

Dear Investors,

We have recently reached the three year milestone of a tumultuous but successful journey, creating a global leader with our yield generating Digital Opportunities unit class. Since launching Digital Asset Fund (DAF) in May 2021 we have returned over 90% net of fees with all but one month being positive. We take this opportunity to reflect on the journey so far and where DAF is headed in the near future.

### 2021 - The Beginning

Being a fund that takes advantage of digital asset yields, the launch of our Digital Opportunities class could not have been more opportunistically timed. May 2021 saw highs in yields that until today have not been surpassed, reaching over 40% annualised. Yet there was also significant volatility in these yields (see image 1 below), dropping into negative territory for limited periods, allowing us to return 28.2% after fees in our first month. Despite the more muted yield and volatility for the remainder of 2021 the markets remained favourable. In addition we were able to secure borrowing with zero collateral and favourable borrow rates (who would have thought that could end badly for the lenders), and continued adding exchanges to our trading engine to produce exceptional returns throughout the year, ending the first calendar year with 53.7% after fees.

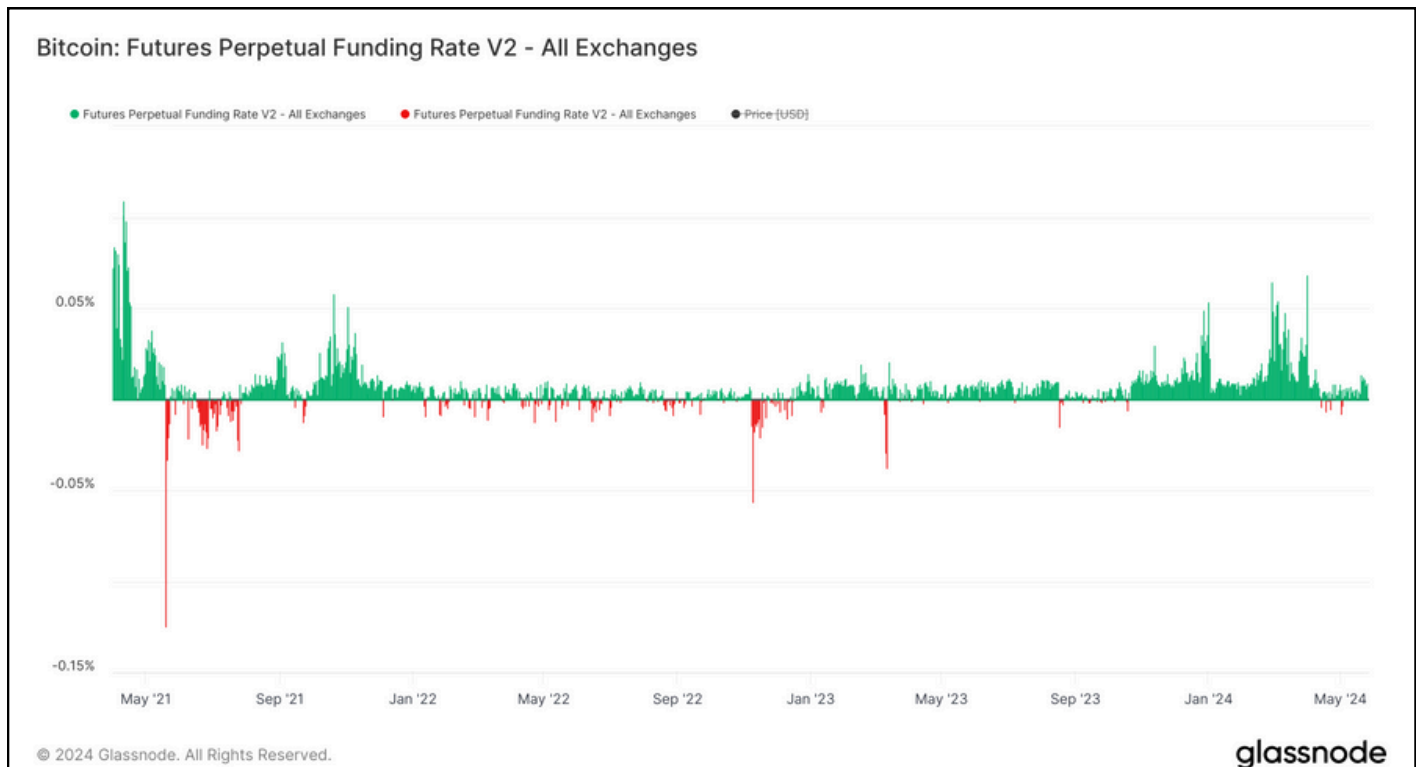


Image 1. Bitcoin perpetual funding rates May 2021 to May 2024



### **2022 - The Consolidation**

Who remembers the non-fungible token (NFT) craze, with Bored Apes cartoon monkey images trading for as high as USD\$3.4m, or Beeple's USD\$69m NFT 'Everydays' auctioned off by Christies? All good things come to an end (and misunderstood things too it seems).

2022 saw the steam come out of the digital asset markets as central banks began lifting policy rates in an attempt to rein in inflation that has become a significant issue across the globe.

