

# CF CRYPTO FUND RESEARCH

2022

## FTX Special Report



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# Introduction

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## FTX Collapse's Impact on Crypto Funds

### Purpose

On November 11, 2022 FTX, one of the world's largest cryptocurrency exchanges, filed for Chapter 11 bankruptcy. However, even before the bankruptcy filing became official, the impact on crypto funds was apparent. The prices of many cryptocurrencies, including FTX's own exchange coin FTT, had fallen sharply. A handful of major crypto hedge funds had announced direct exposure, and reporters were asking how leading venture firms like Sequoia Capital and Tiger Global Management could have missed the red flags that were glaringly obvious, at least in hindsight.

This report attempts to document the breadth of the fallout on crypto funds from the collapse of FTX - at least with what is currently known some three weeks following initial signs something was seriously amiss.

### Report Overview

Crypto Fund Research developed and maintains the largest database of crypto funds, including crypto hedge funds, venture funds, hybrid funds, and index funds. In addition, its Crypto Fund Performance Database records the monthly performance of more than 150 crypto fund vehicles, along with other relevant fund data. As a result, Crypto Fund Research is in constant communication with hundreds of crypto funds and is uniquely positioned to provide insights on the potential fallout from the collapse of FTX.

This report is divided into 3 parts:

- 1) Crypto Fund Research's assessment of the collateral damage on crypto funds from public sources, private communications, and our survey of crypto funds
- 2) A collection of relevant industry metrics
- 3) A survey of crypto funds conducted November 20th through 29th, 2022 directly addressing the impact of FTX's collapse

Taken together, we believe this report provides an in-depth look at not only the present scenario crypto funds face, but some potential takeaways for the future of the crypto fund industry.

# FTX Fallout: Overview

As the largest database of crypto funds, Crypto Fund Research is in a unique position to evaluate the impact of the FTX collapse. We have over 100 crypto funds reporting [monthly performance](#) and have received dozens of updates from affected funds in the last several days. As a result, we are now able to begin to assess the potential damage.

**Below are some of our takeaways from the direct communications we've received since the FTX collapse began, our crypto fund survey addressing FTX fallout, and from public sources.**

- We estimate 25-40% of crypto hedge funds have some direct exposure to FTX exchanges or FTT token.
- We believe the overwhelming majority of crypto fund of funds (FoF) have some direct exposure via one or more of their portfolio companies.
- Amongst funds with at least some direct exposure, we estimate the mean exposure to be around 15-25% of AUM. Some funds had only very modest exposure while others kept a majority of assets on the exchange.
- We believe total exposure of crypto funds (not including generalist VCs like Sequoia) is \$1.5 - \$2 billion.
- The fallout will extend even to funds not directly exposed, due to spillover effects in Solana and the cryptocurrency markets more generally. However, very few crypto funds (8%) report direct exposure to Genesis, BlockFi or related FTX counterparties.
- We expect a significant portion of the affected funds to enforce gate provisions or otherwise limit/suspend redemptions temporarily.
- We anticipate a record amount of investor redemption requests from crypto hedge funds in November. These redemptions could amount to as much as \$2 billion ([previous record was \\$1.3 billion in June 2022](#)). However, many of these redemptions may not actually be issued until December, or later, depending on fund terms.
- Crypto venture funds will likely face a difficult fundraising environment over the next several months as potential investors question the due diligence of even some of the most respected venture firms.

## FTX Fallout: Overview (cont.)

Crypto Fund Research estimates that 100-150 crypto funds had some direct exposure to FTX or its FTT token, or both. Though the results of our survey and other communications are anonymous, there are several high-profile crypto funds that have publicly announced their exposure including:

Fund Name	Fund Type	Estimated FTX Exposure
Paradigm	Venture Capital	\$278 million
Pantera Capital	Hybrid	\$100 million
Galaxy Digital	Hybrid	\$77 million
Galois Capital	Hedge Fund	\$40 million
CoinShares	Index Funds	\$30 million
Sino Global Capital	Venture Capital	\$ 5 million
Multicoin Capital	Hybrid	Unknown
Ikigai Asset Management	Hybrid	Unknown

Omitted from the above is Alameda Research. Alameda's exposure dwarfs that of those funds above. However, it is not included above as it isn't so much *exposed* to FTX as it is intimately part of FTX.

In addition to crypto-only funds like those above, many traditional VCs are likely to write down their investments in FTX, possibly to zero.

FTX raised around \$2 billion in various funding rounds from well-known traditional venture funds including Sequoia, Lightspeed Venture Partners, IVP, Temasek, SoftBank, Ribbit Capital, Coinbase Ventures, Insight Ventures, and Tiger Global.

