

CFR CRYPTO FUND RESEARCH

2020 Q1

Crypto Fund Quarterly Report



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Introduction

Crypto Fund Quarterly Report Q1 2020

Purpose

Crypto Fund Research's quarterly crypto fund reports provide a snapshot of the industry at quarter's end, as well as a detailed look at industry trends across time. We hope the quantitative data and related insights provided by these reports play a positive role in continuing to improve the crypto fund industry's transparency and provide useful metrics for crypto funds and other participants to benchmark their growth, operations, and best-practices.

In the interest of providing the broadest possible coverage, the report covers crypto hedge funds, venture funds, hybrid funds, private equity funds, fund of funds, and passive funds. Where not otherwise noted, the term "crypto fund" is used in a manner inclusive of this wide variety of fund types.

Market Overview

There are now more than 800 crypto funds across the globe with primary offices in more than 80 countries. The funds are predominately venture funds and hedge funds, though there are also a number of hybrid funds, fund of funds, and index funds. While new crypto funds continued to launch in Q1, 2020, the pace of new launches slowed and was surpassed for the first time by the number of fund closures.

Despite a tumultuous quarter for cryptocurrencies (Bitcoin was down more than 10%), crypto hedge funds performed admirably, gaining just over 3%, as measured by the [CFR Crypto Fund Index](#).

In the News

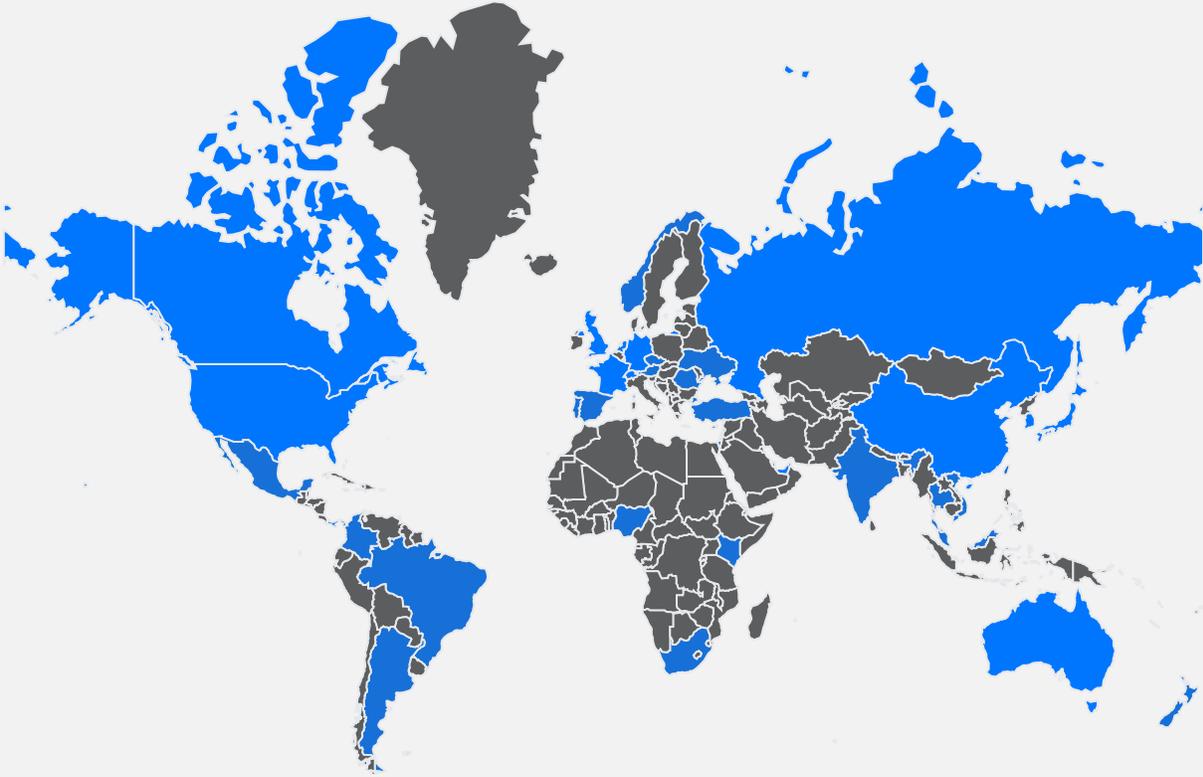
The Bad

- Malta-based Trident Crypto Fund suffered a [significant data leak](#).
- Adaptive Capital was just one of several crypto funds [permanently closing their doors](#).

The Good

- Grayscale [announced](#) it raised a record \$500 million in Q1.
- Arrano Capital, [targeting a \\$100 million fund](#), became Hong Kong's first approved crypto fund.
- Binance [set up a \\$50 million fund](#) to "reinvigorate growth in blockchain startups in India".

Crypto Fund Industry Overview



For the last five quarters, the number of new fund launches has been equaled or exceeded by the number of fund closures. Absent a significant bull market in cryptocurrency prices, we expect this consolidation to continue over the next several quarters as many funds, due to low assets under management, are unable to cover overhead on management fees alone.

Fund Launches vs. Closures

Q1 '19 - Q1 '20



Source: Crypto Fund Research

Crypto Fund Industry Overview

More than half of all crypto funds have their primary office based in the United States. Europe and Asia are each home to around 20% of funds.

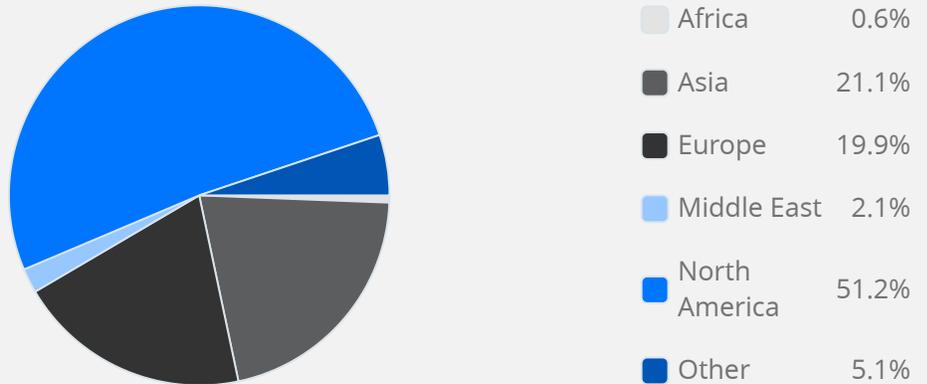
However, it's important to note that crypto funds tend to be more likely to have "distributed" workforces than traditional funds.

A recent [survey of crypto funds](#) by Crypto Fund Research found that rather than maintaining one or more physical offices, 43% of funds do not rely on a physical office and instead have employees working from home or other locations around the world.

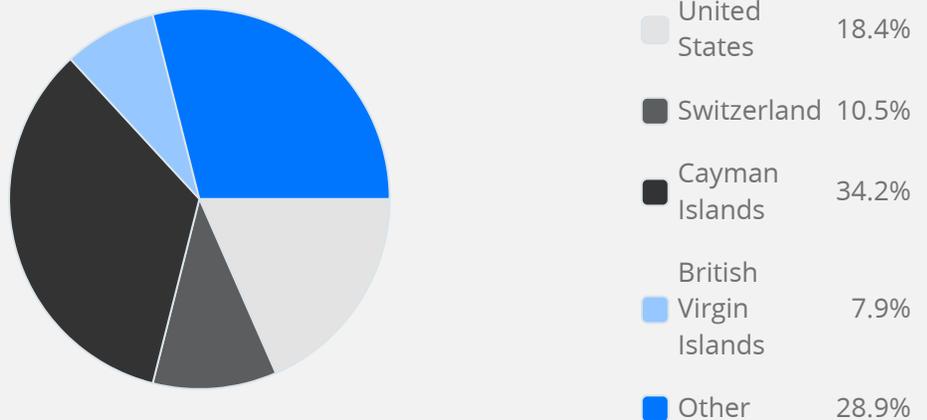
While the majority of crypto funds have a primary office location in the US, less than 20% are

technically domiciled there (as a Delaware company, for example). For a variety of tax, legal, and regulatory reasons, the Cayman Islands and the British Virgin Islands are the predominant legal domiciles for crypto funds. Together these offshore locales are the domicile for 42% of crypto funds. This is relatively consistent with studies of traditional hedge funds that have found about one third are domiciled offshore with only 20% domiciled in the US.

