

CF CRYPTO FUND RESEARCH

2020 Q4

Crypto Fund Quarterly Report



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Introduction

Crypto Fund Quarterly Report Q4 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

As of the end of Q4, 2020 there are more than 820 crypto funds across the globe with primary offices in more than 80 countries. The pace of new crypto fund launches increased in the second half of 2020 after several quarters of limited growth.

Q4 2020 was a particularly strong quarter for crypto fund performance. The CFR Crypto Fund Index increased 65.6% while Bitcoin increased 168.9%. It is typical for crypto funds to underperform Bitcoin in particularly bullish periods as funds have various market neutral strategies.

In the News

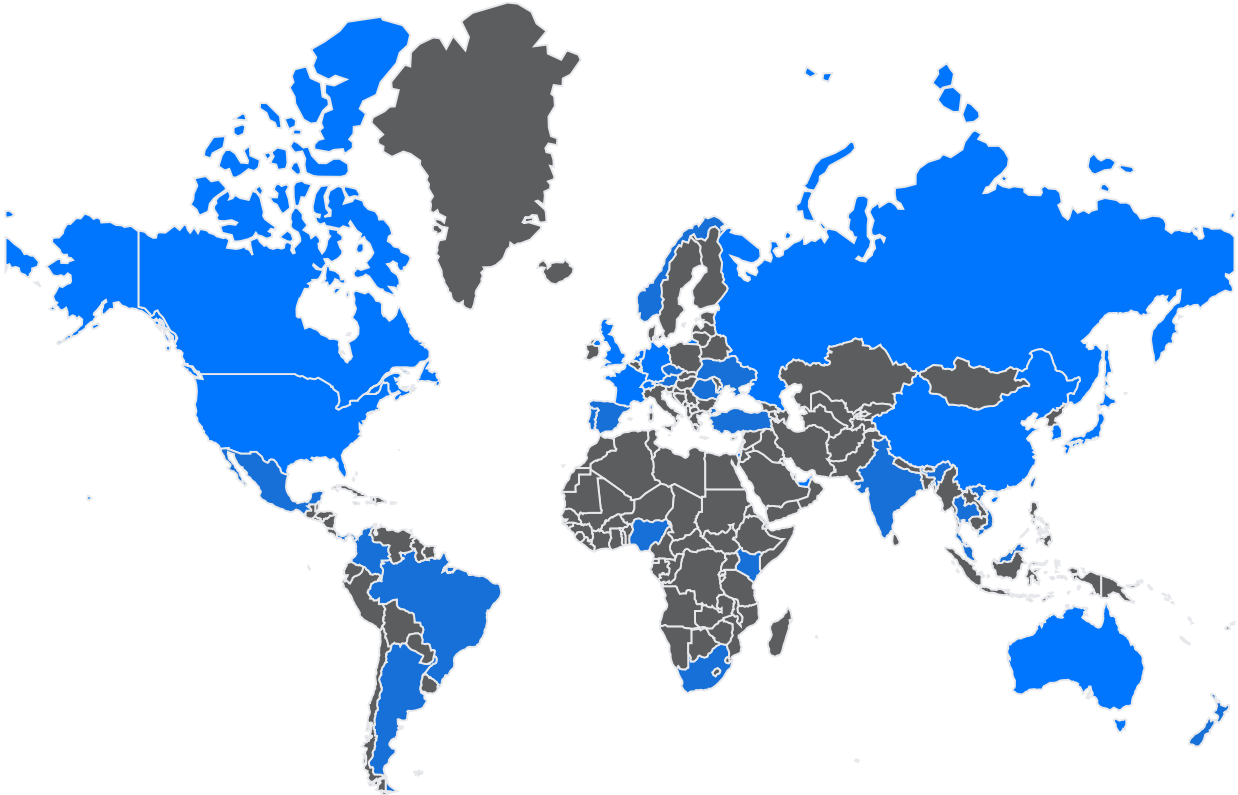
The Bad

- The SEC froze assets of crypto fund Virgil Capital amid accusations of securities fraud

The Good

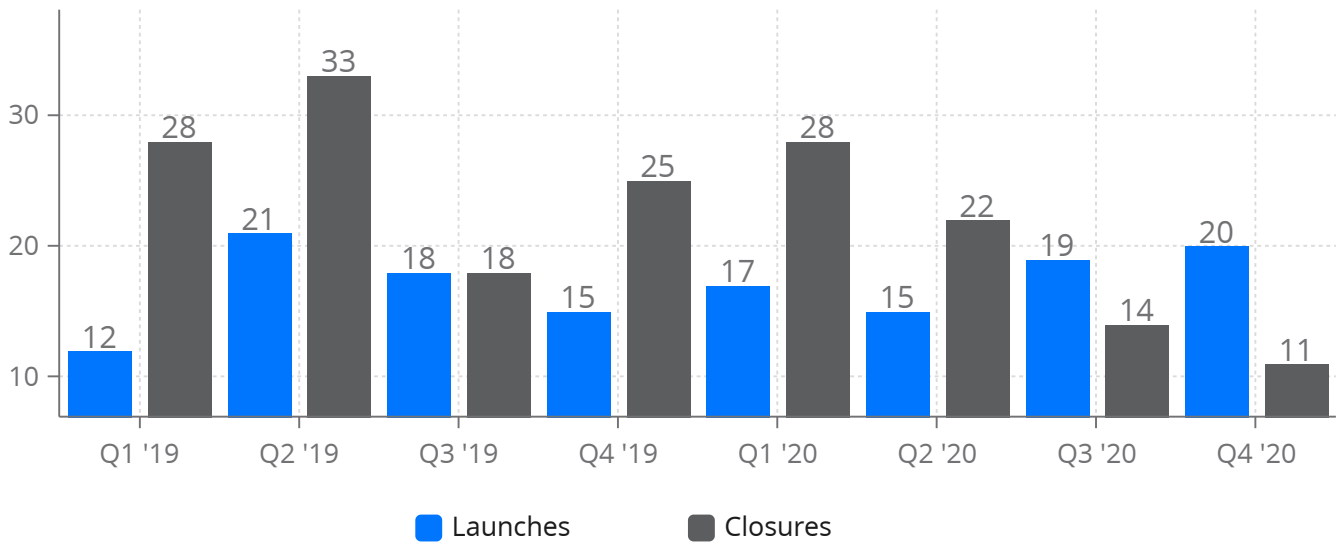
- Square announced in October it has purchased nearly 5000 Bitcoins
- Grayscale Bitcoin Trust's assets under management surpassed \$13 billion
- PBitwise 10 Crypto Index Fund became first publicly traded Bitcoin index fund

Crypto Fund Industry Overview



For the second consecutive quarter, the number of new funds launched exceeded the number of funds closing down. A particularly vibrant uptrend in Bitcoin and other cryptocurrencies is likely to encourage more crypto funds to launch in the coming months.

Crypto Fund Launches vs. Closures
Q1 '19 - Q4 '20



Crypto Fund Industry Overview

Nearly half of all crypto funds have their primary office based in the United States (49%). 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.

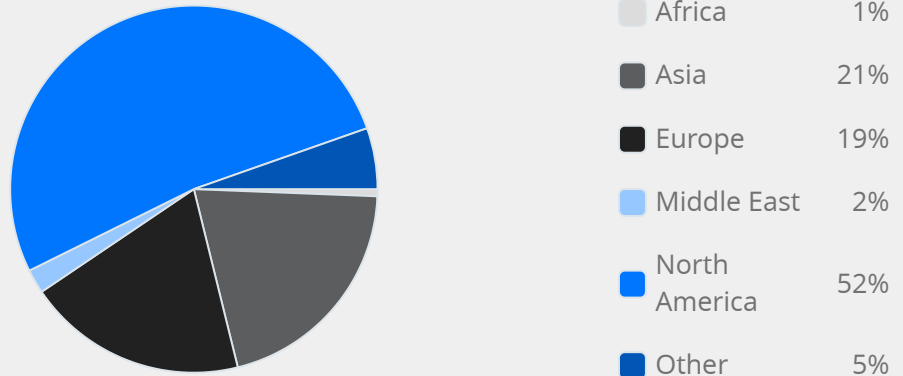
A recent [survey of crypto funds](#) by Crypto Fund Research found that rather than maintaining one or more physical offices, 43% of funds do not rely on a physical office and instead have employees working from home or other locations around the world.

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 43% 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.

