

*Wall Street Meets Digital
Assets: Organizing and
Administering
Cryptocurrency Hedge
Funds*

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Strait

STRAIT

Bio

- Strait Capital: Partner and Chief Strategy Officer, joined in 2015
- Born and raised in southern Louisiana, moved to Dallas in 2004
- Graduated from Louisiana State University (BBA, MBA), former CIA



About Strait

Strait is a SOC I Type II fund administrator providing solutions for alternative asset managers. Our clients deploy a wide variety of strategies including traditional long-short, fund of funds, mortgage backed securities, digital assets, private equity, distressed debt, and real estate.

Middle office integration



Back office
administration



Sophisticated investor
relations



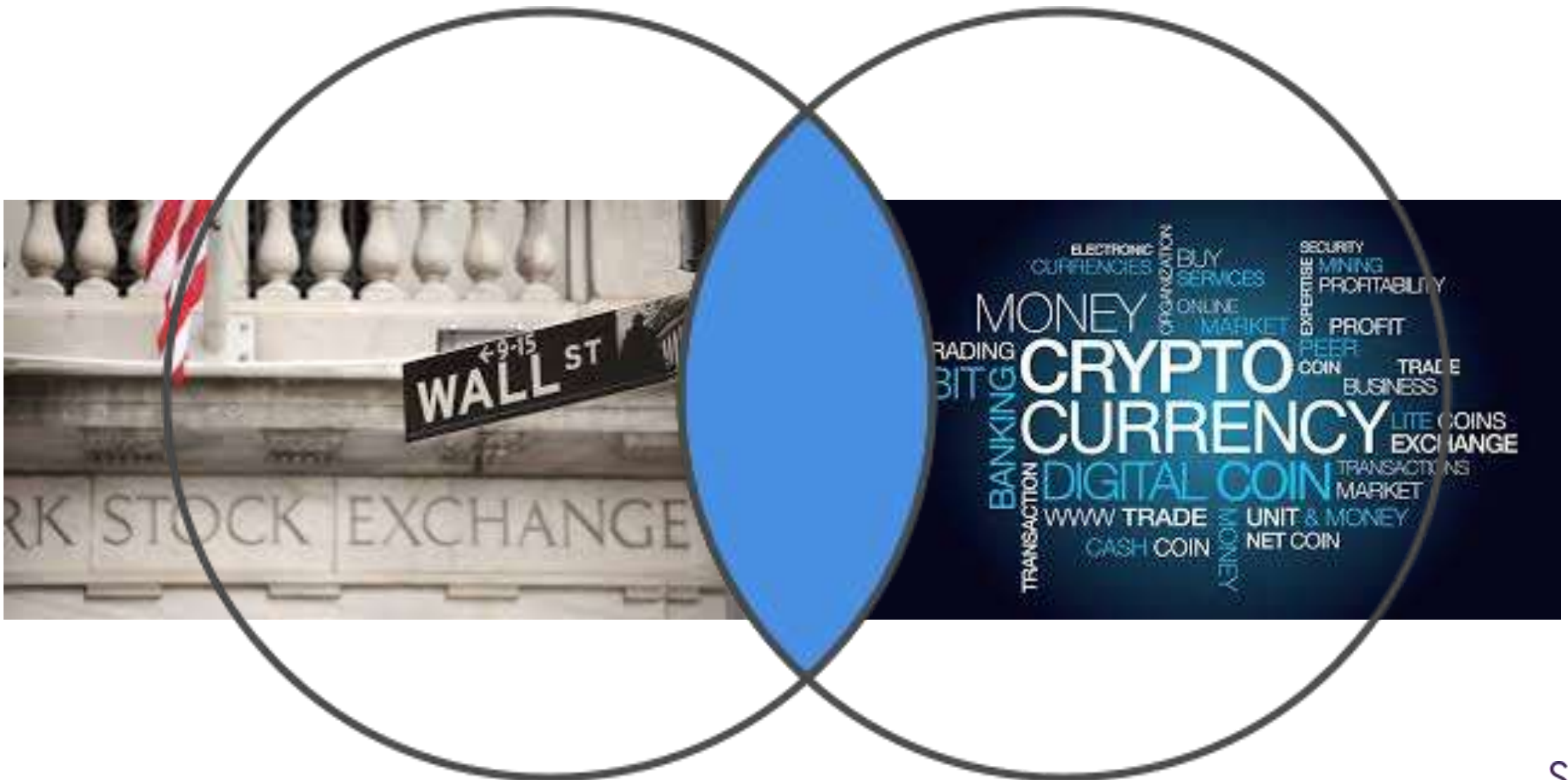
Compliance and
regulatory services



Strait's Mission Statement

Our mission is to protect investors and reduce risk in the global finance system. We provide financial services with an exceptional user experience through our thoughtful processes, our advanced technology and our industry experts.

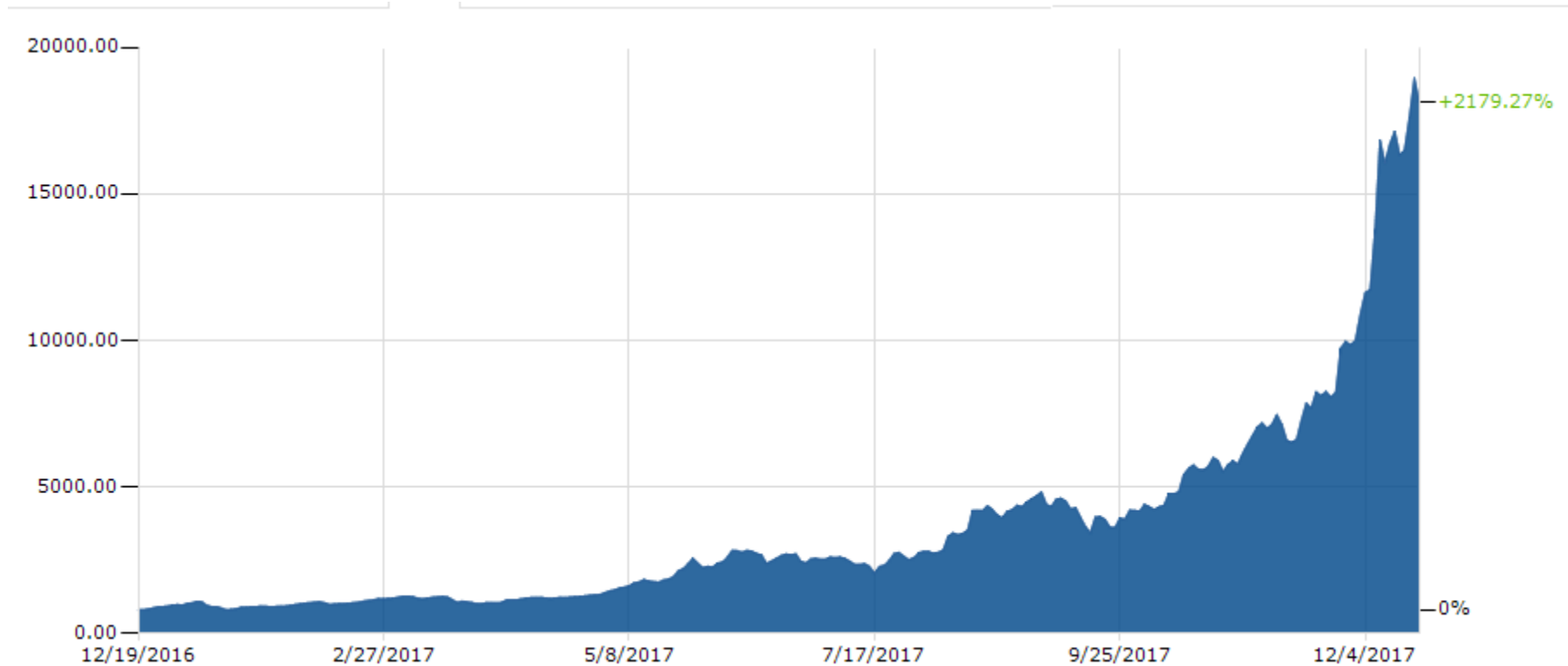
Wall Street Meets Tech Street



Cryptocurrencies

- As of November 27, 2017, there were 1,324 crypto currencies. A new cryptocurrency can be created at any time. By market capitalization, Bitcoin is currently the largest blockchain network, followed by Ethereum, Bitcoin Cash, Ripple and Litecoin.
- There is no single governing body overseeing and verifying transactions.