As Warren Buffet once famously quipped, "Only when the tide goes out do you discover who's been swimming naked". As it turned out the digital asset sea was full of the underdressed. In a cascade of bankruptcies we saw significant players in the space found out. It began with Three Arrows Capital, followed by some of the larger lenders that had appeared in the space (Celcius, Genesis) and culminated with FTX in November 2022, though FTX was the result of fraud rather than poor business decisions.

Reflecting now on the FTX bankruptcy it has subsequently proved to be a seminal moment in the maturation of the industry. Counterparty credit risk, that had previously been largely ignored, is now front of mind for all market participants. Exchanges now publish proof of assets, with the more opaque venues losing market share to the point of irrelevance. The industry is now well on the way to having a standard method for off-exchange custody of assets, which ameliorates the most obvious source of risk for the DAF strategy, being counterparty risk. DAF, for its part, is more responsive than ever in reacting to exchange rumours and equity outflows.

Digital Opportunities fund returns stagnated during 2022 with a market environment not overly conducive to the strategy. As can be seen in image 1 the yields were low to non-existent other than a brief flurry following the FTX collapse in November which coincided with a short period of profitable opportunities.

### **2023 - Confidence Returns**

Sam Bankman-Fried (AKA Sam Bankrun-Fraud AKA SBF) was found guilty and subsequently sentenced to 25 years behind bars. Binance and its CEO (CZ) plead guilty to violations of the Bank Secrecy Act and paid \$4.3b and \$50m respectively, with CZ sentenced to four months prison time. Binance, Coinbase and Kraken are charged by the SEC for operating an unregistered securities exchange. In summary, there is now greater confidence in those exchanges that have survived and paid their dues.

Greed begins to return to the markets as seen in image 2, coinciding with an increase in yields as seen in image 1. Despite BTC volatility reaching all time lows in 2023, Digital Opportunities still manages to print 8.2% net of fees.