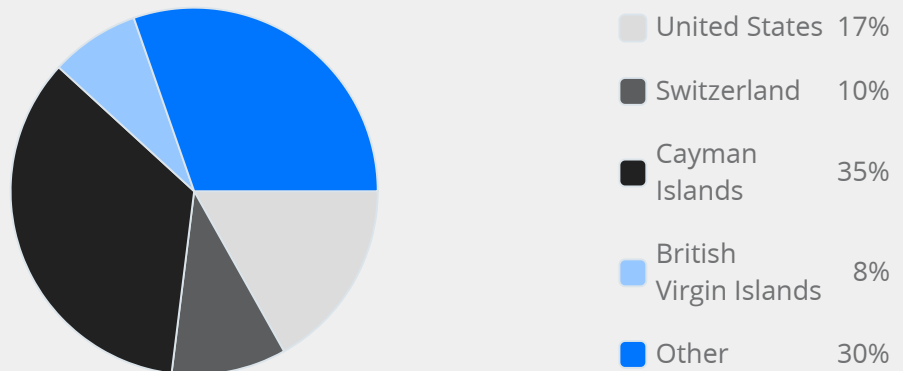
Crypto Funds by Continent

Primary Office Q4 '20



Crypto Funds by Legal Domicile

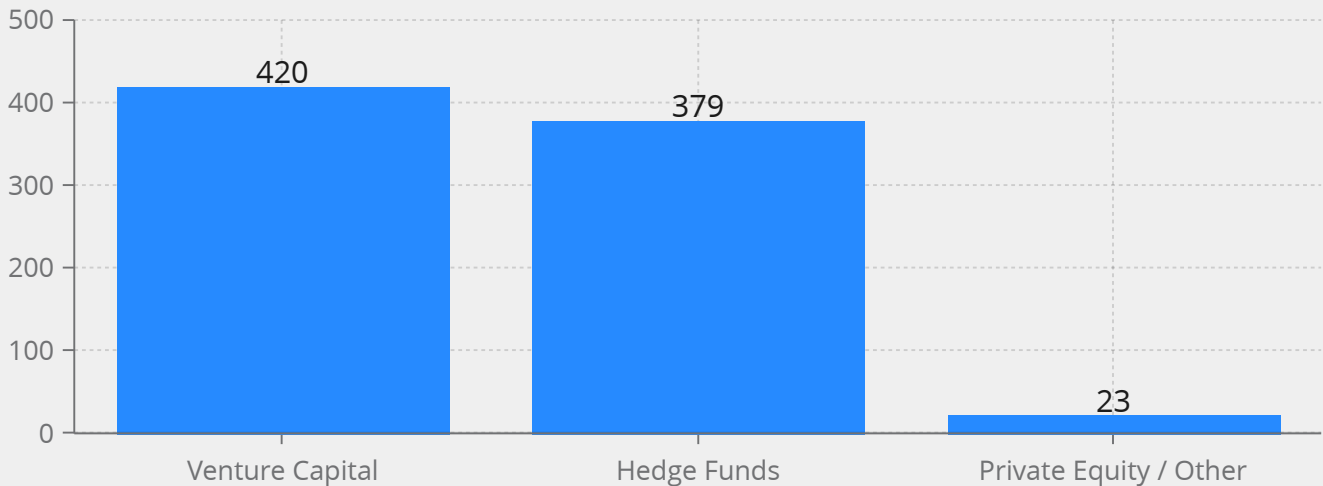
Q4 '20



Crypto Fund Industry Overview

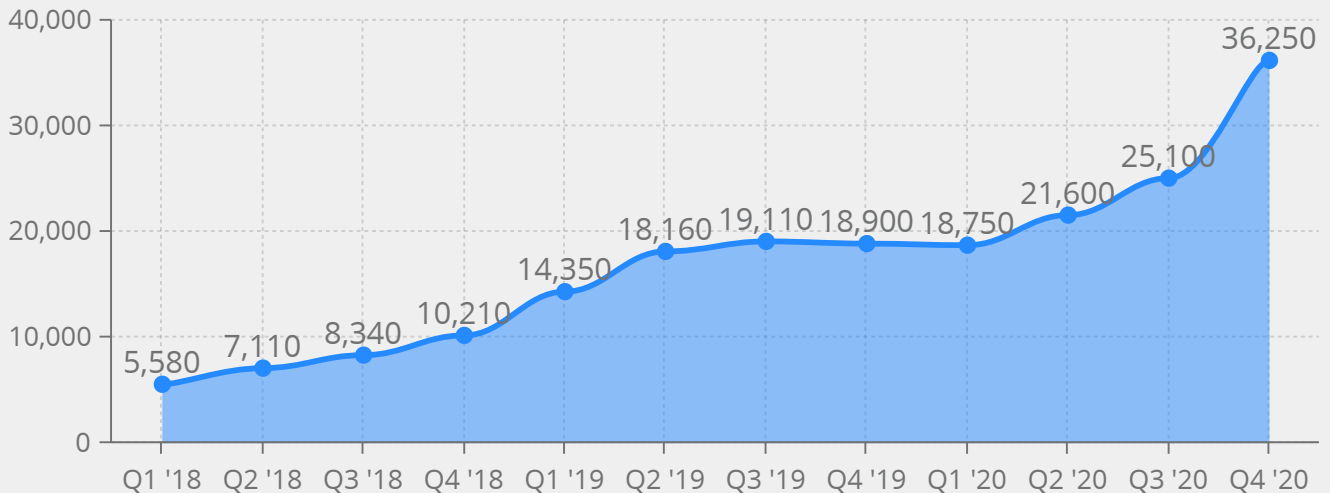
The majority of crypto funds can be broadly categorized as venture funds, followed closely by crypto hedge funds.

Crypto Funds by Type
Q4 '20



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. Crypto funds' cumulative AUM surpassed \$20 billion for the first time in 2020 and surpassed \$35 billion by the end of Q4 after a year of strong performance.

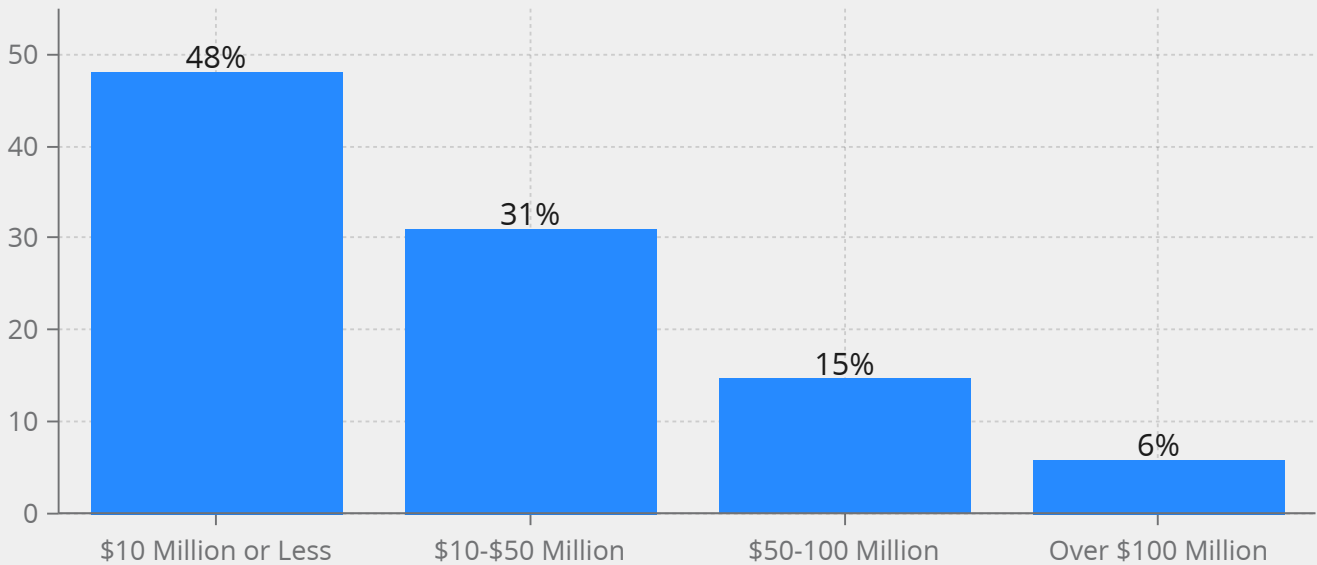
Cumulative Crypto Funds' AUM
Q1 '18 - Q4 '20 (Millions USD)



Crypto Fund Industry Overview

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

**Crypto Fund Asset Size
By Fund AUM**



\$36.25 Billion

Crypto Fund Research estimates that as of the end of Q4 2020, crypto funds collectively managed approximately \$36.25 billion. This includes crypto hedge funds, venture funds, and index funds and represents the highest level of assets under management for crypto funds.