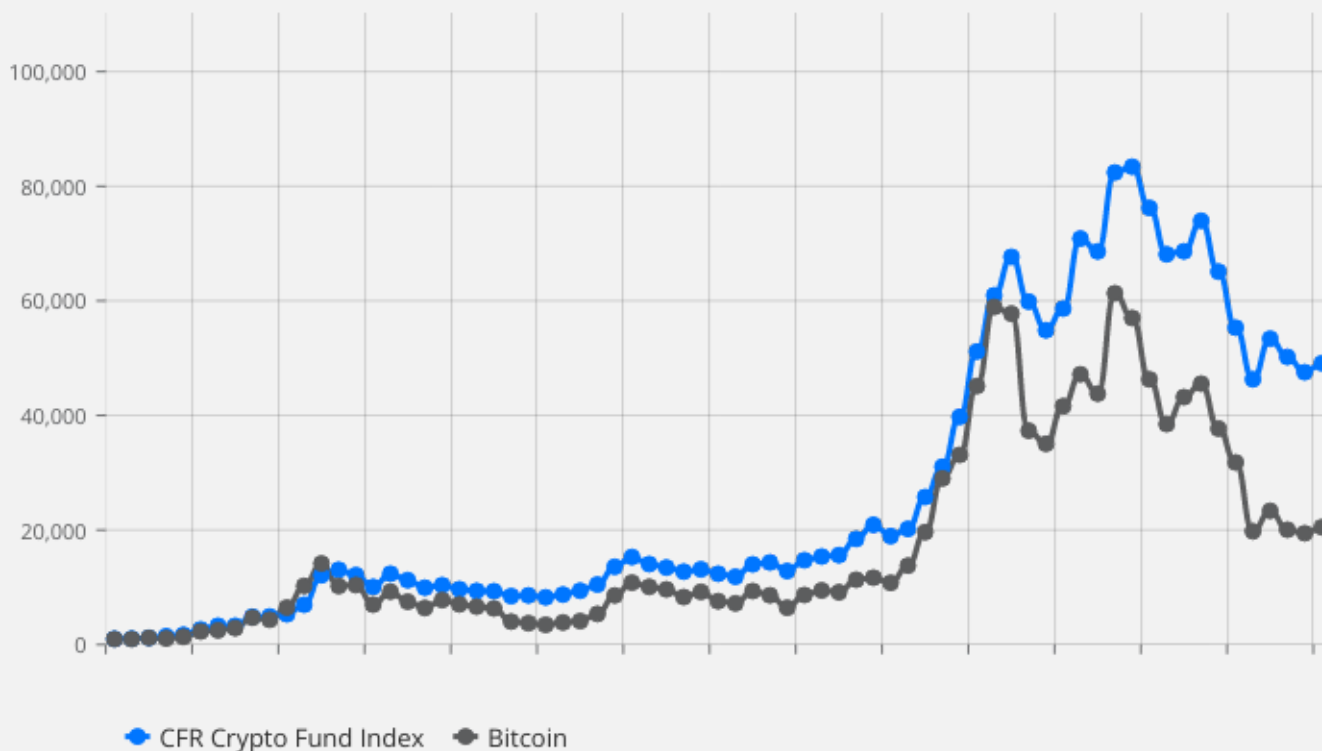
While we don't track them as part of our normal research, media reports indicate multiple pension funds and endowments may be on the hook for losses. Ontario Teacher's pension fund announced plans to write off all of its \$95 million investment in FTX.

The true scope of exposure to FTX is still not fully known. While we estimate crypto funds had exposure of \$1.5-\$2 billion, investment funds in general likely have exposure of around \$5 billion.

# FTX Fallout: Industry Metrics

Crypto Fund Research collects and publishes various industry metrics that are relevant to the collapse of FTX - either because they will likely be directly impacted by the fallout or because they give an idea of investor sentiment at the time. Several of these are included below:

**CFR Crypto Fund Index**  
Jan 1- 2017 - Oct 31, 2022



The [CFR Crypto Fund Index](#) measures the performance of a collection of over 80 crypto funds (primarily crypto hedge funds) versus Bitcoin. Crypto funds tend to significantly outperform Bitcoin during periods of falling cryptocurrency prices and slightly underperform in bull markets.

