

DIGITAL HEDGE CAPITAL

ANNUAL INVESTMENT REPORT
AUDENTIS 2023

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DIGITAL HEDGE CAPITAL

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Rank	Name	Market Cap	Price	Circulating Supply	volume (24h)
1	 Bitcoin	\$827,811,209,384.41	\$42,265.19	19,586,125 BTC	\$16,397,498,809.56
2	 Ethereum	\$274,194,287,336.35	\$2,281.47	120,183,097 ETH *	\$6,871,481,744.00
3	 Tether USDt	\$91,674,848,734.73	\$0.9997	91,699,604,322 USDT *	\$33,159,237,821.83
4	 BNB	\$47,394,056,692.15	\$312.44	151,692,196 BNB *	\$953,254,183.71
5	 Solana	\$43,576,016,359.83	\$101.51	429,295,749 SOL *	\$1,748,630,533.28
6	 XRP	\$33,283,785,350.85	\$0.6149	54,125,149,173 XRP *	\$710,033,547.48
7	 USDC	\$24,519,751,149.21	\$1.0001	24,518,043,571 USDC *	\$3,568,612,484.10
8	 Cardano	\$21,014,927,330.99	\$0.5942	35,366,473,695 ADA *	\$413,744,730.24
9	 Avalanche	\$14,086,866,595.76	\$38.54	365,466,309 AVAX *	\$578,258,572.70
10	 Dogecoin	\$12,746,626,943.45	\$0.08947	142,465,676,384 DOGE	\$259,196,255.17

Top Cryptocurrencies by Market Capitalization, December 31, 2024

Contents in this report are intended to be used for information and education purposes only and do not constitute financial advice. Past performance is not indicative of future results. Make your own research before making any investment decision.

INTRODUCTION

EXECUTIVE SUMMARY

The year 2023 marked a landmark period for the cryptocurrency market, with digital assets achieving significant growth in market capitalization and price. Bitcoin and Ethereum led this rally, with Bitcoin's market cap growing by an impressive 153.60% and Ethereum following closely with a 90.85% increase. This growth outstripped traditional assets like equities, bonds, and precious metals, particularly during the rally's peak in late October. The year was also pivotal in terms of regulatory developments, with major exchanges like Binance facing increased scrutiny and sanctions. The increasing institutional adoption, highlighted by BlackRock's proposal for a Bitcoin ETF, and the diverse economic situations globally, further shaped the crypto landscape. These developments had profound implications on market dynamics, influencing investment strategies and driving investor interest in digital assets.

In response to these market conditions, Digital Hedge Capital refined its investment approach with the introduction of Certus, Libra, and Audentis, each tailored to specific risk profiles. Our focus shifted to algorithmic precision and strategic long-short positions, primarily concentrating on Bitcoin and Ethereum. This approach allowed us to capitalize on market movements, evidenced by our ability to take short positions through Libra and Audentis, thereby reducing market correlation and aiming for positive returns in various market conditions. Despite the challenges, including rapid organizational changes and external constraints, Audentis achieved a commendable return of 8.86% in 2023. This performance, though modest compared to Bitcoin's surge, underscores the fund's resilience and adaptability in a volatile and complex market environment.

Looking forward, Digital Hedge Capital is poised for a transformational 2024, with a strategic focus on enhancing our algorithmic strategies, expanding our development team, and innovating investor profiling. We aim to refine our algorithms for improved performance in low volatility periods and unclear market directions. Our expanded development team will enhance our order execution systems, crucial for algorithmic trading success. Furthermore, we plan to revolutionize risk profiling through advanced algorithms, enabling tailored portfolio recommendations and multi-product allocations. This personalized approach, coupled with AI-supported onboarding and investor assistance, will provide our clients with sophisticated insights and round-the-clock support, setting the stage for greater returns and investor satisfaction in the years ahead.

