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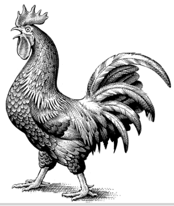
Secrets of a top crypto fund

A crypto asset fund managed in Melbourne is shooting the lights out and likely to top the Morningstar performance tables this financial year, with a return seven times better than its nearest competitor.



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When the managed fund performance numbers for the 2021 financial year are published in mid-July, it is almost certain that Apollo Capital Fund, which invests in crypto assets, will top the Morningstar league tables.

In the year to April 30, the fund was up 699.08 per cent, capping a solid few years since it was established in February 2018. Its two-year return is 924.21 per cent per annum, and since inception, it is up 362.83 per cent per annum.

Barring a catastrophic collapse in all crypto assets over the next two weeks, it is reasonable to assume the Apollo Capital Fund will beat the 9000 other funds in the Morningstar database.

Apollo's chief investment officer Henrik Andersson sees crypto protocols disrupting traditional businesses. **David Rowe**

The fund's nearest competitors in terms of returns for this financial year are likely to be DigitalX Bitcoin Fund, up 221 per cent to May 30, and Jeremy Bond's Terra Capital Natural Resource Fund, up 130 per cent.

Apollo's stunning performance will provide the crypto sceptics with proof that there is a crazy speculative bubble in crypto assets.
Chanticleer can already hear the central bankers saying crypto is a Ponzi scheme, a financial empire built on nothing and that bitcoin comprises lines of code that are ultimately worthless.

For Henrik Andersson, a crypto true believer and chief investment officer of Apollo Capital Management, the success of his flagship fund is because of an investment strategy focused on crypto's disruption of financial services.

The main value creation is happening in what we call decentralised finance.

— Henrik Andersson, Apollo Capital Management

"We made two assumptions when we launched the fund 3½ years ago," he says.

"One was that you need to be actively managed in the crypto space because it's a very inefficient space.

"The second one is a strong focus on an area within crypto called decentralised finance.

"So those are two strong convictions we had ... and they have played out when we compare our returns to a passive index like the Crypto 20 index. We have vastly outperformed that index since inception.

"When it comes to DeFi (decentralised finance), there is a greater understanding now that that's really where the value is captured outside bitcoin.

"We have bitcoin in the portfolio, and we're strong believers in bitcoin, but the main value creation is happening in what we call decentralised finance, using blockchain technology to automate financial services."

Benefits and risks

An in-depth explanation of DeFi, its potential benefits and the risks it poses to the financial system can be found on the home page of the Federal Reserve Bank of St Louis.

An article published in February by Professor Fabian Schar from the University of Basel adopts a "multi-layered framework to analyse the implicit architecture and the various DeFi building blocks, including token standards, decentralised exchanges, decentralised debt markets, blockchain derivatives, and on-chain asset management protocols".

"I conclude that DeFi still is a niche market with certain risks, but that it also has interesting properties in terms of efficiency, transparency, accessibility, and composability," he said.

"As such, DeFi may potentially contribute to a more robust and transparent financial infrastructure."

Schar's paper highlights the genius of crypto in disrupting traditional financial market exchange infrastructure and traditional intermediation undertaken by banks.

Everyone has access to the platform and can potentially borrow money or provide liquidity to earn interest.

— Professor Fabian Schar from the University of Basel

The exchange infrastructure with its centralised trading, strict capital requirements for brokers and cumbersome clearing and settlement was initially replaced by less capital-intensive crypto models operating in real time.

This relatively new paradigm is now being replaced by even more advanced crypto operating models, with peer-to-peer trading now regarded as more secure than crypto exchanges

Traditional banking, whereby a regulated institution with strict capital requirements takes deposits and lends the money, is being replaced by decentralised loan platforms which do not require the borrower or the lender to identify themselves.

“Everyone has access to the platform and can potentially borrow money or provide liquidity to earn interest,” Schar says.

“As such, DeFi loans are completely permission-less and not reliant on trusted relationships.”

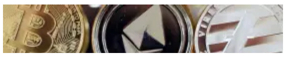
Earning interest

For example, the app called crypto.com allows you to take your bitcoin or other cryptocurrency and allow it to be lent out in return of interest rates of up to 6 per cent per annum.

Andersson says over-collateralised lending works in the following way: someone puts $100 of ether, which is the native currency of the Ethereum blockchain, on a platform and someone else can borrow $75 of stable coins against it.

He says there are several players trying to do under-collateralised lending, which is “based on a combination of more traditional lending where you know your counter-party and DeFi”.

Andersson says the world’s largest decentralised lender is Aave, which is officially defined as decentralised non-custodial liquidity market protocol where users can participate as depositors or borrowers. It has about $US13 billion ($18.2 billion) in capital.