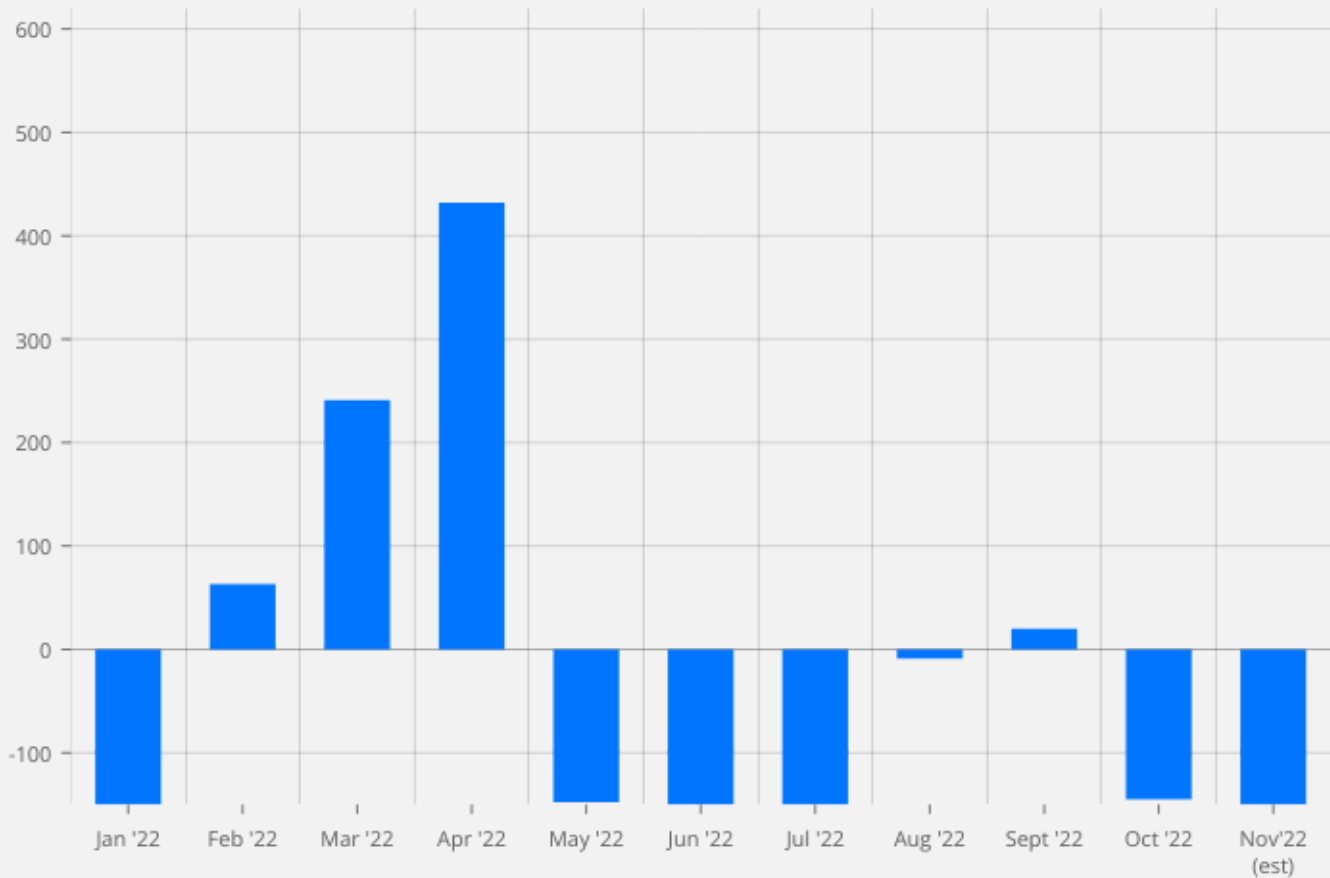
Since inception in 2017, crypto funds have outperformed Bitcoin by more than 2800% (4810% and 1950% respectively) - largely due to outperformance in down markets. However, due to crypto fund exposure to FTX, November may be one of the rare months in which crypto funds underperform relative to Bitcoin in a falling market.

## FTX Fallout: Industry Metrics (cont.)

Crypto Fund Research estimates [total inflows and outflows from crypto hedge funds](#). Unlike measurements of assets under management (AUM) which account for fund performance as well as investor flows, it is also useful to track investor flows into and out of crypto funds.

Cumulative net investor flows have been negative so far in 2022, largely due to large redemptions in June. We anticipate large investor redemptions, of as much as \$2 billion, as a result of FTX. However, these outflows will likely come over a few months beginning with an estimated \$600 million in November.

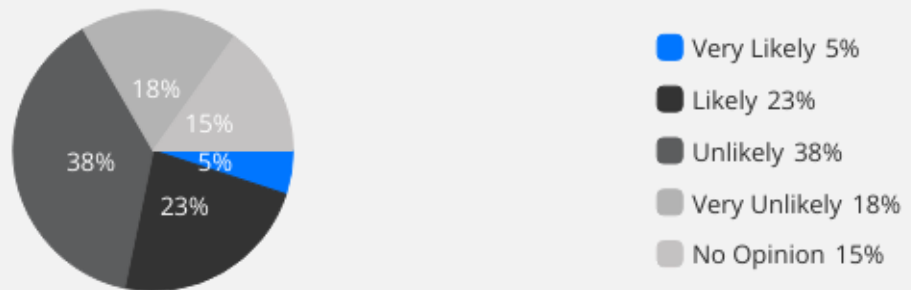
**Net Investor Flows To/From Crypto Funds**  
Millions USD



# FTX Fallout: Industry Metrics (cont.)

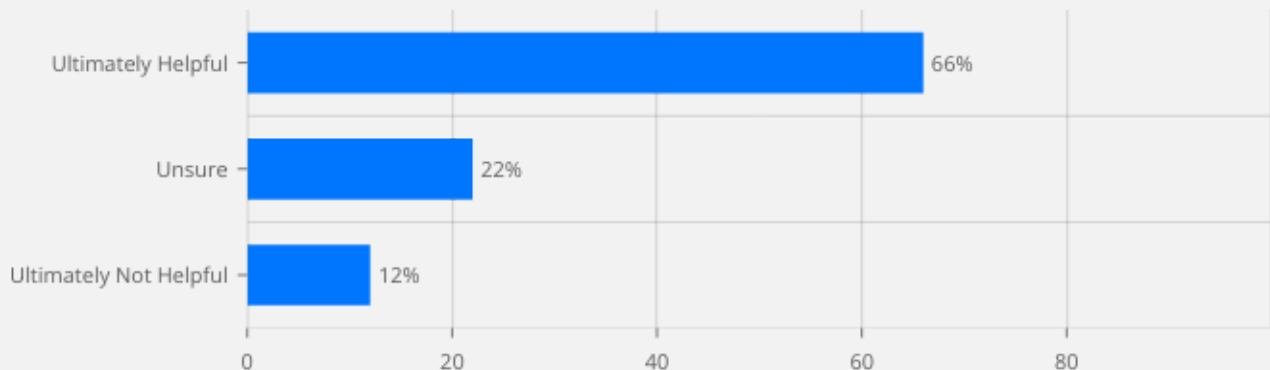
Crypto Fund Research conducts an annual survey of crypto funds. The [2022 Crypto Fund Survey](#) had several questions that gauged fund managers' expectation for the space prior to the collapse of FTX. It's likely some of the more optimistic expectations have been moderated since.

