

Bitcoin

'Crypto' hedge funds spring up in crowded field

Managers lured by soaring value of bitcoin and other cryptocurrencies



Bitcoin's staggeringly rapid rise in value has attracted the attention of hedge funds and other players that have made it one of the world's most crowded trades © FT montage / Bloomberg

YESTERDAY by Chloe Cornish, Lindsay Fortado, Richard Waters and Robin Wigglesworth

Ari Lewis was a high school student in Long Island, New York, when he bought his first bitcoin in 2012. It cost less than \$10, he recalls.

This May, as the price of a single bitcoin climbed towards \$2,000, Mr Lewis graduated from Ohio's Case Western Reserve University with a business management degree and a new job: co-founder of a small cryptocurrency investment fund called Grasshopper Capital. Eight wealthy people invested a total of \$2.2m, lured by the soaring value of bitcoin and other cryptocurrencies.

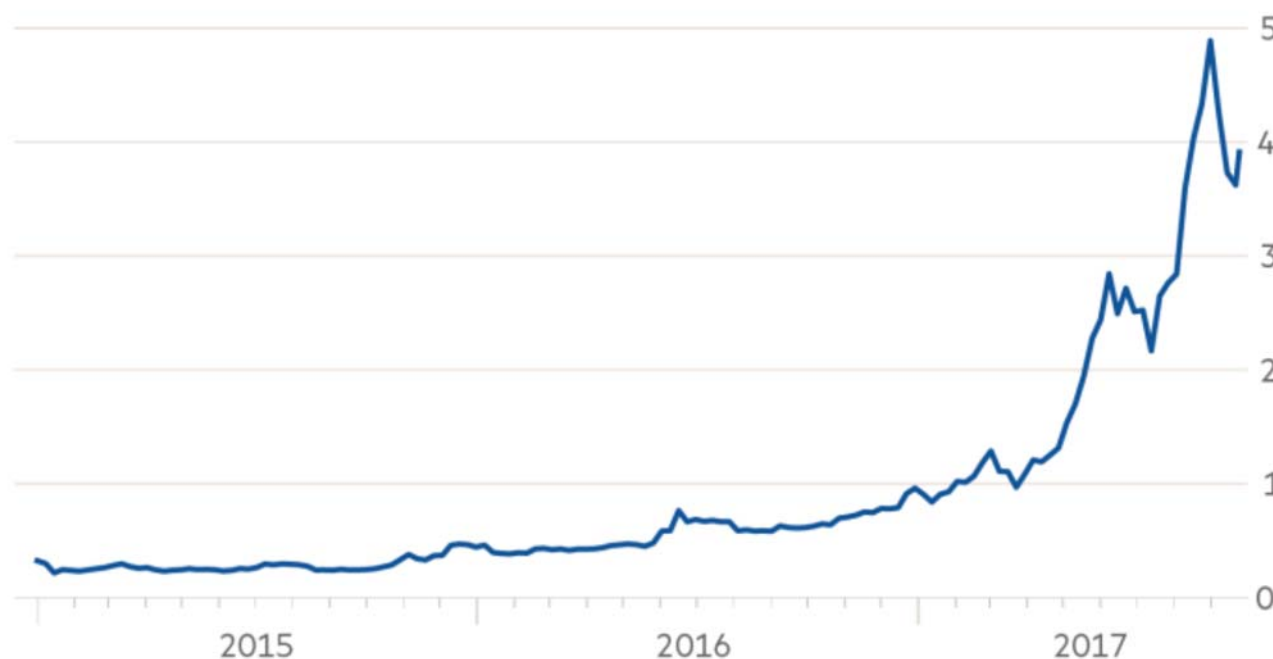
Earlier this month, Mr Lewis was claiming a 90 per cent return between August and the start of September because of extreme short-term volatility. Since then [bitcoin](#) has dropped 15 per cent. He said he could not discuss his current returns but reiterated: "We are long-term investors."

According to Mr Lewis, there was not much competition six months ago. “Now . . . it seems like everyone and their mother are starting a fund.”

Many of the new cryptocurrency funds that have sprung up call themselves hedge funds, but few have the infrastructure or level of experience to qualify as such, neither have they attracted many sophisticated institutional investors or shown signs they are doing much to hedge their long positions.

