DIGITAL GROUP

Investor Report

March 2025

Digital Asset Fund

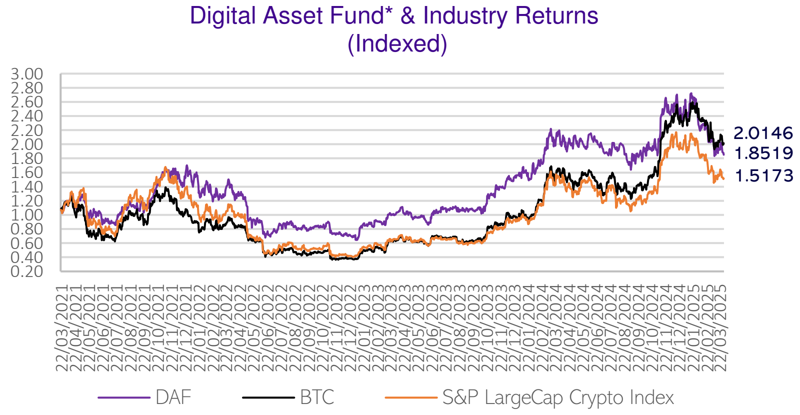
Unit Price: $1.8519 (-8.92%)

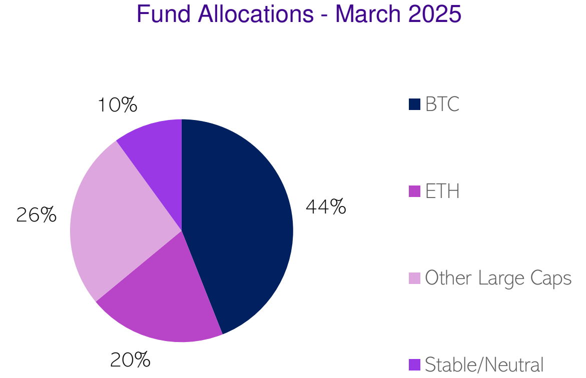
	Since Inception	6 months	3 months	1 month
Digital Asset Fund	85.19%	1.71%	(22.82%)	(8.92%)
Bitcoin	101.46%	43.77%	(13.03%)	(3.09%)
Ethereum	35.15%	(22.08%)	(46.02%)	(18.78%)

Commentary & Performance

The month of March has been marked by significant volatility across all markets, including cryptocurrencies, driven by a confluence of macroeconomic factors, geopolitical developments, and shifting investor sentiment. Trump's moves have been at the center of all market movements and when compared with equity markets around the world, crypto, and particularly Bitcoin, has held up relatively well. Normally, we would expect crypto valuations to move at a multiple of equity valuations, both positively and negatively, but we have not seen that happen during the sell off since Trump started making his bold moves. This is quite logical as he has been making some very favourable crypto specific changes while simultaneously destabilising global markets as a whole. DAF was down by 8.92%, while BTC and ETH fell 3.09% and 18.78% respectively over the month. In comparison, the NASDAQ was down 8.22%, with Tesla down 11.55% and Nvidia down 13.25%.

A key catalyst for market movements at the start of the month was the announcement from Trump of plans to establish a U.S. Strategic Bitcoin Reserve. The market reacted with immediate enthusiasm, as the prospect of a government-backed cryptocurrency reserve fuelled a significant price surge. Bitcoin surged past $95,000, a remarkable gain from its previous price level of $78,250, driven by the announcement and its potential to reshape the global digital asset landscape.





Past performance is not indicative of future performance.

This rally was further bolstered by speculative rumors surrounding potential legislation, including a proposal from Senator Cynthia Lummis that sought to have the Federal Reserve revalue its gold reserves and purchase 200,000 BTC annually over the next five years. The idea was seen as a signal of increasing institutional acceptance of cryptocurrencies, positioning Bitcoin and other assets as viable long-term stores of value akin to gold. These moves from political figures, particularly from Trump, led to a surge in investor confidence, with a considerable amount of buying pressure entering the market. However, Trump's credibility and his ability to implement such bold initiatives were questioned by both market participants and analysts, many of whom were wary of the political and regulatory hurdles that such a large-scale initiative would face. The specifics of the plan—especially the fact that it would be funded exclusively by Bitcoin seized through criminal or civil asset forfeiture rather than through new government purchases—left many investors disappointed. The market, which had been riding high on the initial announcement, began to correct sharply as reality set in. Bitcoin's price fell below $80,000 and remained volatile, testing key support levels that were formed during previous rallies, with Bitcoin dropping from its highs of $95,000 to levels closer to $80,000, a complete U-turn in a matter of two days.