**Crypto Fund Expectations for Bitcoin to Surpass \$65,000 in Next 12 Months**  
All Fund Types



Over a quarter of crypto fund managers expected Bitcoin to surpass its all-time-high of around \$65,000 by the middle of 2023.

**Would greater regulation ultimately be helpful to increasing investor confidence in the spa**  
All Fund Types



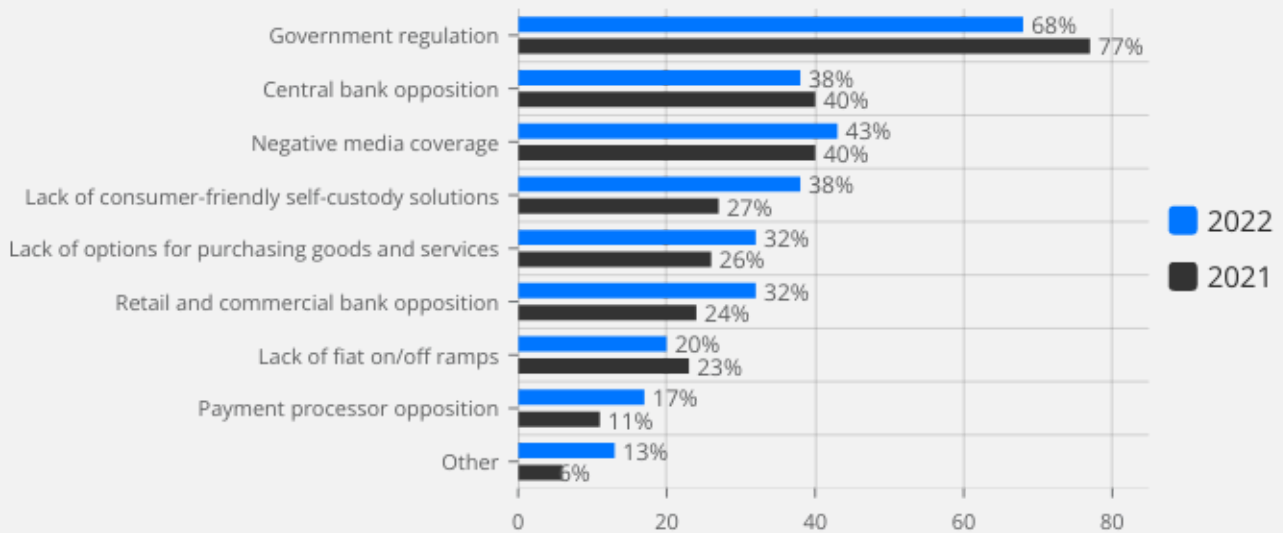
Nearly two thirds of crypto funds believed regulation would ultimately help increase investor confidence in the space.



# FTX Fallout: Industry Metrics (cont.)

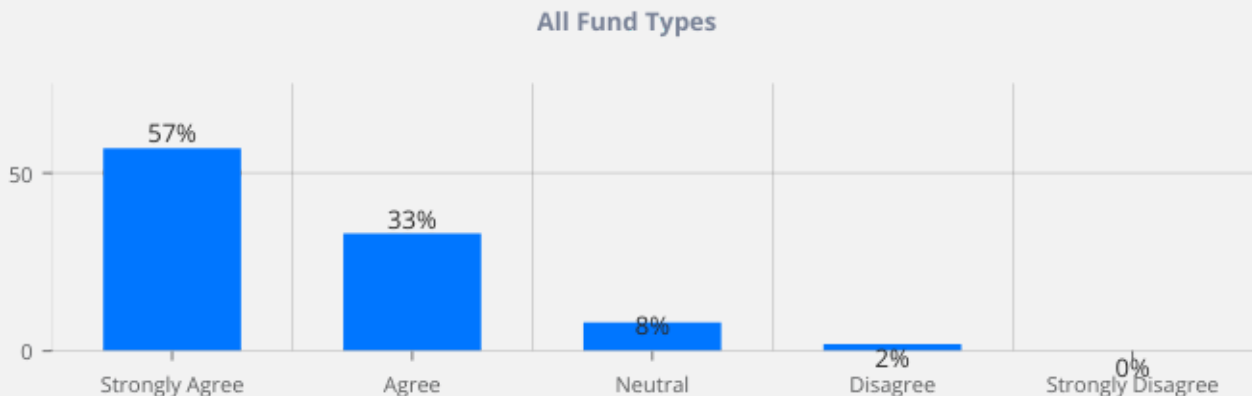
Though almost two thirds of crypto funds view regulations as important to increasing investor confidence in the space, a similar percentage also view government regulation as a top obstacle to widespread crypto adoption. While this seems counterintuitive, it is likely that crypto funds recognize the importance of certain investor protections while maintaining concerns about an overly burdensome regulatory environment.