48.2%

Most crypto funds remain relatively small with about 50% 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:



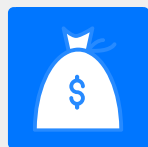
Median Fund AUM

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. Almost half of crypto 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.



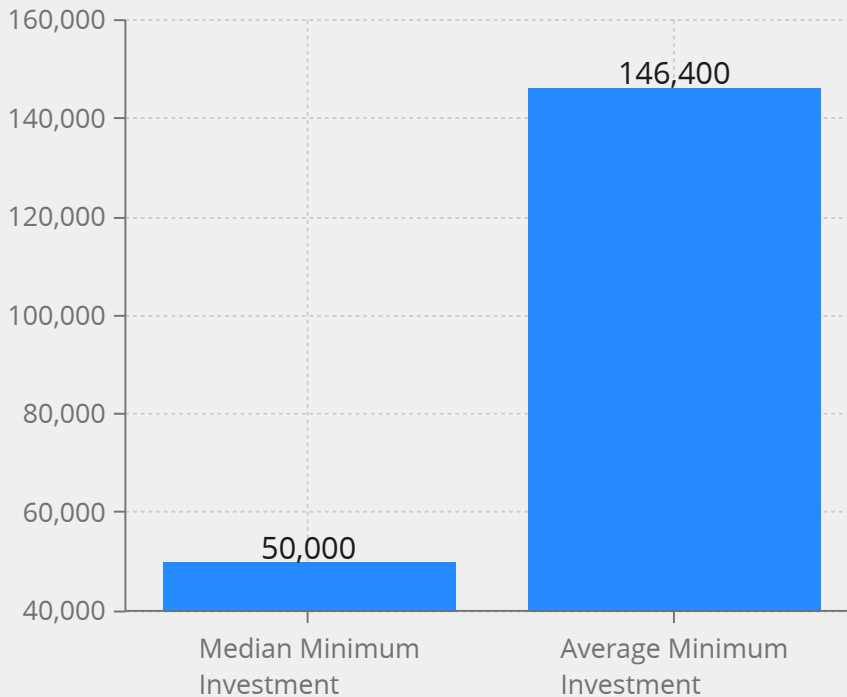
Median Number of Investments

Among crypto/blockchain-only venture funds, the median number of investments made since inception is 14. 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

Crypto Fund Minimum Investments

All Fund Types



22%

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

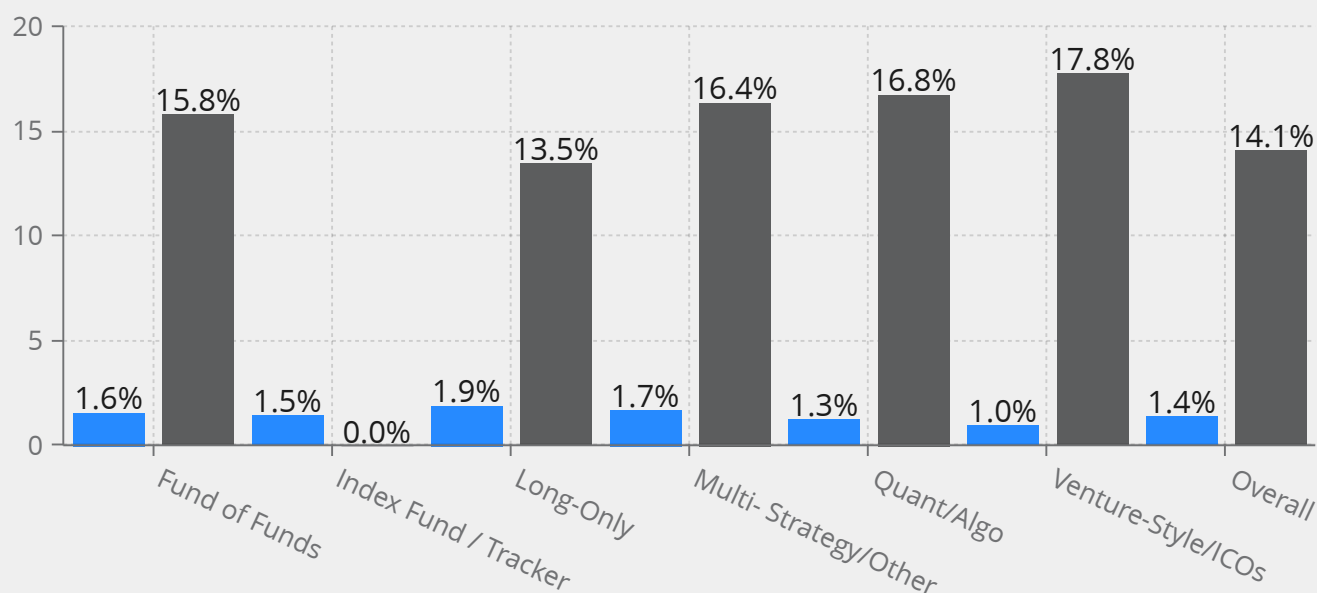
Minimum investments in crypto funds vary significantly across fund types. Crypto hedge funds and fund of funds typically have the highest minimum investment, while tokenized funds have low or non-existent minimums.

Type	Median Min. Investment	Average Min. Investment
Fund of Funds	\$62,500	\$56,250
Hedge Fund	\$100,000	\$189,600
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	\$146,400

Crypto Fund Industry Overview

Crypto Fund Average Fees

By Fund Category Q4 '20



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).

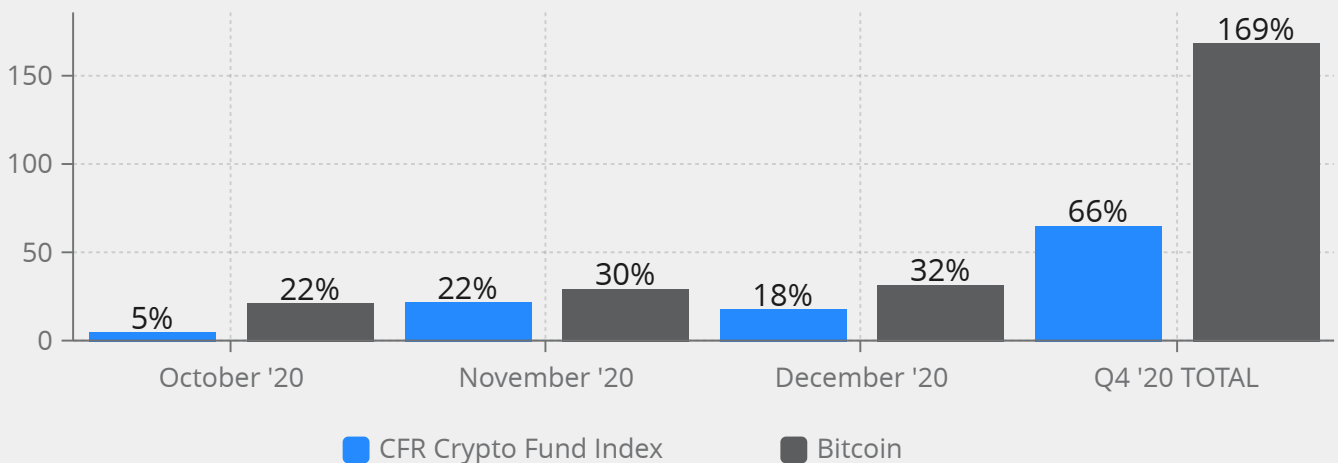
Fund Type	Average Perf. Fee	Average Mgmt. Fee
Fund of Funds	15.83%	1.54%
Index Fund / Tracker	0.00%	1.54%
Long-Only	13.50%	1.93%
Multi-Strategy/Other	16.39%	1.72%
Quantitative/Algorithmic	16.76%	1.27%
Venture-Style/ICOs	17.78%	1.00%
TOTAL	14.11%	1.43%

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 23.6% in Q3, 2020 coming up just short of the 23.8% returned by crypto funds in Q2. Crypto funds also outperformed Bitcoin by over 600 basis points in the quarter. Despite a slow first quarter, crypto funds have returned 60.6% in 2020 through Q3.

