Chapter Young SECA

Vintage Year 2011

The history of Young SECA started in late autumn 2011. The intention was to found an association which is dedicated to the specific needs of young professionals working within the Private Equity, Venture Capital and Corporate Finance industry. This year, we will celebrate our 10th Anniversary together with our members to thank you for your trust and active contribution to our network.

At the same time, I want to sincerely thank my colleagues from the Young SECA Board for their inspirational work and in particular Alan Frei, who has decided to step back from the Board. It is very motivating to see the valuable contribution Young SECA was able to make to the Private Equity & Start-up Ecosystem in Switzerland within the last 10 years.

Who we are?

The steering committee of Young SECA is composed of the following people:

- Alexandre Gallopin, Romandie
- Alexander Hesseling, Romandie
- Sophie Huber, Romandie
- Fabian Kuhn, Zurich
- Christian Maurland, Romandie
- Olga Motovilova, Zurich
- Stefan Steiner, Zurich
- Admir Trnjanin, Zurich
- Cédric D. Vollmar, Zurich
- Thomas von Hohenhau, Zurich

Further information and registration opportunity on www.seca.ch/young

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The emergence of cryptocurrency hedge funds

Almost at the same time when Young SECA has been founded, Marc P. Bernegger, as one of the founding members of Young SECA has personally started exploring bitcoin. Today he is probably one of the best-known experts in this area in Switzerland. Among others he is on the Board of Crypto Finance Group, CIC St. Moritz and the Swiss Blockchain Federation as well as in the Expert Committee for Blockchain of the World Economic Forum (WEF). As an illustration of the rapid development over the last 10 years and an outlook for the future, it is a pleasure to publish the following exciting article about “The emergence of cryptocurrency hedge funds” written by Marc last year¹.

Marc’s opinion: The emergence of crypto hedge funds

I started exploring bitcoin personally first in 2012 and, still today, I am fascinated by the opportunities and future potential digital assets pose as an emerging alternative asset class.

One of the most relevant recent developments, which is often not covered, is the emergence of crypto hedge funds. Compared to the early days of crypto assets, when there were mainly private investors or traders in the space, a massive inflow of professionals entering the market has begun with the emergence of crypto hedge funds.

A majority of today’s crypto hedge funds were created less than three years ago, illustrating that this industry is still very young. In fact, looking at data from 150 of the largest global crypto hedge funds, 63% were launched in 2018 and 2019.

It is all about the performance

Based on the annual PwC–Elwood Crypto Hedge Fund Report, the most common crypto hedge fund strategy is quantitative (48% of funds), followed by discretionary long only (19%), discretionary long/short (17%), and multi-strategy (17%).

When it comes to crypto fund performance, systematic crypto funds are outperforming passive strategies (investing long only), discretionary long/short, and multi-strategies quite significantly. In 2019, the average crypto hedge fund performance by strategy was as following:

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Median</th>
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<tbody>
<tr>
<td>Quantitative</td>
<td>+58%</td>
<td>+30%</td>
</tr>
<tr>
<td>Discretionary Long / Short</td>
<td>+33%</td>
<td>+33%</td>
</tr>
<tr>
<td>Discretionary Long Only</td>
<td>+42%</td>
<td>+40%</td>
</tr>
<tr>
<td>Multi-strategy</td>
<td>+19%</td>
<td>+15%</td>
</tr>
</tbody>
</table>

Table 1: Crypto funds performance 2019
Source: PwC–Elwood Crypto Hedge Fund Report

In 2018, which was a very challenging year for digital assets, quant trading was the only strategy that generated positive returns:

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median quant fund</td>
<td>+8%</td>
</tr>
<tr>
<td>Median all funds</td>
<td>-46%</td>
</tr>
<tr>
<td>Median fundamental fund</td>
<td>-53%</td>
</tr>
<tr>
<td>Median discretionary fund</td>
<td>-63%</td>
</tr>
<tr>
<td>Bitcoin</td>
<td>-72%</td>
</tr>
</tbody>
</table>

Table 2: Crypto funds performance 2018
Source: PwC-Elwood Crypto Hedge Fund Report

These numbers suggest that systematic hedge funds are the best performing strategy for digital assets, but, in general, all crypto hedge fund strategies are able to generate sustainable alpha.

The ecosystem for crypto assets and crypto hedge funds is growing

The vast majority of investors in crypto hedge funds are either family offices or high net worth individuals. A growing number of fund of funds are investing in crypto hedge funds, causing the whole ecosystem to evolve quite quickly.

The fact that the percentage of crypto hedge funds with an AuM of over 20 million USD nearly doubled last year indicates that more funds are reaching a critical size, which enables them to sustain their strategy.

More and more talent from the traditional hedge fund world is moving into digital assets, including established hedge fund titans like Paul Tudor Jones.

Wall Street is also becoming more open to bitcoin as a new asset class and well-known Wall Street names including George Ball, former chief executive officer of Prudential Securities, suggested bitcoin or other cryptocurrencies could be “a safe haven” for investors and traders as an alternative investment.

The news that MicroStrategy, a public company, bought 250 million USD in bitcoin (60% of their treasury) in August 2020, and stating “bitcoin is digital gold – harder, stronger, faster, and smarter than any money that has preceded it” was also a big boost for established investors looking into the crypto markets.

In Cointelegraph in May 2020, I explained why bitcoin is an ideal inflationary hedge and institutional investors are increasingly looking at this emerging asset class from a hedging perspective. It is obvious that investments in crypto hedge funds will be a big part of these additional inflows of capital.

A massive increase in investor demand

Given the transparency among most regulated crypto hedge funds with external investors regarding the fund’s performance and assets under management, the growth in investments is becoming apparent.

Assets under management of crypto funds worldwide doubled from 2019 to 2020 (from 1 to 2 billion USD); and there are clear indications that this number will roughly triple through
the end of 2020. Compared to other alternative asset classes, these are still rather small sums, but the growth rate indicates the direction the industry is moving in.

Increases in assets allocated to crypto hedge funds and further indications that bitcoin is a digital store of value and a new hedge against inflation, shows why and how demand from investors is accelerating.

**Interesting times ahead for crypto hedge funds**

The crypto hedge fund industry is a nascent industry, and we are still in the early days of its development. Looking at the talent moving into the space and the increasing demand from investors, increasingly from institutional players, makes me quite confident about the near future.

It will be crucial for the industry to generate sustainable alpha in future and prove that active investment strategies among crypto hedge funds are superior to a passive long-only approach, such as “HODLing”. This performance was demonstrated to date by the outperformance of successful crypto fund managers.