchain, amassing over 100,000 users in a matter of days. While speculation has played a pivotal role in its rapid adoption, the launch of its new blockchain marks a major triumph for Coinbase. As the operator ("sequencer"), they earn a portion of all fees generated on Base – a fact appreciated by the stock market as evidenced by the rise in Coinbase's share price. Their corporate blockchain model is setting a noteworthy precedent.

Fund Activities

The fully invested fund continues to be positioned defensively: the two largest positions, Ethereum and Bitcoin, represent 56% of the fund's holdings. The thematic focus is on Ethereum and connected ecosystem tokens, in particular Lido, Rocket Pool and Arbitrum. The largest exposure to other blockchains is Solana at around 8%.

Since Ethereum's switch to proof of stake (PoS), staking ETH generates additional returns. The fund has benefited from this opportunity by switching a part of its ETH allocation into the liquid staking token from Coinbase (cbETH). Just like ETH, cbETH are securely stored in cold storage.

Bitcoin's layer-2 projects are progressing more slowly than Ethereum's. Nevertheless, the fund believes in Stacks (STX), a Bitcoin sidechain enabling DeFi on Bitcoin. A new sidechain standard for Bitcoin, Drivechain, is hotly debated but currently offers no investment opportunities (except BTC itself).

Market Assessment

The poor performance of the altcoin market (-22%) in August vs. that of BTC and ETH (-10%) confirms the defensive stance of the fund, with a continued overweighting of large caps. With an uptrend expected in the next 6 months, the fund will slowly shift into smaller-cap cryptos, assuming a more aggressive positioning.

The new social media platform [friend.tech](#) has quickly attracted many influencers, extending beyond the crypto community. Its innovative token model offers a way to monetise users' attention. While not a technological breakthrough, its speed of user adoption can only be seen as extremely impressive. Blockchains, dApps and Web3 services aim to improve all aspects of the digital economy through clever tokenisation. Some will soon play an integral part in our digital lives.

Both the crypto industry and its legal environment are developing well: Our target investment rate remains at 100%.

About F5 CRYPTO

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