**Crypto Fund Views of Top Obstacles to Widespread Crypto Adoption**  
All Fund Types



At the time of the survey, nearly 90% of crypto funds expected the majority of foundations and endowments to include cryptocurrency in their portfolios by 2027

## By 2027, the Majority of Foundations and Endowments will have Cryptocurrency in their Portfolios



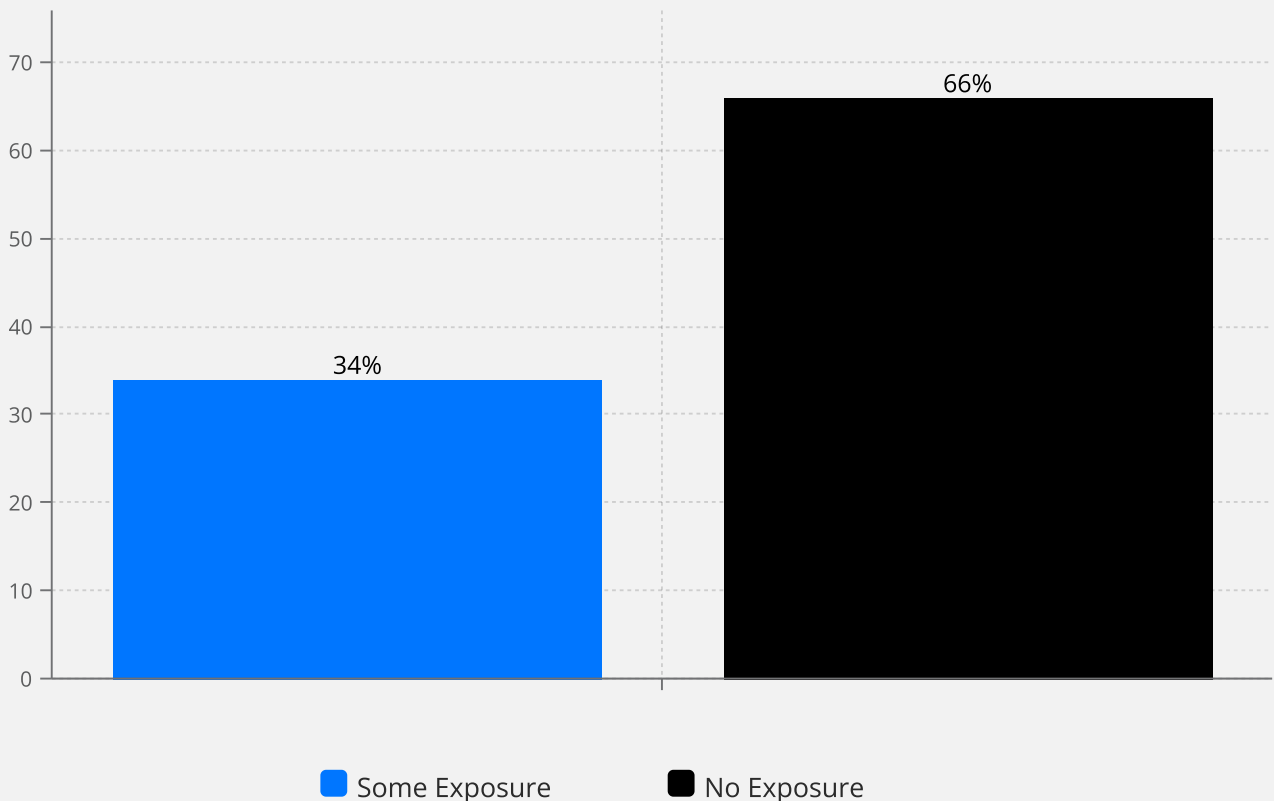
# FTX Fallout: Survey

The main portion of the [2022 Crypto Fund Survey](#), including the survey questions featured in the prior section, was conducted between August 24 and September 15, 2022. However, as the survey was being prepared for publishing, the collapse of FTX and subsequent bankruptcy sent ripples through the crypto fund industry. In light of this development, between November 20th and November 28th, Crypto Fund Research polled over 40 crypto funds to get a better sense of crypto funds' exposure and the potential ramifications on the industry. The results are below:

## Survey Question 1

Did your fund(s) have any assets on the FTX exchange or custodied by FTX or its subsidiaries at the time news broke of the FTX bankruptcy?