CFR Crypto Fund Index vs. Bitcoin

Q4 2020



65.6%

The CFR Crypto Fund Index returned 65.6% in Q4, 2020. Crypto funds were up 5.3% and 28.4% in October and November, respectively, before climbing an additional 22.4% in December.

4%

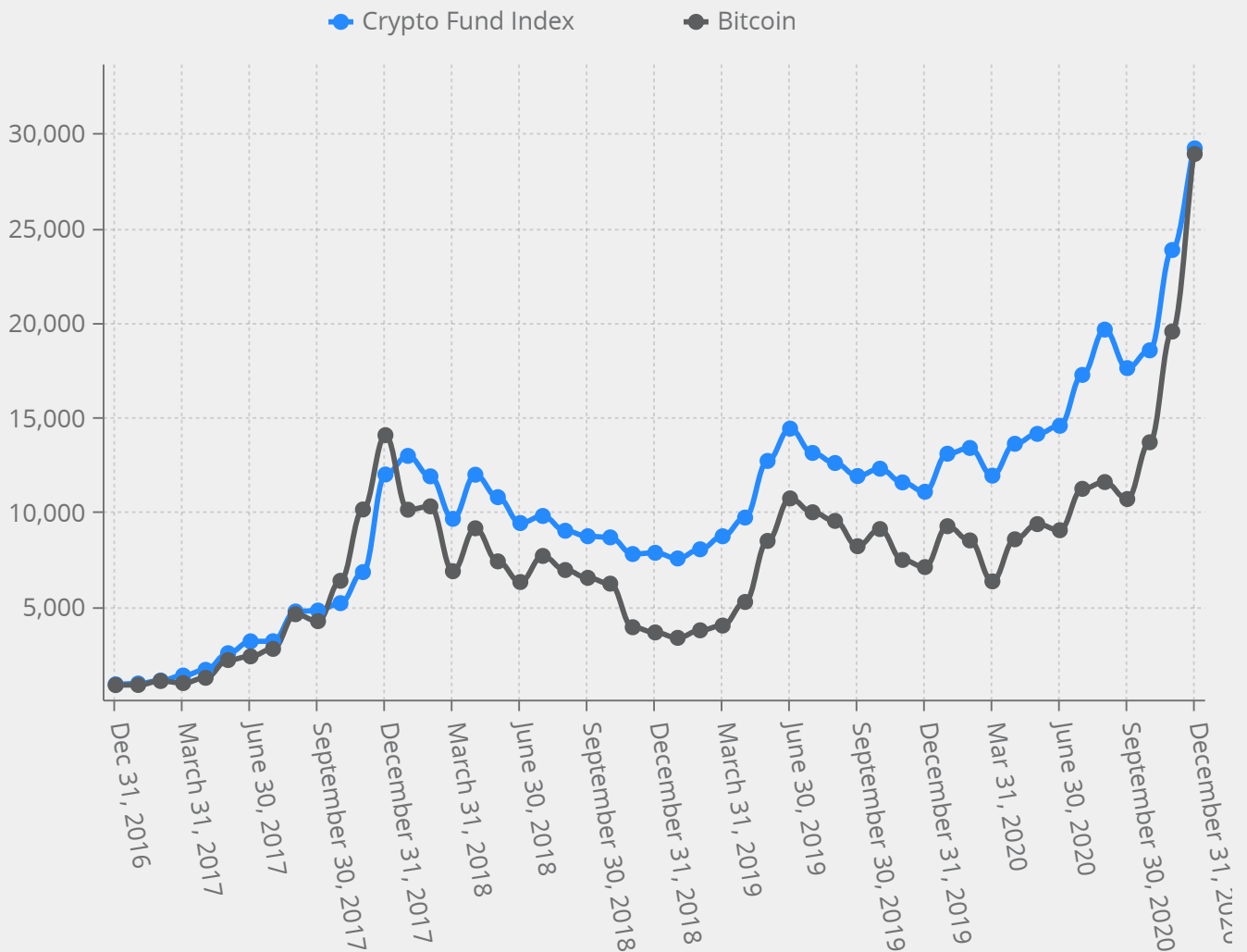
While crypto funds generally had a positive quarter, only 4% of funds outperformed Bitcoin in Q4

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 Q4 2020, the CFR Crypto Fund Index, has returned 2830%. Bitcoin gained 2909% during this same period, fueled largely by significant BTC returns in December. Much of the index's historical outperformance occurred during bearish market conditions, particularly during the "crypto winter" of early 2018.

CFR Crypto Fund Index vs. Bitcoin December 31, 2016 - December 31, 2020

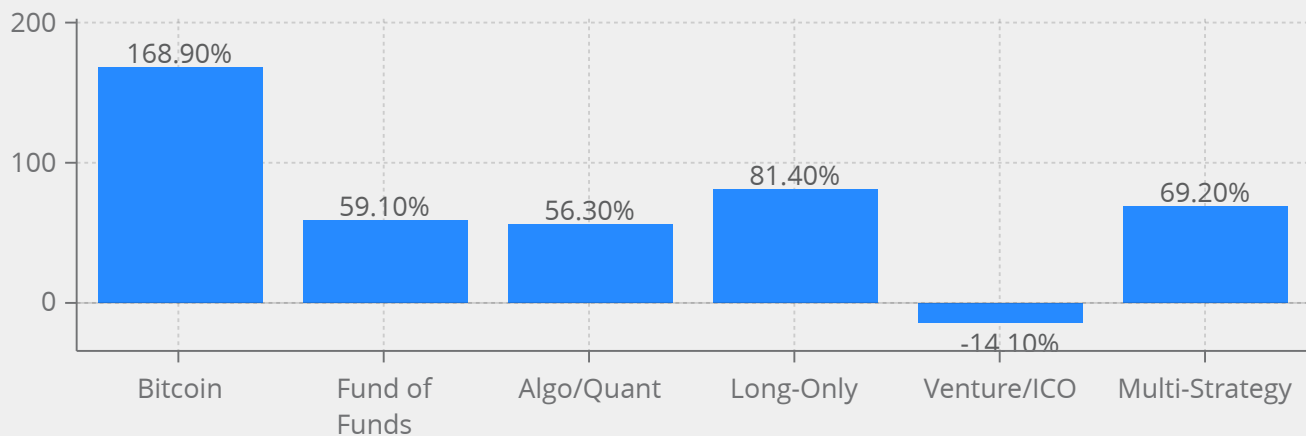


For more information on the CFR Crypto Fund Index, including methodology, monthly returns, and other performance metrics, please visit <https://cryptofundresearch.com/cfr-crypto-fund-index/>

Crypto Fund Performance Data and Metrics

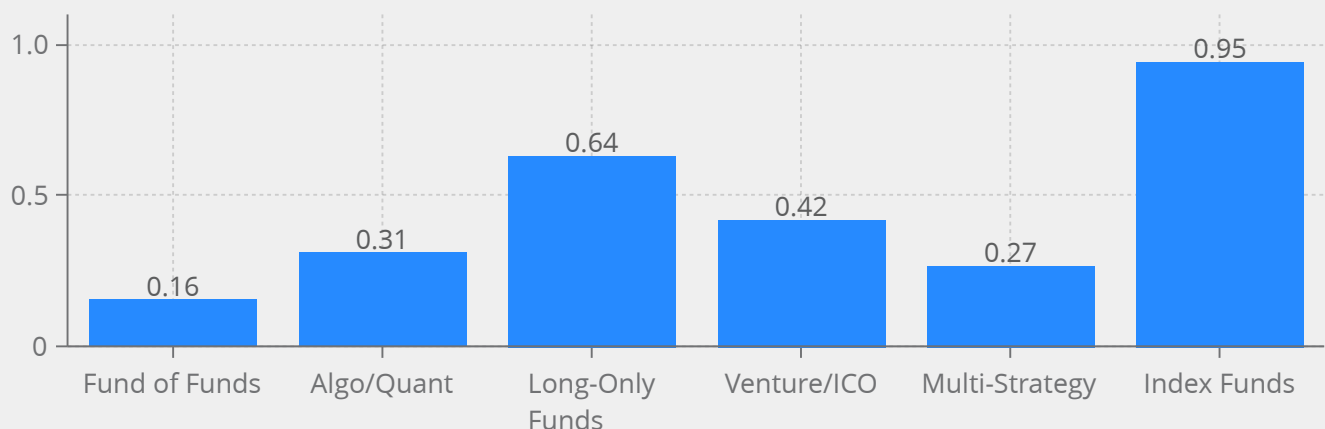
After a rocky first quarter for crypto funds, Q2 and Q3 were both strong quarters for crypto funds. Following Bitcoin's lead, Q4 was the strongest quarter for crypto funds with the average fund returning over 65%. For the year, crypto funds returned 165.8% with long-only and multi-strategy funds providing the best performance.