Crypto Funds by Continent
Primary Office Q1 '20

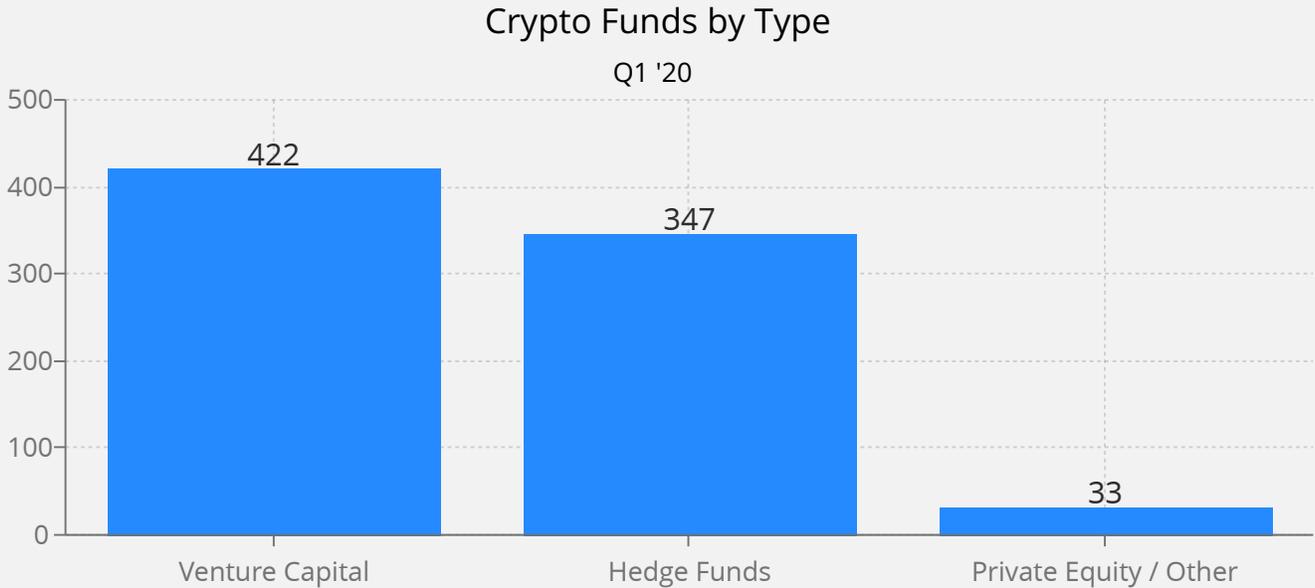


Crypto Funds by Legal Domicile
Q1 '20

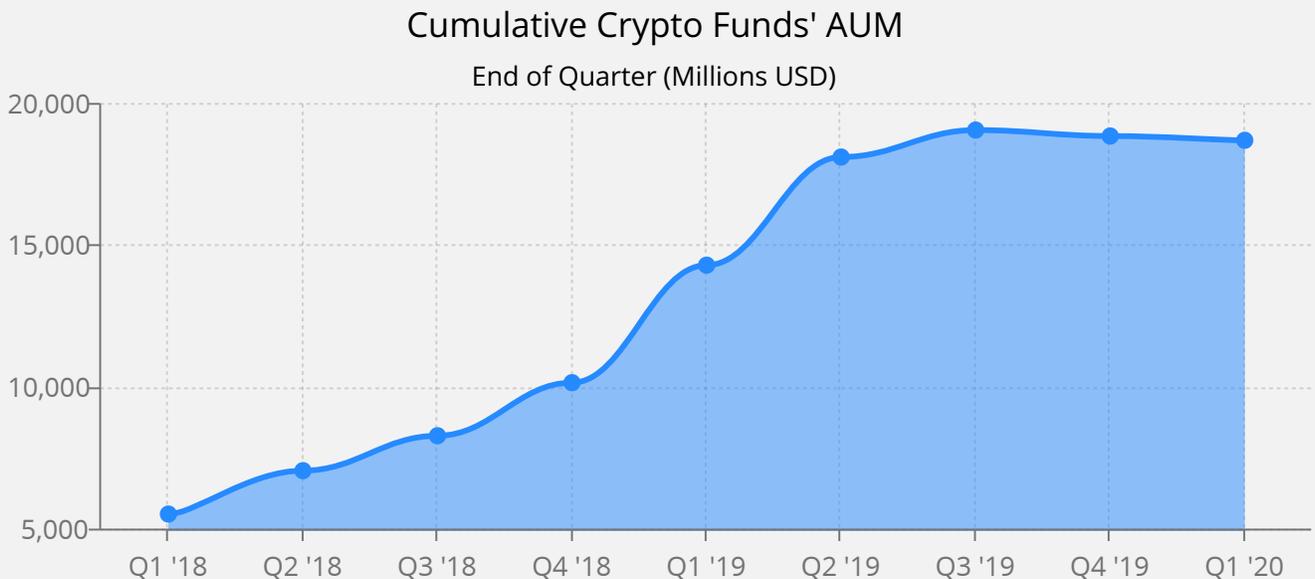


Crypto Fund Industry Overview

The majority of crypto funds can be broadly categorized as venture funds, followed closely by crypto hedge funds.

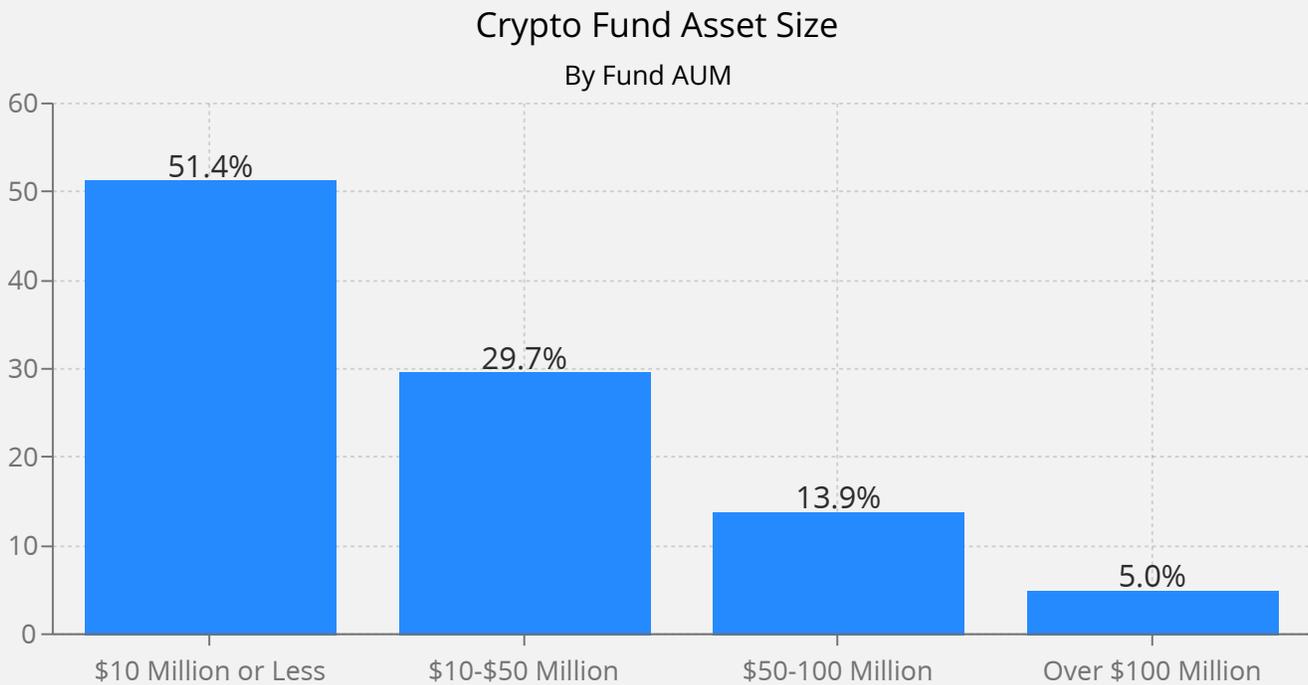


Assets under management (AUM) by crypto funds have continued to grow since the beginning of 2018. While this growth sometimes reflects portfolio growth, much of the gains in AUM result from investor inflows. At the end of Q1 2020, crypto funds, including crypto hedge funds, venture funds, and index funds, cumulatively managed \$18.7 billion in assets, up over 30% from Q1 2019.



Crypto Fund Industry Overview

Though crypto fund AUM has continued to grow, assets remain highly concentrated in the hands of a couple dozen funds. About half of all crypto funds manage less than \$10 million and more than 90% manage less than \$100 million.



\$18.8 Billion

Crypto Fund Research estimates that as of the end of Q1, 2020, crypto funds collectively managed approximately \$18.75 billion. This includes crypto hedge funds, venture funds, and index funds and is somewhat below the peak of \$19.1 billion at the end of Q3, 2019.

51%

Most crypto funds remain relatively small with 51% managing \$10 million or less in assets. Only about 5% of crypto funds manage more than \$100 million.

Crypto Fund Industry Overview (cont.)

Due to the variation in size and vintage between crypto funds, it can be useful to look at median figures for some key operational metrics as shown below:



Median Fund AUM

Crypto fund assets are quite top-heavy and highly concentrated in the hands of a couple dozen funds. In fact, a quarter of all assets are managed by the 5 largest crypto funds. The majority of funds manage USD 10 million or less in crypto assets.



Median Number of Employees

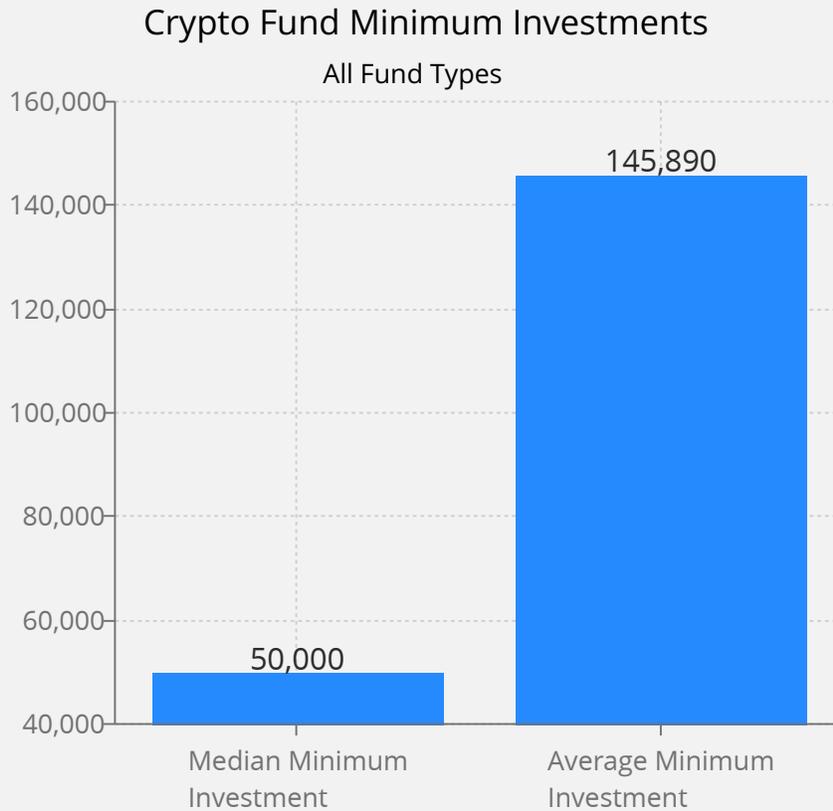
Though some crypto funds have a dozen or more employees, most funds are relatively small. The median number of full-time employees in non-advisory roles is six.