**Proportion of Crypto Funds with Direct Exposure to FTX**  
All Fund Types

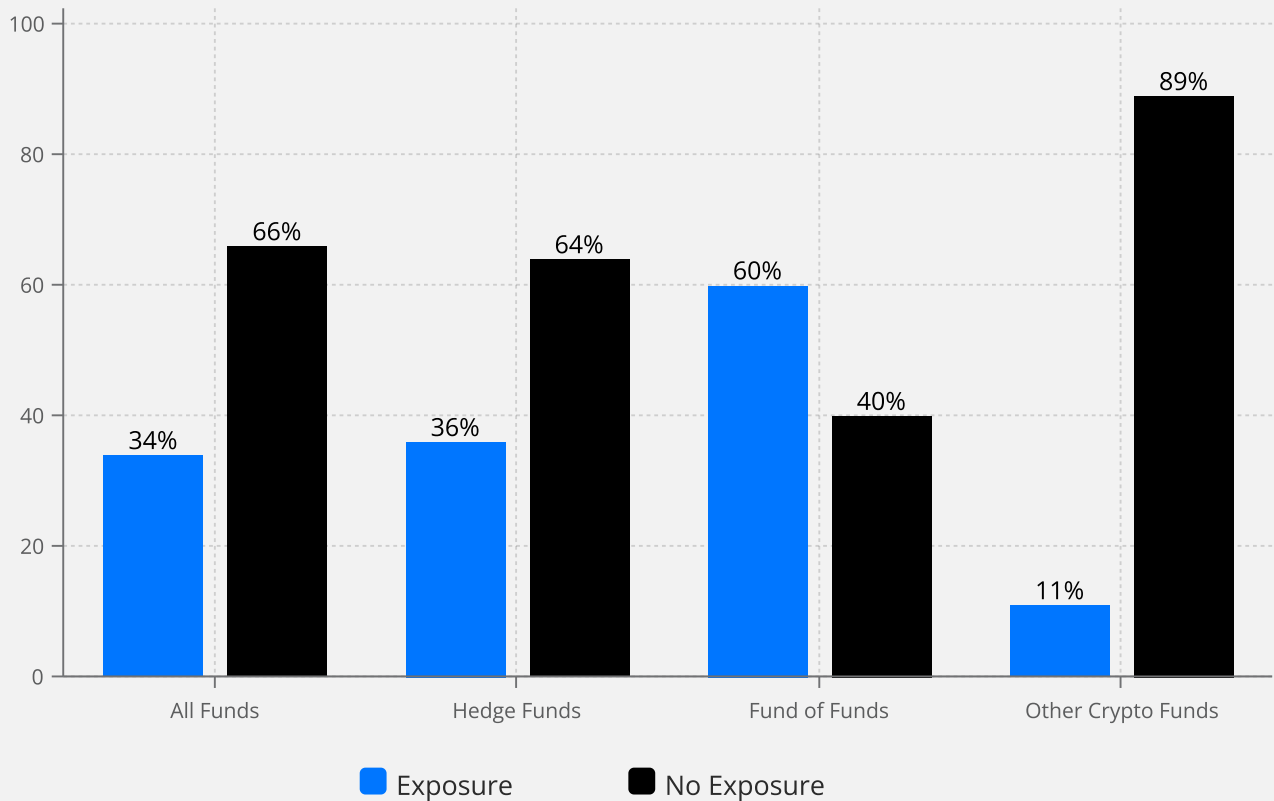


# FTX Fallout: Survey

## Survey Question 2

Did your fund(s) have any assets on the FTX exchange or custodied by FTX or its subsidiaries at the time news broke of the FTX bankruptcy?

**Proportion of Crypto Funds with Direct Exposure to FTX  
By Fund Type**



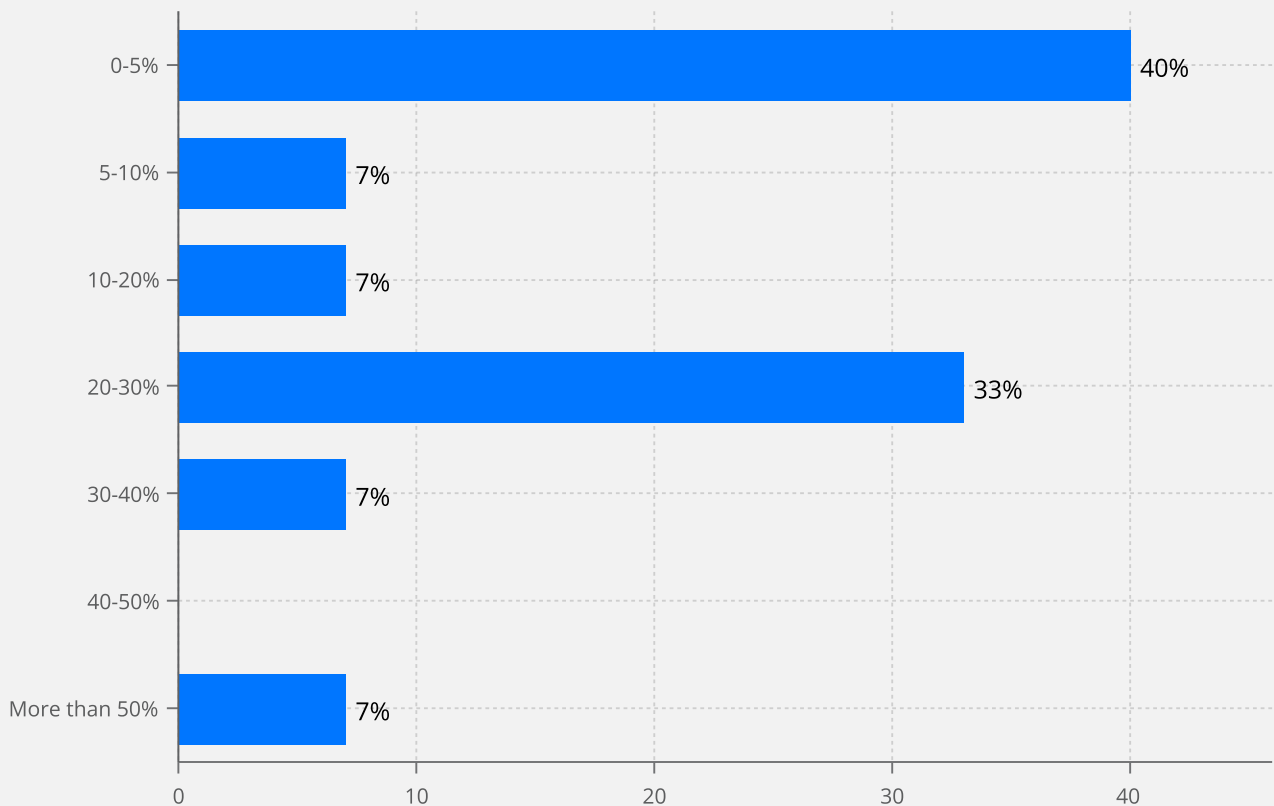
Just over one third of all crypto funds responding had some direct exposure to FTX - typically, assets frozen on the exchange(s). Crypto fund of funds, due to their multi-manager approach, were more likely to have exposure than single manager funds. Other managers, which include index funds, venture funds, hybrid funds, and separately managed accounts (SMAs), were least likely to have had exposure to FTX.