Rise of bitcoin

\$'000 per unit



Source: Bloomberg

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UK research outfit Autonomous NEXT has counted 68 crypto hedge funds. Their strategies range from investing in “initial coin offerings” — which raise money by selling investors digital tokens in exchange for cryptocurrencies — to holding bitcoin and other cryptocurrencies, such as Ethereum and Litecoin.

According to a quarter of the 200 global fund managers surveyed by Bank of America Merrill Lynch recently, bitcoin is also the world’s most crowded trade, leaving many vulnerable to a switch in the market.

We're trying to strip away all of the speculative value. I love crashes. That's great for me

ZACH HAMILTON, AN EARLY INVESTOR IN CRYPTOCURRENCY RIPPLE

investor in cryptocurrency Ripple. Mr Hamilton opened a long-only hedge fund, General Crypto, to outside money in early 2017. He declined to disclose assets under management, but said the fund was targeting \$25m.

Mr Hamilton said he and his California-based partner invest based on the companies behind the cryptocurrencies. "We're trying to strip away all of the speculative value," he said. "I love crashes. That's great for me."

Some funds report returns that any hedge fund manager would dream of. Altana Capital's Digital Currency Fund was up about 413 per cent this year to the end of August.

In comparison, hedge funds of all strategies have returned about 5.5 per cent in the year to the end of August, according to the data provider eVestment.

At the same time, some regulators now have their eye on whether the spiralling value of cryptocurrencies is entering bubble territory. There is also the question of whether swings in these volatile markets leave poorly hedged funds at risk.

Vitor Constâncio, vice-president of the European Central Bank, last Friday called bitcoin "an instrument of speculation" and said its sharp rise in value was [akin to the 17th-century tulip craze](#).

Yet despite the uncertainty, new fund managers have piled in.

"I feel like we're in those Wells Fargo wagons travelling west," said Zach Hamilton, an early



Olaf Carlson-Wee's Polychain Capital is one of the leading proponents of cryptocurrency potential, with a \$250m hedge fund © Bloomberg

China has already banned ICOs and its biggest bitcoin exchanges are closing. UK regulators have raised a warning flag and earlier this month Jamie Dimon, chief executive of JPMorgan Chase, [called bitcoin “a fraud”](#).

A few cryptocurrency funds have been backed by institutional investors, lending some credibility to the sector. Polychain Capital, which invests in cryptocurrencies and ICOs, has a \$250m hedge fund, according to founder and chief executive Olaf Carlson-Wee. Some of Silicon Valley's best known venture capitalists, including Andreessen Horowitz and Sequoia, have invested.

Other Silicon Valley names include Meta Stable, a hedge fund originally opened in 2014 and worth \$60m in gross assets, according to regulatory filings. It was co-founded by Naval Ravikant, chief executive of start-up website AngelList.

Pantera Capital, an institutional bitcoin investor, set out to raise \$100m for an ICO hedge fund earlier this year.

Some of the smaller funds that have emerged cater to family offices and wealthy individuals, and are geographically diverse. Solidus Capital, a crypto hedge fund that holds funds offshore and currently has its headquarters in Mexico City, opened to family offices and high net-worth individuals from the Latin America region in May. It holds six types of cryptocurrency with

third-party custodians, but also does some limited margin trading during major macroeconomic events, and plans to offer a vehicle for ICO investment.

Carlos Mosquera Benatuil, a Solidus general partner originally from Venezuela, declined to disclose assets under management, but did say that the passive strategy offered to outside investors had returned some 25 per cent to date.

The founders of BitSpread, a London-based fund with offices in Singapore and San Francisco that runs a market-neutral, arbitrage strategy in bitcoin, began trading their own money in 2014. It returned about 200 per cent over three years, according to chief executive Cedric Jeanson.

Since opening to outside capital on May 9 this year, BitSpread manages about \$20m and is up 27 per cent to the end of August, it said. The fund intends to expand from 15 to 25 staff by December, according to Mr Jeanson.

But some of the biggest names in hedge funds remain unconvinced, from [Ray Dalio](#), founder of the world's biggest hedge fund Bridgewater, to legendary hedge fund manager [Julian Robertson](#).

Of bitcoin, Mr Robertson said: "I've never understood it and I don't think I'm going to."

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