Jorge Ruiz Espín

Chief Investment Officer
Digital Hedge Capital

José Andrés Ruiz

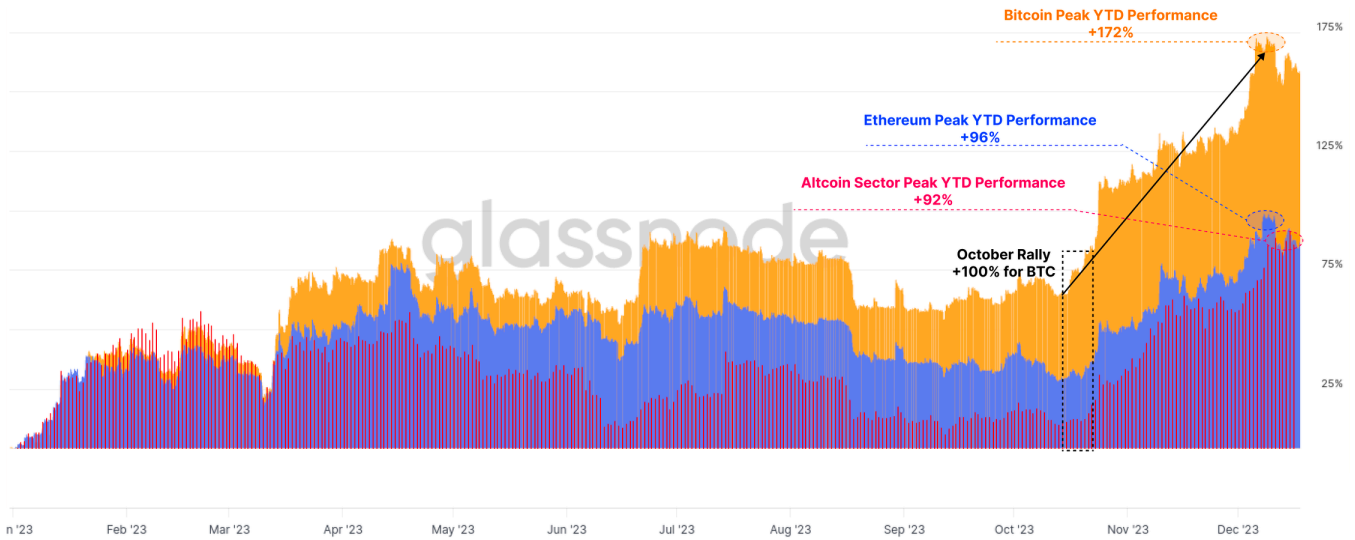
Chief Operating Officer
Digital Hedge Capital

Raúl Sanchez

Chief Financial Officer
Digital Hedge Capital

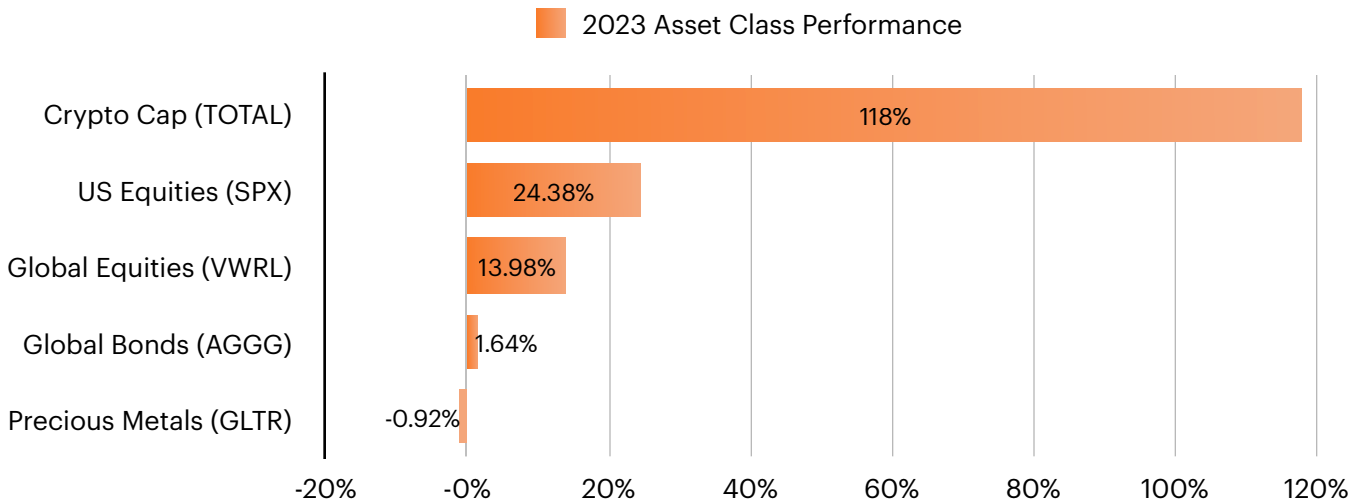
CRYPTO MARKET OVERVIEW

CRYPTO MARKET INSIGHTS



Glassnode: Market Year to Date Market Cap Performance 2023

In 2023, digital assets witnessed a remarkable year, with significant increases in market capitalization and price growth across the crypto market. Bitcoin emerged as a standout performer, achieving an impressive year-end increase of 153.60% in its market cap, while Ethereum also experienced a notable surge by climbing 90.85%. This period saw digital assets substantially outperform traditional assets such as Equities, Bonds, and Precious Metals, especially during the rally that began in late October, accounting for a substantial portion of the year's gains.



Performance comparison for US Equities (SPX), Global Equities (VWRL), Precious Metals (GLTR), Global Bonds (AGGG) and Crypto Market Cap (TOTAL).