# FTX Fallout: Survey

## Survey Question 3

If your fund had direct exposure to FTX, what percentage of assets were exposed.

**Percentage of Assets (AUM) Exposed to FTX Among Funds Reporting Some Exposure**  
**All Fund Types**



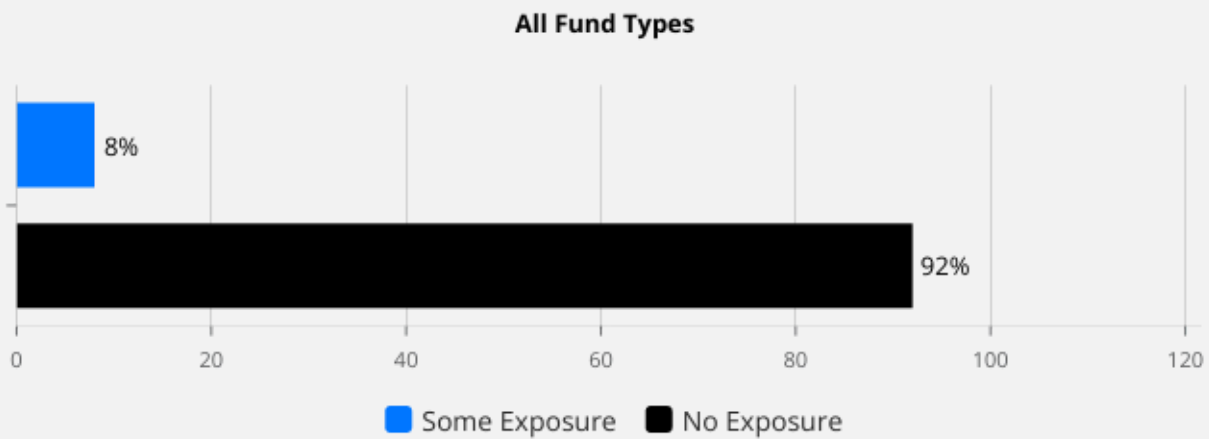
Among funds with some exposure to FTX, just under half had less than 10% of total AUM at risk. However, a similar proportion had more than 20% of assets stuck on FTX exchange or otherwise exposed. Though not shown, 75% of fund of funds (FoF) who were exposed via their sub-managers had less than 5% of total fund assets at risk. Despite fund of funds being the most likely to have at least some exposure, they actually had less overall exposure in terms of AUM than single-manager funds.

# FTX Fallout: Survey

## Survey Question 4

Was your fund indirectly exposed to FTX via FTT, BlockFi, Genesis, or another FTX related product or counterparty?

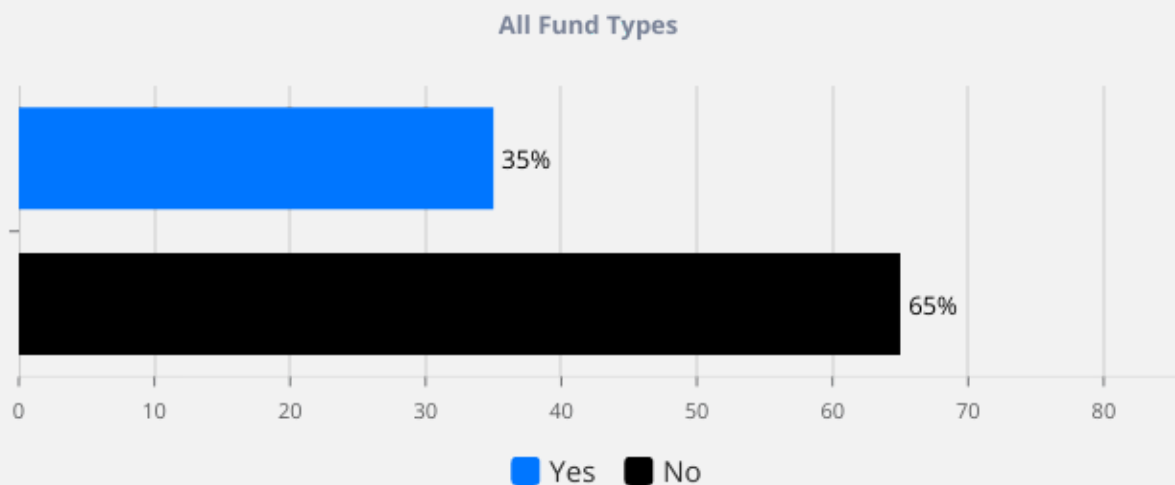
**Percentage of Crypto Funds with Indirect Exposure to FTX via BlockFi, Genesis, or Related Counterparties**