The broader macroeconomic backdrop also played a significant role in shaping market sentiment. The Federal Reserve's actions, including interest rate decisions and statements on inflation, created an atmosphere of caution across risk assets, including cryptocurrencies. The U.S. Dollar Index rebounded during this period, signalling a strengthening of the dollar as the global economy grappled with rising inflation concerns. The resurgence of the dollar, combined with rising geopolitical tensions and the threat of a global trade war, contributed to an overall risk-off sentiment that weighed on the cryptocurrency market. In particular, assets like Bitcoin, which had previously benefited from a weak dollar and low interest rates, struggled to maintain their momentum.

The situation was further compounded by former President Trump's announcement of new tariff levies on imports from key trading partners, including Mexico, China, and Canada. This move, viewed by many as the start of a new trade war, sent shockwaves through global markets. The tariffs, which ranged from 15% to 30% on a wide variety of goods, were seen as a direct challenge to the existing international trade framework, further fuelling existing tensions between the U.S. and these countries. China, in particular, responded with retaliatory tariffs on U.S. agricultural exports, escalating the situation further. These geopolitical tensions spilled over into the cryptocurrency markets, as risk aversion caused traders to become more cautious, exacerbating price movements of Bitcoin and other cryptocurrencies.

At the same time, altcoins such as Ethereum, Solana, and Cardano began to experience significant pressure. We have long hypothesised that Bitcoin has an inverse correlation to the USD and a positive correlation to gold, whereas all other cryptocurrencies are much more closely tied to US tech stocks. That seems to be holding true. Ethereum, as well as other altcoins, continued to struggle relative to Bitcoin as BTC dominance breached above 62% of the total crypto market capitalisation.

Solana, which had gained considerable traction in the past year, was also caught up in the broader market correction, with its native token SOL dropping significantly in value. The market was further tested by a large-scale outflow of capital from cryptocurrency exchange-traded funds (ETFs), particularly those based in the U.S. Bitcoin ETFs such as BlackRock's iShares Bitcoin Trust (IBIT) saw substantial outflows, with nearly $420 million leaving the market in a single day. This outflow of institutional capital, coupled with declining investor confidence in the political and regulatory landscape, created a perfect storm for the crypto market, exacerbating the declines in asset prices.

Despite these headwinds, there were signs of resilience within the market. Institutions continued to show interest in digital assets, albeit with a more cautious approach. BlackRock, for instance, continued to hold its position in Bitcoin via its ETF offerings, while also incorporating Bitcoin into model portfolios for its clients. Other institutions, such as Franklin Templeton, made moves to build exposure to altcoins, particularly Solana and Cardano. For many, the recent price corrections represented a buying opportunity at lower prices for long-term accumulation. Notably, Strategy (formerly Microstrategy) added 1.9B USD worth of BTC to its balance sheet and Gamestop raised 1.5B USD to fund its BTC reserve. These institutional manoeuvres highlighted the long-term confidence that investors have in digital assets, even as short-term volatility and uncertainty persists.

Looking forward, all markets remain beholden to the Tariff wars. It is very difficult to predict the movements of Trump and the responses of his counterparts around the world. For now, we will be positioned conservatively with overweight positions in both Bitcoin and cash relative to where we have been historically until we get more clarity on the escalation of the trade wars and some stability in equity markets. As the institutionalisation of cryptocurrency continues to evolve, with more financial institutions exploring blockchain technology and digital asset investments, the long-term trajectory of the cryptocurrency market remains positive. If Bitcoin can continue to do well relative to equities in a sell off, it reinforces its proposition as a store of value and makes it much more attractive to large institutions. We remain bullish on the market for the year as a whole, but we believe the current geopolitical trauma must subside before we see the kind of sustained rally we expect in the back end of the year.

Regards,

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