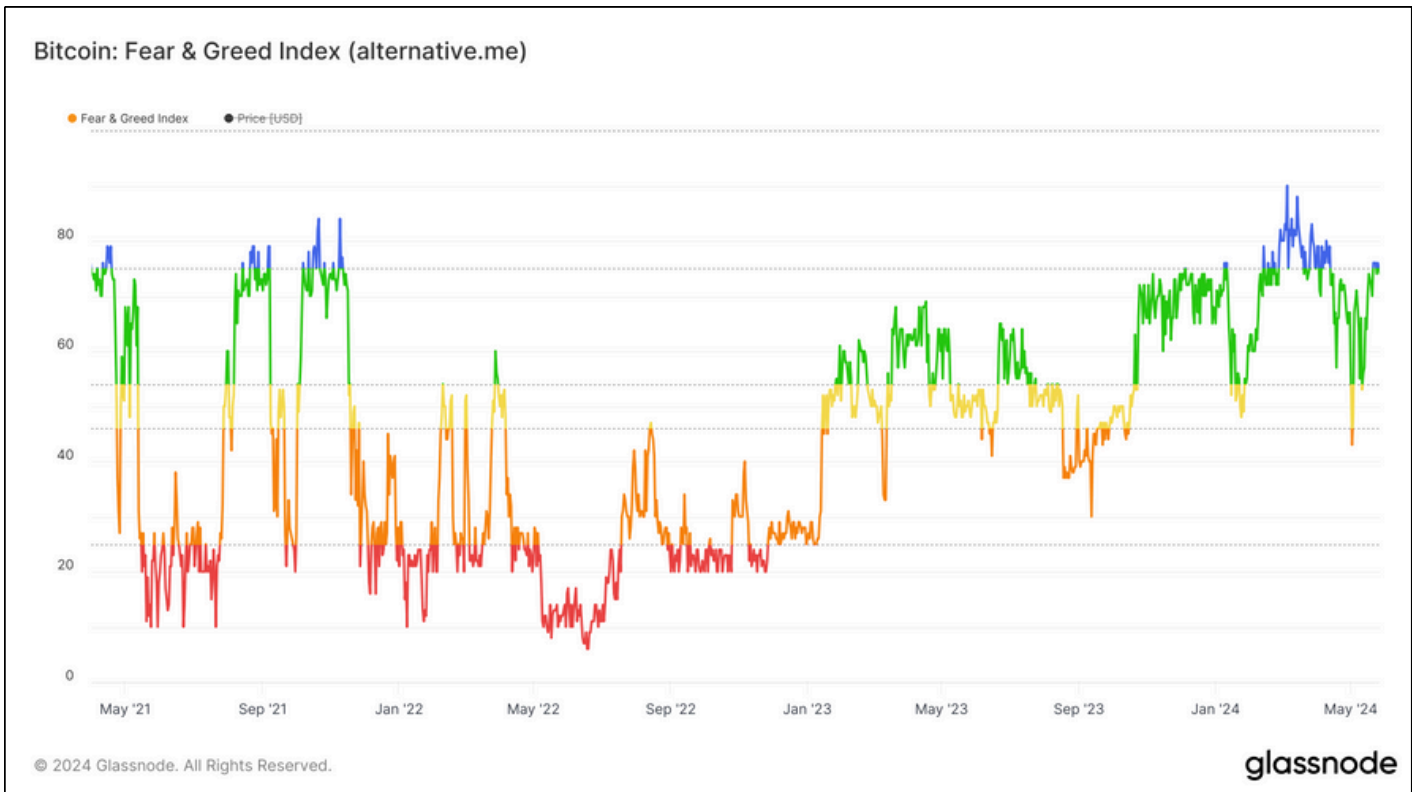


Image 2. Bitcoin Fear and Greed Index

### 2024 - ETFs Have Arrived

The year started with a bang, with the approval of Bitcoin ETFs after a long multi-year wait. Remarkably, inflows into the new ETFs were of such magnitude that within months the size of Bitcoin ETFs was half that of gold ETFs, which launched some 21 years earlier. This contributed to Bitcoin reaching an all time high in March of over \$73,000, a huge recovery from the \$16,000 lows of November 2022.

The greed index, yields and volatility all spiked providing our fund fertile conditions, with an environment not unlike the heady days of May 2021. Coincidentally our returns also confirmed this, returning 15.3% in the four months to the end of April.



Image 3. Digital Opportunities unit class returns



### The Future

Three years of track record has borne out the fact that the return profile is most akin to a fixed income portfolio, with returns correlated to absolute yield levels of the digital asset markets and volatility of said yield. In periods of heightened volatility it can and has generated outsize returns, typically 2.5 times the observable digital asset market yield.

DAF is in a sweet spot with favourable market conditions as we head into a period where some of the headwinds of recent years turn into tailwinds. We trade on more venues and across more instruments than ever, and will be adding to those in the coming months, with a risk control framework that is best in class.

We thank you for your continued support and hope to be able to provide you exceptional returns on your investment into the future.

If there are any questions or comments please reach out and let us know. We extend an open invitation to investors to visit the Sydney office and meet the team. Should this be of interest to you please contact [info@dafm.io](mailto:info@dafm.io) to schedule a time. Applications can be made electronically [here](#).

Kind regards,

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**Clint, Mike and the DAFM team**



**Things you should know:**

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