



Small Managers - BIG ALPHA - Report 23



Quantitative crypto hedge fund makes itself comfortable in volatile environment

B. G., Opalesque Geneva for [New Managers](#):

A Seattle-based hedge fund is capturing alpha in the volatile environment of digital assets by operating a systematic investment approach and taking long and short directional positions in the cryptocurrency

markets.

“Blockchain technology has given birth to a new world of investable assets,” says Nico Cordeiro, CIO of [Strix Leviathan](#). “This dynamic and emerging asset class presents investors with unique opportunities and challenges. Capturing alpha in this inefficient and immature asset class requires sophisticated technology and active management by an experienced team. Founded in early 2018, Strix Leviathan has years of experience under its belt.”

Nico Cordeiro previously led digital asset research within the alternative investments research group at PitchBook. He is also a veteran. He will be speaking at [the Small Managers - BIG ALPHA, Episode 5](#) webinar on November 30th.

The managers run a diversified portfolio of digital assets and trading strategies, apply a dynamic allocation with the ability to shift capital from long to shorts when the market changes direction, and safeguard assets through operational best practice.

As trading opportunities are abundant in the inefficient and immature digital asset class, they apply the scientific method with quantitative tools in order to identify persistent behaviours, analyse and test behaviours, develop logic to capture behaviours, and test logic across large sample sizes.

The trading strategy is directional with both long and short positions best placed to extract alpha from the massive volatility. The assets that are traded include currencies, [DeFi](#), [smart contract](#) platforms, and [decentralised apps](#).

The Nest Fund I, LLC, a Delaware-domiciled fund that started out in May 2018, has outperformed the markets after a first negative year. ITD (inception-to-date return) is 321% to end-October, according to documentation seen by Opalesque. It is up 112% YTD after returning 127% in 2020.

Crypto hedge funds have had a good year to September, averaging 145% [according to](#) the Financial Times. PWC [estimates](#) that the total AuM of crypto hedge funds globally increased to nearly US\$3.8bn in 2020 from US\$2bn the previous year. The median crypto hedge fund returned +128% in 2020 (vs +30% in 2019).

The fund uses Octopus, a proprietary software platform for end-to-end fund management which was three years in the making. Octopus is used to execute and operate the live portfolio as well as back-testing during the strategy development process. “Ensuring we use the same code path for strategy

development and live execution is a key aspect of our technology,” says the firm.

Bitcoin news

“Like clockwork, the market turned bullish to kick-off Q4 as BTC (bitcoin) shot up 26% in the first week of the month, eventually setting a new all-time-high of ~\$67k,” said a Strix Leviathan market commentary for October.

“After years of waiting, the industry finally received approval for a Bitcoin ETF, albeit one that provides exposure via futures contracts rather than ‘physical’. The debut of these two vehicles (BITO and BTF) was rather stunning as volumes exceeded \$1bn within the first few days of trading. It’s clear that these vehicles provide easy access for brokerage accounts but their long-term impact on the trading behaviour remains to be seen. The asset class continues to evolve and provide new access points and onramps to a legion of speculators. We expect that prices will continue to follow the volatile whims of reactionary investors simply chasing outsized returns and the perceived potential of this nascent asset class.”

The Financial Times [reported](#) on Friday that the SEC had rejected an attempt by VanEck, a large fund manager, to list a bitcoin-based ETF on Wall Street, citing worries over the potential that fraud in the crypto market will reach regulated exchanges. Canada and several European countries have approved spot cryptocurrency ETFs, and VanEck is expected to launch the first such product in Australia soon. Speculation that the ETF might be approved helped push bitcoin to a fresh high of \$68,676 on Wednesday. It was estimated at \$65,500 on November 15th.

Billionaire Ken Griffin, founder of Chicago-based hedge fund Citadel, has recently [warned](#) bitcoin would eventually be replaced by Ethereum - but that Ethereum will, in turn, be replaced by the next generation of cryptocurrencies. “The early generation cryptocurrencies, bitcoin, for example, are incredibly expensive to manage payments on. Bitcoin is a huge contributor to global warming, bigger than any form of payments we use around the world in aggregate,” he told The New York Times. Griffin sees payments disruption as “the most attractive theory” for giving cryptocurrencies value.

Bitcoin [had](#) a new upgrade on Sunday called Taproot. The upgrade will better enable bitcoin to execute smart contracts on the blockchain.

[Next webinar:](#)

Small Managers - BIG ALPHA Episode 5

When: Tuesday, November 30th 10:30 am ET

Free registration: www.opalesque.com/webinar/

With larger quantities of capital chasing the same Alpha strategies and continuing to erode Alpha, savvy investors are turning to smaller and/or emerging managers as they look for alternative sources of return.

We are proud to present Episode 5 of this groundbreaking webinar series with the following carefully screened panel of investment managers:

- Wayne Ferbert, Alpha DNA Investment
- Dennis Jean-Jacques, Ocean Park Investments LP
- Nico Cordeiro, Strix Leviathan
- Michael Azlen, Carbon Cap Management LLP