Q4 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 as a result of having the most exposure to Bitcoin. Fund of funds, multi-strategy funds, and quantitative/algo funds have historically had the lowest betas.

Beta / Relationship to the market
Q1 '17 - Q4 '20 by Fund Strategy

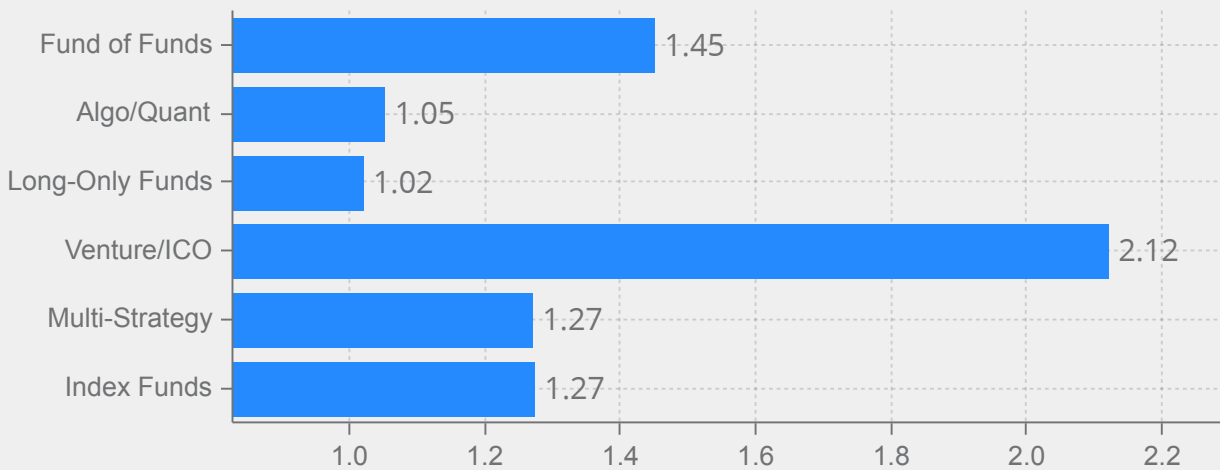


Crypto Fund Performance Data and Metrics

"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.

Average Skew Across Fund Style

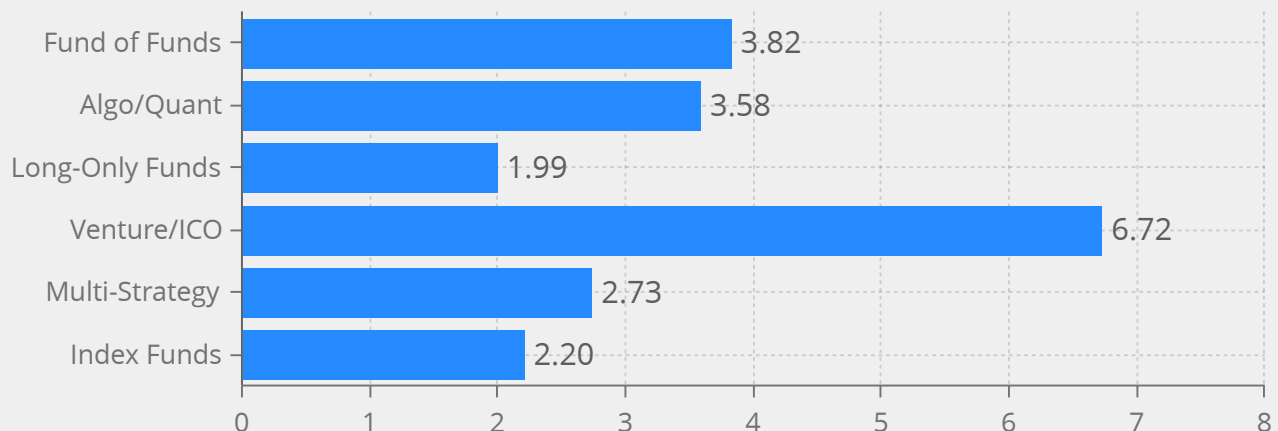
Q1 '17 - Q4 '20 by Fund Strategy



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.

Average Kurtosis Across Fund Style

Q1 '17 - Q4 '20 by Fund Strategy



Crypto Fund Performance Data and Metrics

Q4 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 in each period, net of fees.

Below are the Crypto Fund Research Performance Award winners for Q4, 2020:

Top Performing Crypto Funds Overall, Q4 2020



Top Performing Crypto Funds by Strategy, Q4 2020



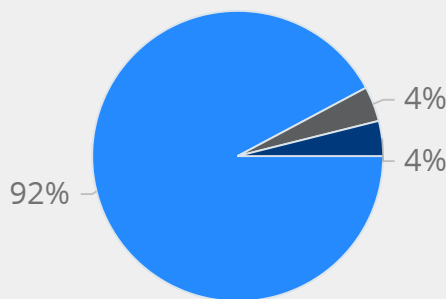
For additional award winners please visit: <https://cryptofundresearch.com/crypto-fund-performance-awards/>

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. Full survey results here: <https://cryptofundresearch.com/2020-crypto-fund-survey/>

Do You Anticipate Your Fund Will Increase AUM in 2020?

All Fund Types

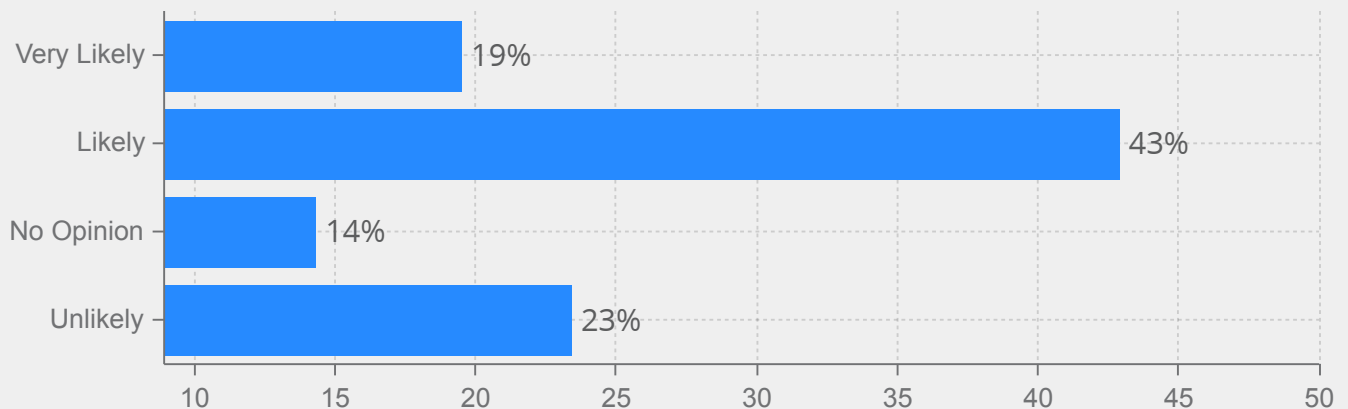


Crypto Fund AUM has continually grown since 2018. Irrespective of the fund strategy or fund size, the majority of the crypto funds surveyed expect AUM to increase in 2020. Only about 4% of funds do not anticipate an increase in AUM in 2020, with an equal amount unsure.

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

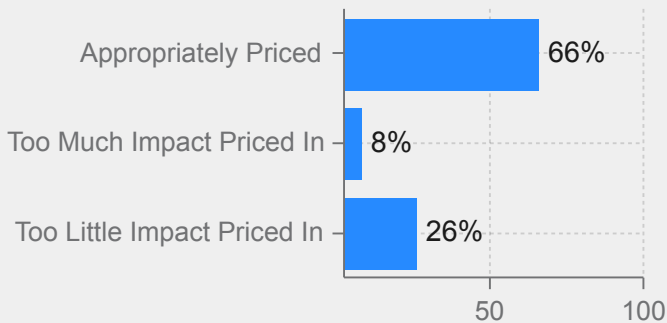


Crypto Fund Survey (cont.)