Median Number of Investments

Among crypto/blockchain-only venture funds, the median number of investments made since inception is 13. Most of these investments are early-stage investments and older vintage funds tend to have made a greater number of total investments.

Crypto Fund Industry Overview



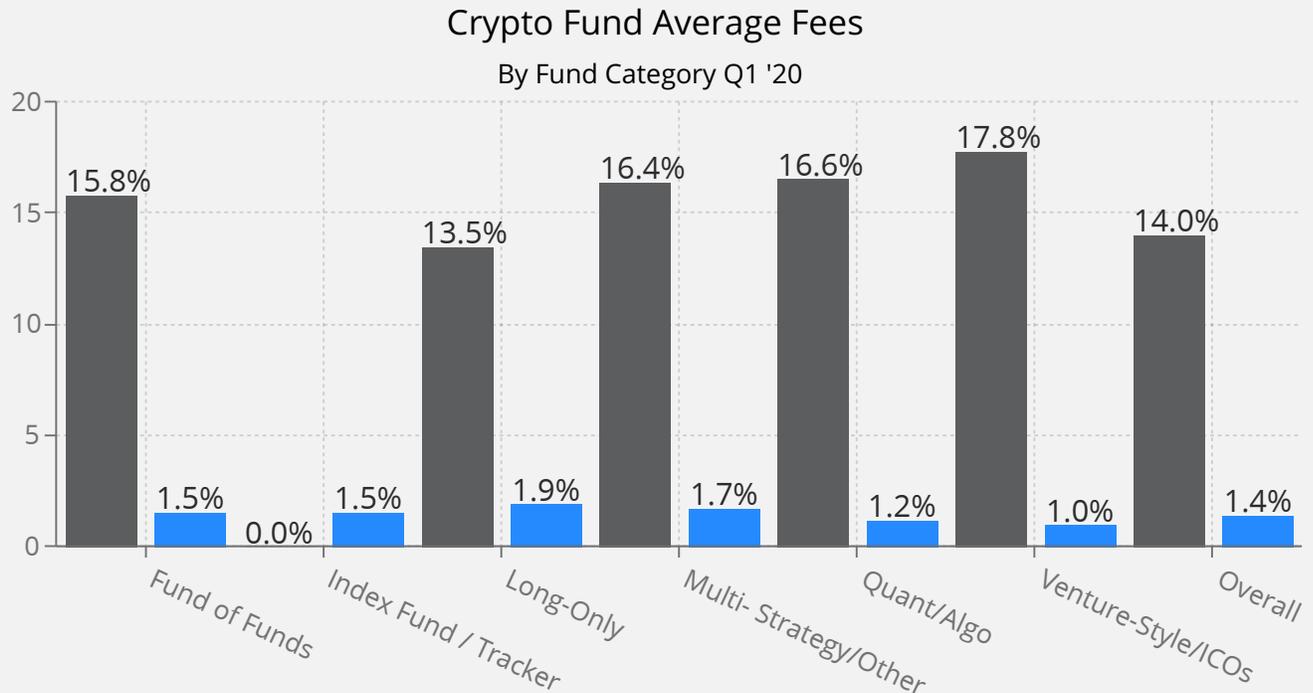
22%

22% of crypto hedge funds have a minimum investment of \$500,000 USD or more

Minimum investments in crypto funds vary significantly across fund types. Crypto hedge funds and fund of funds typically have the highest minimum investment, while tokenized funds have low or non-existent minimums.

Type	Median Min. Investment	Average Min. Investment
Fund of Funds	\$62,500	\$56,250
Hedge Fund	\$100,000	\$189,889
Index Fund	\$50,000	\$290,625
Investment Trust	\$37,500	\$37,500
Managed Account Platform	\$6,250	\$6,250
Mutual Fund Trust	\$1,000	\$1,000
Tokenized Fund	\$0	\$3,333
TOTAL	\$50,000	\$145,890

Crypto Fund Industry Overview

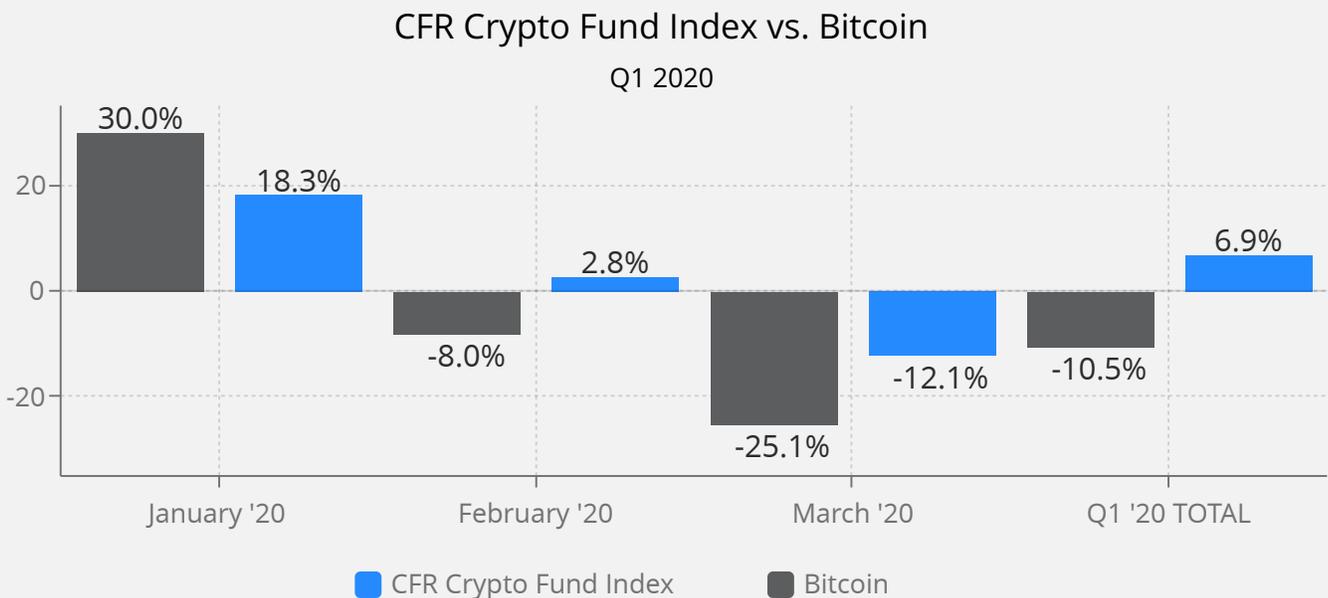


A typical 2% management fee and 20% incentive/performance fee (2/20) is the most common fee structure among crypto funds. However, the average fees across all funds tend to be lower and vary slightly between fund types. Index and other passive strategies often don't charge a performance fee, while funds with more active investment strategies tend to have higher performance fees (and sometimes lower management fees).

Fund Type	Average Perf. Fee	Average Mgmt. Fee
Fund of Funds	15.83%	1.54%
Index Fund / Tracker	0.00%	1.54%
Long-Only	13.50%	1.93%
Multi-Strategy/Other	16.39%	1.72%
Quantitative/Algorithmic	16.56%	1.19%
Venture-Style/ICOs	17.78%	1.00%
TOTAL	14.04%	1.42%

Crypto Fund Performance Data and Metrics

The CFR Crypto Fund Index, which measures the mean return, net of fees, of around 70 actively managed crypto funds, returned 6.89% in Q1, 2020 after falling 4.6% in the final quarter of 2019. Though Q1 2020, crypto fund returns were not overly impressive in nominal terms, crypto funds outperformed Bitcoin by more than 17% in the quarter and outperformed Bitcoin for the third consecutive quarter.



3.92%

The CFR Crypto Fund Index returned 3.92% in Q1, 2020. After gaining more than 20% in January, the index gave back virtually all of those gains in February before posting modest gains in March to close the quarter.

53%

53% of crypto funds outperformed Bitcoin in Q1, 2020. Much of the CFR Crypto Fund Index's outperformance of Bitcoin in Q1 came from a small number of funds that significantly outperformed.