Huge Opportunities for Alpha



<http://markets.businessinsider.com/currencies/BTC-USD>

Why Should You Care?



Financial Reporting for Private Funds

- A fund administrator provides support services to investors and the fund.
- The role of both the auditor & administrator of a private fund are crucial pieces of infrastructure.
- The administrator is responsible for financial reporting and issuing statements to investors.
- The auditor is responsible for reviewing and opining that the financials are in accordance with US GAAP.
- Both provide assurance in the alternative investment markets.

What is a Fund Administrator?

- Enable fund manager to focus on highest and best use of his/her time.
- Reduce operational risk by performing critical accounting/back office and operational functions for funds.
- Provide **independent third-party** verification of assets and performance to investors.
- Safeguard investors money and ensure accurate financial reporting.
- Provide due diligence to support the capital raise process.

What Does a Fund Administrator Do?

Accounting

Ongoing Accounting

- Record transactions, positions, and account information
- Independently price portfolio for all currencies held
- Publish a monthly net asset value (NAV)
- Calculate management and performance fees
- Contribution and redemption administration

Cash Management and Treasury

- Initiate cash movements – dual signature required

Financial Reporting

- Performance summary
- Balance sheet
- Income statement
- General ledger
- Schedule of partners' capital roll-forwards

Investor Services

General Investor Services

- Review and process investor subscription, redemptions, and transfers
- Monitor ERISA thresholds
- Issue investor statements and maintain investor portal
- Complete investor due diligence questionnaires

Anti-Money Laundering

- Review investor information for due diligence procedures
- Screen investor eligibility utilizing WorldCheck®
- Monitor and perform periodic checks to OFAC database

Treasury Management

- Manage the bank account for the fund
- Process payments for fund expenses
- Disburse payments to custodians and advisors
- Facilitate redemptions

Challenges of Crypto Currency Funds: Custody

- How do private funds keep assets safe?
 - A custodian as a third party can hold assets and help enforce controls.
 - Very few custodians operate in the space currently and do not hold all coins.
 - Other options, such as allowing the manager to have custody, put investors assets at increased levels risk.
- Issues:
 - Manager custody, safety deposit box, held on exchange
 - Easy theft target or accidental loss – can create a dangerous situation. Have you seen the movie Taken?
 - Institutional investors require a qualified custodian
- Solution:
 - Qualified custodian follows the same rules as an equity custodian
 - Mitigates liability away from manager and other service providers
 - Expect large institutional custodians to join this space

Challenges of Crypto Currency Funds: Valuation

- Cryptocurrencies will be marked-to-market.
- How do you determine valuation?
 - Direct observable inputs: exchanges such as GDAX or pricing sources such as coinmarketcap.com
 - Need to report in USD, so smaller coins must be converted to Bitcoin or another coin that converts to USD.
 - What if there isn't a market or the market is very thin?
- Issues
 - Smaller coins do not have readily available markets
 - Coinmarketcap.com is a pricing source but is not a long-term solution
 - Can be outliers in exchanges that affect pricing

Solution:

- Bloomberg is adding currencies – currently featuring 4
- Weighted averages of top exchanges
- A pricing policy is the best way to ensure consistency



Challenges of Crypto Currency Funds: Regulation

Governing bodies:

- SEC has released limited guidance and commentary on the future of this asset class
- Expect the SEC to make an example out of individuals or companies that disregard investor protection
- CFTC has allowed bitcoin futures contracts to start trading
- As the asset class grows, so will scrutiny and regulation
- Risk versus reward – how much do you gamble for a quick gain?

Questions?



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