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.

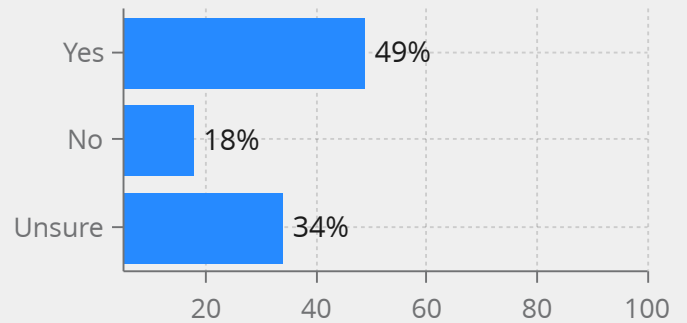
Crypto Fund Blockchain Co. Investments

Valuations Appropriately Pricing Covid-19 Impact



Crypto Fund Blockchain Co. Investments

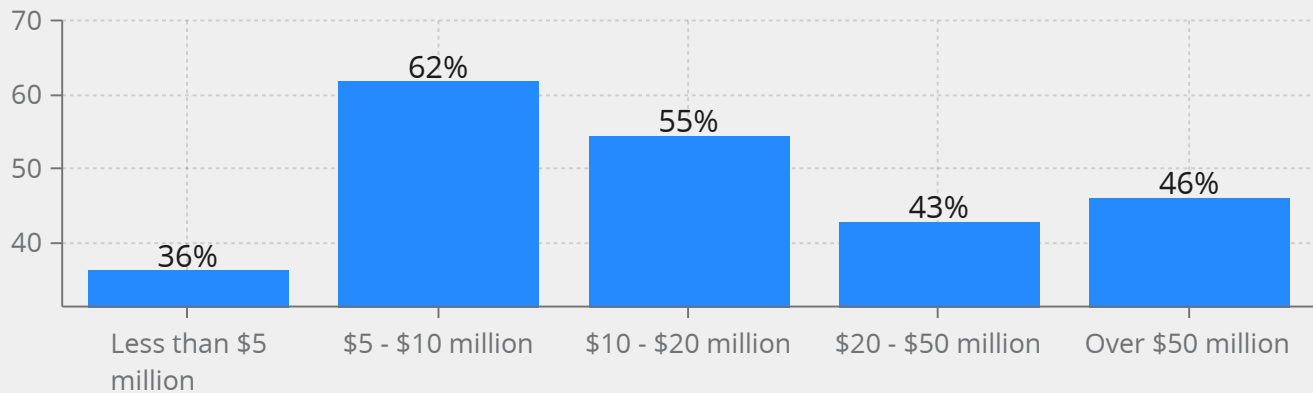
Anticipate Increase in Inv., '20 vs '19



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,

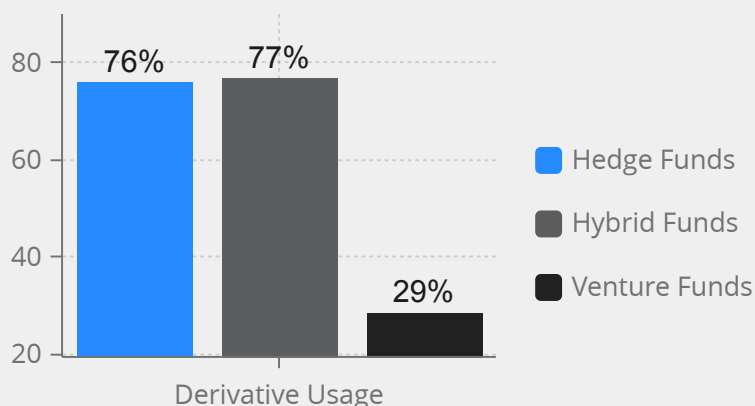
Crypto Fund Survey (cont.)

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.

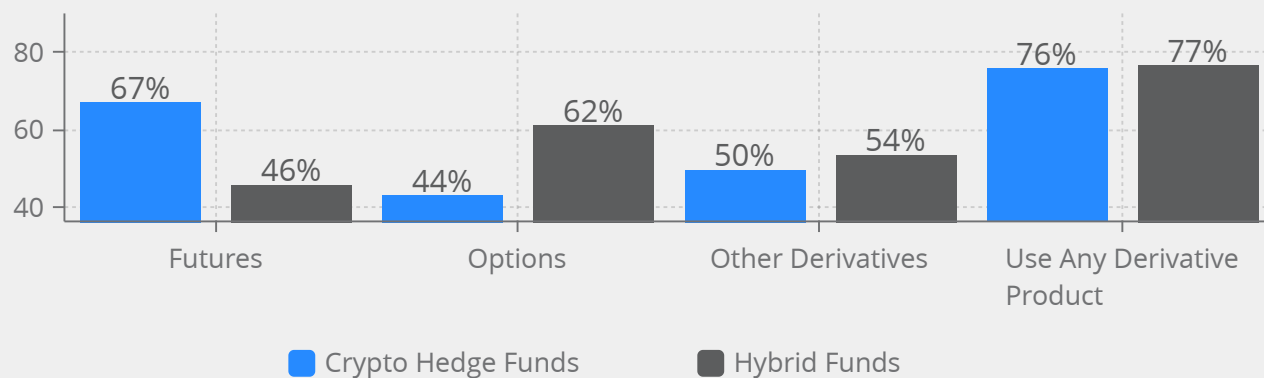
Less than one quarter of venture funds trade any derivative products, likely because they are not generally part of VCs' investment mandates.

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



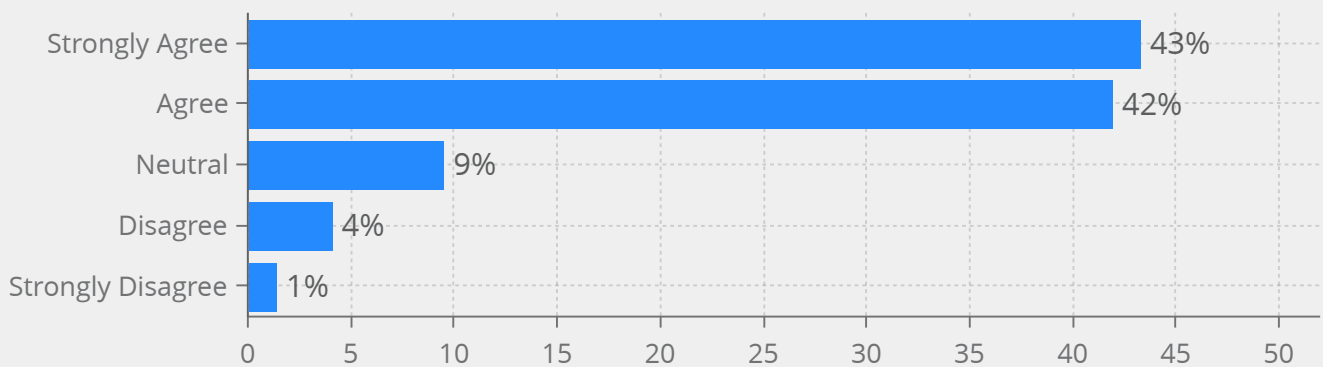
Fund Size	Futures	Options	Other Derivative Products
Less than \$5 million	48%	22%	22%
\$5 - \$10 million	57%	48%	57%
\$10 - \$20 million	45%	27%	18%
\$20 - \$50 million	57%	57%	57%
Over \$50 million	38%	31%	38%

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

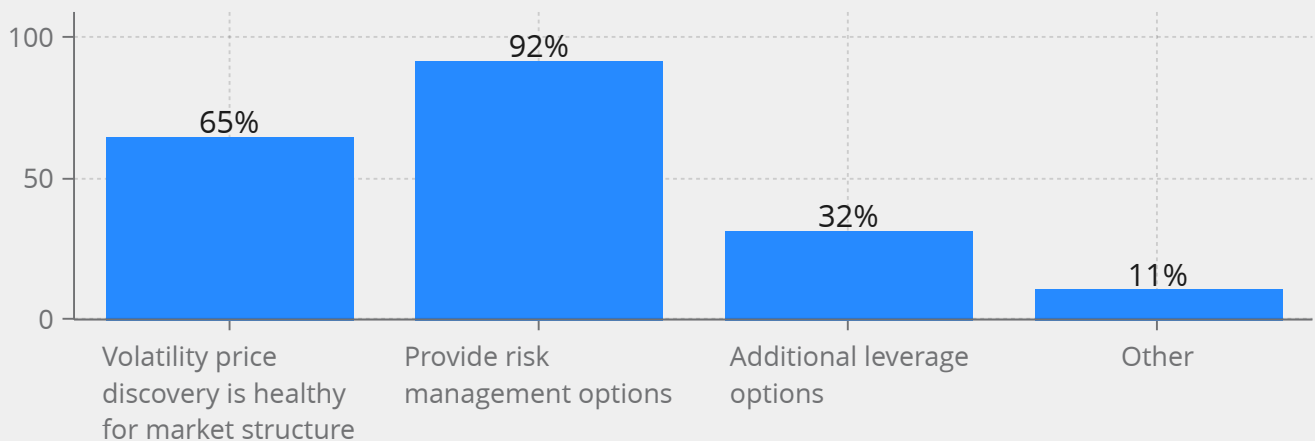
All Fund Types



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?