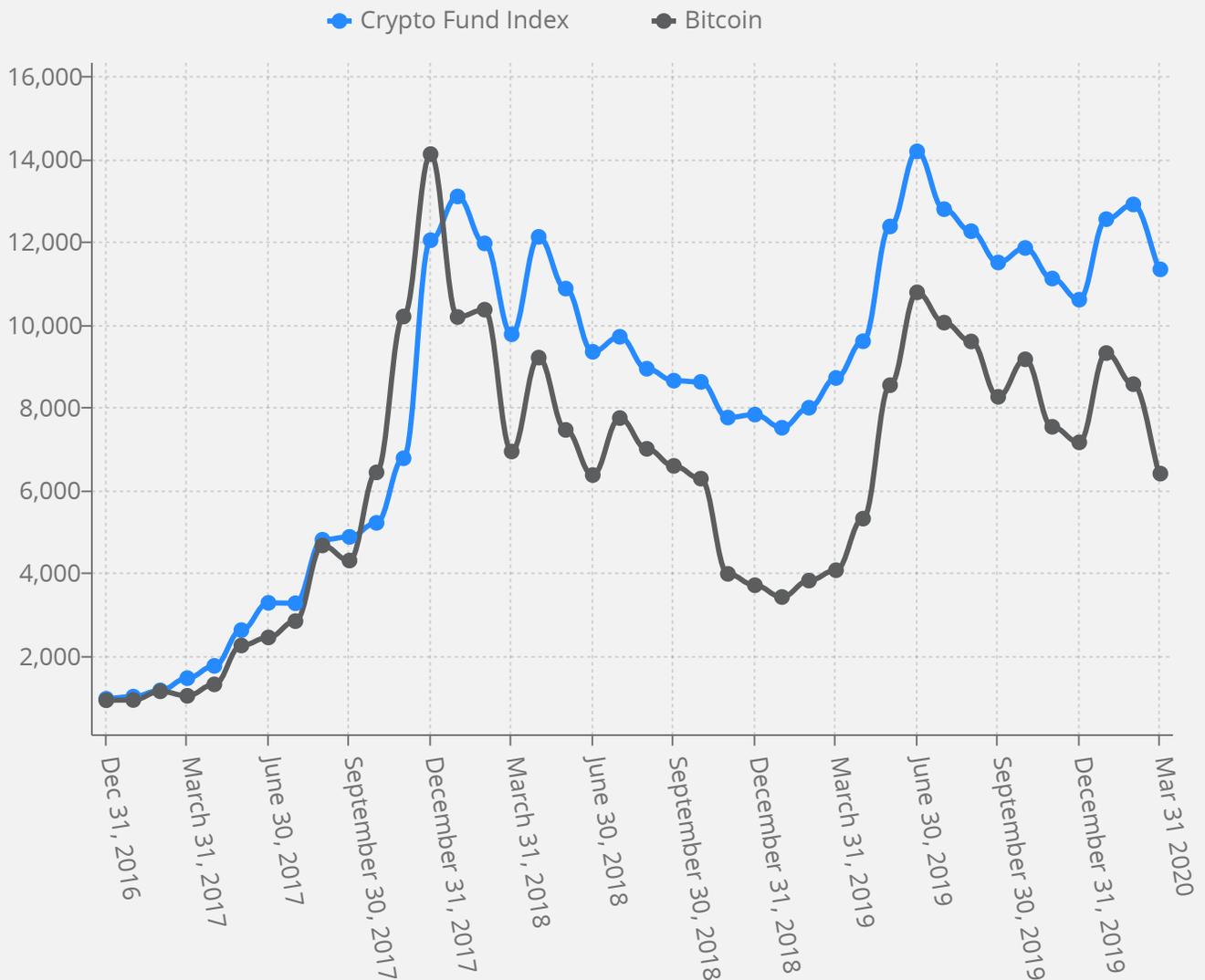
For the latest results from the CFR Crypto Fund Index please visit:
<https://cryptofundresearch.com/cfr-crypto-fund-index/>

Crypto Fund Performance Data and Metrics

Between Inception in January of 2017 and the end of Q1 2020, the CFR Crypto Fund Index, has returned 1037%. Bitcoin gained 568% during this same period. Much of the index's historical outperformance has occurred during bearish market conditions, particularly during the "crypto winter" of early 2018.

CFR Crypto Fund Index vs. Bitcoin

Dec 31, 2016 - March 31, 2020



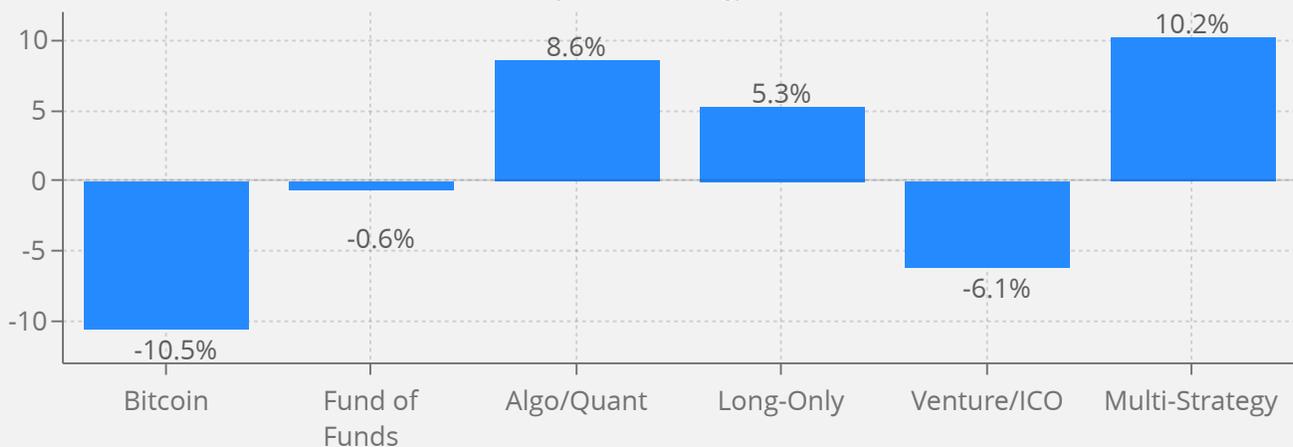
For more information on the CFR Crypto Fund Index, including methodology, monthly returns, and other performance metrics, please visit <https://cryptofundresearch.com/cfr-crypto-fund-index/>

Crypto Fund Performance Data and Metrics

The first quarter of 2020 was an up and down market for most cryptocurrencies. It's therefore not surprising that the Q1 return of 6.9% for the CFR Crypto Fund Index was led largely by quantitative/algorithmic funds and multi-strategy funds that tend to be less susceptible to down markets than other strategies. However, all strategies outperformed Bitcoin in Q1, 2020.

Q1 2020 Crypto Fund Performance

By Fund Strategy



Beta is used in traditional finance to measure market based risk and, by using Bitcoin as a proxy for market returns, beta allows us to determine how much of a given fund strategy's returns could be simply due to market exposure to Bitcoin. Index funds and long-only funds tend to have the highest betas, and therefore most exposure to Bitcoin. Fund of funds, multi-strategy funds, and quantitative/algorithmic funds have historically had the lowest betas.