## Survey Question 5

Has your fund updated, or does it intend to update, its risk protocols as a direct result of the FTX collapse?

**Percentage of Crypto Funds Updating Risk Protocols Due to FTX Collapse**

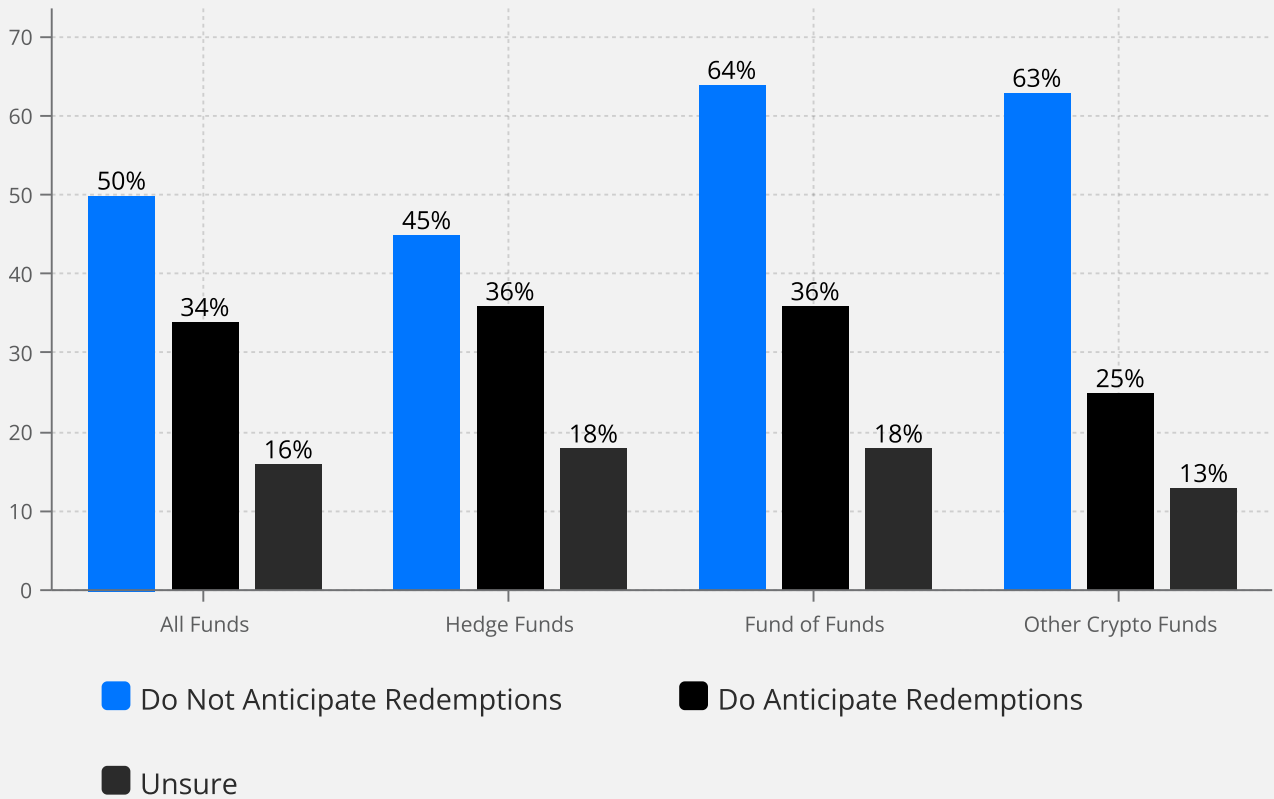


# FTX Fallout: Survey

## Survey Question 6

Regardless of any specific exposure of your funds, do you anticipate investor redemptions as a result of decreased investor confidence in the sector?

**Crypto Fund Redemption Expectations as Result of FTX Collapse**  
By Fund Type



Crypto Fund Research predicts a record amount of investor redemption requests in November (redemptions may be processed later according to individual fund policies). However, half of all crypto funds do not anticipate their investors will seek redemptions based on the FTX collapse and related fallout.

# 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, and managed accounts. Crypto Fund Research provides a variety of free research and market intelligence reports, maintains the [CFR Crypto Fund Index](#), and provides the largest and most comprehensive [database of crypto fund performance](#).

Additional [crypto fund research reports](#) are available.

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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