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Crypto Hedge Fund Performance Update

JUNE 2024

Galaxy Research

Top cryptocurrencies are outperforming the VisionTrack Indices through the first half of the year, with quant-directional strategies leading the way as a fund categorization. According to early reported estimates and data available through June, the VisionTrack Crypto Hedge Fund Composite Index gained +25.43% despite dropping -6.34% in June. Throughout H1 2024, the VisionTrack Fundamental Index grew +20.03%, the VisionTrack Quant Directional Index gained +36.60%, and the VisionTrack Market Neutral Index added +13.83%. The VisionTrack Market Neutral Index continued its streak of positive performance in June, gaining +0.96%, marking the 18th consecutive month of positive performance.

Considering performance detail recorded by the VisionTrack Indices since September 2023, the VisionTrack Fundamental Index has gained +93.33%, the Quant Directional Index has grown +96.33%, and the Market Neutral Index has added +21.16%.

In our April VisionTrack distribution, we highlighted the structural assumptions of early-stage venture investors defending valuations as the market prepares for future token unlocks, noting "there was not enough institutional liquid fund value with alternative cryptocurrency exposure to maintain valuations over the next 2-3 years." Restated from April, "either liquid crypto hedge funds need to raise more assets or top cryptocurrencies need to rally as core crypto assets" to sustain valuation. Neither has occurred in the previous three months as both BTC and ETH pulled back -14.33% and -5.22%, respectively, and the market continued to pursue secondary OTC transactions at 40-70% discounts to previously priced rounds.

To address the structural issue and increase fund value into liquid crypto strategies, many crypto investors have taken to podcasts and X to discuss token launches, optimistic views toward US regulation, and the role of venture funds in crypto markets. More recently, liquid fund managers have vocalized support for actively managed liquid fund strategies, advocating for their fund structures and positioning to public token markets. Structural issues impacting asset-level participation today are valid, and these topical discussions will continue as managers work to persuade allocators to their fund strategies.

Beyond topical market dialogue, there are two categorical pockets of capital most readily available to deploy into crypto companies or crypto fund offerings, which might best be informed by macro movements rather than fundamental analysis: existing dry powder in venture capital funds and US money market fund holdings. According to PitchBook, US venture fundraising was $37.4b across 255 funds through H1 2024. Additionally, the cumulative dry powder of US venture funds is "$296.2 billion with $199.3 billion, or 67%, of US VC dry powder in 2020 through 2022 vintage funds." Further, 58% of this available capital is estimated to be concentrated in funds $500 million or greater, indicating consolidation by the largest venture capital firms.

Looking ahead, it is assumed that allocators to venture funds are awaiting clarity on interest rate movements and US election results in November, which is the main reason US venture capital fundraising has fallen short of previous record years. Additionally, the M&A and IPO markets are quality indicators of deal activity for later-stage investment opportunities, a market segmentation that has not fully rebounded to pre-COVID levels.

Looking back, the approvals of US ETF products have not led to an increase in crypto venture capital fundraising through the year, as macro forces are a stronger indicator of the flow of funds toward developmental offerings. Within the crypto venture fund market, roughly $4-$5 billion has been raised globally through the first half of the year. The lack of consistent major fund launches is more likely dependent on traditional venture fundraising rather than flows towards crypto ETF products.

The second pool of capital which may lead to possible inflows to crypto fund products may be from existing investors in money market funds. According to the ICI, money market fund total assets were $6.153 trillion in fund value as of July 2024. Categorically, institutions hold ~60% of this value ($3.669 trillion) compared to retail investors ($2.484 trillion). Money market funds have steadily increased in total cumulative value since 2019, and at year-end 2023, the Office of Financial Research (OFR) reported that money market funds grew +22.8% to $6.401 trillion in total fund value from $5.212 trillion at year-end 2022.

	JUNE 2024	LATEST VALUE	YTD
CRYPTO HEDGE FUND **VisionTrack Composite Index**	-6.18%	832.15	26.06%
CRYPTO HEDGE FUND **VisionTrack Fundamental Index**	-11.09%	801.09	27.26%
CRYPTO HEDGE FUND **VisionTrack Quantitative Index**	-3.57%	998.27	32.36%
CRYPTO HEDGE FUND **VisionTrack Market Neutral Index**	0.49%	339.21	12.58%
Bitcoin	-10.88%	607.03	56.52%

* VisionTrack Indices (January 2018 Inception) | Estimates Included, Final Fixings T+60 | Historical Returns | Index Methodology

This was the highest year-over-year gain with data since 2012 at the end of a given year. According to the SEC's most recent report on money market funds, the weighted 7-day gross yield of money market funds for prime institutional products has exceeded 5.00% since January 2023, coinciding with higher interest rate increases as the fund products often provide short-term treasury and cash exposures.

At the time of writing and according to FedWatch, the Fed's current target rate is 5.25-5.00% with 97.4% probability of no change at the July FOMC meeting next week. The target rate probability changes to 5.00-5.25% with 93.6% probability in September and 4.75-5.00% with 55.1% probability in November. A decrease in target rate probabilities is informed by the reduction to targeted MoM inflation. In short, the market generally believes inflation will come down and stay down in the coming quarters even with the Fed reducing their balance sheet. It's increasingly apparent that institutional crypto participants are positioned to capture forthcoming liquidity and optimism should the Fed stay its course. In summary, there are two pools of available capital in US markets that might most reasonably be attributed to net new flows towards crypto assets and crypto fund products. It's most likely that a percentage of the $300 billion in US VC dry powder and a percentage of the $6.15 trillion in money market fund exposure will rotate towards risk-on assets.

In the previous three years, crypto venture capital fundraising typically accounted for 10% of global venture capital fundraising totals. My assumption is that $20 billion of the existing $300 billion in dry powder will work to deploy towards financing crypto companies over the next 2-3 years. And, assuming interest rates come down and there's a 1% rotation of money market funds to crypto assets, this would be a ~$65 billion movement to crypto funds with track records of five months to one year beginning in January 2025.Finally, the US Bitcoin ETFs were some of the most successful ETF launches in history, with the ETH ETFs debuting in mid-July. At the time of writing, US BTC ETF products have amassed $78.06 billion in total fund AUM. Grayscale's $GBTC product holds $24.33 billion in total fund value, followed by BlackRock's $IBIT with $17.24 billion and Fidelity's $FBTC at $9.90 billion in total value. I cannot imagine BlackRock or Fidelity aim to manage equal value in these fund vehicles over the next 12-16 months. It's more likely these firms aim to double or triple their fund holdings while continuing to pursue programs toward tokenization. A 1% rotation from US money market funds would achieve the presumed target.

Lastly, crypto markets have not experienced a true cataclysmic event since March 2023. Though structural challenges to token launches are impacting asset-level narratives and fundamental valuations in our daily dialogue, it's more likely than not that macro forces will be the main driver in coming quarters, and two available pools of capital are well positioned for a forthcoming rotational movement.

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Full criteria for inclusion in the VisionTrack Indices is available by viewing our Index Methodology. If you are a crypto or digital asset fund manager and would like to contribute your performance results to VisionTrack to be included in our VisionTrack Indices, please reach out to us at visiontrack@galaxy.com.

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