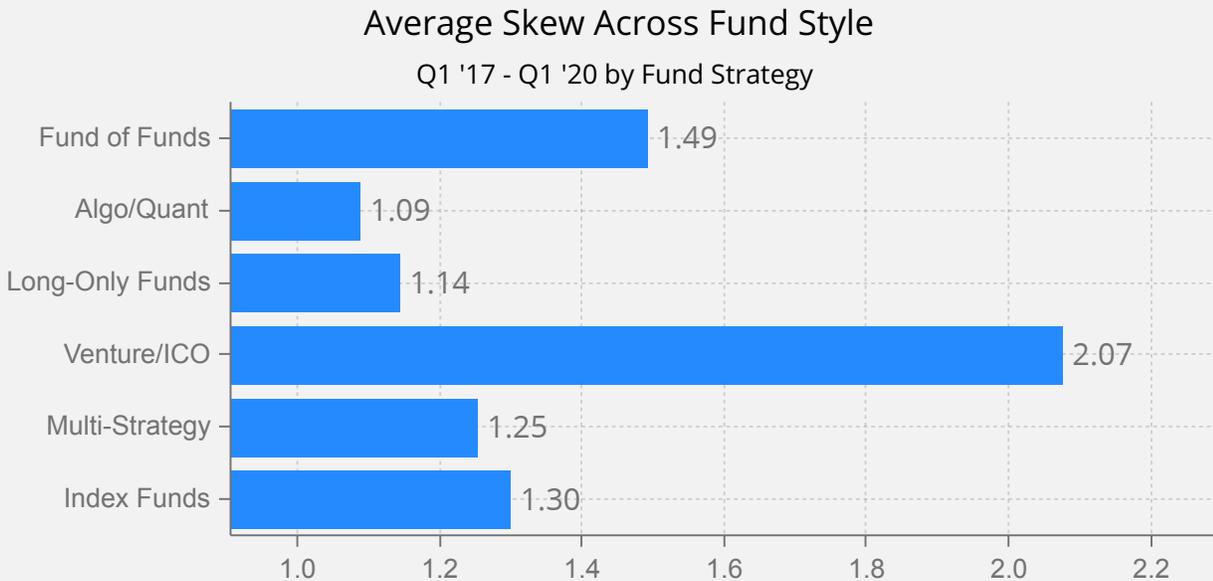
Beta / Relationship to the market

Q1 '17 - Q1 '20 by Fund Strategy

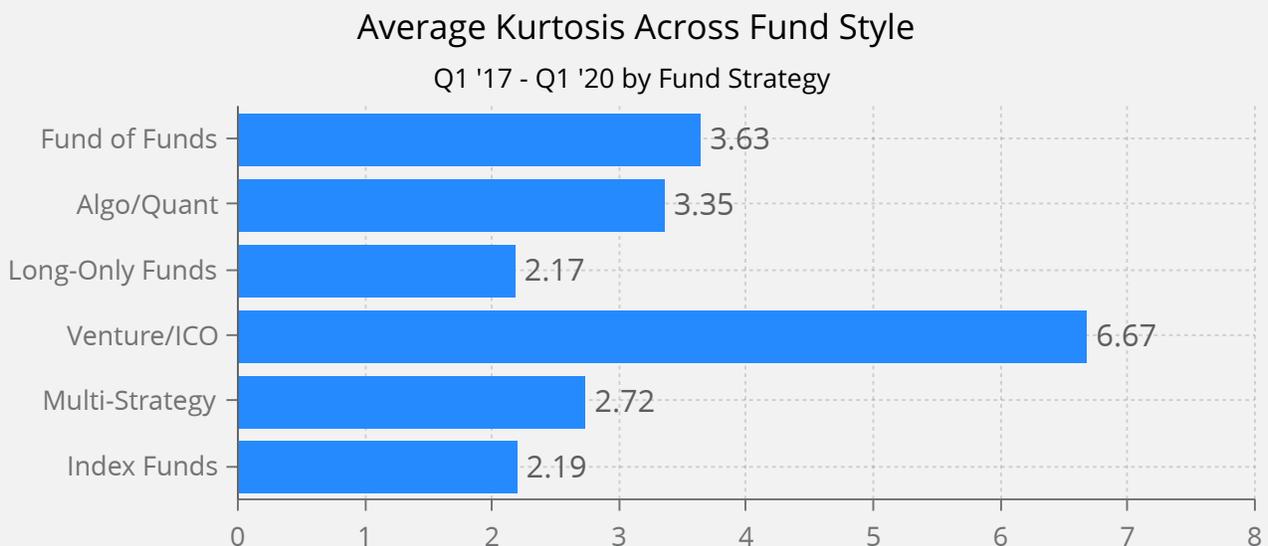


Crypto Fund Performance Data and Metrics

"Skew" captures the shape of the distribution of returns and can be defined as the extent to which returns vary from a normal distribution. Most crypto fund strategies demonstrate a positive skew, or a longer or fatter tail on the right. It's important to keep in mind that the accuracy of skew calculations depend on large quantities of return data, which are not necessarily available for most crypto funds.



Like skew, kurtosis is a measure of returns relative to a normal distribution. Kurtosis measures the size of extreme returns compared to a normal distribution of returns with a positive kurtosis captures the size of these extreme gains. The kurtosis of a normal distribution is 3.



Crypto Fund Performance Data and Metrics

Q1 Crypto Fund Research Performance Awards

Crypto Fund Research tracks the performance of more than 100 crypto funds - primarily crypto hedge funds, fund of funds, and hybrid funds. At the end of each quarter and year, we announce awards for the top performing funds each period, net of fees.

Below are the Crypto Fund Research Performance Award winners for Q1, 2020:

Top Performing Funds Overall, Q1 2020



Top Performing Funds by Strategy, Q1 2020



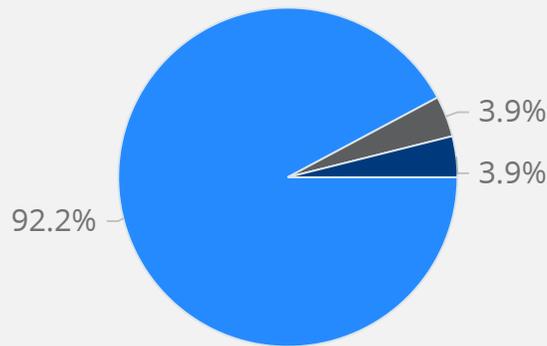
For additional award winners please visit: <https://cryptofundresearch.com/crypto-fund-performance-awards/>

Crypto Fund Survey

A recent survey of over 75 crypto funds was conducted to gauge investor sentiment and provide further insight into the crypto industry. The survey covers crypto venture funds, hedge funds, hybrid funds, index funds, and fund of funds and was conducted between June 30 and July 15, 2020.

Do You Anticipate Your Fund Will Increase AUM in 2020?

All Fund Types

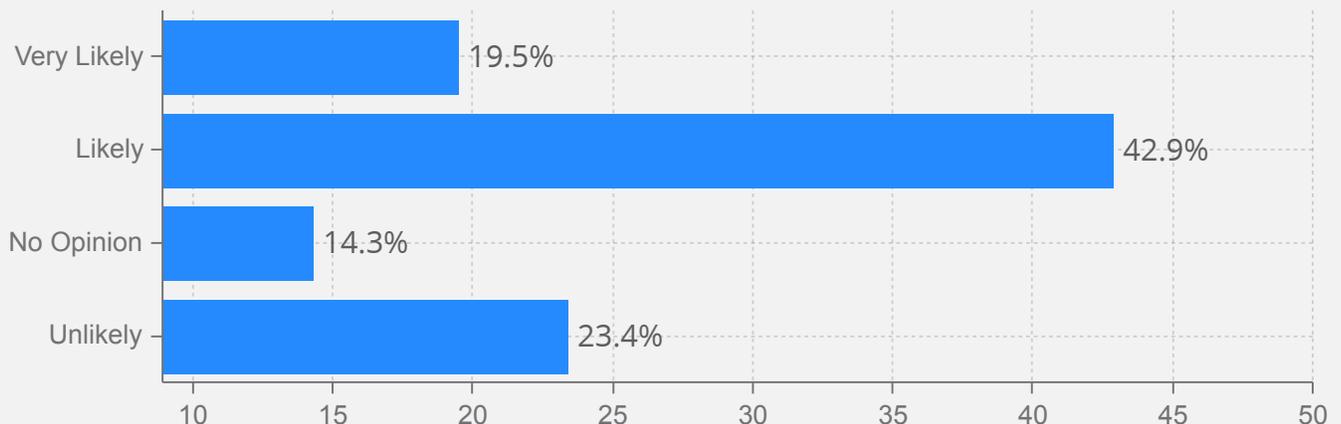


Crypto Fund AUM has continually grown since 2018. Irrespective of the fund strategy or fund size, the majority of the crypto funds surveyed expect AUM to increase in 2020. Only about 4% of funds do not anticipate an increase in AUM in 2020, with an equal amount unsure.

Amid ongoing speculation and projections about bitcoin's price trend, the survey revealed that about 62% of crypto funds believe that bitcoin will surpass its all time-high price of \$19,891 in the next 12 months (mean price during the survey period was \$9,225). Less than 1/4 of funds find this scenario unlikely.

Will Bitcoin Reach All-Time High by June 30, 2021?

All Fund Types

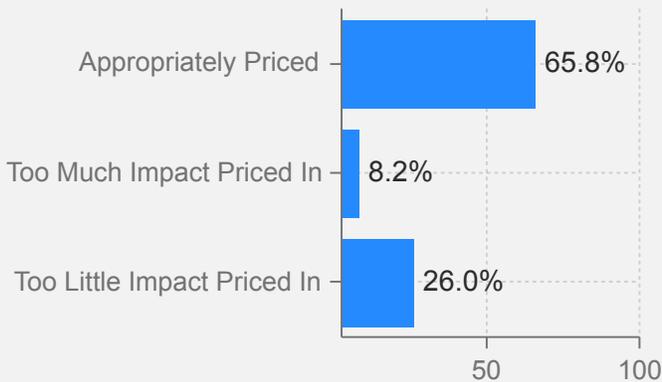


Crypto Fund Survey (cont.)

Covid-19 has greatly impacted major economies and financial markets, including the blockchain and cryptocurrency market. In terms of blockchain company valuations, nearly 2/3 of crypto funds believe that current valuations are appropriately factoring in the long-term impact of the coronavirus pandemic on the sector.

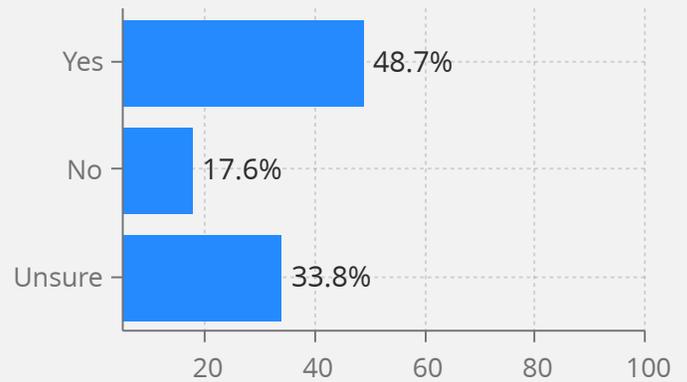
Crypto Fund Blockchain Co. Investments

Valuations Appropriately Pricing Covid-19 Impact



Crypto Fund Blockchain Co. Investments

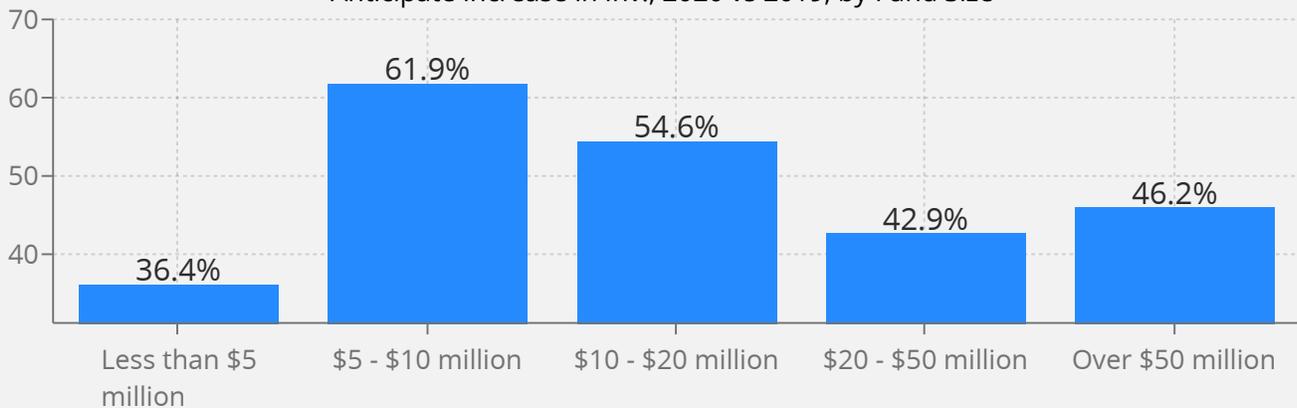
Anticipate Increase in Inv., '20 vs '19



Given many funds' view that Covid-related info is adequately priced in, it's perhaps unsurprising that almost half of surveyed funds anticipate making more investments in blockchain companies in 2020 than they did in 2019. Around one-third of crypto funds are uncertain of the prospect of more blockchain company investments in 2020 versus 2019.