CRYPTO MARKET OVERVIEW

DRIVING FORCES



REGULATORY DEVELOPMENTS AND CHALLENGES

The regulatory framework surrounding cryptocurrencies underwent significant changes in 2023. Binance, a leading cryptocurrency exchange, faced a landmark regulatory action after tightening of compliance and oversight with substantial penalties imposed by the SEC.¹ The departure of Binance's CEO, Changpeng Zhao, amid these challenges, signaled a pivotal shift in the industry's leadership.

INSTITUTIONAL ADOPTION

Mid-year, BlackRock, the biggest asset manager, made headlines with a filing for a spot Bitcoin ETF.² This bold move was swiftly followed by similar filings from WisdomTree and Invesco, signaling a wave of institutional optimism. BlackRock's proposal notably included a surveillance sharing agreement with the CME futures markets, addressing the SEC's concerns around fraud and market manipulation, which had been obstacles in past ETF applications. This collective push by industry leaders, reflects a shift towards integrating digital assets within traditional investment frameworks potentially unlocking new participation in the crypto market.

¹ <https://www.sec.gov/news/press-release/2023-101#:~:text=The%20SEC%E2%80%99s%20complaint%20alleges%20that,dealer>

² <https://cointelegraph.com/news/blackrock-spot-bitcoin-etf-new-sec-filings-wisdomtree-invesco>

GLOBAL INFLUENCE

Globally, 2023 was characterized by divergent economic growth trajectories, with advanced economies experiencing a slowdown due to policy tightening measures aimed at controlling inflation. Emerging markets, while resilient, grappled with regional economic disparities, increasingly adopting cryptocurrencies amid local currency devaluation and instability. Geopolitical tensions, particularly the Russia-Ukraine conflict, disrupted commodity markets, driving a spike in crypto usage in affected areas as a tool to bypass financial limitations and safeguard assets. Disruptions in commodity markets had uneven effects across countries, particularly affecting low-income nations reliant on agricultural imports. These nations saw an uptick in the use of cryptocurrencies for cross-border transactions and remittances.³

DIGITAL HEDGE CAPITAL INVESTMENT STRATEGY

In 2023 Digital Hedge Capital introduced Certus, Libra, and Audentis, each catering to distinct risk profiles, and refined its strategy for consistent returns irrespective of market movements.

ALGORITHMIC PRECISION

Moving away from the broader diversification of past strategies, our current methodology harnesses algorithms for trend following. By employing relative value logic, multipole strategies compare Bitcoin and Ethereum's movements, engaging in either a bullish position on the stronger trend or a bearish stance on the weaker, ensuring decisions are confined to these two major assets.

STRATEGIC LONG-SHORT POSITIONS

Libra and Audentis boast the capability to take short positions, significantly reducing market correlation. This strategic shift aims for positive returns even during bearish market phases, as evidenced by our successful investment results in 2022 when the fund generated returns of over 46.60% with similar strategies while Bitcoin's price fell 50.03%.

