

Crypto Hedge Fund Performance Update

MAY 2023

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Crypto & digital asset hedge funds posted losses on the first down month of the year, yet each index outperformed Bitcoin. The VisionTrack Crypto Hedge Fund Composite Index lost -4.25% bringing the year-to-date return to +20.14%. Bitcoin lost -6.91% bringing its through-month performance to +64.34% on the year. The Bloomberg Galaxy Crypto Index lost -6.15%.

All sub-categorical indices continue to trail Bitcoin's year-to-date performance through May. The VisionTrack Fundamental Index was down -6.12% in May bringing its through-May performance to +36.8%. The VisionTrack Quant Directional Index dropped -4.35% in May and the VisionTrack Market Neutral Index ticked -0.29% lower. Both quantitative indices still maintaining positive returns through May, though modest in comparison to their mandated performance. May was the first month of the year all hedge fund indices outperformed bitcoin.

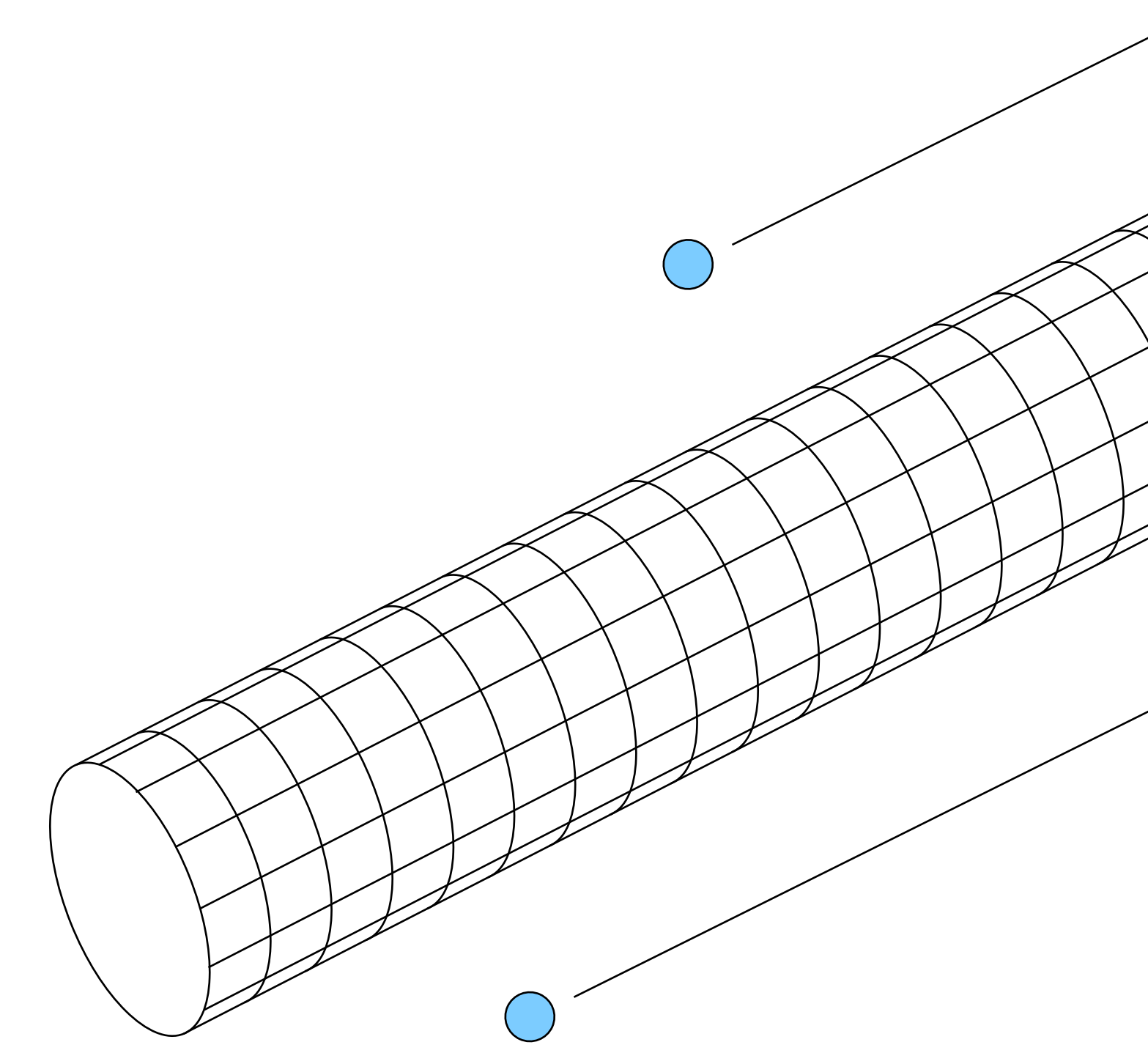
May was an exceedingly difficult month for crypto asset fund managers given the continued enforcement action taken by the SEC. While regulatory headlines and macro uncertainty driving concerns for institutional allocators, institutional funds look to offshore operations as the crypto industry continues to deliver on its promise of non-sovereign money. Immediately following the SEC's enforcement action, [cbeth](#) minting dropped drastically, posing a continual challenge for adoption for institutional staking in the United States on the Ethereum blockchain. Yet, overseas, institutional staking continues to gain traction and interest. In the United Kingdom, [Zodia Custody](#) will begin offering staking to clients in an agreement with infrastructure provider Blockdaemon. In Singapore, [RockX](#) aims to attract institutions with BedRock, a KYC/AML staking-as-a-service and liquid staking provider. In Australia, [Pier Two](#), aims to provide non-custodial Ethereum staking for institutional clients. And most recently, [Gemini](#) announced staking in Switzerland.