Crypto Fund Blockchain Co. Investments

Anticipate Increase in Inv., 2020 vs 2019, by Fund Size



Mid-size funds with between \$5 and \$50 million in assets were most likely to anticipate making more blockchain investments in 2020 vs. 2019. Small funds, with \$5 million or less in AUM, were the most cautious about 2020 prospects,

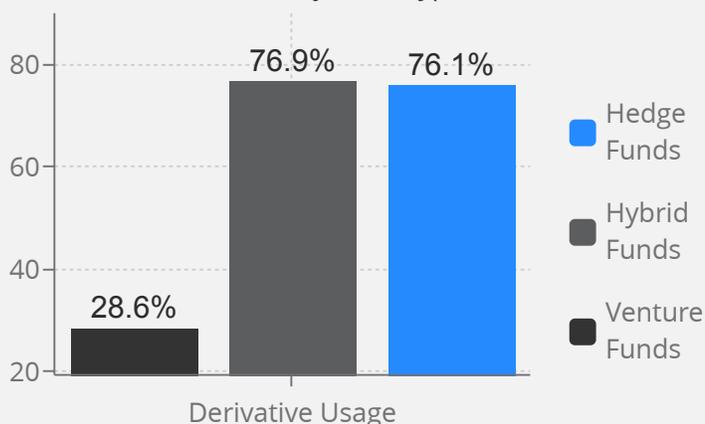
Crypto Fund Survey (cont.)

The majority of crypto hedge funds and hybrid funds use some sort of derivative product either for risk management, leveraged exposure, or other purpose. A little over three quarters of both crypto hedge funds and hybrid funds use derivatives, with hedge funds more likely to use futures and hybrid funds more likely to use options or other derivatives.

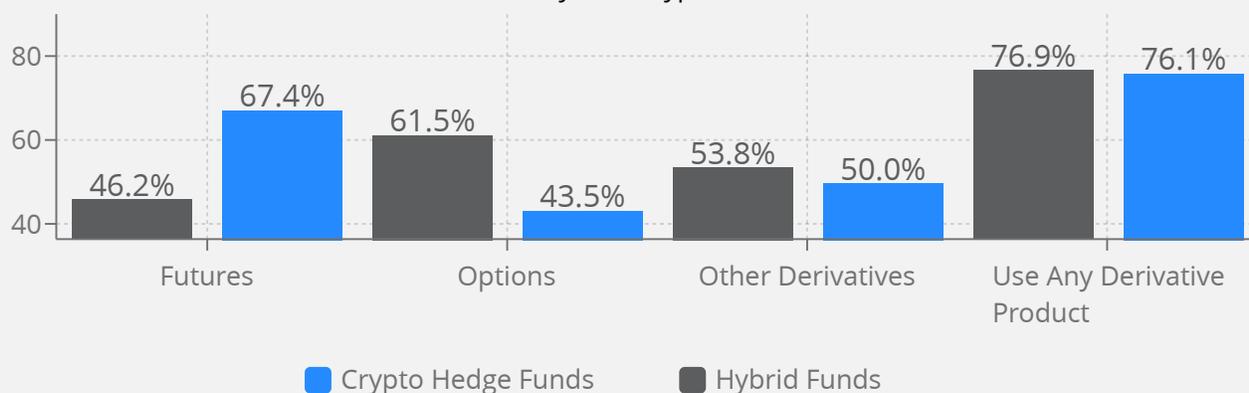
Less than one quarter of venture funds trade any derivative products, likely because they are not generally part of VCs' investment mandates.

Across all fund types, we observe that funds managing over \$50 million are least likely to trade futures while the smallest funds are least likely to trade options. Funds managing between \$5 and \$50 million were more likely to trade some form of derivative than either very small or very large funds.

Does Your Fund Utilize Derivative Products?
By Fund Type



Does Your Fund Utilize Derivative Products?
By Fund Type



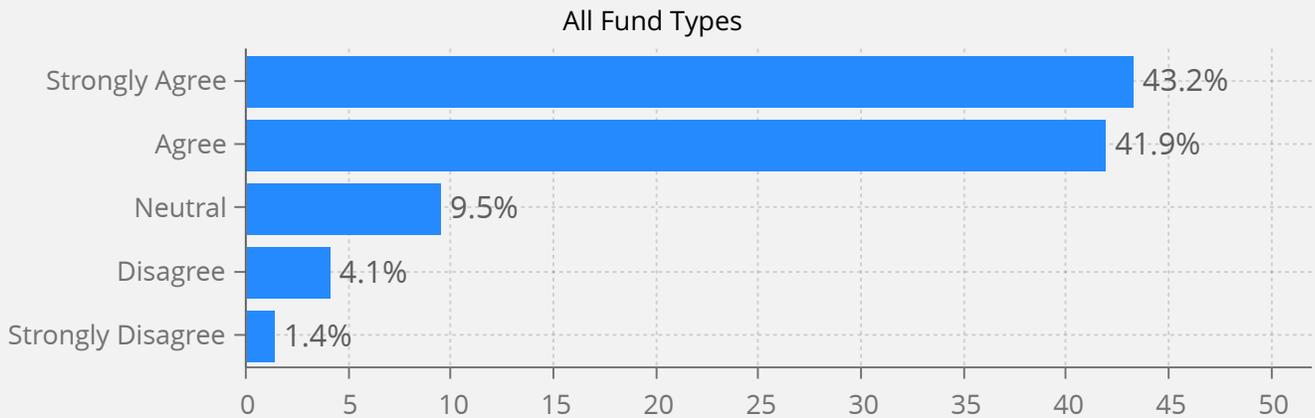
Fund Size	Futures	Options	Other Derivative Products
Less than \$5 million	48%	22%	22%
\$5 - \$10 million	57%	48%	57%
\$10 - \$20 million	45%	27%	18%
\$20 - \$50 million	57%	57%	57%
Over \$50 million	38%	31%	38%

Charts, graphs and other figures extracted from this report for use by the media must be accompanied by a statement identifying Crypto Fund Research as the publisher along with a link to this report.

Crypto Fund Survey (cont.)

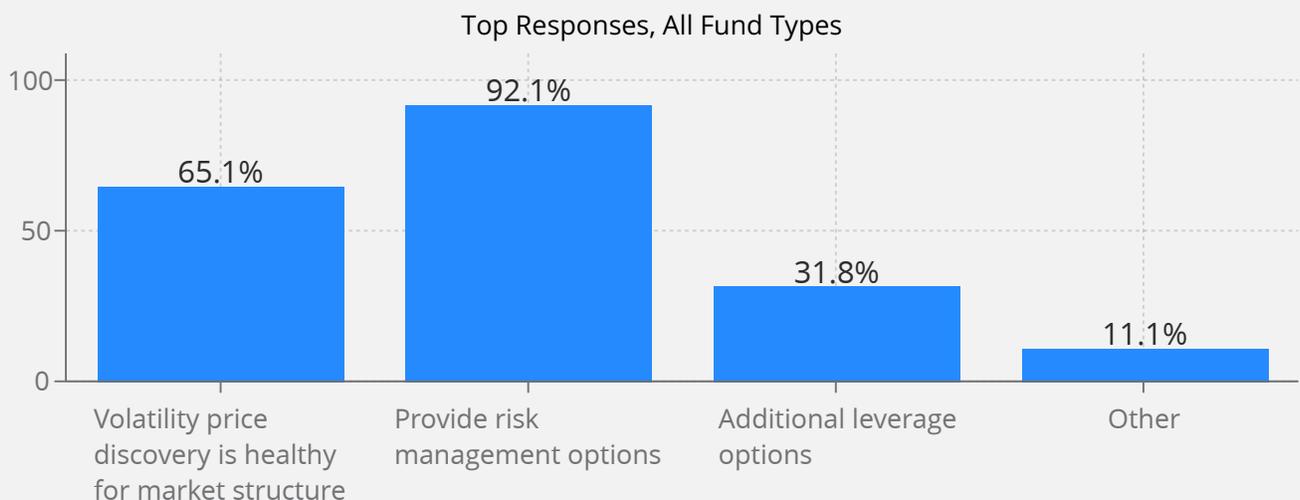
Derivatives play a vital role in investment strategies, according to most respondents. The survey results reveal that roughly 85% of crypto funds agree that derivatives and structured products are healthy components of the crypto industry. Only about 5% of crypto funds disagree on the benefits of these securities in the crypto industry, citing counterparty risk and the misuse of these products as the primary rationales against their usage.

Derivatives are Healthy Part of the Crypto Investment Space



The risk management benefit of derivative and other structured products was the most cited rationale for why these instruments are beneficial for the crypto industry. Approximately 92% of funds cited risk management options, regardless of fund category and size. Volatility price discovery, and its benefit to market structure, is the second most cited reason. Only about 32% of crypto funds highlighted the additional leverage options that these instruments provide as a rationale for using derivatives and structured products.

Why are Derivatives a Healthy Part of the Crypto Investment Space?