Top Responses, All Fund Types

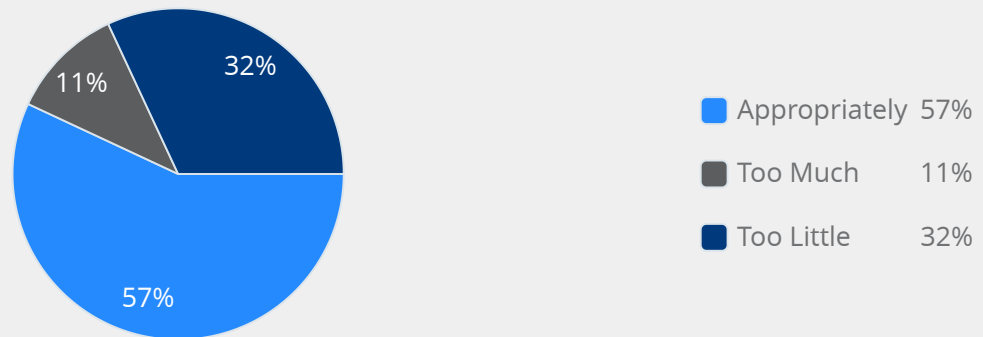


Crypto Fund Survey (cont.)

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?

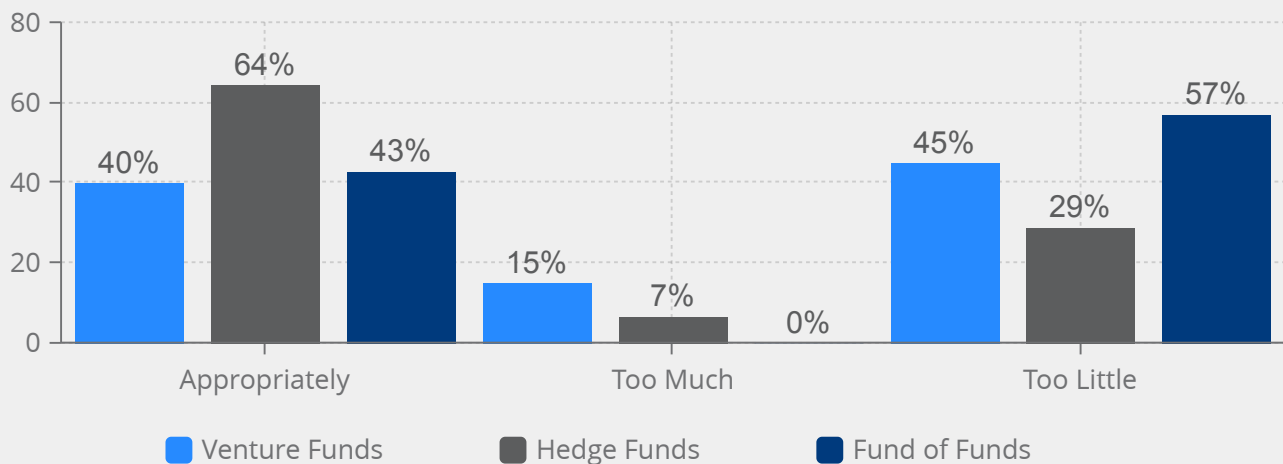
All Fund Types



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

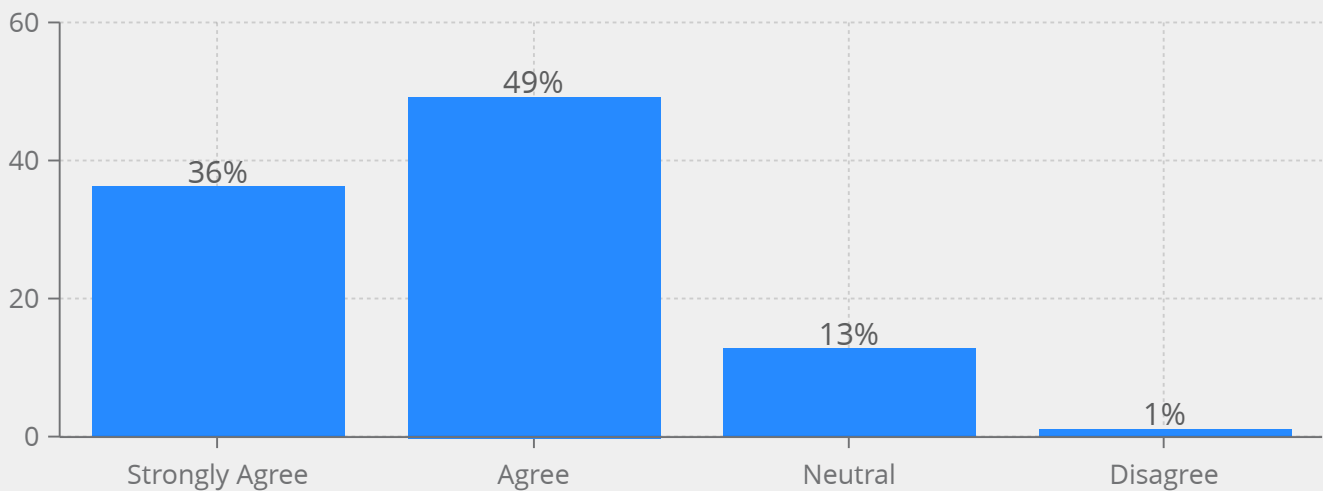


Crypto Fund Survey (cont.)

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?