As indicated by [Staking Rewards](#), a data aggregator for crypto staking, Ethereum's annual staking reward floats around 6% for validators and 4% across liquid staking platforms. In May, Coindesk Indices and CoinFund launched the Composite Ether Staking Rate ([CESR](#)), aimed in tracking the daily transaction fees and staking rewards emitted from the Ethereum PoS blockchain.

For actively managed fund strategies, DAOs, and crypto whales, liquid staked tokens continue to grow as prized collateral for liquidity in the market. At the time of writing and as reported by the Ethereum foundation, nearly 19.9m ether (\$36b) is staked across 624k validators, with liquid staking protocols capturing a combined TVL of [\\$17.9b](#), the smallest spread to date.

As the Ethereum blockchain continues to grow liquid staked deposits, [excitement](#) and anticipation grows for defi applications incentivizing the newly prized liquid staked ether. CESR, established as a benchmark for staked eth, might function similar to LIBOR, creating a critical foundation for the growth of decentralized lending applications on Ethereum. Should consensus form around CESR, a much more visible lending market may form, attracting liquidity and increasing deposits as the risk curve for defi applications will become more transparent for investors.

Should liquid staking continue to grow in total deposits, liquidity for defi applications will aim to tap into the newly prized collateral. Liquid staking protocols may generate higher returns for depositors by incentivizing activity around lending, borrowing, and derivatives opening fruitful opportunities for crypto funds. While DeFi on Ethereum reached its height of \$106b in TVL November 2021, patience, persistence, and a successful Shapella upgrade could bolster activity once more in the sub-sector.



CRYPTO HEDGE FUND	MAY 2023	LATEST VALUE	YTD
VisionTrack Composite Index	-4.25%	503.45	20.14%
VisionTrack Fundamental Index	-6.12%	568.02	36.80%
VisionTrack Quantitative Index	-4.35%	526.35	11.44%
VisionTrack Market Neutral Index	-0.29%	271.37	5.60%
Bitcoin	-6.91%	267.47	64.34%

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If you are a digital asset fund manager and would like to contribute your performance results to VisionTrack to be eligible for inclusion in our VisionTrack Indices, please reach out to us at visiontrack@galaxy.com.

For more information on our updated methodology as well as downloadable monthly data, please visit our website at <https://visiontrack.galaxy.com>.

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