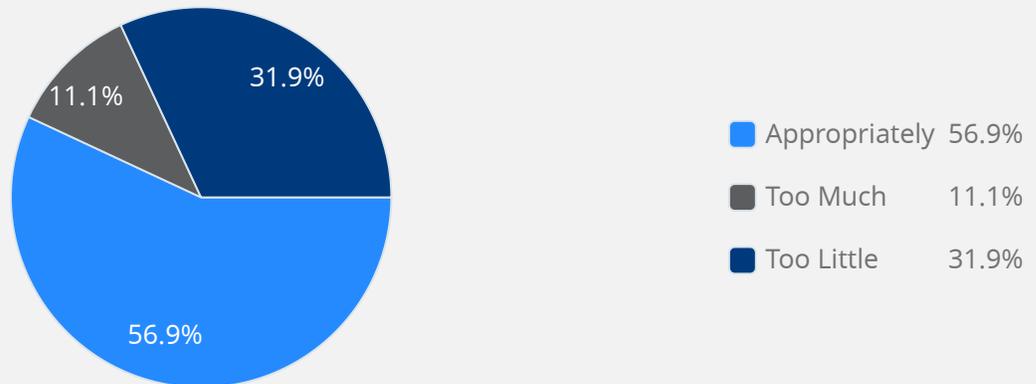


Crypto Fund Survey (cont.)

We asked respondents whether the potential long-term impacts of the coronavirus pandemic are being appropriately factored into current prices. More than half of funds believe the markets have appropriately priced in such risks. A higher percentage of funds (32%) believe the impact is not adequately accounted for compared to the percentage of funds (11%) who conclude it is being overly factored into current crypto prices.

Do Current Crypto Prices Appropriately Reflect Long-Term Risks from Covid-19?

All Fund Types



A higher percentage of crypto hedge funds (compared to venture funds and fund of funds) believe that current crypto prices are appropriately factoring the long-term impact of Covid-19. Venture funds were more likely than other fund types to believe prices have factored in too much long-term risk.

Do Current Crypto Prices Appropriately Reflect Long-Term Risks from Covid-19?

By Fund Type

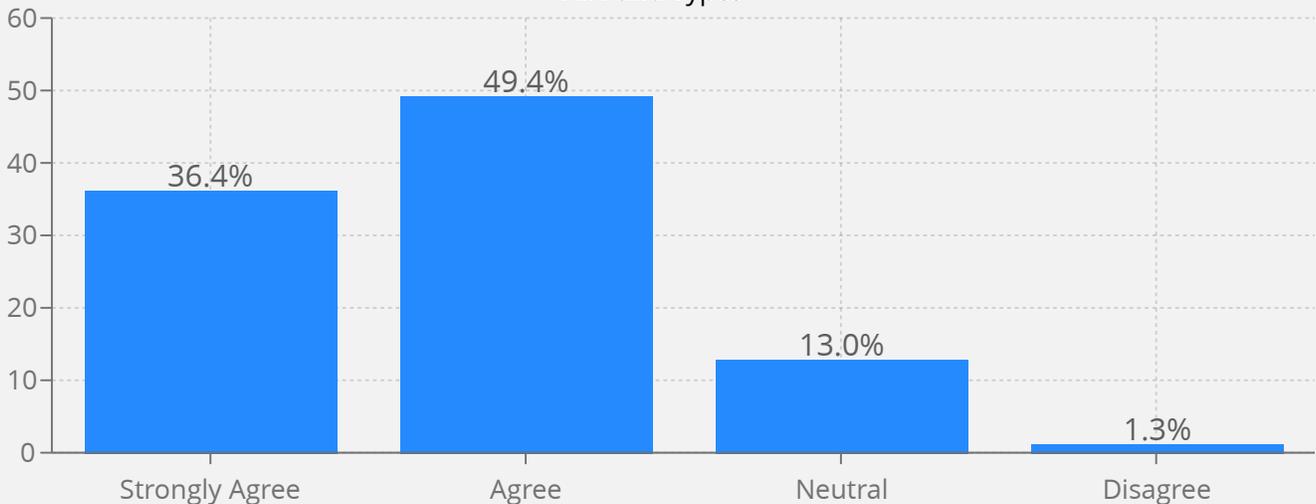


Crypto Fund Survey (cont.)

The results concerning institutional interest in cryptocurrencies are largely consistent across crypto fund types - approximately 86% of observed crypto funds agree that institutional interest in crypto investments has increased in 2020 thus far.

Institutional Interest in Crypto Investments Has Increased in 2020?

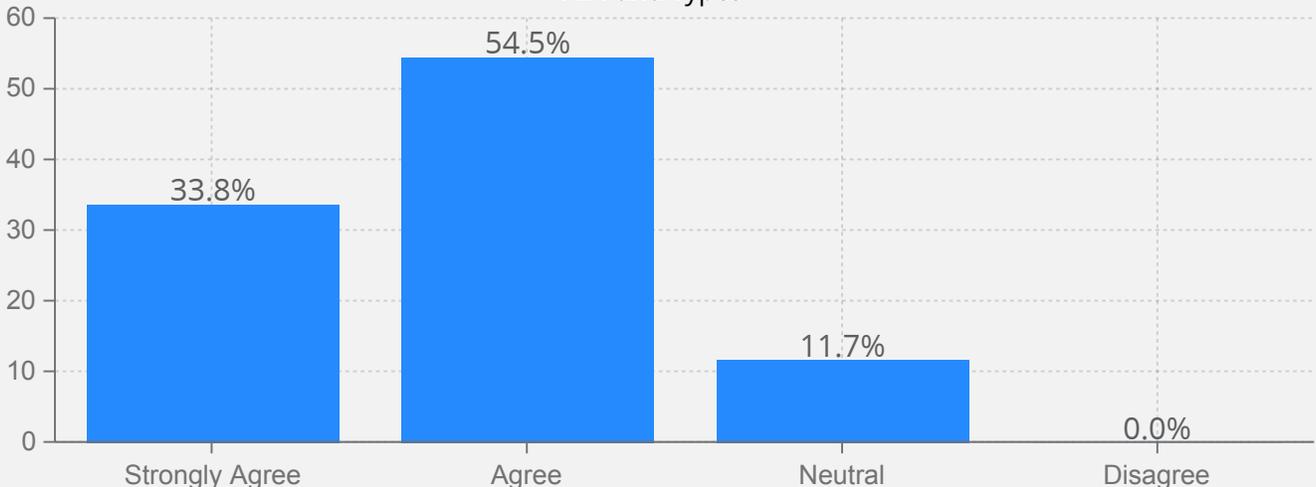
All Fund Types



Similarly, the vast majority (about 88%) of crypto funds expect institutional interest in cryptocurrency investments to further increase in the second half of 2020. No crypto fund disagreed on the likelihood of increased institutional interest in cryptocurrency investments in the second half of 2020.

Institutional Interest in Crypto Investments will Increase in Q3/Q4 2020?

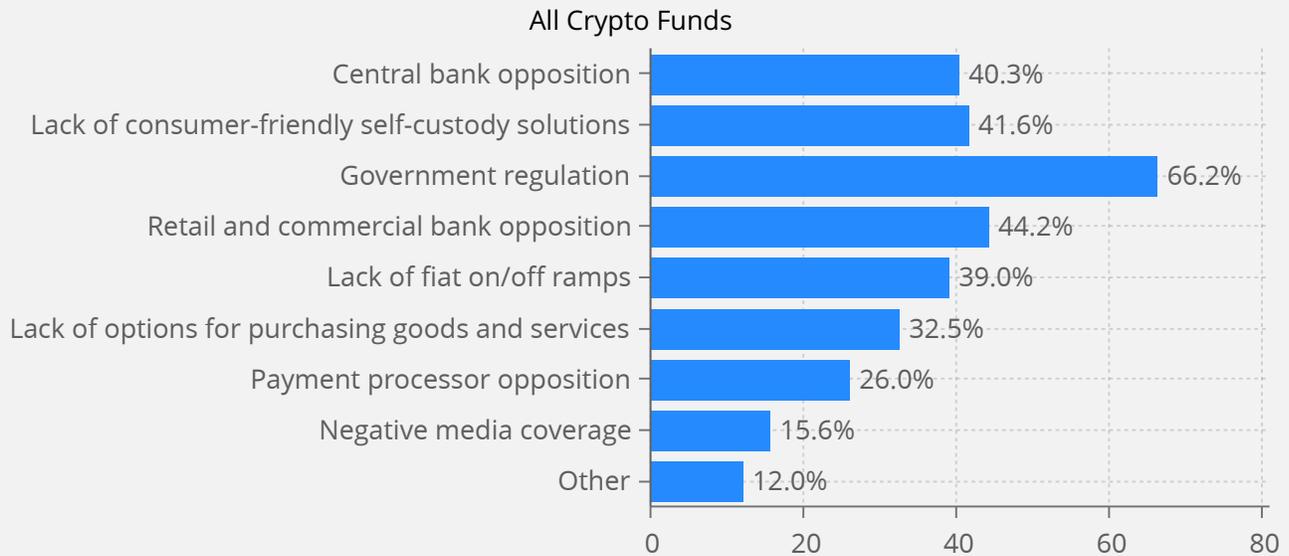
All Fund Types



Crypto Fund Survey (cont.)