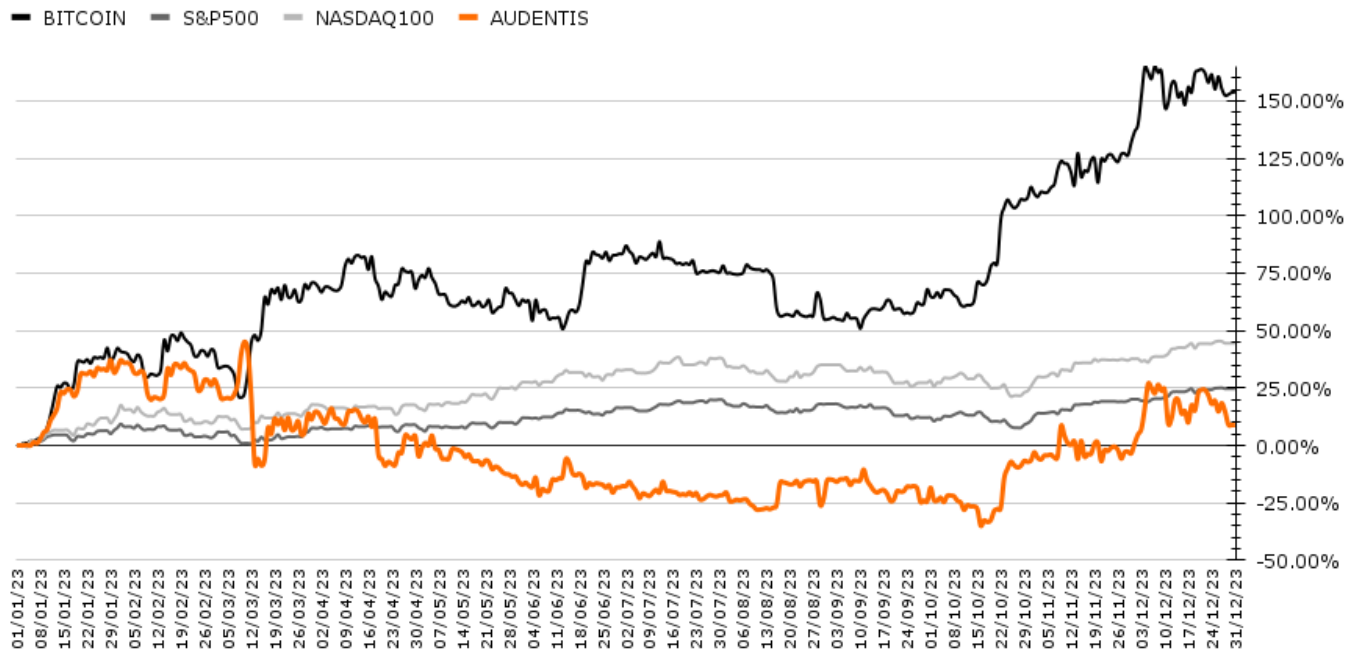
LEVERAGE AND PERFORMANCE

The Audentis investment product leverages capital to amplify returns. Despite initial setbacks due to rapid organizational growth and external factors limiting capital usage, these issues have been rectified. The fund stands ready for optimized operation with appropriate leverage in upcoming investment cycles.

³ <https://www.imf.org/en/Publications/WE0/Issues/2023/10/10/world-economic-outlook-october-2023>

DIGITAL HEDGE CAPITAL AUDENTIS PERFORMANCE 2023

In a year characterized by unprecedented market volatility and challenging economic conditions, Audentis has demonstrated resilience with a return of 8.86%. While this return is modest compared to the extraordinary surge of Bitcoin at 146.14%, it is noteworthy that Audentis managed to yield positive gains amidst a market environment filled with driving fundamental factors that are complex for any algorithm to navigate.



2023 Audentis Crypto Fund Performance Versus Bitcoin, S&P 500, and Nasdaq 100

Concept	Percentage:	Amount:
Initial Investment (AUM)	100.00%	\$ 100,000.00
Audentis Gross Return	8.86%	\$ 8,860.00
Management Fee (2% on AUM)	2.00%	\$ 2,000.00
Gross Return before Success Fee	6.86%	\$ 6,860.00
Success Fee (20% on Gross Return)	20.00%	\$ 1,372.00
Gross Return before Outperformance Fee	5.49%	\$ 5,488.00
Outperformance Fee (10% on Excess Return)	10.00%	\$ 0.00
Audentis Net Return after Fees	5.49%	\$ 5,488.00

DIGITAL HEDGE CAPITAL

THE FUTURE

Digital Hedge Capital is gearing up for a transformative year, with a keen focus on growth and strategic enhancements. Our objective is to significantly expand our team and increase our assets under management. This expansion is not just about scaling up; it's about evolving into a more capable and robust organization. By raising our AUM we aim to grow in revenue, which in turn will enhance results for all our stakeholders.

ALGORITHMIC STRATEGY OVERHAUL

We are refining our algorithmic strategies, which have been in constant evolution for years, enabling the creation of more robust systems that adapt to the ever-changing market behaviors. Furthermore, new strategies in testing, led by our Research & Development team, leverage neural networks and artificial intelligence, and are set to enter production in 2024, enhancing the performance of our current strategies.

INVESTOR PROFILING INNOVATION

While we already have a quiz to determine an investor's risk profile, the current system recommends the best single product for each investor. Starting in Q1 2024, we're enhancing our risk profiling to offer multi-product recommendations. This means investors can have a portfolio that exactly matches their risk needs, avoiding discrepancies and more accurately meeting the expectations and needs of each client.

DEVELOPMENT TEAM EXPANSION

The expansion of our development team is a critical move. The systems used in 2023, while effective, are suboptimal compared to what we can now achieve with more talent in our software development team. A key focus will be on developing faster execution systems, which will allow us to closely follow the recommendations and signals from our strategies, minimizing the gap between hypothetical results and actual gains.

UI AND ONBOARDING ADVANCEMENTS

We are set to significantly upgrade our user interface and onboarding process. We're modernizing our website for simpler account setup, and introducing a 24/7 AI assistant for secure, immediate investment inquiries. An enhanced dashboard will provide detailed investment insights, improving investor clarity and control. These improvements aim to elevate client experience and operational efficiency in our digital asset management.

As we close this report, we stand on the threshold of an exciting and innovative future. Our forward-thinking strategies, enhanced by AI integration and advanced algorithmic strategies, promise not only to elevate the investment experience but also to pave the way for exceptional returns and heightened investor satisfaction. With eyes firmly set on the horizon of 2024 and beyond, we are ready and eager to embrace the opportunities that await, confident in delivering unparalleled performance and value to our clients.