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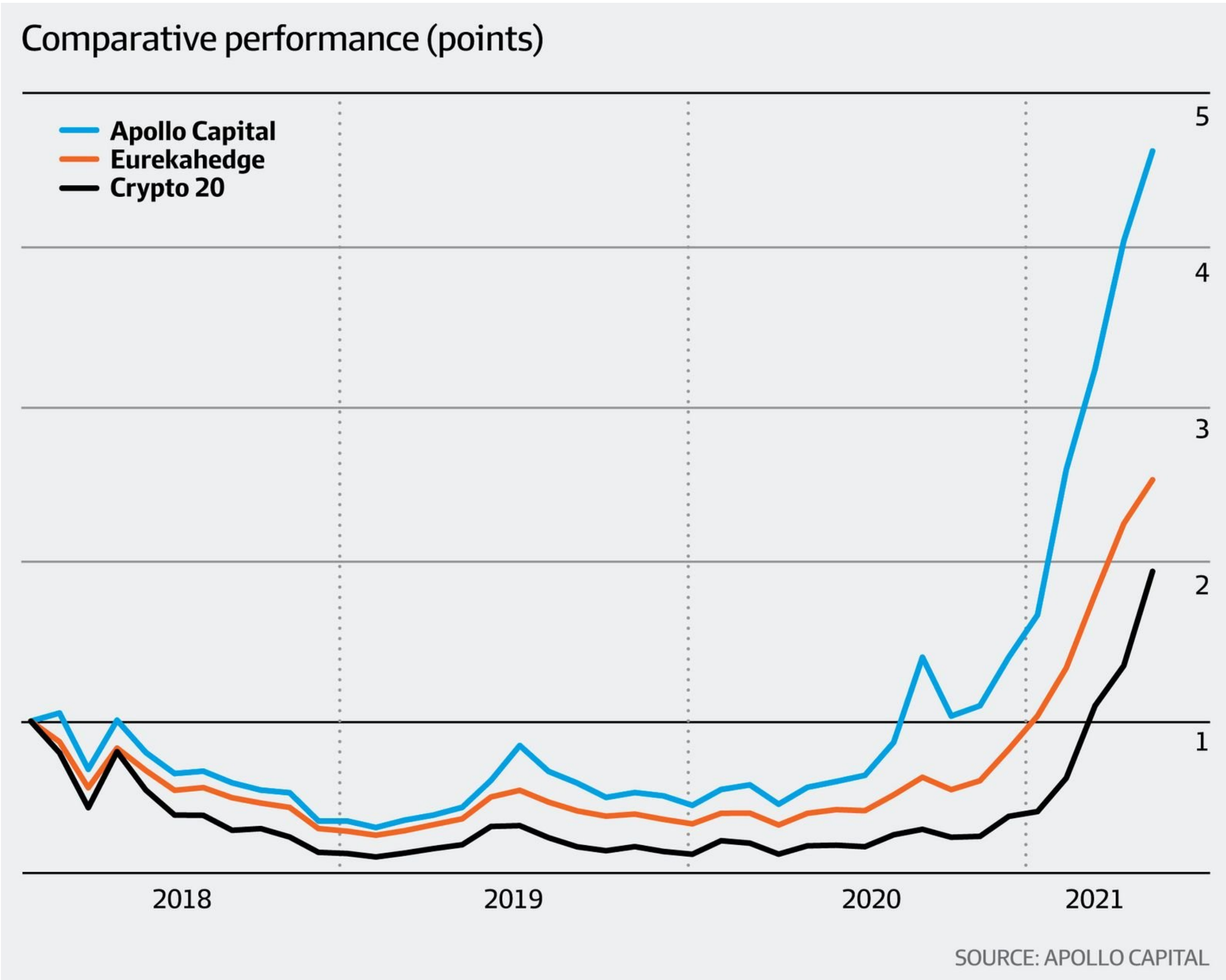
The Apollo Capital Fund is invested in several decentralised exchanges including Uniswap, Curve and SushiSwap.

"What you can do there is you can trade assets on the blockchain itself using smart contracts instead of going to an exchange like Binance, Independent Reserve or BTC Markets," he says.

"Decentralised exchanges are doing around $US60 billion in trading volume per month. We have seen a huge increase over the last 12 to 18 months in the use of decentralised exchanges."

Andersson is bearish on one of the most popular alternatives to Ethereum called Cardano, a blockchain and smart contracts platform founded in Switzerland.

"Our allocations into layer one blockchains are primarily driven by our analysis of the ability of a blockchain to develop and foster a thriving DeFi ecosystem," he says.



"Based on this principle, we remain uninvested in Cardano. It still lacks smart contract capability and is unfriendly to existing DeFi developers due to the programming language that will be used once smart contracts go live."

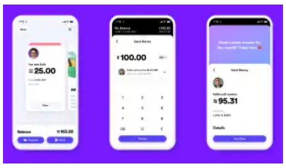
The asset mix of the Apollo Capital Fund shows the breadth of choices facing crypto managers and the fund's lack of reliance on movements in the price of bitcoin.

The break-up

About 29 per cent of the fund is in crypto-smart contract platforms, 27 per cent is in decentralised finance, 19.8 per cent in cryptocurrencies as a store of value, 10.4 per cent in market-neutral strategies through the Apollo Capital Opportunities Fund, 7.8 per cent is in exchange tokens, 5.5 per cent is in stablecoins and cash, and 0.5 per cent in futures.

The total assets under management in the Apollo Capital Fund and Apollo Capital Opportunities Fund amount to $100 million.

Andersson's skill as a fund manager is apparent from his performance numbers, but he has not eclipsed the recent performance of one of Australia's best crypto fundies, Richard Galvin at Digital Asset Capital Management.



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Galvin's Digital Asset Fund, which is not included in the Morningstar data set, has delivered a return of 2,747 per cent in the 12 months to April 30.

The fund's outperformance through April was driven by its material weightings to some of the best performers in the DeFi sub-sector, including Matic (plus 128 per cent), Solana (plus 121 per cent) and Maker (plus 106 per cent), according to the fund's latest monthly report.

Andersson says one of the growth areas is on-chain derivatives, which allow you to invest in protocols that create options, or synthetic assets, based on smart contracts.

He says these are on the blockchain and not done in the traditional manner with counterparties to each transaction.

One of the winners from Apollo Capital Management's success is Melbourne-based investor Alex Waislitz, who invested in the company in March.

Tony Boyd is the Chanticleer columnist. He has more than 35 years' experience as a finance journalist. *Connect with Tony on Twitter. Email Tony at tony.boyd@afr.com*

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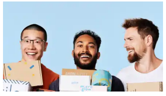

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