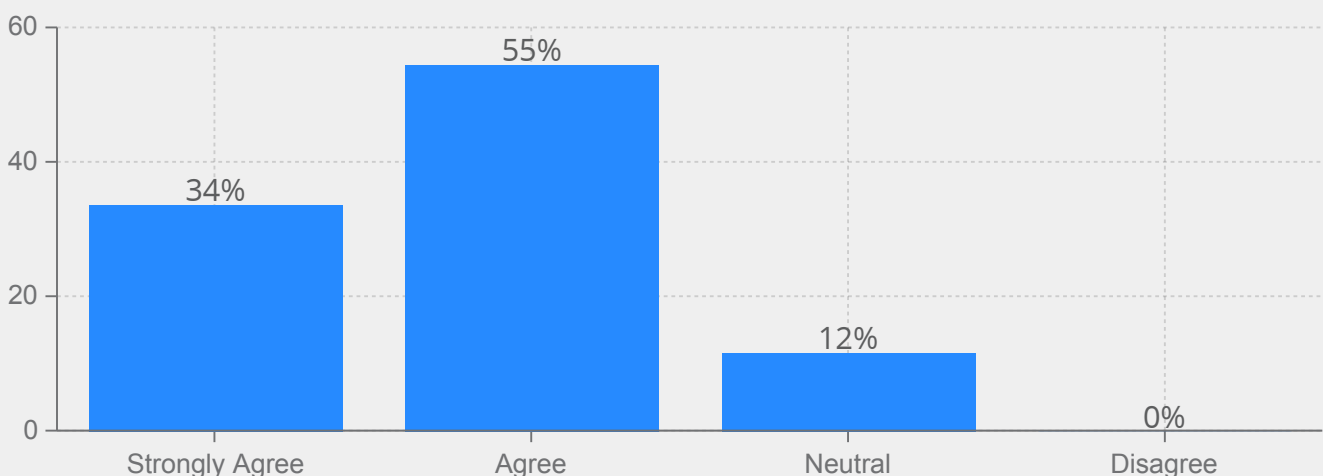
All Fund Types



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

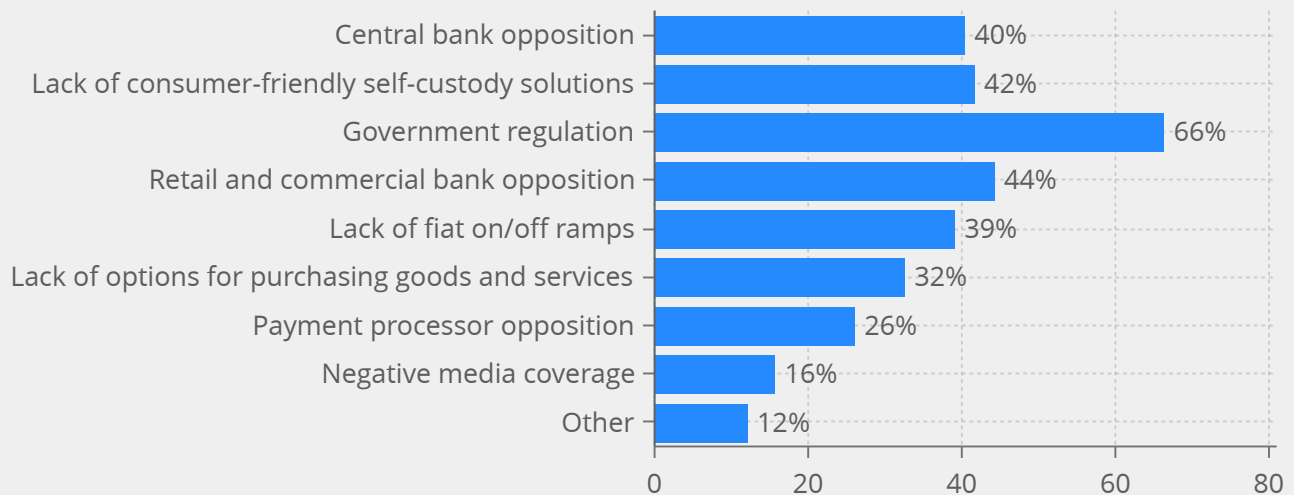


Crypto Fund Survey (cont.)

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

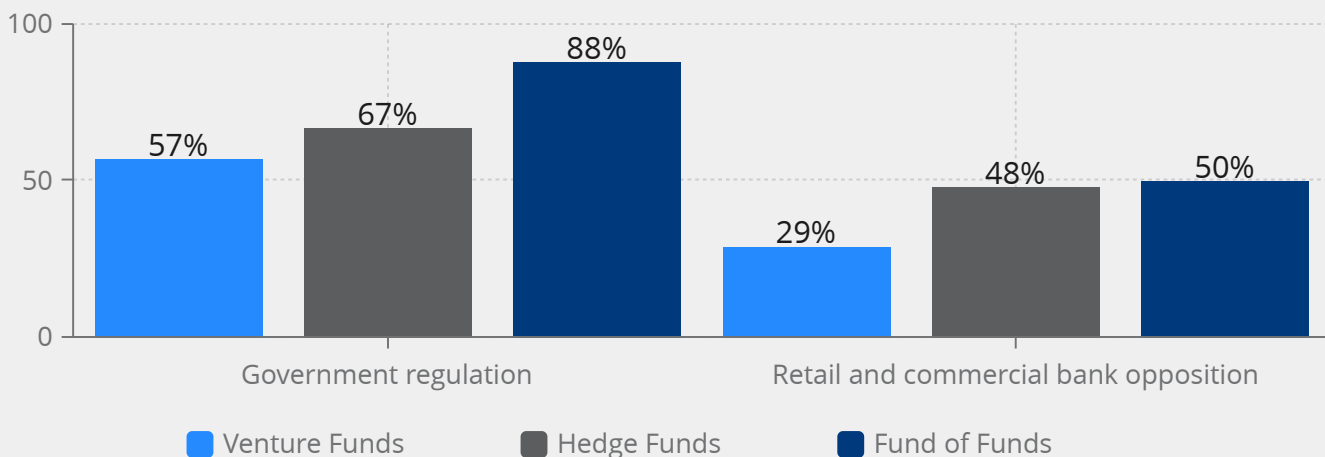
All Crypto Funds



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

By Fund Type

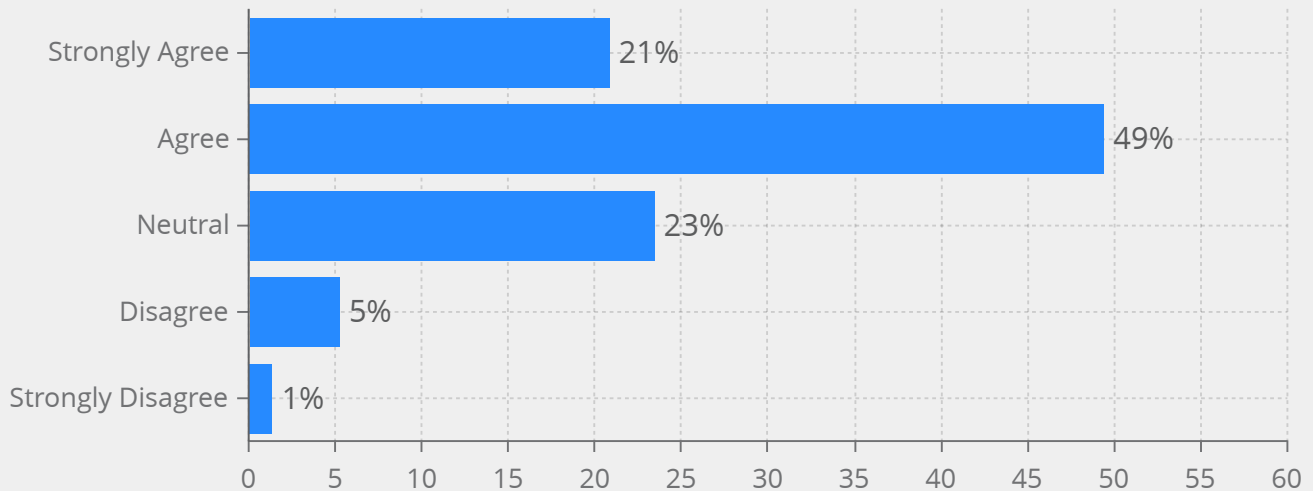


Crypto Fund Survey (cont.)

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

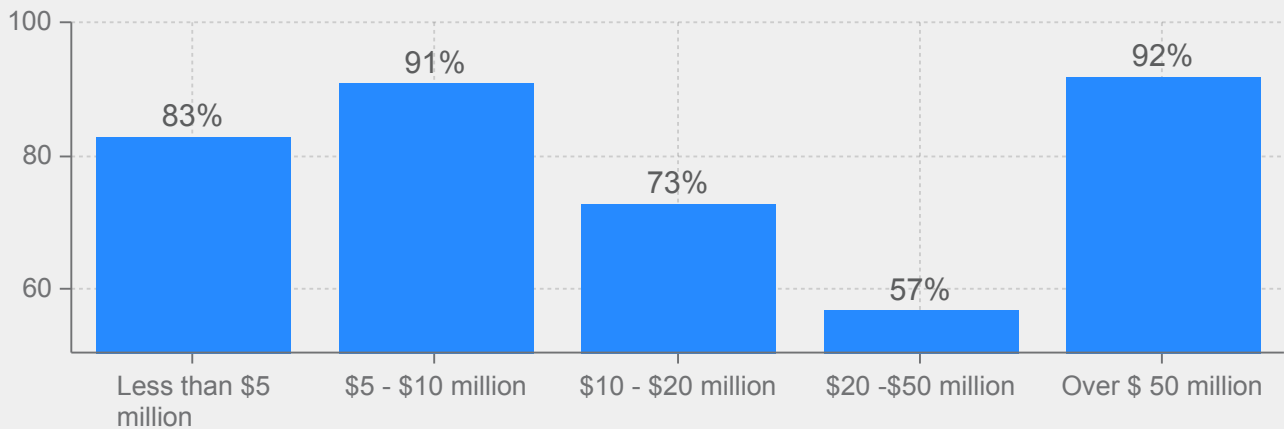
All Fund Types



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

By Fund Size



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](#).

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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