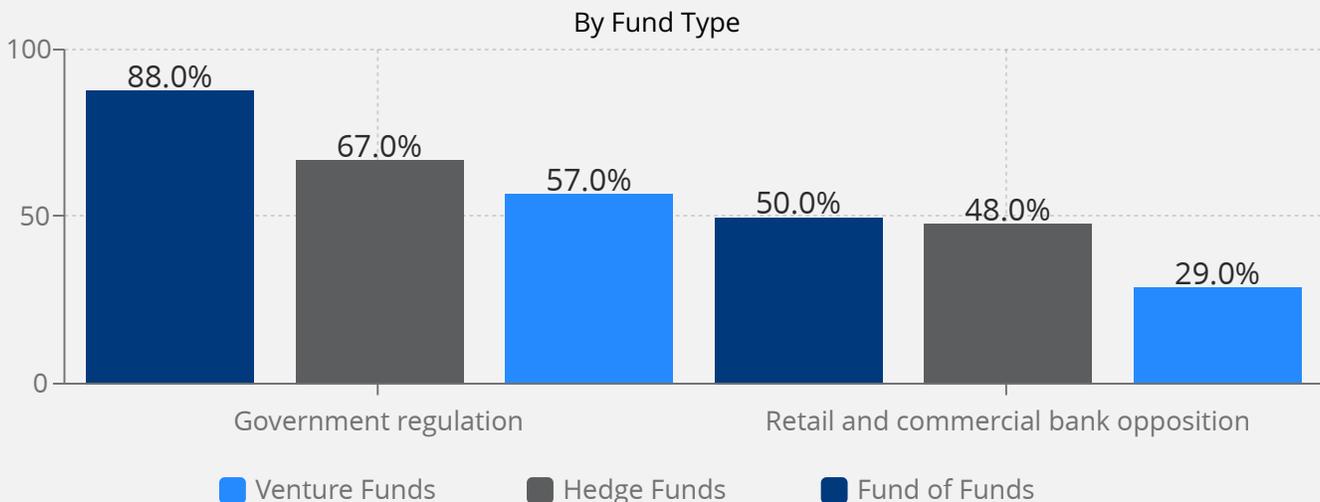
While crypto investors believe that institutional interest has and will further increase in 2020, there are several obstacles that continue to prevent the widespread adoption of cryptocurrencies.

Top Obstacles to Widespread Crypto Adoption



Government regulation is the most commonly cited obstacle preventing widespread crypto adoption. Retail, commercial, and central bank opposition, along with a lack of consumer-friendly self-custody options are also largely cited as significant barriers. Only a small percentage of crypto funds referred to negative media coverage as a major deterrent to more widespread adoption.

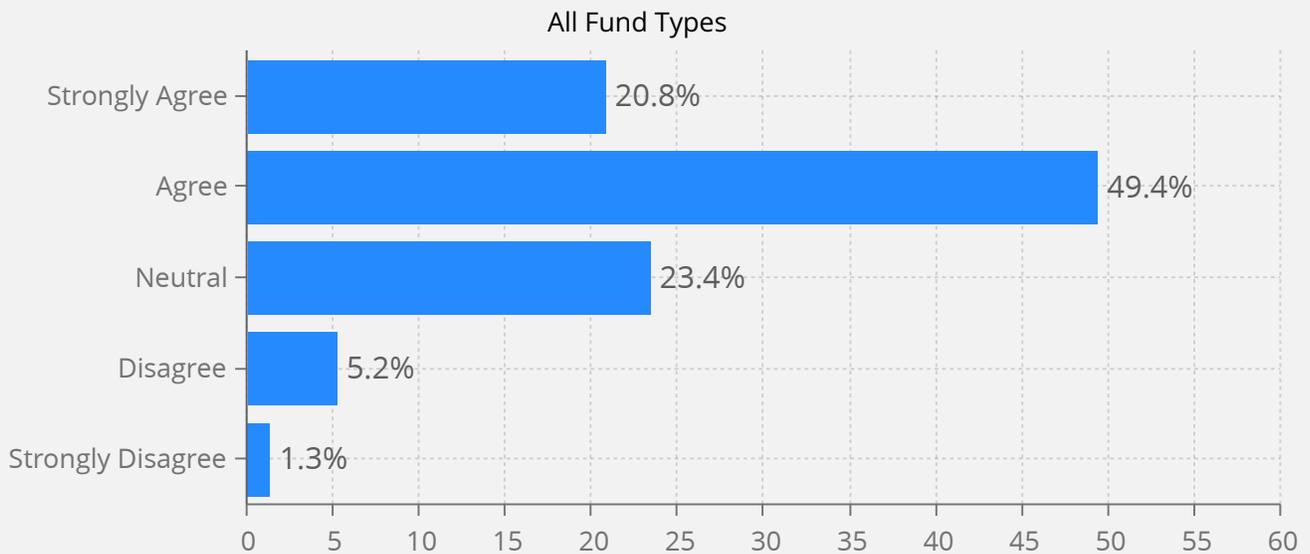
Top Obstacles to Widespread Crypto Adoption



Crypto Fund Survey (cont.)

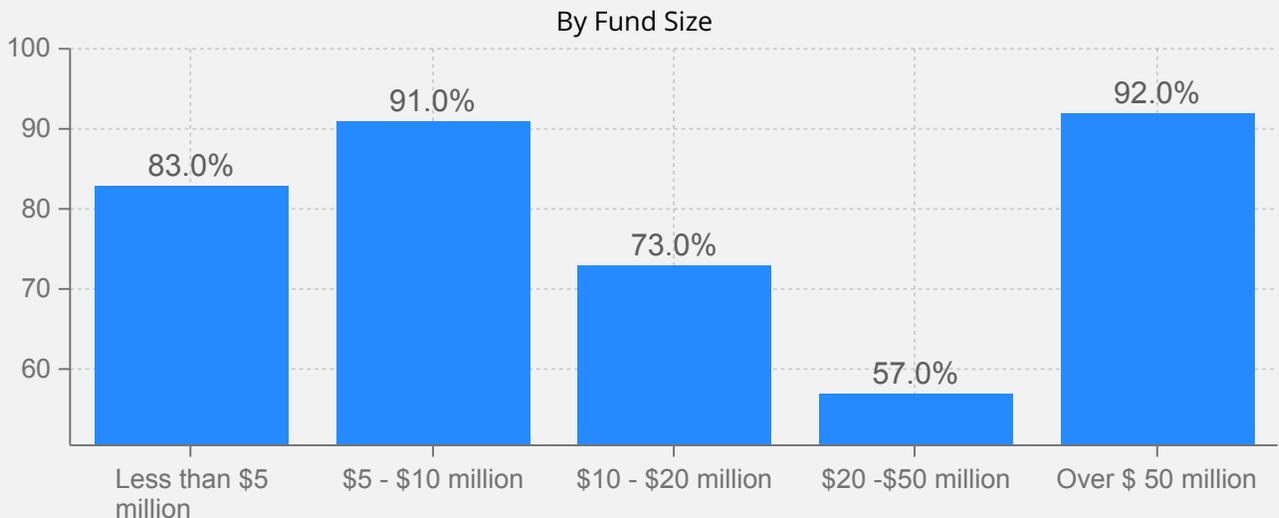
A significant majority of crypto funds (approximately 70%) believe that Covid-19 and related economic uncertainty will lead to increased crypto allocations in institutional portfolios. On the other hand, less than 10% of crypto funds disagree that the crypto allocations in institutional portfolios will increase due to the impact of the coronavirus.

Covid 19 & Related Will Increase Institutional Allocations to Crypto



Breaking down the figures by fund size, with the exception of funds managing \$20-\$50 million, we observe that a large percentage of funds of varying sizes generally agree that the impact of covid-19 will result in greater crypto allocations in institutional portfolios.

Agree Crypto Allocations in Institutional Portfolios Will Increase due to Covid-19



Crypto Fund Survey (cont.)

Thank you to the more than 75 crypto fund respondents that completed our survey including:



- Aludra Capital
- Arctos Capital Cryptoasset Credit Fund LP
- Astronaut Capital
- Attis Capital LP
- BitBull Fund
- BKCoin Capital LP
- Blockchain Coinvestors
- Blockchain.com Ventures
- Blockforce Capital
- Blockwall Management GmbH
- Cambrial
- Cambrial Capital
- ChainLink Crypto Fund
- CityBlock Capital
- CMCC Global
- Coincident Capital
- CoinFund
- Crypto10 Hedged
- Cryptos Fund
- Digico Capital
- Digital Capital Management
- Ether Capital
- ExoAlpha
- FCP.fund
- Galois Capital
- GDA Fund (GDA Holdings)
- Grayscale Investments
- Hilbert Digital Asset Fund
- Incrementum
- Kenetic
- Liquibit USD Market Neutral Arb Fund
- Lotus Investment Strategies
- M31 Capital
- Multicoins Capital
- Napoleon AM
- Nickel Digital Arbitrage Fund
- Novum Digital Asset Alpha
- ODIN88 Crypto Fund
- Pangea Blockchain International
- Panxora Crypto I Hedge Fund
- Permian Capital Fund, LP
- Protos Asset Management
- Pythagoras Investment Management
- Rivemont Crypto Fund
- Stylus Quantitative Cryptoasset Strategies, LP
- SwissRex Crypto Fund
- Systematic Alpha Cryptocurrency Program
- TOBAM Bitcoin
- Tradecraft Capital
- True Ventures
- Unbounded Capital
- Victory Square Labs

About the Report

About Crypto Fund Research:

Crypto Fund Research is an independent research firm founded in 2017. The firm focuses exclusively on crypto funds, including crypto hedge funds, venture capital funds, hybrid funds, index funds, fund of funds, and managed accounts. Crypto Fund Research provides a variety of free research and market intelligence, maintains the CFR Crypto Fund Index, and provides the largest and most comprehensive [database of crypto fund performance](#).

Special Thanks:

This report was prepared by the Crypto Fund Research team with additional assistance from the following:

Ibiso Tariah, MFE Candidate, Western University, London ON

For partnership opportunities, or to be included in our next survey, please contact us at [institutional\(at\)cryptofundresearch.com](mailto:institutional(at)cryptofundresearch.com)

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