

- HEDGE FUNDS

Hedge funds pile into crypto trading as volatility surge lures new players

Huge returns from the recent surge in volatility have lured hedge funds to pile into crypto. It's a risky bet

By Tom Teodorczuk **May 12, 2020 4:20 pm GMT**

It's been a rollercoaster few years for crypto investors. Yet hedge funds see the return of riskier, rockier markets as a prime opportunity to pile in.

Even before yesterday's Bitcoin "[halving](#)," an event designed to keep inflation of the 11-year old cryptocurrency in check, hedge fund managers had begun taking cryptocurrencies more seriously, Stuart MacDonald, managing partner at corporate financiers Bride Valley Partners, told *Financial News*.

"Until last year I was highly sceptical of most things associated with Blockchain ,which I understood to be nothing more than a database, and sceptical of crypto which seemed to be a space occupied by whales and teenagers," he said. "I'm not alone now in recognising its revolutionary potential ... the short to medium term investment opportunities are tremendous." He added cryptocurrencies offer "a great investment opportunity that has not yet been recognised".

The sky-high returns resulting from the pandemic-fuelled turmoil across almost every asset class over the past few months has lured hedge funds into making volatile digital bets. Among them is macro hedge fund manager Paul Tudor Jones, who told [CNBC](#) last week that almost 2% of his assets were in Bitcoin. And Renaissance Technologies, the \$75bn quantitative hedge fund, said it was considering investing in Bitcoin futures.

Some have proved cryptocurrency trading can be a winning strategy. Altana Digital Currency fund, the London-based crypto arm of Australian hedge fund manager Lee Robinson's Altana Investments, was up 1,500% in 2017 and is up 14% in 2020, according to a source familiar with the situation.

But scores of funds have been obliterated by wrong-way trades. Data provider CryptoFundResearch recorded 101 crypto hedge fund closures on record in 2019, the most on record. The firm found nine out of the 55 crypto hedge funds founded in the UK closed in 2019-20.

"More leading systematic and macro traders are treating crypto as a new tradable asset class because that's where the liquidity is right now," Oliver Fochler, chief executive of hedge fund adviser Stone Mountain Capital, told *Financial News*. "The increased volatility we have seen has boosted the crypto sector, both in terms of new crypto fund launches and new players coming into the market."

Smaller players want in, too. YRD Capital – a digital asset quantitative fund that has returned more than 20% since its 2017 debut – last week said that it was primarily focused on UK and European markets, with co-founder Yuval Reisman re-locating to London. Parataxis Capital, a crypto hedge fund set up by former Credit Suisse banker Edward Chin and Thaijas Naval who spent nearly a decade as a macro trader at Goldman Sachs, will begin trading in New York this summer.

Fintech company Aaro Capital, formed in 2018, last week launched the Aaro DLT Multifund, a fund of funds seeking to profit from cryptoassets and Blockchain-related technologies.

"There was an over-expectation in the early days," Aaro Capital partner Johannes Gugl told *Financial News*. "The cryptocurrency base is [now] much more strengthened, and more banks and fund managers are now going into the space. A lot of crypto companies have to prove themselves that they can help force the increase in demand of digitalisation."

Gugl said there will be a thought leadership component to Aaro's crypto hedge fund, comprising research papers and webinars to supply a "source for education about the value add of the distributed ledger technology and crypto assets. We recognise that people are still not educated enough about the cryptocurrency and blockchain space."

The crypto scene evokes the industry's glory days, he said: "When I'm talking with hedge fund managers, they often feel like the crypto space is what the hedge fund industry was 20 years ago, with high returns and a lot of opportunities which don't exist in the traditional hedge fund space anymore."

The [2020 Crypto Hedge Fund Report](#), authored by PwC and Elwood Asset Management — the company which manages the crypto-currency assets of hedge fund billionaire Alan Howard — estimated earlier this week that the total global assets under management of crypto hedge funds had increased to over \$2bn in 2019 from \$1bn in 2018.

The report also found that the average years of investment management experience at a crypto hedge fund had more than doubled to 50 in 2019 (from 24 in 2018). "This suggests that an increasing number of experienced investment professionals are entering the crypto space," the report said.

"Crypto is beginning to trade independently of other assets," wrote Dan Morehead, CEO of Pantera Capital, America's first Bitcoin hedge fund, in an April 2020 investor note reviewed by *Financial News*. "Crypto is up while most asset classes are down ... would you rather have your savings in the Lehman Brothers of 2020 – or a token you control?"

But some remain sceptical. Timothy Maxwell, founder of research firm CryptoCritic, said: "The current investor enthusiasm and high levels of market volatility does not mean that the cryptocurrency hedge funds which have recently launched will be any more successful than the crypto funds that went bust before them."

To contact the author of this story with feedback or news, email [Tom Teodorczuk](mailto:Tom.Teodorczuk)